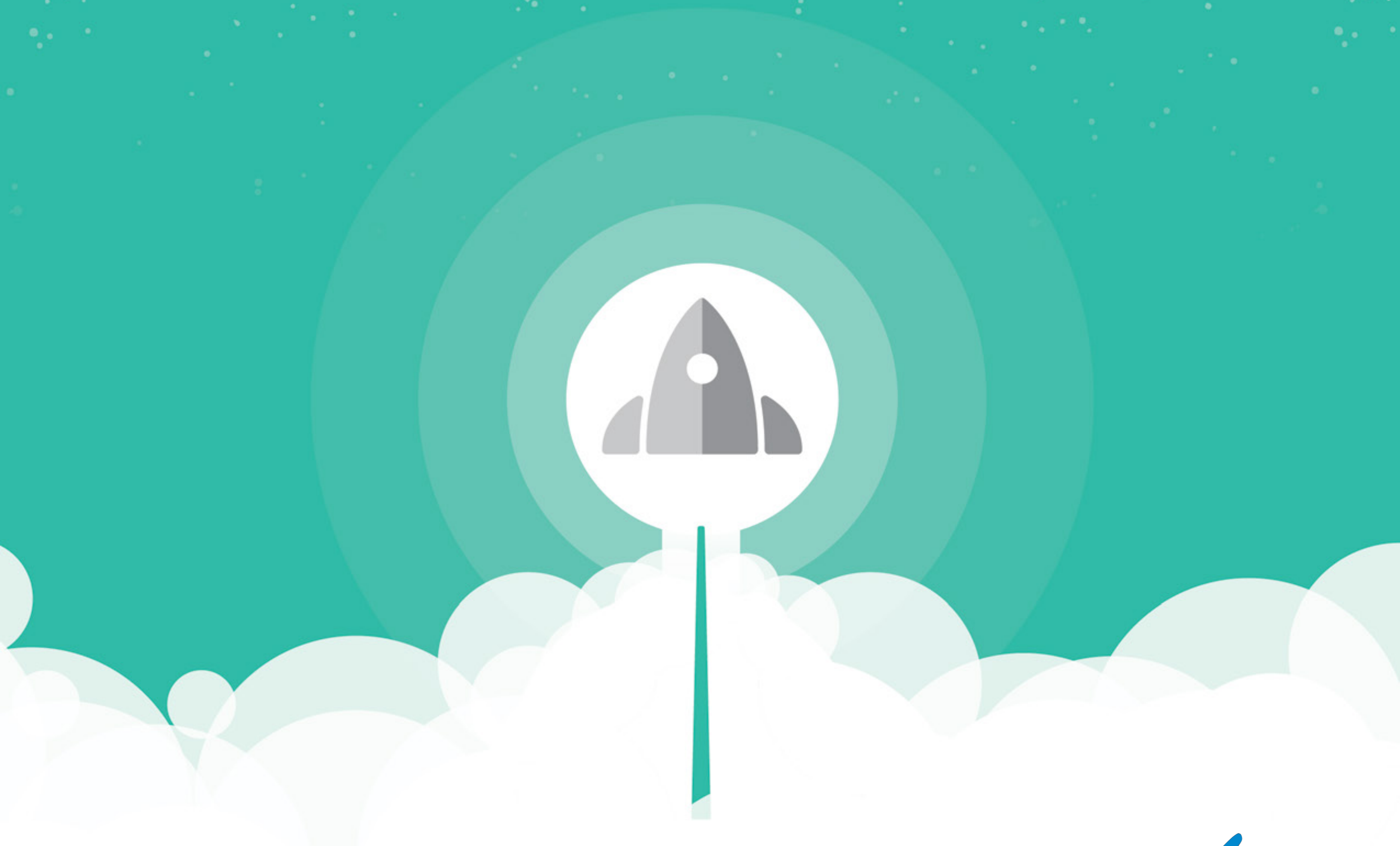
THE ULTIMATE GUIDE

FOR SCALING, SALES, & RAISING CAPITAL



100 SAAS QUESTIONS, ANSWERED.

BY JASON LEMKIN

THE

ULTIMATE GUIDE

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JUMP TO SECTION

F O R W A R D

If starting company were easy, everyone would do it. Getting a startup to initial traction and then scale is something incrementally harder than you could ever imagine. Those around you who aren't founders will think it's "glamourous" to be the CEO of a 4+ person company and be uber jealous that you write your own name on the checks but ...

> What if you're just starting out and can't close your first 10 customers?
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> What do you do when you have no money to make payroll?
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> What if all the VC's pull out?
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> What do VC's look for in a financial model?
>
> Who should make up your first 100 hires?
>
> Where do most startups fail?

I wish had known the answers to these questions years ago. But back then there wasn't anything around like SaaStr. So in 2012, I started a simple WordPress blog and began answering a few questions on Quora to share my learnings of going from $0 to $100M ARR at EchoSign. Fast forward to today, and SaaStr is now the world's largest community for B2B/ SaaS Founders— it's where the Cloud meets.

SaaStr has become a community where SaaS founders, executives, and investors from all over the globe come together to share their best learnings, insights, and practices around building and scaling. It all started with sharing learnings. If this helps you scale a little faster, or further with a little less stress and a bit more success, take that as a W.

FOUNDER TO FOUNDER

SECTION 1

1. How does it feel to be the CEO of a company?

It's not what you'd think. It is not:

- **A power trip.** Well, it can be a power trip in some sense I guess but not if you are doing it right. Oh, you are CEO of a 4 person startup? The glory! :)
- **More fun than a non-CEO role.** It's much, much more stressful however. The buck truly stops with you.
- **More rewarding than working for a great boss.** Not necessarily. Working for a great boss can be just as rewarding, without quite as much stress.
- **More lucrative that other options.** Being a COO or other #2 can, risk-adjusted, be a better deal. You still get a lot of equity and don't have to take the risk of getting something off the ground.

But the benefits are unique and include:

- **You get to implement your vision, at least the % you can with your team.** You never really get to build exactly what you want (unless you write all the code yourself). But defining and executing the vision is all consuming and intellectually challenging.
- **You are never bored.** All other roles, you will be bored sometimes. But as CEO, your mind will always be working.
- **You get to pick your team.** Recruiting is tough, but the benefit is you get to truly pick who you work with.
- **You get to meet great people.** Other great CEOs, founders, VCs, executives and more.
- **Maximum creativity.** Again, you don't really get to do exactly what you want. But being a CEO is a maximum opportunity to be creative in a business and product sense.

It's not that glamorous, usually. But it is unique.

2. What are the advantages and disadvantages that a founder CEO has over a normal CEO?

Four big advantages:

She/he can make big bets.
Mark Zuckerberg spent 10% of Facebook's shares to buy WhatsApp, without even allowing much board-level discussion. $20b at the time — far more now and $1b to buy Instagram when it had a handful of employees. Crazy! These are bets a non-founder CEO almost never can make. Too risky, too much from the gut/hip, too dilutive. The hired/non-founder CEO loses her job when these don't work out. Zuck doesn't. And the non-founder CEO has to socialize the idea, convince everyone. It takes months or even years. Zuck can move in a day.

She/he can go long.
We all learned this from Jeff Bezos. A hired CEO is going to be judged annually. So will a founder, but she'll be more insulated from the risk of being fired every January. CEOs aren't judged quarterly but they are certainly judged annually. You can miss a quarter but as a non-founder CEO… your job is always at risk if you miss a year. It's very hard to make expensive long-term bets. It really is.

Authenticity.
People want to buy from and work for someone truly authentic. Non-founder CEOs can do this, too. A non-founder CEO can care so much, and learn so much she is just as authentic as a founder. Elon Musk didn't really found Tesla — he was just the first investor. But there is something special about founders here.

Special knowledge of how it all works together.
Eventually, this won't matter but maybe even up to $100m in ARR and beyond, there will be some things only the founders understand. And because of that, only the founders will really understand how it all pieces together — the vision, the bugs, the strategy, the technical debt, the early customers. It's hard for any mere mortal to understand how it all really works. Unless you also built all of it.

So all things being remotely equal — stick with a founder CEO. I always do.

3. Should I call myself an owner, founder or CEO?

CEO. Although, perhaps say it in a neutral tone, with no bravado.

I always thought the title was a bit silly when running tiny start-ups but I missed an important point: customers, prospects, recruits and media like to talk to "the CEO".

Even if it's the CEO of a 5-person startup.

Customers, especially. They want to build a personal relationship with the CEO, the one person who is making a true commitment back to them on the 5+ year customer journey. Use that title, at least externally. Internally, if you prefer Founder, Chief Fixer, Trash Pickeruper, or whatever, understood. I did.

4. What is a day like for a startup founder when the company is at its infancy, 6 months old, 1 year, and 3 year old?

For B2B/SaaS at least:

- **Infancy -- You are Brilliant.**
  You've found an amazing bit of white space, have brilliant insights into how to tackle it and no prospects refusing to buy or customers threatening to cancel.
- **6 Months -- Product is Terrible.**
  You were brilliant, yes, but it turns out really building a truly sellable market in today's world -- where there are 58,000 other SaaS apps built by better / good / almost as good teams -- isn't as easy as it looks. The product sort of works but it's not good enough (yet) to solve a real business problem. Customers are telling you $5 a month is too expensive and churn.
- **1 Year - Product is OK, Business Model is Hopeless.**
  Ok, the product is finally decent and you have 5, 10, 100 customers but they aren't paying enough. You'll never generate enough revenues to build a big sales team, hire all the engineers you need, etc. It's not enough, and looks like it never will be.
- **3 Years - Great Customers, A Real Business. But -- Will We**

Ever, Ever Get to $100m in ARR?
Finally, it's repeatable, and repeating. But-- will we ever get to $100m in ARR before I need a walker? Before the team quits and goes off to Uber / Slack / Stripe / Wherever for 500 RSUs? How long does this damn SaaS thing take, anyway? 7-10 Years? Oy.

But -- it gets easier at $10m ARR. Then, you have fat, more help. Get there as fast as you can without totally burning out and hire a few great VPs along the way, it does get easier.

5. How hard is it to become the CEO of a Fortune 500 company?

Here are my learnings as a VP in a Fortune 500 company:

It's very hard of course but the path itself is slightly easier than you might think -- and there is a strategy to get there. Let's start with the math:

- **Each company is different, but when I was a F500 VP, there were basically 40-50 VPs** and a handful of SVPs (who were each previously VPs). Your title inflation may vary so map to the titles in your company.
- **Of the 40-50 VPs at any given time … maybe 10 would even want in theory to be CEO.** The rest have no interest, lack the cross-functional skills or aren't VPs in important enough or P&L-focused areas.
- **Of the 10 who would be interested maybe only 4-5 have the true position, positioning, and skills to pull it off.** The rest might have the IQ but not the visibility. They don't have the relationship with the current CEO or more importantly didn't quite hit the number for their division/product/BU. Etc.

Maybe at any given time, if you assume promotion comes from within -- really there are only maybe 4-5 potential internal candidates in the VP base who could grow into SVPs that could then ascend to CEO.

- **Those 4-5 VPs are the candidates for the openings that come up in the top 3-4 SVP positions.** Find a way to get to SVP in a core BU and then the odds are pretty solid you'll become a CEO candidate if you kill it.

Even if you don't get the nod you'll get other CEO offers (see, e.g., Marissa Mayer) and other great opportunities (e.g., Sheryl Sandberg).

My uber-point: the key as an internal candidate at least is getting to the penultimate management level (VP or whatever is the second-to-highest level below CEO) as soon as possible (because people notice those that rise quickly), get as much P&L responsibility as possible and exceed expectations (whatever they are).

Also, on a related point: often you'll notice the fastest way to become an "internal" candidate is to get acquired and excel after the acquisition. The CEO and top execs of successful acquisitions rocket to the top of the org chart (they are often given higher titles than they would get if the product was developed internally) and often inherently run higher-growth parts of the business. They get into the CEO conversation relatively quickly if they maintain momentum and run something of material scale faster than true internal candidates and if the company is a bit stale the acquired guys are very successful -- they get the air of the "new blood" that the org needs.

At least in my experience not that many real candidates get there so your statistical odds are decent if you can just find a way to make it to the penultimate level of management and then just kill it, no matter how.

6. How old is too old to start a startup?

First, you need to give it a full 24 month commitment to hit Initial Traction. 6 months isn't enough. 12 isn't. It's going to take you 9-12 months just to get the product right and another 6-12 to get any material revenues.

Can you "afford" to commit for 24 months just to get to something? If not, you are too "old". Even if you are just 22. Slack went from $0 to $12m in '14 but it wasn't founded on 1/1/14. It took them a year to get an MSP and it was really founded as a very different company many years earlier.

And you might not be Slack. In any event, 12 months won't cut it.

Secondly, you have to be able to commit to 8,760 hours a year. 24 x 365. Not, to being in the office 14 hours days. That's not really necessary but to obsessively thinking, worrying, futzing, stressing about how to do the impossible. Every. Single. Moment of the day.

If you don't have the mental bandwidth -- you are too "old".

Thirdly, you have to have zero optionality. This is perhaps most important. If you maintain optionality, it never works. "I'll try for a while and go back to Google if it doesn't work." or "I'll do a lot of consulting while I see if it works." or "I'll raise $500k and see how it works."

This just never works. Great founders maintain zero optionality, not because they are crazy risk takers but because they just don't see the risk. They have no need of back-up plans. They see the future.

So... if you need to maintain optionality -- you are too "old" but chronological age is irrelevant in my experience. In fact, I'll say as a VC now, I have no idea how old any of my CEOs or founders are. Some have adult kids. Some clearly, are relatively green. but-- Never asked. Never cared. Just looked at 1, 2 and 3.

7. How much equity should a founder keep?

Now as a VC, I've come up with a general rule. I want the founders collectively to own at least 25%, worst case 20%, post all the $$$ they raise. Whether that's $1m or $200m.

In SaaS, this can be hard. Aaron Levie was diluted to 4% (then re-upped to 6%). SaaS companies raise tons of money these days, but each round comes with dilution, no matter how large it is. I personally believe once a founder owns less than a hired CEO could get it's simply de-motivational. I just don't want founders I invest in worrying about "is it worth it (anymore)"? Ideally no matter how many rounds, each founder would have > 10% ownership for always. If you chose to have 12 co-founders that may not be possible.

But that's my goal.

So I just don't invest in companies where this will likely be structurally impossible. I like companies that were able to skip a round.

8. As a CEO, what is an example of a good day and of a bad one?

I'll give a few from the early days. This is pretty fun:

A Good Day: I'm running out of cash in the earlyish days-- and somehow convince a key customer to pay us an $300k additional pre-paid… even though contract doesn't require it and isn't up for renewal for 10 months.
Gets us six months more runway. Company survives to live another day and raise our Series B. I had a terrific, quiet party of one.

A Bad Day: The Day It's Clearly Hopeless.
For me, this was about 9 months in. No matter what, we'd never be able to get to $1m in revenue fast enough, let alone profitability. The spreadsheet just didn't pencil out. We weren't going to be able to raise any more capital and there was just no way the math could work. Before that day, it may be grim -- but it's different once you hit that certain day when you know it's mathematically hopeless.

A Good Day: Cash Flow Positive. Boom!
We hit this around $4m in ARR. No more VCs getting to call the shots. Now no one could kill us but ourselves. Time to plan the first company retreat!

A Bad Day: Crappy M&A Offer Pulled in First Year.
Yes, it was a totally crappy offer albeit from a good company but from "the day it's clearly hopeless" point on (see point #2), I was pretty deeply bummed to have this option pulled out from under me.

A Good Day: Hiring My Real VP of Sales.
It was pretty brutal for a while there. Trust me, until you've hired someone great, you don't know. And then you do -- and it's magic. All of a sudden, I could focus on what really mattered. Bringing someone super talented into the company brings a positive attitude and a whole team with them -- just epic.

A Bad Day: When I Had No Salary And Didn't Get My Requested $10k Bonus Even Though I Brought In an Extra $250k All-Cash Upfront Deal.
Argh.

A Good Day: Dec 31, 2009; Dec 31, 2010; Dec 31, 2011; Dec 31, 2012.
When we killed it every year on the last day of the year. Exceeded the plan and our own expectations. New Years was spent in the office. It was just too fun to see th

deals rain in once we had something (and the right guy in #5). (I didn't run the shop after '12.)

A Bad Day: The Day My Mentee Quit on Me to Go Off and Do Better.
This was a tough day, at least time for me. There are only so many people in a start-up that both help carry the load and you can fundamentally trust. I only lost one of these, ever. But it was terrible.

A Good Day: Our Company Retreat at $10m ARR.
Being together as a real team all rowing the same way to the same goals with the business on firm ground. 5-stars all the way. It's really the greatest thing in the whole start-up world, a real team executing together with a singular goal. Maybe one of the greatest things in the whole wide world.

A Mixed Day: Selling.
It's your life work, your baby. It's great if it grows, if it quadruples and quintuples, after you sell. But then when you see that-- you know what could have been and you only get so many at bats.

9. What are some of the lesser-known, unwritten rules of the Valley as they pertain to startups?

Some random-ish esoteric thoughts to add:

- If I haven't heard of your start-up, it doesn't exist.
- You pretty much get "credit" as "one of the guys" for a successful start-up as long as you were one of the first 30-50 employees and had an impact. Not quite founder status but pretty good.
- Having a super-strong reference from the CEO/a founder of a well known, successful start-up pretty much lasts forever (10+ years) and is golden.
- Anything you put in a deck and email outside of your domain will find its way to your competitors, period.
- Failing is OK early but the great ones don't really fail. They may not have an RBI at every-at-bat, but they find a way to make something of their start-up. Acqui-hire. Small zero/low gain M&A. Soft landing. Something.

10. What is the salary of a founder whose startup has been acquired by a big player like Google or Facebook?

My salary after being acquired by Adobe and being made a corporate Vice President was $250,000 a year with a 40% potential bonus paid at CYE. The bonuses were only partially paid, being redistributed to my business unit.

I was one of the lowest paid corporate VPs in the U.S., however.

You have to look at the "whole package" and understand how the retention, claw-back, earn-out, and other provisions work to get the full picture. Be it carrots or sticks, salary won't be the full picture as a founder if you are acquired.

11.What is the average annual return for a startup founder?

I'll take a stab at actually answering it. Because I have thought about it a lot.

I think, as a true founder, you need to either:

- Make about 5x what your salary would have been for the risk to be worth it from a purely economic perspective.
- For repeat founders, make 5-10x what you made on your last start-up for it to be worth it.

Re: the first bullet, e.g., you are a senior professional making $200k a year, you need to make at least $1m a year for each year of your start-up for it to be worth it economically. (This is not easy, especially if you don't magically get acquired in the first 12 months.) If $100k, then $500k for each year, etc.

Otherwise, you'll be too upside down on risk -- assuming you left a job you liked. (If you left a job/career your hated then for your first start-up economics probably don't matter that much.) Why 5x? The first year, maybe you make close to nothing. The second year you almost go bankrupt. The third year your salary is still very low. It may take 5 years for your salary to catch up to where it was and by then in your old career you would have advanced 5 years in that time... on the way to Director, VP, wherever...

So my rough math, you have to make at least 5x what you would need have to cov your opportunity cost. Beyond that you're into Upside and Bonus. This assumes you've left a real career with real potential advancement to do a raw start-up.

To repeat -- this is very hard. There are less than 40-50, $100m+ Internet exits per year, and as you get into years 4, 5, 6 the math (and bar) really starts to compound. Most people with significant career opportunity costs who like their jobs probably shouldn't be founders.

12. What is the strangest thing you have learned about entrepreneurship?

To me the "strangest" thing I learned is that you get pretty good around year 3–4. Almost automatically and somewhere around year 5 at least, if you make it that long — you know exactly what to do.

I always had impostor syndrome as a CEO and founder — and still do. I never thought I could be as good as any of the successful founders I knew and I probably wasn't that good in the beginning.

But what I've learned twice now is if you make it to year 3 or 4 or so … you get pretty darn good. Whatever domain gaps, management gaps, vision gaps you had … you figure it out by then at least. You can really see the future by $8m-$10m ARR.

So if you are worried you aren't good enough to go the distance … well maybe you aren't. But don't throw in the towel. Wait and see how good you are on Day 1000 (measured after first revenues). If you still don't think you are good enough then … well that's one thing, but give yourself time to grow until then.

13. What is the best advice a supervisor ever gave you?

In my first start-up executive job, my boss suggested I manage the HR department. I knew very little about HR and it was a department no one seemed to want to manage. And it wasn't something, at the time, I wanted to learn more about (little did I understand at the time how HR, broadly defined is the #1 job for a CEO founder). I had managed resources before … but not a true team.

I turned it down. My boss, a pretty seasoned manager and a thoughtful boss, told me OK, just think about it for a few days. He told me managing resources wasn't really the same as managing a team. He told me I would learn a lot especially managing something I wasn't an expert in.

I decided he must be right. I reconsidered (I'm lucky he gave me the chance to) and took the extra "job". From there I managed more people and I learned what it really meant to manage people, especially areas where I lacked deep domain expertise. I wasn't very good at it at first, but it was a great start.

14. What 3 pearls of wisdom would you give a 1st time CEO of a small technology startup (product yet to be launched)?

Make sure your co-founder is good enough AND committed enough.
Even if your idea and ability to close initial customers is good enough, if you aren't good enough of a team -- take a pause. Go find someone better, and/or more committed. You'll hit such a hard wall in 6-18 months it's not worth it otherwise.

Make sure you are committed for five-seven years in general and for two years to get anywhere.
It takes 7-10 years to get to an IPO, and usually at least 5 years until you really have something big. In the early days, that's infinity for many though. Most importantly is the founders will give it 2 years just to get anywhere, to get to any customers. This gives you a 50x better chance of making it than if you just give yourself 9-12 months to get to "somewhere."

Hustle. Hustle. Hustle.
Even great products rarely sell themselves. If you don't know how to hustle -- that's OK. Learn. Fast.

15. How do you choose who should be the CEO when you have a co-founder?

This can be a tough one if it's not clear to everyone from the get-go.

Assuming you have a B2B, enterprise, and/or SaaS play, I'd suggest the one that most fits the following criteria should be CEO:

Has Raised Venture Capital Before (and Has A Positive Reputation in VC Community).
One of the biggest part of a CEO's job is to keep the company funded and not bankrupt. Investors interface with and focus mainly on the CEO, fair or not. Put the person who can get you the bucks in this role. This is more important in SaaS, enterprise, and, B2B where VCs generally are looking for a "corporate" CEO. In consumer, there's less presumption about what types of CEOs are fundable.

Strong Evangelist, Good Hustler, and Enjoys Getting Up on Stage.
The CEO should be the external face of the company. Most people don't like getting up on stage, doing whatever it takes to get PR, trying to build the first customer and BD relationships.

Enjoys Interfacing With Customers.
All customers (and especially early customers) want to meet with the CEO. Even if it's just the CEO of a 4 person company. This is similar to the prior point. Wallflowers, do not apply.

Clear, No Questions Commitment to Running the Company for 7-10 Years.
Some founders really aren't 100% committed for 7-10 years or even 18 months. They like the idea but want to see if it takes off before committing mentally 100% (even if they've committed 100% of their current time). You can't change that. Those people shouldn't be CEO. Turning over the CEO in a start-up is bad.

Best Cross-Functional Recruiter - This Is Probably #1.
I'm putting this last on the checklist but in most ways it's first. 20%+ of the CEO's job is recruiting. General rock stars at first and then management, etc. etc. If your best recruiter isn't in this role, you will really suffer.

No one, most likely, has it all. So grade everyone that wants the job objectively on this matrix. Then you'll make the right decision.

16. What is your advice for the 21st Century Startup Founder?

One thing I've learned from the next generation of SaaS companies I'm involved with versus the last two generations of '05-'07ish and '08-'11ish is just how agile they are.

I am amazed at the features Talkdesk pushed out last month at their user conference, (even, when they were just 5 people) how many they push out every month. I am amazed at Algolia's agility in search as a service. I am amazed at RainforestQA's ability to manage 50,000+ QA crowdtesters and still deliver an amount of functionality every 6 weeks deliver. It would have taken me 18 months to ship.

Old SaaS Companies just aren't agile. Their architecture is too old. It's too much work to change. It's too risky to impact existing business workflows.

If you can be 10x more agile AND have product-market fit, you have something special the others don't. Most of us can barely keep up, barely keep our heads above water, on the product side.

17. When should a startup get acquired?

Let me take a stab at this, having been through the acquisition process 4x -- twice as a founder, twice as a start-up exec.

When A Start-Up Should Get Acquired:

- **Before You Fail / Run Out of Money / Etc.**
  If you are slightly hot but with few revenues or have something but not enough, sell while you still have time. Don't wait until you have 30 days of cash. Way, way, too many start-ups wait too long in this scenario.
- **When the Team Isn't Good Enough.**
  Even if you are growing nicely and cash-flow positive, and all the quantitative metrics look good ... if the team isn't good enough, and can't fix itself -- sell if and when you can. Bad teams kill start-ups. Every day. Sell before then if you can't fix it. Sometimes great individuals just don't make great teams and it can't be fixed. It's sad, but not uncommon.

- **When the Economics (to Everyone) Exceed Your Magic Number.** I don't know what your magic number is. But you will. It may be $19 billion. It may be $1 million. The magic number isn't rational and can't be 100% explained on a spreadsheet. It is something that makes it all right. Sometimes there is no magic number. Which is great, too.

OK that's the easy part. The more interesting part is when NOT sell. My Learnings:

- **Do Not Sell If You Are At Scale and Have a Committed Team.** This is pretty much it for me. E.g., in SaaS if you are at $10m+ ARR and growing nicely and the team is killing it -- just don't sell. You don't have to listen to me but once you are at Scale in SaaS, you can't be killed. Why sell? Really.
- **Do Not Sell Because of the Competition, Unless They Are Truly Decelerating You and You Can't Stop Them.** There is always competition. Google threatens to kill you if you don't sell? Whatever. They can't kill you if you are growing. A hot start-up nipping at your heels? That's the way it should be. As long as you can hit your plan, it doesn't really matter.
- **Do Not Sell Because You are Tired.** This is the dirty "secret" of M&A. If you look at a lot of successful start-ups that seem to get acquired out of nowhere … that have traction, great customers, and all that there's often a story. It's called the "5 Year Walk of Death". You get so tired after 4 years, then you stumble through the 5th, and then, you take an offer. Don't let it happen. Bring in fresh blood, fresh capital, whatever it takes. I know of one top tier VC Fund that specifically targets founders after 5 years, makes crappy offers but with a lot of secondary liquidity. They know it's a weak moment.

My learnings.

You only get so many at-bats. Money is good. Take it. It gives you options and makes you braver (maybe next time) but even if you can go do another start-up … you can only do so many. If you have something real, something good, something self-sustaining, something unlikeable. (which is hard) then you did something magical. You brought something real into the world. Probably, don't sell. Period.

18. What should I do after my startup failed?

If it “failed” after < 12 months or so it doesn’t matter too much. No one will care and there’s no need to explain yourself, apologize, or feel like a failure. No need.

Dust yourself off and decide if you want to do another one. If you do — the key is, just consider that one-year start-up an experience. That’s it:

- **Be matter-of-fact about the experience.** I know it wasn’t just “a job” but sort of act almost as if it was. You tried. You gave it your all. You learned and it’s done. You’re ready for the next challenge.
- **Don’t act like it was a big deal.** It wasn’t (in good and bad ways). I don’t want to hear 20 minutes about your failed start-up. I want to hear 120 seconds.
- **Don’t act like you learned that much.** You learned a lot, don’t get me wrong. You took a risk. You worked for nothing. You tried. I respect that. But if you never got to at least $100k in ARR you didn’t build a business. You started a start-up but you didn’t build a >business<. Don’t act like you did.
- **Be humble but not bitter.** Be humble about the experience. We’re all human but don’t be bitter. We don’t like to see that.

In Silicon Valley, a quick failed start-up, especially one that didn’t raise any real money isn’t a negative. Making a huge deal out of it is a maturity flag and dwelling on it will worry people working with you.

19. What did you do immediately after selling your company?

In terms of the first days / week …

When I sold my first company as a co-founder I didn’t have any post-closing obligations. I finished up in 8 days, took a long weekend at the beach with my wife and good friend, decompressed for the first time since co-founding, bought my wife a house and a new car, and then just kicked back for 9 months.

That was good.

When I sold my second company as a co-founder I was made a corporate Vice President and told to grow the BU to $100m in ARR by 2013 and anything else would be a failure. There was no real beach time. Monday came and it was back to work as usual-ish.

Fortunately our company retreat happened to fall between signing and closing. So we really blew it out as a team together then. It was epic. That was the stealth celebration.

20. Why do founders get fired?

In my experience there are two general reasons.

He or she isn't up to the job, doesn't realize it and take another role in the company electively. Unless the founder is delusional, this works itself out one way or another. If the founder is adding any value at all and has loyalty with the team/customers/markets and isn't damaging the company... then the board will want to keep him or her in some role, just one with less responsibility.

In venture-backed companies I think there's something else that leads to a lot of terminations I've seen, at least at the Founder CEO role. It's being too greedy.

If you push the investors too hard in particular on valuation, out of their comfort zone... they will sometimes still make the deal. Even though they shouldn't because the valuation completely left their comfort zone. But they still do it because they just get caught up in the drama of the deal. Or it's an ego thing, or whatever. But you pushed it too hard.

If you do a deal like this, you may get a great deal but you will be resented.

Just. Plain. Resented.

And that means, you better hit your numbers. Every month & every quarter because you not only burned all your goodwill, you made the VC, your investor look and feel stupid. That doesn't fade. It burns at every board meeting, with every email until you deliver an exit with $X,000,000,000 in it. Even then, it burns a bit, just less.

Until then -- take one misstep, miss one quarter and he or she will take you down if they have someone else “better” to put in. Turn around and you’ll notice they’ve placed some of their “guys” in your company who report behind your back to the investors. They stack your board. All around you and they have a “guy”, you think this person is your advisor... but really they’ve been brought in by your resentful investor to see if this person wants your job. Because they don’t trust you, when you are too greedy.

So. Leave a few nickels on the table. Or if you don’t, if you push it past that point... then at least make sure enough of the nickels go in your back pocket so it doesn’t hurt too much on your way out.

21. Is Y Combinator asking too much equity for 120k worth of funding?

Here’s my learning.

I’ve invested in 4 YC companies. I’ve met with about 20, maybe a few more than that. I ask all the founders I meet that have been through various “accelerators” if it was worth it because as a 2x founder myself I see all of this as expensive.

With accelerators (or whatever you call them) founders generally pause, qualify their answer. “Was OK. Was fine. Was worth it, yeah, because we knew nothing.” Unless it’s YC. No matter what their criticisms or thoughts are -- especially as the classes have gotten large and diverse in types of companies -- they all say it was 100% worth it and have no regrets on the equity side.

So there you go.

22. How do CEOs stay calm?

You must fake it.
You cannot let anyone see you look like you are losing control. Ever. Once they see that ... they will lose faith.

You need help.

Ideally, 1, 2, or 3 others on the management team that can really help carry the load. So you don't have to worry about 1, 2 or 3 key functional areas, at least not at an execution level. If you don't have true help carrying the load -- stop. Do almost nothing else. Recruit someone.

You need a break. In fact, lots of them.
Some way. I ran 26 miles a week and took long walks to think. Coffee is good too if you take it away from the office. Something. Get breaks.

You need someone to confide in.
At least one. One person you can really share the things with that make you... un-calm. One great advisor, whoever it is.

Once the business is real, sustaining -- you need to take a real vacation.
Not just a trip where you email 4 hours a day. A real vacation. Honestly, it may be 4-5 years until you can do this. But once you can, it will help a lot.

RAISING
CAPITAL

SECTION

2

23. What are some rookie mistakes founders make during VC meetings?

A few that are easy to fix:

Not standing (when you present to > 2–3 folks).
When you stand, you present better. Period. Standing turns you into the center of the audience, into the owner, the presenter. Sitting is great for a small conversation but sucks all the energy out of a 3+ person audience presentation.

Being cagey with answers. Just answer the question.
How much are you raising? Where are you in the process? Being direct (and honest) builds trust. With VCs you want to build trust quickly, if you can.

Bringing the wrong people with you.
Do not bring "consultants". Do not bring anyone with you that isn't part of the senior team. As soon as you bring a "consultant" with you — I'm out. 100% of the time.

Not sending the deck ahead of time. Just send it.
You are wasting a lot of time and an opportunity by not letting VCs do basic homework ahead of time. Make it easy on them.

Not doing at least basic homework on the VC firm.
You should know their other investments in the space. VCs may be fungible but no one wants to feel that way.

Spending more than 2 slides on "the industry".
Do not do this unless asked. Assume VCs understand what is "happening in the cloud". This is a waste of precious time … I'll fade away.

Going in too strong.
If you have 2 signed term sheets, for sure, go in strong. It saves everyone time but being too aggressive, too take-it-or-leave-it, if you don't have options — is a big mistake. BATNA, folks.

Going in too weak.
Telling me you could succeed "if only you could raise $____" is just the wrong message. Winners always find a way to win. No matter how hard it is.

Asking for coffee to "share notes".
Some VCs may want to do this but I sure don't. My job is to invest. Show me a team and product I want to invest in — I'm in. I already drink 4 cups a day. I don't need a 5th.

Hearing about how the founders met in elementary school.
Even if this is true I don't want to hear it, at least not as a part of the core pitch. That's not a positive for me. Meeting at Google or Salesforce is a positive. Meeting a

Thomas Jefferson Elementary is not. I want to hear why the founders are amazing.

Not answering the questions.
Should I ask a question, there's a good reason. Some VCs like to hear themselves talk. I don't. Just answer it. If you don't know the answer, tell me. Don't tell me "you'll get to that later" because if you do, that may well be too late.

Not speaking with data.
Always speak with data (if data is there). Even if it isn't great. I don't want some qualitative answer, once you have even 10 customers.

Claiming pilots, unpaid users, and anything similar are "customers".
They aren't and don't claim they are MRR/ARR. They aren't. Be clear what is a pilot, what is paid and what isn't, otherwise this blows up on you in diligence.

Hiding anything.
Seriously don't. It will come back to bite you. Some things may be more appropriate for a second meeting but make sure top level issues come up in the beginning.

Poor understanding of competitive landscape.
You have to get this right. You have to. First, always have a competition slide. Second, know it cold. Third, be respectful of any competitor larger than you. If you don't understand the competitive landscape cold you don't really understand the market — or what you are going after.

Not having the >first< slide sell the company.
If the first slide is the only slide you need. If it sells the whole deal. Your odds go up. Elevator pitches are important. So is a "1-slide" pitch. Make that first slide count, folks. Metrics, team, product, financial goals. Put it all on Slide 1. Position the company and answer all my questions right then and there.

>> Your job is to pass the 20 minute test. <<

To get a VC to want to invest no later than 20 minutes into the first meeting. Anything you do that handicaps a VC getting to a decision in less than 20 minutes dramatically harms your odds of getting funded.

24. What are the signs of an entrepreneur who is over-prepared for meetings with investors?

Just a few thoughts to add.

Things that are a negative for me and are sort of in the “over-prepared” category:

- **A written business plan.**
  A deck is great and a detailed operating plan in a Google Sheet or Excel is an A+++ but … a traditional, 20+ page written business plan though tells me you don’t know how to start building the product, but instead, need to just talk about it more.
- **Too many / wrong folks at pitch.**
  Never, ever bring a consultant or anyone that isn’t an employee. Never bring someone that isn’t full-time. Ever. Bringing a wing-man is great. It shows you have a team. Bringing 2 with you -- only do this if there’s a real reason to do so.
- **A thoughtful exit strategy.**
  I’m entering not exiting. This tells me you may take the first off ramp. Which may be the right thing for you but -- I immediately lose confidence in Unicorn potential.
- **Talking too much about my other investments / my portfolio.**
  Cool you know the companies but kind of weird when you know them too well. It’s not your space, not directly at least.
- **Talking about specific terms (too much / too early).**
  Telling me the exact terms of the raise in a pitch or when we’ve just met … unless you’ve already closed a lead and therefore have real terms is too rookie. Telling me how much you want to raise -- very helpful. Dictating very specific terms before you are in a position to do so before we’re looking to do a deal together tells me I may not want to work with you. It tells me you may be trying to over-engineer something that shouldn’t be over-engineering at this stage.

25. I just sent an email to a VC with two typos. Should I resend the email?

No, no, no and no.

- VCs want to see strength. Not arrogance usually, but strength. Some wimpy email apologizing for some typos isn't strength.
- It shows poor prioritization. This is really a good use of your time?
- VCs have lots of typos, too. They don't even care.

It's OK.

26. What should a startup founder do if a potential investor is rude or difficult? What is the best way to end a meeting and a follow-up that appears to be a waste of time? Should you remove them from your company communications, etc.?

Look, I can't stand this either but … get over it. smile, say "thank you" and move on.

- VCs are a pretty ego-driven bunch in part because they themselves are being judged as a number (their returns) and in part because that's the internal culture at many firms (my cos. are the best ones), in part because many are really smart, and in part because they aren't the CEO. They aren't the ones really creating value, not really.
- They often talk a little bit out of the arse b/c they don't truly have domain/operational experience in an area (they do too many things to be an expert in any one except venture capital itself)
- AND. They usually hear HUNDREDS of pitches and meet more than hundreds more founders a year.

There's no excuse for being rude. Mom taught us that. While you don't need to be sympathetic you need to understand that's how VC are and thicken your skin. Thickening you skin, dealing with all different sorts of folks and doing what it takes to win -- that's a big part of the job of CEO. And … you may just need that guy for your Series C. You never know.

27. Is bootstrapping a sign that you can't raise VC? Is it the worst case scenario? Is it a sign that you need to work on your value proposition? Does bootstrapping harm growth potential and impact scale?

Well, first, don't get caught up in TechCrunch posts: because in an ideal world, bootstrapping is 100% the way to go. Because you get to own 100% of the company.

Venture capital has many advantages but it also begins a long path to potentially massive dilution. For example, most SaaS companies that have gone public recently have ended up selling 80-90% of the company to the VCs, plus often another 6% or so to an outside CEO, in many cases that doesn't leave much room for everyone else.

Having said that, many business models simply require outside capital to scale, in particular in SaaS, complex products with a sales-driven model and in consumer, models that require huge critical mass pre-monetization.

If you can't raise venture capital for these plays you'll likely be doomed not just to a niche existence but potentially stay sub-scale too long and stall out in the marketplace. For these models, bootstrapping can be a bad sign.

28. I'm 20 years of age and I'm meeting with a Managing Director of a large VC firm. What advice can you give me?

Here's my #1 piece of advice: don't be nervous.

Don't worry that you are 20. The partner knows this. Don't worry it's a large VC firm. They work with start-ups every day.

But -- do worry if you have no experience presenting confidently to small groups. If you can't do this amazingly well on-the-fly it's OK but just practice:

- First, practice in front some group. Your colleagues. Whomever.
- Then, if you can, "practice" in front of another VC first whose money you don't really want as much or that you've say already take a few seed dollars from or that is otherwise in your network. That way if you screw this one up (and the first pitch is always, always, much worse than the next) … no big deal.

Whatever you do, don't make an important VC meeting and pitch the first one you've ever done. It's OK to be young and green, to not know all the answers. It's enough to just really understand your product, your market, be an amazing CEO with traction and an amazing vision and an amazing team. That's enough :)

Being too nervous, not being able to answer questions confidently… that can create concerns. Practice alleviates these issues. Practice makes all public speaking in small groups and large (which are very different settings) better. You almost can't get enough practice here until you are just really great at it.

I'm pretty good at this myself (I didn't start out being any good at it.) Even now, I'm always better the second time I give a pitch. Always.

29. What is the best way to work with a VC who became very disagreeable after investing and taking a board seat and adds more problems than solutions for a startup?

Well, first, sorry it's too late. You chose poorly -- if you had choices. If you didn't have choices, then it's just a shotgun marriage you have to live with. Having said that, this "shoot from the hip" and "add excessive unsolicited advice" is relatively common in certain VCs.

Here are some tips:

- **First, just listen. You don't have to act.**
  Acknowledge what they are saying, and say you'll look into it. That doesn't mean you actually do what they say. Every founder has some dumb, never-used feature they built just because a VC told them to. Don't be that guy.
- **Don't argue. See prior point.**
  Just doesn't help with these guys. They aren't your sparring partner. They just need to hear themselves talk and bark orders. Let it go.
- **Send out very detailed board packs at least 3-4 days ahead of time. Then -- try to have 60 minute board meetings.**
  Keep it tight, on track (and you can) since you've already sent out every metric, every update, many days in advance.
- **Get someone you trust on the board.**
  Pick an outside director you know and trust -- and with a complementary personality to join the board. He or she can be an important counterweight.
- **Don't overspend.**
  Most importantly, don't be too beholden to this guy. If your burn rate is too high and you are running out of money -- he'll be the boss. Dial down the spend instead until either you can raise more capital or get to the next stage of revenue.

And hey -- you're not alone.

30. What will venture capitalists do if our startup fails?

Move on.

This is telling article re: Bill Gurley, one of the best VC investors of all time:

"I give Bill a lot of credit because Bill said, 'I understand, this happens,' Nextdoor CEO Nirav Tolia recalles. 'most startups do fail, so the odds were that Fan base would fail, not succeed. But you have a great team, and I feel that you guys have a lot of talent. Would you be willing to take a few months to see if you could come up with another idea?'

Let's back up.

A VC fund will typically do 30-ish investments per fund and it will only start with say 1%-1.5% of the fund, on average, per investment.
So, if you "fail" after the first check it's really not the end of the world. If we have a $200m fund our job is to turn that into $600m (3x). If we invest $2m into your start-up and it fails, that's a bummer but not the end of the world. It's not really going to materially impact if we turn $200m into $600m. It's just one "at bat" that didn't pan out. It's OK as long as a bunch of the others do pan out. We will make $598m gross instead of $600m after the $2m loss on your start-up.

But as the loss approaches 10% of the fund size — here $20m in this scenario — it starts to create a lot of stress. Typically, though, that's over 3–4 rounds of investment. You get a chance to decide whether to play another card here, or not.

So losing the "first check"? Most VCs will be bummed, shrug but writing off a third-check investment? A VC could lose their job there.

31. What are the first things VCs notice when a team of founders starts pitching to them?

The confidence. That's the first thing you see:

- Are they confident in their progress?
- Are they confident in their metrics? Do they know them cold — customer count, ACV, # leads, etc.?
- Do they have confident, credible, data-driven reasons to meet the plan for this year?
- Are they confident as a team — do they finish each other's sentences in the right way?
- Are they confident in their understanding of the competition, the market, how the market is changing, etc.?
- Are they overconfident / cocky? A bad sign unless you are a rocket ship and already have a dozen term sheets.
- Are they confident in the things they >don't< know, honest about them, and self-aware?
- Do they make things up? (Bad / wrong type of 'confidence')
- Do they know exactly who they want to hire, and already have a few good ideas of whom?

When you see some early good traction and the right type of confidence … you start leaning forward.

The right kind.

32. What tells a VC that you are an amateur?

Being an amateur is OK, even endearing — if it's authentic but here are some things that say you aren't ready to raise venture capital:

- **You bring "weird" people to the pitch meetings.**
  Do not bring "advisors". Do not bring anyone that isn't a key employee. Do not have a non-CEO/founder lead a meeting. CEO or CEO and co-founder only at first.
- **You change / make up a new valuation based on how much the VC wants to invest.**
  This is subtle but don't do this. Don't change the price, at least not explicitly, based on a VC saying they'd invest $Xm or $Xk. "Oh, if you want to invest $2m then the price is $20m. For $3m then it's $30m." Don't do that.
- **You ask for money to help you build a "sales process".**
  No. You ask for money to help you sell faster and better. Not to figure out how to sell. You need to do that yourself.
- **You don't know your core metrics fluently.**
  You just gotta know your MRR (revenue), average deal size, latest customers you closed, burn rate, etc. If you the CEO has to turn to her/his co-founder for an answer, you've already lost.
- **You don't know the competitive landscape.**
  It's OK to say "I should know more about [competitor] but I'm not sure of the answer". Not great but OK.
- **You badmouth the competition too much.**
  A tiny bit isn't the end of the world but great founders respect the competition.
- **You don't know much about the VC firm.**
  Dude.
- **You show up late.**
  This is sales. (It's selling stock, yes), but it's sales.
- **You're too nervous.**
  You're selling yourself and your vision. The VC firm may have all the money and a fancy office but be confident enough in yourself.
- **You're too arrogant.**
  Don't be too nervous but don't go too far the other way. This can sort of work for later stage investments but usually doesn't work well for earlier stages.

33. What should an entrepreneur look out for when negotiating a term sheet with a VC?

One simple thing: complexity.

99% of terms and term sheet should be simple and straightforward:

- Price
- The amount invested (and % ownership for investors / cap table)
- Pool for stock options and employees
- Board construction and seats that are proportionate (roughly) to ownership
- Standard venture terms — pro rata, IPO registration rights, etc.
- Timing (if/when term sheet expires)

That should be all there is 90% of the time. That's enough. Professional, experienced start-up investors shouldn't care about too much more than this. Of course, get a start-up lawyer that has done this 100 times. Mainly, be on the lookout for anything too complicated. The 5–6 points above should be all that matter and they are pretty straightforward. Folks that make problems for you are often the ones that make the most complicated term sheets with endless tranches, complex terms, complex hurdles, lengthy timelines, excessive due diligence, etc.

34. "Should the (three) co-founders of a website invest their own money or get an angel investor instead?

Here's my simple rule:

If: (x) the investment is less than or equal to10-20% of your net worth and (y) the valuation for the angel investment isn't particularly high ...

Fund it yourself (for now). If this is something you really believe will work, will kill it, don't sell stock for a $1m pre or $2m pre or any pre if you can get to the next level with 10% of your net worth. You have inside information. Betting on yourself is the best bet great founders ever make. I did this aggressively at EchoSign and it paid off well (we skipped the early seed round). If it's greater than 10%, certainly greater than 20% of your savings, net worth ... that will create too much stress which will harm the business. In that case, take the angel money.

35. How did Slack Technologies manage to raise so much capital? Aren't the founders diluted next to nothing at this point?

I think it's important to understand the context.

Slack was a second-timer founder success story 6 years in the making.

Stewart Butterfield managed to raise decent seed / Series A rounds based on the modest but impactful success of Flickr and the fact that prominent angels and VCs thought he was amazing. This was before Slack, the product, existed. The investment was in what was then a gaming company, Glitch but this money enabled Slack to be built as an internal tool to support Glitch and gave Stewart time to pivot this tool into "Slack" the paid product and company it is today.

So this is not really an overnight success story, at least, in some sense.

The answer to Phase 1 is that second timers can raise \$2-\$10m, or sometimes much more (if the first exit was big) just based on their prior success and potential. So a repeat founder bets on the story from the seed or series A round. Slack the product then takes off and becomes Slack the company. Once Slack starts to grow at an "outlier" rate the capital comes in even faster.

Slack may stumble and fall but most VCs will tell you Slack the business that exploded in 2014 has grown faster than 99% of the paid freemium / SaaS businesses they've seen. You pay up for that.

As that compounds to tens of millions in ARR combined with Top 1% growth you get top of market pricing or valuations in the billions at that point but it had to build to that point. A six year overnight success story.

36. What are the most ridiculous things VCs have said to you?

“Great company. Term sheet coming to invest $10 million. At a $10 million **post.**

Sorry, that’s just what the comps support.”

-- Very Successful, well known Tier 1 software VC to a relatively successful SaaS-ish company doing $Xm in ARR in the wasteland between Web 1.0 and Web 2.0, when, in all fairness, multiples indeed were very, very, very low. Like, 1x revenues.

37. As a venture capitalist, what’s been one of the best/most impressive things you’ve heard from an entrepreneur during a pitch?

It’s always the same for me.

The very best entrepreneurs can take the first 10, 15, 20, 100 customers … the handful they have today and explain the entire future of the industry, their start-up, their solution, how it all fits together and how this creates a Unicorn.

I’m always blown away by this around minute 20 or so, How they explain the future, not just the powerpoint version but the road map. How they are going to kill it, upend an industry, totally change it based not on a dream but on the handful of proof points they have now.

It’s of course not 100% right but they know it from the data. They know how the competition fits in, where the market will be in 2021, what Customer 1000 and 10,000 will look like. The real reasons why they will dominate (not because “my product is 1.1x easier to use”).

An amazing CEO with at least 10 unaffiliated customers that can truly see the future … I haven’t lost money here yet and don’t plan to. By contrast, the CEOs with great traction … but that can’t really see the future, these never produce meaningful returns. Not venture-like returns, at least.

38. Why are VCs so adamant about warm intros?

I've learned 90% of warm intros are the biggest waste of time of all, unless they are "double qualified".

Why? Well, who makes warm intros?

- **Founders you know that just want to help other founders get funded.**
  This sounds great except many founders have no idea what makes for a good venture investment. Really, no idea at all.
- **VCs that want to get you to fund the next round. OK, but often times it's their mediocre / B+ investments.**
  They don't send you their crappy investments but... their very best investments already have term sheets. These founders don't need any help from their earlier VCs.
- **Industry People.**
  Lawyers, bankers, consultants, etc. Same as point one. They know the companies they like but often don't know how to filter it.

Then it gets even worse. Not only are these never great (often good but never great) start-ups, these unqualified or semi-qualified warm intros but then you have a social obligation. It's someone you know that made the intro. If you take the meeting you have to explain why not, you get follow-up emails, it's too much. It's me, not you.

So my learned rule is "double qualified."

What do I mean? I mean the intro isn't enough even if the source quality is high. The source has to go further.

If:

- A founder you know is GREAT says this founder is GREAT and WHY, then meet.
- A VC you know and trust says this is the best investment they've made in past 12 months, then meet.
- An attorney, banker, etc. says this is the hottest company in their portfolio, then meet.
- If any of the previous 3 aren't met BUT the cold email is amazing and the founder got someone very high-quality to make the

intro, that counts as double qualified. Then meet. Shows founder is aggressive and knows how to penetrate and get sh*t done.

The last 4 are often great. > 33% of time but without double qualification, a warm intro is often worse that a cold email. At least a cold email you can ignore or meet and then politely say no, and that's it.

As a founder I got every single company I intro'd to VCs funded. 100%. The key was making the case both for the company and the match, logically. Why this would be an amazing Unicorn, why the founders would kill it and why it was a match for their target investments.

Easy-peasy.

39. How do VCs vet businesses?

From my experience as an entrepreneur, having pitched 150+ VC firms, I can categorically say: The more vetting VCs do, the lower the odds they'll do the deal.

The ones that really know the space, what they are doing, can pretty much do all the diligence they need to in a day or a week.

The ones that don't need to call 1,000 customers, talk to every single employee, discuss cell E32 in your financial model, argue over whether you'll hit next month's plan and why last month's was 0.23% lower than plan and so on. Those ones almost never close and the term sheets they eventually give you, if they do give you one are the worst (and often most tortured) ones.

(So far as a VC now I've done 4 deals. Took 1 day each to the initial decision then a week or so of confirmatory diligence to confirm what I believed and had already heard to be true was true.)

40. Why do investors want 20%-25% of a startup? Is there a technical reason for this beyond a negotiating position?

Because they are wrong even if the math suggest otherwise.

What I mean is just this, the "numbers" for traditional VC firms say you have to own 20%+or more to "return the fund" for an early-ish stage investment. Everyone knows this, it's the target ownership. Anything less than that, or much less, in the end doesn't return enough in absolute returns to move the needle. So the math says.

Let's look at the best venture investments of all time, the very, very best:

- TVI/August Capital's investment in Microsoft: they bought 8%, only VC. top twp best VC investments of all time?
- Accel's investment in Facebook: they bought 10% (plus Jim Breyer bought a bit more personally). Top two best of all time?
- Sequoia and KPCB invest in Google. Each Bought 10%ish. #3 best?
- Venrock and Sequoia each bought less than 10% of Apple in its "Series A" round. Longer time ago but just another example of a tech company that now has the largest market cap on the planet.

Yes, they were all post initial success, not Day 0 investments. Yes, some of the above stories include a lot of post-IPO appreciation.

41. What do VCs look for in a financial model?

For an early-stage investment when the revenues are < $1m the "model" is at best, a rough approximation. They all seem to magically roll up to $100m+ in 5-7 years :)

Many strong entrepreneurs don't even have one at all if they've self-funded the business to date or just used a modest amount of angel money. (You don't waste time on a model if there's no audience and it doesn't help you.)

You can learn at least two to four things, at least in B2B:

- **Is getting to $100m at least plausible?**
  Or do the assumptions make no sense at all? It's OK if the odds are low but if they are zero -- you gotta pass as a VC. There has to at least be a hope of a 10x+ return if all expectations are met or exceeded.
- **How much capital will the start-up really need in the next 24 months?**
  So, what am I signing up for? Will I have to write another check without the next guy leading the way? If so, how much do I need to reserve?
- **Do the unit economics really make sense?**
  A subset of the first point but a critical one. If they don't make sense, will they later? Salespeople will struggle to profitably sell a $500 a year product but if that's just a first step and you're increasing that to $5k a year, it should be OK.
- **What will the business look like when it next needs funding?**
  If it's unfundable then that's a flag. You can figure this out without a model but a **good** model helps and provides confidence the investment will be managed well.

42. What surprised you about getting VC funding?

As a founder the biggest thing that always surprised me was the limits of due diligence.

- In my first start-up we had a very exotic, complex technology. None of the investors ever understood it.
- At EchoSign the vast majority of investors that I met with understood what we were doing at the time but not why it was changing/creating a market.

Now I understand it is hard, especially in today's hyper-compressed time frames to really understand an early or early-ish stage product and even the market but the VCs weren't lazy. They did a great job on team diligence prospect diligence and customer diligence. Going an extra layer deeper on diligence was what I expected before getting a seven-figure check but in reality — not so much.

43. A potential investor just asked to see my SWOT analysis. Is this normal?

It's not normal. When I first read the question I thought it was a lame request from someone schooled in McKinsey-land or Bain-land or something like that from someone with zero operating experience. This is something someone might ask who really isn't that deep in a space or experienced in it. A reflexive ask like "What's your exit strategy?" or worse, "What's your go-to-market strategy?".

But … now I think it's brilliant.

First, as David S. Rose notes, "It's really just a simplification of his terrific list of due diligence questions."

Secondly however, there's a saying that "The job of clever people is to ask difficult questions. The job of very clever people is to ask deceptively simple ones."

Maybe it's a deceptively simple one? In SaaS in particular I've met more and more entrepreneurs off to a great start with great early customers and traction who really understand only part of their SWOT analysis. They know their strengths today but they haven't necessarily done all the hard work to understand their weaknesses, or at least, what their weaknesses may be 12-24 months down the road. They understand the short and medium term opportunity, how to get to $10m or $20m or even $50m in ARR but not necessarily the true opportunity. SaaS can force you into an almost full-time tactical mindset if you aren't careful but what's interesting is if they've thought through how to really deal with threats, as the low-end of their space becomes commoditized, oligopolies emerge, etc.

I think many even post-initial traction SaaS entrepreneurs actually will "fail" a SWOT analysis done on the fly and I think that's OK but it's a great opportunity to learn how they'll evolve and where their blinders are today.

44. What methods are employed by VCs to screw founders and engineers?

I've had some relatively negative VC experiences as a founder (and some good ones). I'm a VC now and I don't think you can really be "screwed" by VCs because, dude it's a financial transaction **and** it's a negotiation. No one forces you to take millions of dollars in investment to help grow your company faster. But, there are some basic things I'd avoid:

- **Be wary of low-priced secondary liquidity.**
  Getting cash out can sound so great when you've worked so hard but if you sell some of your hard-earned common stock at a $40m valuation and the company does the next round at $400m you really will feel like an idiot.
- **Be wary of boards that don't proportionately reflect ownership.**
  I've gotten zen about boards of directors and my view is they should roughly reflect ownership. If you sell 20% of the company, the VC can have 1 seat, you keep 4. If you sell 40%, VCs get 2, you get 3. Etc. You can tweak this but anything that creates more seats than are "earned" by ownership … don't do it. Also don't do the "outside director that is really a friend of the VC" thing, unless it's someone you really want anyways.
- **Be wary of VCs that have invested in your direct, or very adjacent competitors that want to meet with you.**
  This isn't really that big of a deal but 9 times out of 10 they're just fishing for information and will share it back to your competitors. This isn't that big of a deal (nothing is all that secret on the Internet these days), but what it is, is a huge waste of your time.
- **Be just a little skeptical of "the guy they bring in" (but sometimes it can be great).**
  Be wary of some "consultant" or VP that's been working at a VC firm that they want to bring into your company. Sometimes this is really great. If they happen to have a great VP for you that is hanging out at the VC firm -- grab her or him but sometimes that "guy down the hall" is really someone put in to potentially take over the company. This is really only an issue with big VC firms when you sell a lot of the company. This is not an issue if you've only sold a small portion of the company and still control the board.

- **Ultimately, you want someone that has your back.**
  Truely, it's not about you, it's about the company but it's your company. Pick the best VC for you but pick someone that has your back. If you don't feel it … even if the brand is right, the background is right, the smiles go on for miles … pass, find another, even at a substantially lower price 'cause you'll be stuck with this dude forever.

45. I just made $30 million dollars from selling a company. How do I start my own venture capital fund with this money?

First, put 10% of your $30m aside for the fund. You can lose 10% of whatever you just made without huge stress. You'd still have 90% left. After that, it gets stressful, save the rest for later. If you put aside 20%-30% you may feel a lot of stress as you may lose all the money or worse, lose all the money after a lot of work. OK, so 10% that's only $3m for a venture fund. That's too small for a real fund, so do one of three things:

1. Make it an "angel" fund that does 30 investments. This way you can do up to $100k per investment.
2. Get some leverage on AngelList with a syndicate then you might be able to do $250k per investment. That starts to be a real micro-fund, not just angel investments. You can be 1 of 3 investors in a $750k seed round this way.
3. Find a partner or one or a few LPs and get the fund up to $8-$9m, then you can also do $250k per investment. 30 for diversity x $250k = $7.5m. You want to be able to do 30 investments per "fund" so the math will back into how much of a "player" you can be and what role you should take -- micro-VC for $250k check, or value-add angel for $50-$100k. See the maths above as example.

SCALING

SECTION

3

46. What are the things startups have to get right?

Let's split this into two distinct categories.
Let's first talk about what you don't have to get right:

- **Rock star Founders? Not required.**
  Yes, to build the next Slack, the next Amazon, the next Tesla, whatever, you probably need the next Elon Musk. But many founders at very successful start-ups are smart and driven, but no Elon Musk. I'm not / wasn't.
- **Amazing Technology? Nope.**
  See Airbnb and 100s of others.
- **First to Market? Of course not.**
  See Google, Jet, etc. Definitely can help. But not really necessary.
- **10x Better than Incumbents. Only sort of required.**
  Yes, your new product does have to better than the existing guys. But sometimes only in just 1 small, but important, way. And sometimes just cheaper and best service also work without any real different features.
- **Domain expertise. Not required. Helps, yes.**
  But you can learn a lot if you are 100% committed. In most categories, you can become a domain expert in about 2 years. Close 100+ customers, you learn a lot.
- **Work 100 Hours a Week? It helps. But it doesn't make the business.**
  But time in the office is not as important as time spent thinking about the business.

What you do have to get right:

- **Total commitment.**
  It will take you most likely 24+ months just to get to real paying customers. And 7–10 years to build something of any scale. Most so-called "founders" are not this committed. You're already ahead of 98% of the folks at WeWork and Galvanize if you are 100% committed to doing the time.
- **Product-market fit.**
  You do have to eventually get to a minimum sellable product. You have to find a product the market wants to buy.

- **A Minimum Viable Team.**
  You can outsource development. You can do a single co-founder startup. But. Many folks start something without a truly Minimum Viable Team. No chance without it. You have to be able to build, ship, market, and sell your product.
- **Commitment to Excellence and Constant Iteration.**
  You can't build it once, put it on a shelf, and wait. You may need 100 releases before you have a sellable product. And then 200 more to get to $1m in ARR.
- **Obsession.**
  And you need to obsess about your business. Constantly. In the shower. On a run. You may only "work" 40 hours a week but you need to be thinking about your business 140 hours a week.

Unicorns are usually built one way. But more broadly, successful startups can be built a lot of ways.

47. How do you survive your first year as a startup?

To survive the full first year of a start-up … you have to get rid of the non-believers.

You have to get them out during the first year. There will be insufficient proof even 12 months in that it will really, truly work. Some won't believe, and that will be logical. At first, it's OK, maybe. But then, they become toxic after the first year, the non-believers.

They may be right. You may fail. But -- get 'em out.

48. Have you ever cold-emailed the CEO of a big company?

Yes. This is how I made my first start-up worth a $50,000,000 exit in 12.5 months.

At the time, I had no money to make the next payroll. The VCs had all pulled out. I had one Big Elephant Customer, but I needed another. I had signed a $750,000 full-recourse promissory note to the VCs that pulled out and pledged my house and all my savings– and it was all going to go down the tubes.

I cold emailed and called the CEO of a huge Fortune 100 Company. I told him crisply and cleanly why I could completely change the trajectory of his largest business segment -- and exactly why.

We got the meeting.

We closed them, at least for a small first deal. The VCs came back.

We closed the VC money in 2 weeks.

I did not believe it was possible. But I was desperate. I had one payroll cycle to make it happen. My life's savings were pledged away. And our house. 12.5 months later, we were acquired for $50,000,000.

49. What did you learn from your startup experience?

You cannot quit. If you allow optionality, you will fail. Do not listen to the fail fast people. Period. Because even if it's sort of true, it will give you an out ... and you will fail when the others guys refuse to quit.

If you have revenue, you shouldn't quit. Great teams can always do better than they are currently doing. How much better, I don't know. But, clearly better.

Great teams really never quit.

50. What is the best strategy for dramatically increasing the price of a SaaS product without angering customers?

Two thoughts, one direct and one indirect.

First, let me tell you raising prices on customers often angers them. It's OK to do it indirectly, by adding more seats / users -- no problem. Or upgrading to a site license. But just asking someone paying $10k a year to pay $20k the next year for the same product = anger. In my experience at least. You turn your advocates into prisoners. Don't do that. You'll lose all the second-order revenues and elective upgrade opportunities. Not worth it.

The best technical way to raise prices for existing customers without too much friction is to add new editions. Create a bundle of new features (not old ones) and charge more for that going forward. This doesn't anger existing customers and provides a graceful way to raise prices over time. We did this in the early days as we moved our list price per seat from $12/mo to $36/mo or more over time by adding enterprise editions. It worked fine. The early folks that paid $12 or less for the most basic edition still do to this day.

Far more importantly: I think at some level, raising prices on past customers can be a borderline waste of time if you are still in high growth mode. Save the raises for new customers as of Date X. Why? Let's say you are growing 100% a year, net of churn. That's probably 120% before churn. Those old customers from 1 or 2 years ago? They just don't make up that much of your customer base anymore. You can't make as much money raising their prices, over time, as you think. The $12/month customers I referenced above? I bet they are 0.1% of our revenue base today.

Rather than raise their prices 10-20-30% and risk their ire ... better IMHO to just consider drawing a line in the sand and raise prices for new customers, as of tomorrow. Grandfather in the old ones if you can.

And do raise prices for your new customers, once you are post-traction and certainly post-scale. Unless you are selling salt or paper ... your product probably isn't really a commodity. After 1, 2, 3 years ... your SaaS service is probably a lot better and a more valuable product than when you started. So don't be afraid to raise prices on new customers, over time. You've got the mini-brand, the reference customers, the enterprise features. Just be careful on existing ones.

51. I have a startup company. I feel my marketing team does not make enough efforts. Should I fire the team?

No … but I think you should top your team and see what happens.

First, start measuring things. Don't let marketing be a soft science. Measure, if nothing else: (x) leads generated plus (y) ROI on all marketing spend.

Now you have a baseline.

Second, set goals here. If you want to grow revenue 150% in the next twelve months, then say make marketing hit 200% lead growth and break this up into monthly targets for MQLs, or just plain old leads, or opportunities, or whatever metric you pick.

Another part of the reason may be the marketing team lacks sufficient ownership/ management experience. One big problem with junior marketing hires -- unlike junior sales hires -- is they've rarely been given a number to own. Marketing thus doesn't breed ownership and leadership as well as sales.

So if you hire too junior in marketing, you often just end up with a squishy soft mess. Blog posts. Social stuff. Press releases. But … not so many more leads.

Now that you have the team aligned around quantifiable revenue goals … you're ready to hire a boss for the team to blow out those goals. If your team is horrible, yes get rid of them. But in marketing, sometimes for a short term, something is better than nothing. Focus instead on hiring a boss for them.

Then, she'll figure out who to keep. And who to let go.

52. Are there startups that are successful but don't get all the press?

No, you can't. Because the semi-sad thing for VCs is, only Unicorns make the business model work:

- Say you have a $200m VC fund (not that large, but basically our current fund, as an example).
- Your own investors (the LPs) are looking for gross returns (before expenses) of about 4x, so let's call it $800m.
- You get to make about 30 or so investments from that fund.

So those 30 investments have to return $800m. How can they do that, if you own on average say 15% of each company?

Well $800m / 15% = $5,333 billion

So you need $5.333 billion in exits (measured by the companies' value at time of exit) to hit your own investors' expectations in "just" a $200m VC fund.

Multiple unicorns, in fact. And now you can see why VCs care so much about how much they own. Scale that up for billion+ funds. Unicorn Hunters, so all VCs must be.

53. What are some best practices for SaaS lead generation? How should a startup approach lead generation for a SaaS product that sells in the $99-$499/month range?

A few learnings:

First, $99 is very, very different from $499/mo. At $99/mo, or with churn say a $1k ACV -- there's very little you are going to be able to do that is ROI positive from a direct perspective. At $499/mo or $5k+ ACV, it just starts to get interesting.

Beyond that, let me tell you, a lot of stuff just isn't going to work, i.e., won't be ROI positive unless you have maybe a $15-$20k ACV or higher:

- **Paid webinars will likely be too expensive.**
  Doing a paid webinar for say $10k or $20k may get you 1 or 2 customers at best. This isn't going to work unless your ACV is $20k. Free webinars from your own leads, or free ones with partners though, of course work and are great.
- **Trade shows probably won't work until later.**
  You'll get a few great leads and a couple of customers from most trade shows. Later, that's fine because it builds an existing brand and is a great way to meet your existing customers. But in the early days, you'll spend say $10k or $20k doing a trade show all-in, and to get a handful of customers over the next few months, with the rest in lead nurturing and retention. OK if your ACV is over $20K but a fail at $99/month.
- **Purchased lists will work at high end, but maybe low end not as much.**
  Purchased lists only go so far anyway, but we found them ROI positive in a way that would work at $499/mo. But not $99/mo. Not enough yield.
- **Adwords probably will be way too expensive.**
  All the key terms are very expensive in SaaS. If you are competing with say Marketo with a $50k ACV for the same keyword (just making this up as an example) -- you'll lose every time, every bid. All the good SaaS keywords are $1-$5 each. Assume a 2% conversion ratio or whatever number, and this just won't work at $99/month and will be pretty tight at $499/month. Again, works

great for higher price points.

- **Partner leads (and payments) work well, really well -- but take time to build.**
  Paying a partner 10-50% of a deal for a true lead always works. But in the early days, you won't get much. Your partner is relying on your brand. Until you have one, they won't send you many leads or customers.
- **PR always works in the long run, but almost never in the short run, for lead gen at least.** PR is worth it on many levels. It's critical. Even more so at lower price points. But the reality is the payoff at a lead level takes time. So you have to decide how much to invest here early on. Do the most you can.

By contrast, at an ACV of say $20K or greater -- almost everything "works". By that, I mean anything that performs at all -- i.e., gets you even just one customer -- is going to at least pay for itself. I think as your ACV gets down to the $3-$5k range, it has to be almost all in-bound unless you have a very simple compelling one-call proposition, in which case outbound can and does work.

As you get down to $99/month or $1k ACV, you really need a viral component to scale IMHO and experience. Having said all that, if you have capital in the bank -- spend it to get customers. They are hardest to get in the early days. All of the above will work at some level ... you just may lose money on them. To some extent, in the beginning, especially, that's OK as long as you stay on budget and cap the expense.

54. What is the average customer acquisition cost for a SaaS company?

You'll see a lot of metrics out there, especially in SaaS about CAC being <= 1st-year revenues (or Contract Lifetime Value). But the reality is the real averages of successful companies are highly dependent on churn, which in turn depends both on customer segment in general and also how sticky the application is.

A rough rule of thumb is successful SaaS companies are spending about 20%-30% of the fully calculated CLTV on customer acquisition. (Unless huge VC rounds bloat it, in which case for an interim period, this % can go way up to 100% or more. But only for a while) So, in the large enterprise, of $100k+ deals -- companies are often spending 150% of first year ACV, because the customers last 5+ years, with many up-sell opportunities along the way.

In high churn self-service, with few upsell opportunities, the CAC metric is often closer to 90 days of revenue. The mid-range sort of backs into the 1:1 ratio you often hear in SaaS.

55. What is a good month over month (MoM) growth rate for a SaaS company?

A simple answer: double digits (in terms of % Month-over-Month, on average) is always good once you hit some amount of traction. 10% a month growth is a good target until you get to $20m ARR or so when simply doubling is going to be your goal.

A more nuanced answer:

- To build something big, or that at least could be big, you have to at least have the potential to go from $1m- $100m in ARR in 7-10 years.
- To hit that, build your own model, but you're going to need a few 3x or better years and a bunch where you grow faster than 2x.
- The best SaaS companies get from $2-$10m in 5 quarters or less.

But … it really doesn't matter how long it takes you to get to that first $1m or so, "Initial Traction." Some get there fast. Some take years. It doesn't matter. So long as you don't quit, get exhausted, or run out of capital.

So there's no precise answer here or even any perfect playbook until $1-$1.5m in ARR. But after that, there is. Then, >=20% MoM is an outlier -- but the best find a way. 15% MoM is frickin' awesome. 10% MoM is strong. Less -- you are at risk.

56. What can a startup do to get their customers to pay on time?

We found it pretty easy once we worked out a good process. Treat your customers with respect, be understanding and then respect the value of your service.

Here’s what we worked out:

- Notify customer 60 days prior to renewal that they have 60 days to pay in a proper, corporate invoice. Most small businesses will ignore this, but most larger companies will then get it over to finance/accounting, who will need > 30 days to pay. It will kick off the right processes in the latter case. 30 days is not enough in the enterprise.
- Remind them again 30 days prior to renewal they need to pay now to avoid a service interruption. This is when you really get the attention of the smaller businesses.
- Alert them 7 days prior to renewal, if still haven’t paid, a service interruption is coming on Date X, both in email -- and a phone call.
- Provide a 7 day grace period after expiration, and allow an extension if they call and ask for one and promise the “check is in the mail” but add a big red banner on the website they’ll see every time they log in that counts down until the service shuts down for nonpayment. So there are no surprises
- At the low end, shut it down after that and allow instant resumption upon payment. At the higher-end, do not allow any feature changes, seat adds, etc. until payment received.

This resulted in a very high level of payment.

57. What are some pivotal moments that every successful SaaS company has?

Here's my list, focused on the earlier-stages from nothing to success:

- **The first 10 Unaffiliated Customers.**
  This won't feel like much, but it's a big deal. You've gotten 10 folks you've never met to actually pay for your product. This really is amazing. Amazing. It won't pay the rent. But it's amazing.
- **The moment you realize you'll never get there.**
  You don't have enough customers, paying enough, to even get big enough to pay all the salaries and build everything you need. This often happens around $5k-$10k a month in MRR. It's real, but you're not growing fast enough to ever scale to something sustainable. Sigh.
- **When there is just way too much to do for every single employee and it's not worth it.**
  This usually comes in the long march from $1m to $10m in ARR. Too many customers, too many feature gaps, too many DevOps issues … but no extra engineerings, SEs, CSMs, etc. to handle it. Time to step it up here and build a real scalable company, one way or another.
- **When one great VP / employee leaves and you almost die.**
  Later, there's fast. But almost everyone hits $1m or so in revenue, some time here, and a great, irreplaceable VP or employee leaves. You just are beside yourself. But then you find a way to build a better team after it.
- **When the recurring lead machine starts to hum.**
  Typically, this is around $4m-$6m in ARR, maybe later. It's when the mini-brand creates enough leads on its own, together with your marketing and SDR engine … that you could pretty much take a month off yourself as CEO and all the leads would come in to hit your plan. This is a great thing.
- **When you could be cash-flow positive at any time.**
  This usually happens somewhere again in $4m-$8m range, if it's true SaaS. Enough renewals are coming in, enough upgrades = enough cash. You may not be cash flow positive but you could be.
- **When there's finally fat in the system.**
  This is often around $6-$8m ARR, sometimes higher. Now, you're

big enough, you can hire extra people for every role. Great directors under great VPs. A whole extra team of developers, etc. No one person can bring the org down. And people can take vacations without the world potentially ending while gone. This really is better.

- **When you can't be killed.**
  This is often some time around $10m ARR or so. You're big enough, your brand is well established enough, your management team is in the groove. Even if Google or Salesforce or whoever enters your space, they can't kill you. Even if your #1 competitor does something amazing, they can't kill you. Try to take a pause at this phase, and sign up for another 5-7 years if you can. Take a digital detox holiday. Whatever you need. 'Cause it's finally, finally really just getting good.

58. How do you estimate the valuation of a SaaS startup using SaaS metrics? Could it be as simple as ARR* X=valuation, where X functions in a similar way to P/E ratios of more mature companies?

For a (x) reasonably hot start-up in a (y) a good space with a (z) good team, and (aa) potential (but unproven) leadership position in a market/category, 100x MRR, as Christoph Janz notes, is a good starting point. But ... if you are super hot, the sky is the limit (e.g. Slack). If you don't look like you'll ever be hot, 100x MRR may prove impossible. Let me zoom out one level, though.

All early stage valuations are too high in isolation. I say this now as an early-stage investor, who is happy to write these checks. But I am quite serious. What I mean is, let's say you hit (x), (y), (z) and (aa) above. You are at $100k MRR and valued at $10m.

Let's say you did a seed round before then at $5m. The guys that invested in the second round, at $10m paid 2x -- but got a much, much better deal risk adjusted. Yes, they paid 2x the price, but you got to Initial Traction and 100+ customers and these guys only had to pay 2x the price for an elimination of 90% of the risk. A much better deal. Then, 18 months later, you grow 150% and are at $250k MRR, and have added key hires to the management team, tripled your logo accounts, etc. etc -- and go to raise more capital.

That next round is even a much, much better time to invest (risk-adjusted) as unless you've crossed the chasm and become "hot", your valuation multiple has stayed constant. Basically, I don't think any early-stage SaaS valuations make any sense in isolation. They all are too high vs. public markets (if you are a late stage investor) or vs. the next round unless you become super hot (if you are an early-stage investor), and the earliest, pre-revenue-ish rounds just structurally can never be cheap enough to logically account for the risk.

The only way they make sense vs. public market comps and risk is if you are convinced the company will, by the next round, but not today, accelerate in growth and become super hot even though it isn't super hot today. And most SaaS companies don't actually just raise a few bucks and then all of a sudden accelerate after that.

So my real advice to founders is -- do everything you can to paint yourself, and put yourself on the track, to becoming super hot. Fake it until you make it.

59. What Makes For a Good SaaS Pricing Page?

A few thoughts at least — mainly about what to copy from the big leaders, and what to maybe not copy from them:

- **The stronger the brand, the more complex the pricing page can be.**
So yes, copy Salesforce, Twilio, Slack, and other iconic leaders. But bear in mind their brands make them a default choice. That means their prospects will be more patient with complex pricing. But your prospects may just move on if the pricing page makes it seem too … hard.
- **Familiarity in your pricing schema is key to maximizing sales velocities with less well-known vendors.**
Innovation is great … just often not on pricing. At least not in the early days. Prospects need context. Copy someone's pricing page and style that your prospects often already have purchased. That will give them context.
- **"Editions" are super helpful when you sell to customers of varying sizes (i.e., S, M and L).** Big companies intuitively know they "want" the Enterprise Edition. So add one. We've all bought 50–100+ apps now. We know which segment we are at this point.
- **Be thoughtful on non-transparent pricing. It works, but it also has a cost.**
Yes, "Contact Me" can work well in the enterprise and for larger deals. But it will turn off many smaller prospects. Err on the side of transparent pricing, at least until you have experience and data to suggest you should move away from it. 90% of the time, transparent pricing just takes friction out of a transactional / short sales process. Or put differently, perhaps use transactional pricing for any customer segment than can close in 30 days or less. More here: Turns Out, 85% of the World Likes "Contact Me". Even Though You Don't. | SaaStr
- **It's OK to leave money on the table in the early days.**
In the early days, you want to close every possible lead. Later, what will matter more is closing the most revenue from the leads you do have. Those imply very different strategies.
- **Anchoring high works, but you have to go all-in to make it work.**

Pricing is a message, and if you price at the highest end of your competition and segment, that will send a message you are the most valuable vendor. It may well be easier to close large customers if you are the most expensive vendor in the space. But if you choose this strategy, you have to go all in. You have to truly be the most secure, the most redundant, the best integrated, the most enterprise vendor. You also need enterprise-grade approaches to customer success and deployment. So Anchor High if you can deliver. It can be the fastest way to increase revenue 50%-100% or more, if you can pull it off. But you can't go half-in here.

- **With bigger customers, it's total deal size that matters.**
  If you can simplify this calculation (like Slack and Atlassian do), it can help. Bigger customers really want to know what it will cost to deploy you to their division, their team, their org etc.
- **No one wants to get ripped off.**
  This is maybe the most important thing to think about in the end. To have happy customers that spread your brand through word-of-mouth. Pricing should seem fair. There should be pricing protection for renewals and later years. Upsell should be as organic as possible. Concerns should be addressed, and support should be as close to real-time as practical.
- **Finally, remember what really really matters is CLTV. The total lifetime value of the customer. And customers in SaaS can last decades.**
  Think more about how to naturally grow the account over the years to come. And a little less about how to get every nickel on Day 1.

60. In SaaS B2B, how do you handle the situation where an enterprise customer wants to buy an unlimited use, site license?

Boy this is a tough one, in the early-ish days.

BigCo wants to write you a six-figure check, for a site-license. Sounds great in the early days. Then, in Year 2, you see it was a so-so deal as the usage exceeds expectations. And in Year 3, as you're more established, and the usage and value are even stronger … it blows up on you. They end up with a way under market deal, and there's lots of frustration on your side.

I have no magic answer but let me throw out some thoughts:

- **Don't sweat it too much in Years 1 and 2 as long as it's real cash, paid up front, in the door.**
  You have so much growth ahead of you, the customers you get in the early days will just be a tiny fraction of the total number of customers you end up with. It's OK if the economics for your early customers aren't optimized. In the early days, close as many good deals as you can. Don't worry about closing so many great deals as you're getting going.
- **Try to put in some sort of cap.**
  A cap on total seats, total usage, total something. Most customers will push back at first but ultimately be OK with that as long as the cap is commensurate with the value they are paying.
- **Hire a Great VP of Sales.**
  Once you do, the problem will solve itself. First, he or she will negotiate better, smarter deals than you. Second, the great ones know how to renegotiate the crummy site licenses you negotiated. Not that it's easy, but it can be done if you've been a great vendor that has delivered amazing value. Customers will honor the social contract you've established with them, by and large, even if that means the paper contract has to change.

61. How can I overcome the SaaS sales objection of, “we don’t have a budget for this, this year”?

Three answers, but really, it’s one answer (no. 3):

- Present your app as a solution to a problem -- not a tool. There’s always money to solve a big headache. Millions of extra dollars, in fact. But there’s never extra money to just buy another tool unless the cost is trivial.
- Make sure you are selling high enough. You may need to sell a level higher.
- You need a real VP of Sales that knows how to sell. You hear this a lot when you aren’t great and trained at sales. You blow past it when you are a pro.

62. What should be the typical gross margin for a SaaS startup? Should it stay between 30-40% or can it be as high as 80%?

The other answers are all correct (>80% for all comps). The key though is to make sure you actually know what goes into gross margin - customer support, hosting fees, etc. The fact you say “stay between 30-40%” I think means either you mean something different when you say gross margin than in the GAAP sense (perhaps you mean operating margins), or else your business is sufficiently expensive to provide and service that it might not be seen as SaaS.

If your true gross margins are 30-40%, your business likely really is a professional services business with a SaaS veneer. Servers just don’t cost that much.

63. What are some common decisions most small SaaS companies make that hurt their ability to scale?

My list:

Hiring "too low" to save money.
A VP at $150k, especially one that wants a $50k a month budget, can sound insanely expensive. Why not just hire a manager for $80k, who can work with whatever budget you assign? The problem here is that instead of hiring an accretive resource, you hire a cost center that can't deliver sales/leads/upsells. That means the junior $80k resource is much more expensive than the $150k VP.

Not topping resources that need to be topped.
Related, but different, than the prior point. That scrappy marketing manager you hired in the early days may go the distance. But if she can't deliver as many leads at $2m in ARR as she did at $20k in MRR, if she falls behind … don't wait. Hire someone above your team members that can scale as soon as they stop scaling. But not before.

Not dealing with technical debt.
There's no perfect answer here, but the best engineering teams find a way to remove the biggest issues here before $8m - $10m ARR or so. Otherwise, you almost always hit a wall on performance, features, uptime, etc.

Not being realistic about funding.
This is less common, but when it happens, it's really rough. Do not blindly believe you can raise another round. Do not believe it will be easy just because you see "worse" companies raising rounds on TechCrunch. Test the market. Ask your existing investors. Know your Zero Cash Date and be realistic around it.

Insufficient transparency.
How do you scale from 5 to 50 employees, and beyond? How do you keep your investors engaged, and hunting for the next round VCs for you? How do you keep retention high? Transparency. Send investor updates out every month, in the first week of the month. Let your team know what the goals are, and be clear. Reset the goals halfway through the year, if need be, but be clear. Don't pretend you've hit goals when you haven't. Many of us shrink back from transparency when times are tough. That's 100% the wrong time to not be transparent. It's transparency — with a positive spin — that gets you through the tough times.

64. How do I prepare myself to become a successful startup CEO?

My list of things that will help.

Manage People.
This is one of the best things you can do because 50% of the job of a CEO is recruiting a team, leading a team, empowering a team, convincing a team. This team will include investors, the public, press, PR, etc. -- but it's all a team. Manage anyone you can, even if it's not perfect. My first management job was managing HR. I didn't want to learn HR as a function, I turned it down at first. And then I realized I was wrong, apologized, and went back and took the reports. I was lucky I got the opportunity.

Work for The Best One You Can.
This may be obvious, but try to do this at least once if you can. The best way to do this is to join the management team of the best start-up that will have you. Even if you get topped 12-24 months down the road, it's worth it to have reported to (and thus worked directly with) the best CEO you can.

Find One Great Mentor / Advisor / Coach.
Once you become CEO, find one person you can confide it, that can push you harder, point out where you need to do more, and generally simply help. Someone that's done it before.

Try to Care More About People. And Show It.
This is one of the top mistakes I see in first-time CEOs. They care so much about the company, but they forget to care about the people, the team. They just assume everyone should be as committed as they are. But everyone else can't be. You aren't going to double your EQ overnight. But try a few things. Say "Thank You" more often. Give raises more often. Give spot bonuses more often. Give 20% more shares to your top 10% employees, without them asking. Take the team on outings. Do a retreat for the whole company when you hit $5m ARR. Do stuff together. Do dinners. Stay late with the sales team when they're trying to close the last deals of the quarter, and take 'em out for drinks after. Do it all. Again -- if nothing else -- SAY THANK YOU!

Hire People Better Than You (and That Aren't Your Friends).
Whatever you do, don't hire executives that aren't better than you. You can hire up-and-comers, that's OK. But as CEO the key is everyone on the team should be better than you if possible. This isn't a threat. It's a way to make your equity worth 100x more. Before you are a CEO yourself, experiment here. Don't just hire your friends, and don't hire people that make you look good. Hire people insanely better than you, that look act and feel different. But that you 100% believe in. Amazing things will happen. You will learn so much here.

65. When should a CEO of a startup stop "doing the work" and let the others do the work?

My general learnings:

- **By 20 employees, you should have 1-2 good managers in place such that at least 50% of the company can run based only on weekly staff meetings, 1-on-1s, and "grab me when you need me-s".**
  E.g., a great VP of Sales that can just handle sales. A great VP of Engineering that can just ship the product from spec with no drama, etc. so you don't have to directly manage at least several of the key functional areas in the company at all. You won't have it all but you need to not be the Interim VP for at least 50% of the operations.
- **By 50 employees, you must have a complete initial management team.**
  This means you are no longer the effective VP of any functional area. You must not be micromanaging anything at this point, if at all possible, and have fully become a "macromanager."
- **By 200 employees, you don't need to have a role in hiring any non-managers.**
  Not only are you no longer the boss of any area, but every functional area needs to hire and manage its own staff and self-propagate. You spend all your recruiting time just on VPs and above.
- **By 500 employees, it's OK if you don't really know the names of the new folks.**
  Employees start to simply become resources at this point. They'll come and (hopefully at not too high of a rate) go. Your VPs and managers will deal with this. You just make the company meetings great. Inspire the troops. And hit the plan.

66. As a startup CEO, how do you decide whether to keep pushing on with it or admit defeat knowing that most startups fail?

Never, ever, ever, never quit if you can get to 10 paying customers (that aren't your friends, relatives, ex-bosses).

Ever.

Until the last nickel is gone, until they shut off the power (and even then, you can go to Starbucks).

Ever.

Because … no one needs Yet Another Paid Product. No one. If you got 10 paying customers … you can get 100. You will get 100. At some point. If you don't quit. And if you get 100 … 1000 isn't impossible. There are 6,000,000 businesses in the U.S. alone.

Break it up into 10x chunks. One order of magnitude growth. Quit if you never get 10 paying customers within 6, 12, 24, 200 months of launch, and have no ideas about how to tilt to get to 10. But … product-market fit for paid SaaS products is just so much rarer, and harder than people realize.

Don't quit if you have 10 customers. Find a way. Push through.

67. What do startup founders typically get wrong when starting a business?

Not committing to 24 months upfront to getting to Real Revenues and a Minimum Sellable Product.
I've written about this before, but I see it again and again and again. It takes 7–10 years to build something real, and the first stage is the 18–24 months it takes to get real revenues and something off the ground. 8–12 months is almost never enough time.

Picking cofounders that aren't as committed.
Related to the prior point. If you are willing to commit for 2 years to get to MSP and 7–10 years to get to something big … but your co-founder isn't. That's tough. He or she will probably quit sometime in Year 1.

Not doing enough potential customer interviews.
Too many founders shoot from the hip on what they think customers want. Go talk to 20–30 first. This can save you 6–9 months of product development time in the early days. The customers may not give you super-actionable feedback if your product doesn't exist yet ;) But they can challenge how you think about the market. That is important.

Trying to pursue a "Grass is Greener" business model.
Enterprise folks want to do freemium because they think it is easier. B2B folks want to do B2C. SMB folks want to go upmarket because there is too much churn in SMB. That's OK, but pretty risky. 85 times out of 100 — do what you know. If you can close $1m deals — do that. If you can get 1m users for a product — do that.

Thinking money is what makes the difference.
No, a seed round is not what makes the difference. The team is. A great team that is insanely committed often will find a way. Money is critical. But it's not magic. It's an accelerant.

Not committing to building great software.
There are probably 10–100 other startups with the same idea. The days of shipping crummy software IMHO at least are sort of over. Are you committed to building a truly great product? Yes, we all start with a hack. But how are you going to ship world-class software in the early-ish days? If you don't know how you'll be eclipsed by those that do.

68. Do startups have more trouble scaling SaaS from a technical or business perspective?

The problem is they tend to bite you at alternating times.

Getting the first 50-100 or so customers rarely breaks a hack. But even just after that, downtime, data issues, etc. start to become material. In other words, just as you are getting sales finally figured out! Then usually, things break again around a few million in ARR. Just when you have the salesteam first built :) The bandaids on the hacks don't scale another order of magnitude. Should we refactor? Rebuild? Or put bandaids on the bandaids?

Finally, everything tends to break again around $8m-$10m in ARR, unless you've put in place a great VP of Engineering by then. The CTO/co-founder's limitations in hiring, scaling infrastructure, etc. begin to reveal themselves in all new ways. Right when you are ready to Go Big! As annoying as the answer is, it's Both. And usually, right when the other one is finally working well. You need to get all the VPs in place by $4m-$5m in ARR if you can. If you do, you'll push past it.

69. How can a SaaS startup survive in a crowded market?

"Crowded" is either really important, or unimportant.

What I mean is, you do need to be 10x better than the competition at something — or else competition will eat you alive, or at least, trap you in a lower growth/high-cost paradigm.

It could be brand alone that you are 10x "better at" if you are far and away #1. It could be one critical feature the other guys don't do well. It could be a vertical specialization. It could be a different buyer. Or unique integrations. Lots of things.

Markets can seem crowded from the outside, but it may be that many of the participants don't have a 100% direct competitor for their core use case and buyer.

By contrast, sometimes there may only be 2 players, but the products are fungible and competition is 100% and fierce. My rough learning is if you hit $1m ARR growing >=10% a month, competition isn't really hurting you, no matter how it may feel.

70. What must every entrepreneur working on a SaaS/ B2B startup know?

I think the most important thing to learn, to truly understand, is that SaaS compounds. What does this mean, that SaaS compounds?

- **It means it's really, really hard to get revenues going.**
  You close a customer for $120 in annualized revenue, you only get to recognize $10 of that a month. A lot of work for ten bucks. Think of trying to get a train out of a station with a very small engine. Tons of work, tiny revenues to start.
- **It means you'll really have to struggle to get to cash flow positive.**
  Unless you get a lot of annual prepayments, cash will lag. This will be painful.
- **It means once you get to about $2m in ARR, your business is real and solid**.
  Unless churn in massive, It isn't going to evaporate… which it most likely isn't once you get to this inflection point. Now is the time to invest, in team and product at least.
- **It means once you get to about $10m in ARR, some level of real success is almost inevitable.**
  Next year, you will have a $14m, or an $18m, or maybe even a $20m+ business. I don't know which. But I know it's one of them.
- **It means once you get to about $25-$30m in ARR, you are unstoppable.**
  The flip side of the struggle to get any revenues going. That train ain't gonna be stopped by no one. Until someone disrupts travel and no one even needs a train anymore.

71. Where do most web startups fail?

I'd like to suggest that web start-ups founded by quality teams often fail due to time.

Especially if you are selling something (e.g., SaaS), it's going to take you 24 months to get to any meaningful revenues, and probably 36 months to get to enough repeating/repeatable revenues to have a really stable business. Many seemingly great entrepreneurs just let themselves run out of time:

- People get discouraged and quit when they don't have traction in 3-6-9 months. It's no fun when the bell doesn't ring for days on end.
- People get discouraged and quit when they have some pre-traction, some early signs of potential success … but it's not enough to build a real business.
- People get discouraged when they finally learn what the market needs (after 3-12 months of learning), and they learn it's just so much work and will take so much time.

FWIW my view, my learning, is you have to give yourself, truly budget, 24 months to get your start-up to true initial traction, from first release to iterative release to first users to first customers to a product people actually want to pay for that can scale.

Faster is better, faster is what your seed investors want, faster is what you want. Yes, fail fast if your idea is a dog. But if you don't give yourself time, you will probably fail.

SALES

SECTION

4

72. What are the best questions to ask a VP of sales during an interview?

First, let me tell you, I think you are making a big mistake hiring a VP Sales as your first sales hire. You're not ready IMHO. Instead, I think you should hire 1-2 experienced individual reps first, manage them yourself, and learn how sales should work in your company. Then, hire a VP Sales to manage those guys and scale from there.

Having said that, here are 10 good screening questions to see if you have a real VP, Sales in hand -- or not -- for a SaaS start-up post-traction but < $10m ARR or so. These questions mostly don't have right or wrong answers, but will help you determine the quality and fit of the candidates:

1. **How big a team do you think we need right now, given what you know?** (If he/she can't answer --- right or wrong -- pass).
2. **What deal sizes have you sold to, on average and range?** (If it's not a similar fit to you, pass. If he/she can't answer fluidly, pass).
3. **Tell me about the teams you've directly managed, and how you built them.** (If he/she can't describe how they built a team -- pass).
4. **What sales tools have you used and what works for you? What hasn't worked well?** (If they don't understand sales tools, they aren't a real VP Sales).
5. **Who do you know right now that would join you on our sales team?** (All good candidates should have a few in mind). Tell me about them, by background if not name.
6. **How should sales and client success/management work together?** (This will ferret out how well he/she understands the true customer life cycle).
7. **Tell me about deals you've lost to competitors.** What's going to be key in our space about winning vs. competitors?
8. **How do you deal with FUD in the marketplace?** (This will ferret out if they know how to compete -- or not).
9. **Do you work with sales engineers? If so, what role do they need to play at this stage when capital is finite?** (This will ferret out if he/she can play at an early-stage SaaS start-up successfully -- and if they knows how to scale once you scale).

10. **What will my revenues look like 120 days after I hire you?** (Have him/her explain to you what will happen. There's no correct answer. But there are many wrong answers).

Ok let's make it 11 actually:

11. **How should sales and marketing work together at our phase?** (This will ferret out if they understands lead generation and how to work a lead funnel. Believe it or not, most candidates don't understand this unless they were really a VP Sales before).

73. What do most people not know about startup sales?

Let me just add one simple one: It's Supposed to Be Hard To Sell In The Early Days.

By that, I mean, people will try free B2C products out for fun. They will try snapchat and tik tok. They'll play around with free games from the AppStore. But no one wants to play around with business apps they've never ever heard of. Let alone buy them.

So, it's confusing.

If you have zero customers, you have a problem. Go get 10 that aren't your friends, ex-bosses, etc. 10 Unaffiliated Customers.

THEN you'll know you have something. An MSP. Something worth buying. And then if it's hard -- man, I know Slack makes it look easy. But it isn't. It's supposed to be hard in the early days. As long as you are adding more customers every month, don't get discouraged, don't quit, don't think it's impossible.

Just try to do exactly what you've been doing, just a little better every day, adding the best talent to the team you can afford, obsessing, improving. But 100 prospects said NO to you today? I know that feels like crap. I know it's never felt worse or harder.

It's supposed to be like that for now. Later, you'll have a brand, inbound leads, referrals, a demand gen engine, and all that. Until then … it's a day-to-day struggle and 1000 No's.

74. How do I hire a sales executive for an enterprise SaaS startup? What's a good place to advertise the position? What are questions to ask during the interview? What are red flags to watch out for?

I'm assuming you haven't hired a SaaS sales exec before, based on that question. That's true of most SaaS founders. It was true of me too.

Let me make a few simple suggestions from my learnings:

Use a Sales Exec Recruiter.
Don't cheap out and try to avoid paying a recruiter fee. If you had a good network here yourself, you would've already have used it. And the last thing you want is 100 Craigslist responses. I doubt any will be good enough. Use a recruiter that does nothing but sales reps of your ACV or type. Pay them, and be very responsive to them. They're on a contingent basis, so don't leave them hanging.

Also, I love using one of the various video recruiting sites as well.
You post a video telling them about how great your product is, the rep sends back a video telling you why he or she can sell your product until the cows come home. This worked well for us too. Amazingly effective filter, and on your side, it's a chance to pitch prospective reps on why you are offering a great opportunity for them. Remember, the good ones you'll have to sell back ...

Insist on 2-3 Years+ of Experience at Your Deal Size.
Don't go too green or inexperienced. You can't because you don't know yourself. Again, don't go too cheap here or you'll pay more in hard and soft costs in the end. Get 2-3 years of on-point experience, i.e. at a SaaS company that sells at your approximate price point.

Don't worry about on-point domain expertise.
Don't try to hire someone out of your vertical or niche. You can help the rep there. Instead, try to find someone great who can sell at your price point and type of sale (transactional vs. solution). If your product is truly a technical sale, you may need reps -- at first -- that have made technical sales. But even in that case, the products don't have to be remotely similar. It's much more important the ACVs are similar.

References Really Do Matter Here -- from Customers too if possible.
Sometimes, references are just a check the box exercise. Not here. If his or her last

boss doesn't say the rep was great, simply pass. And if practical, ask to talk to a customer / ex-customer, ideally one that has bought more than once. If both tell you this is one of the better reps they've hired/worked with, and it's at a similar price point to your product -- you're in good shape.

75. When should the CEO step away from sales?

I remember when we closed Groupon as one of our ten (or so) largest customers, back in the day. This was probably 2009 or so.

They'd brought us on shortly after they'd deployed Salesforce all across the company. My guess is they paid Salesforce $20m a year back then, although I have no idea.

We flew out for a Big Hands On, in the bitter middle of a Chicago winter.

Anyhow, my VP of Customer Success, VP of Product and I were in one small conference room working with the Sales Operations team. Talking about how to deploy faster, better, bigger. Across the floor, with the 25-year-old CEO Andrew Mason … was Marc Benioff and his team. He'd flown out to Chicago in the dead of winter as well, probably all the way from Kona, who knows. He knew he had to be there, too.

Anyhow, he was still selling, the CEO of Salesforce. Salesforce was probably worth $10b then. It's worth $100b today. And he's still selling.

That's your answer.

76. How do you become successful at enterprise sales? What are the biggest challenges people experience?

If you haven't done corporate/enterprise sales before, the biggest thing to understand: you can do it. But, you're going to have to hustle. Really, really hustle.

Many web-focused professionals want the customers and leads and users to come to them. They want to focus then on the funnel, A/B testing, optimization, SEO, SEM, etc. etc.

That's all great, and for self-service business, that's most of it. But for enterprise sales, you're going to have to get your butt out of the office and go close some real live human beings:

- Become a really good listener. Go see your prospects, as often as you can, in person. That may including flying somewhere. It may include flying a lot of places, in fact, that you don't really want to go to.
- Learn your prospects' business processes in detail, and how your product enhances them. If this is boring to you, you will fail.
- Learn how your potential customers will excel in their companies through your product. How can you help the person buying your product's career? It's not just about your fabulous UI/UX.
- Make, or don't make, commitments to future development and features to meet their needs. Your product will always be deficient in some fashion in the enterprise. Always and forever.
- You're going to have to learn how to not take no for an answer, how to beg for a meeting, and how to ask for money and a check. This is really, really hard if you haven't done this before.
- And internally, you are going to have to manage and hire sales people. Some will be great, but some won't and will end up taking your money and be extremely expensive. You're going to have to invest A LOT of time here. You can't just hire some magic "VP of Sales" with 4 years of experience and have him/her scale the business. Instead, if you do that, you'll actually end up with less sales than before.

77. What is the better SaaS sales compensation plan: paying reps the 12 months up front for the contract value or paying them pro-rated 12 monthly payments?

You shouldn't pay reps out monthly for deals that are paid monthly. Period.

Because while it does sort of align interests, run the math … and you'll see, it's too hard for them to make any real money this way. It takes too long. So … just pay them the commission on all 12 months upfront … and then … What you need to do is implement a claw-back. I.e., if the customer cancels in < 12 months, they forfeit a pro-rated amount of their commission (really, this means it's taken out of future commissions). And then, incent them with a higher commission for annual prepayments over monthly. That will work well, too.

Finally, don't sweat the claw-backs. You may lose a few nickels if the rep leaves before you can claw back, but it won't be much.

78. What is a good benchmark for B2B SaaS sales cycles? What factors/characteristics effect this number: size of the deal, complexity of the product, etc.?

To overgeneralize, but to give you a rough sense:

These are sales cycles from High Probability Opportunities. I.e., prospective customer has said there is a high likelihood he/she will buy, says it is budgeted (if deal size is big enough to matter), and sales rep believes this is true.

It may take one call to get you a High Probability Opp. It make take you 2 years. So I'm not counting that time, though you may be … Once you are there:

- Deals < $2,000 in ACV should close on average within 14 days.
- Deals < $5,000 in ACV should close on average within 30 days.
- Deals < $25,000 in ACV should close on average within 90 days.
- Deals < $100,000 in ACV should close on average within 90-180 days depending on # of stakeholders and gates.
- Deals > $100,000 in ACV will take on average 3-6 months to close. Of course, some faster, some shorter. But on average.

My experience. It will vary. If the business process change is HUGE (e.g., ERP) it will be far, far longer. If no business process change is involved, it can be shorter. But I think this will give you a general sense.

79. What are some of the biggest mistakes you made with enterprise SaaS sales?

Boy a lot. A list of some of the bigger ones:

- **Not mapping out — and getting to know — all the stakeholders.** This is a skill you need to learn quickly in the enterprise. The person that inbounds is often just one of many stakeholders in the purchase. Don't assume whomever you are currently talking to you is the buyer, or even in the end, the decision maker.
- **Not being responsive to every key concern.** I remember my CTO once arguing with a Fortune 500 company on a "security" concern they had which really made no sense. Didn't matter. They were concerned. That meant we had to be concerned. You can't do everything. But you can be responsive to every concern.
- **Not visiting enough customers in person.** I never lost a customer I visited in person. But the ones I didn't, were the ones that silently churned. Even / often when the usage was high.
- **Not hiring a full-time RFP person.** If you are going to do a lot of RFPs, they need an owner. They are too much work to just dump on a product person, success person, sales leader, etc.
- **Not hiring a full-time Chief Security & Compliance Offer.** Hire a CSO way early if you are truly going enterprise. It just makes the customers so much more comfortable. And then security audits, reviews, etc. go so much faster and easier.
- **Not opening an EMEA/London office and field offices earlier.** Enterprise customers expect you not just to get on jets (see the point above), but to be there. Wherever you have $2m or more in revenue — you should have an office.
- **Not investing earlier in customer marketing and corporate marketing.** Enterprise customers expect a brand to be presented in a certain way. You need to be at their events, sometimes with a red carpet. You need to pamper them the right way. You need the right types of collateral and case studies. The quicker you do this, the

more comfortable prospects and customers will be that you are "enterprise-grade."

- **Not getting the company to move to a Big Customer-centric culture faster. This is #1.**
  If you go upmarket, if you move from SMBs into mid-market and then the enterprise … your culture also has to change. From one of users, to one of the broader needs of 1000s of customers, to one of clients. Your very big customers aren't just customers, they are clients. Your very big customers aren't just customers, they are clients. They deserve client-level service and attention. Many of your team that hasn't done that before won't enjoy it. They'll bristle at their seemingly one-off requirements. They'll struggle to deal with the drama around the big deals. But the folks that have been in that environment before and know what to do will solve most of the problems above for you.

Just a few of many.

80. Cold emails are not working for my B2B SaaS startup. What am I doing wrong?

We've all been there. The fairly crappy, "my product is so great", outbound random email to 30–100 folks when you are trying to get your start-up off the ground.

That never really works, absent extreme luck:

- No one has ever heard of you;
- You don't yet know how to describe your value proposition compellingly in 1 line properly; and
- You likely are in a crowded space and there are already other solutions people have heard of; and
- Why would someone respond, anyway?

But the thing is, outbound always works. At least a little, at least to some extent. If you do it right.

Take a pause, and really find the 10 best potential prospects. Really find the right stakeholder. Find a way to either get warm intros to any of them, or at least, craft the best email — and subject line — that's ever been crafted in the history of emailkind.

Tweak it, revise it, personalize it. Make it so great it's the best elevator pitch — ever. Get 20 folks you trust to give you feedback on it. Make it an email all of them would buy just reading the email alone — even without ever talking to you, or seeing a demo, or anything else. Make the subject line alone so compelling, you'd almost buy based on that.

We call this "account-based marketing" now, to some extent. Carefully, properly targeting your very best prospects.

If your product (x) solves a real problem 10x better than anything else, and (y) you get to the right decision makers with (z) the perfect and succinct pitch on how you are solving one of their top problems — it should work. Not every time. Not very often. But if both are true — at least once, to start.

81. What is a typical commission for a sales professional selling software as a services (SaaS)?

Here's how to back into it for inside sales at least:

1. The typical U.S.-based inside sales SaaS rep with experience will be looking for a competitive comp package of from $50k base/$50k bonus to $75k base/$75k bonus or so (first number is base, second number is bonus for hitting their number), potentially more if they have a lot of experience, with accelerators and other options to exceed their OTE (on-target earnings - the sum of the prior two numbers) for exceeding the plan. (Lead generation / business dev is much lower. Field sales can be substantially higher.)

The better the SaaS company they last worked at, the higher their last-job OTE, in general - the best SaaS companies expect more, but they also pay more, at least in theoretical OTE. So if you are hiring someone that performed decently at a top 50 SaaS company in their last job, expect to pay toward the top end of all ranges.

Ok, so that's what they are paid. The next question is, for what?

2. For scaled SaaS products with some traction, the annual quotas for inside sales reps ranges from $300k or so at the bottom, to $1m or more for brand names (e.g., Salesforce) with a ton of customer pull, and just as importantly -- a high price point. The reality is, a rep can only close so many deals each month, irrespective of the price point. For products with ACV of $25,000 or more, quotas can reach and even exceed $1m. For products with ACV of $X,000 or so, quotas of $300k-$600k are more common. (Field sales with sales of six figure+ deals generally have quotas in the many millions.)

The bottom line is for lower ACV products, you'll pay your reps a lot more of the deal size, but presumably, the marketing costs / lead acquisition costs are lower too, so it works out in the end for a total S&M expense of < your first year ACV.

At EchoSign, on a fully burdened basis, we generally ended up paying the reps about 35% of first year ACV, and spent about 25% of first year ACV on customer acquisition, on a blended basis, and about 10% on other sales-related costs. A more typical blend, on a burdened basis (i.e., including reps who underperform, reps that churn, benefits, sales ops and managers who don't hold quotas, etc.), for a SaaS start-up would be 50%/50% or so. You can tweak this, but the typical goal is, once you are at some scale, to spend < your first year ACV on burdened sales + customer acquisitio

82. What are some easy ways to increase sales?

7 top tips:

Hire a great VP of Sales.
Yes, I am a broken record here. But I've seen it 100+ times. Hire a great VP of Sales, and even if nothing else changes … she'll increase the revenue per lead by 20–100%+. In one sales cycle or less.

Raise prices 20%.
Pricing is not a science, even in B2C companies. Not really. Raise prices 20%. You can always also discount 20%-25% the next day. Discounting back to your old list price even if far better than discounting from your old list price.

Make sure you have monthly quotas, not quarterly ones.
Quarterly ones take all the pressure off for the first 2 months of the quarter. Later, when you are huge, move to quarterly quotas. Not today.

Ask your customers.
Ask your larger customers what other services you could provide them. Your happiest, best customers will tell you. As will your grouchiest, but best customers, will tell you.

Fire your worst sales rep tomorrow (if they are much worse than the rest).
This doesn't always work, but it usually does. Leads are precious. Imagine you have 100 leads per month, and you are splitting them among 3 reps. 1 of these reps has less than half the close rate of the other two. If you just fire the worst rep, and split the 100 leads 50/50 among the other two reps then voila … you revenue goes up 20%. In one month. Note be careful here, only do this if you have the data over several months to support it. It can take time to scale. But usually, most start-ups have a rep or two that close at a far lower rate than the others. Route those precious leads to she who can close them.

Align your website and product marketing on the higher end of the market.
Fix your website today. Stop acting "cheaper", "cuter", "hipper". Act more enterprise. Write the collateral. Anchor toward the high end of the market. Prospects will pay more for the more "enterprise" solution. At a minimum, they won't beat you up for being too low-end.

Decrease churn. Less churn = more revenue … and many other benefits.
So invest more here, in general — and especially if you don't have any better ideas. Reach out to your customers more. NPS them. Have customer meet-ups. Get on a jet and go visit them. Hire more CSMs. Whatever it takes. Measure churn. And then drive it down. In the end, decreasing churn by $X a year is the same as selling $X a year more product. Maybe even better.

83. What do the top 1% of SaaS sales people do that the other 99% don't?

I have a pretty good sense what the Top 10% do, but not 100% sure about the top 1%.

Except one factor -- one difference between the Top 10% and the Top 1% is the very top are extremely efficient with their time.

They're already very, very good. They know exactly what they are doing going into every deal, usually even before they even do the demo or pick up the phone. If I closed Aetna selling to the VP of X -- I already know exactly how to sell to the same the exact same business process to the exact same VP at Cigna. And with only so many hours in the week, they know exactly how much time to spend on each prospect to absolutely maximize the revenue per lead. And because they are so good at presenting… they don't seem to quite sweat as much as the guy right below them, who's still making a ton of money, but not quite as efficient in getting there.

The mediocre ones tell you prospects "waste their time." That's exactly backwards. As the 1%ers will tell you.

84. How quickly should you hire salespeople in a SaaS company?

Let me take a tactical take on this answer:

As soon as he or she can cover their costs.

Hiring your first few salespeople is stressful, especially if you've never done it before. Assuming you're handling sales yourself at first, I'd hire someone as soon as you think they can likely just pay for themselves. Don't worry about making margin there, at first. You'll learn and gain so much hiring in sales.

Just believe they can return 1x. And hire 2 if you can. You'll learn far more running an A/B test. Once you prove that, then move to a more traditional model where they bring in 3-5x their cost. But try to go there out-of-the-gate, and 9 times out of 10, I'd argue you are stressing things too much.

HIRING
& OPERATIONS

SECTION

5

85. What are a SaaS startup's first 100 hires?

Let's assume you don't have massive amounts of venture funding.

Ok, then we can assume say $150k-$200k in revenues per employee, or a $15m-$20m ARR business.

That's a pretty big SaaS business.

Now let's assume it's sales-driven (not freemium) and growing at say 70% annually (not hyper-growth, but solid growth), and so wants to hit say $34m ARR next year.

So on the Sales side we'll need about 40 headcount:

- 1 VP of Sales, and probably a VP or Director of Sales Ops, and an analyst under her (3)
- Say 25 sales reps to fully hit the $34m ARR plan because we're adding $14m in ARR next year. (That's a yielded quota). If cash is tight we can do it on less but that's a lot of growth to hit.
- Maybe 8 SDRs to support the sales reps in outbound, screening, etc. Situations vary wildly, but a 1:3 ratio is good for modeling purposes.
- Probably 3-4 Sales Directors to manage the 25 reps (8 reps per director), and the SDRs (8-10 per director).

In Customer Success, we'll probably need about 20 headcount:

- Assume $1.5m ARR per CSM. So we'll need about 20 CSMs to hit our plan for the year, although we can hire some later in the year, so we can call it 15 for now,
- A VP to manage them, 2 directors to manage half of the CSMs each, and probably an analyst to support her in data analysis, etc. (4).

In Marketing, it can vary based on outside vendors, but I'm guessing 4-8:

- VP Marketing
- Director Demand Gen
- Director, Field Marketing (events, etc.)
- Content Marketing
- Product Marketing
- Probably, own lead qualification reps to manage the MQLs (2-3).

In Support, we want 24x7 support at this point, including phone support. Let's assume that takes 5 headcount, minimum, ideally 6. OK we're up to ~70 without a single engineer!

Now let's cross over into product and engineering:

In Product, we're going to need at least 4 FTEs:

- A VP Product to manage the whole thing
- 2-3 Product Managers to manage segments of the product, integrations, releases, etc.

In DevOps, we're going to want probably 3-4 folks to ensure 24x7 coverage. Really, 4 would be a lot better than 3. PagerDuty is tiring. Should we could DBAs etc. in here? Maybe it's really 6-7. In Engineering, I think rough-and-tough we'll want 20 folks. That's two "pizza box" teams plus a few engineers to do crazy / next gen stuff and a few to just focus on refactors, back-end, etc.

We'll want 2 designers that can work with front-end team by this point. And finally, we need QA. You can use RainforestQA or something else to get the headcount down, but otherwise, best case assume 1:2 coverage. So with 20 engineers writing code, we're gonna need 8 folks on QA team minimum once things are humming.

So that's about 40 in product and engineering. Or 110 altogether. I went over 100 a bit, I know, so cut back from there proportionately. But you'll need those extra heads to hit your growth plan.

I know you'd rather have more in engineering and product, but selling a SaaS product requires the headcount above.

86. As a company founder, were there any early hires that almost ruined the company?

I've had one or two each time. Try to avoid it! In my first start-up, I found the Dream COO. He had 20 years of industry experience (vs. me, I had none). The customers loved, loved, loved him. And he had enough of a chip on his shoulder to still do a start-up and change the industry.

We shook hands and I closed him. And then I signed a term sheet to raise $8m in venture capital. All seemed good. Until he changed his mind and stayed where he was. The term sheet was pulled. The key initial customer that loved him got cold feet. I was out of options, and had lost our anchor customer on top of it. And now, with only 2 weeks of cash left in the bank.

Lesson? Even with founder urgency, you can't always rush key hires. He wasn't really ready. We needed to spend more time together. And we knew that. We could sense the risk. But it was a start-up, so we took the risk. But we should have just slowed this key hire down.

In my second start-up, I found the Dream Co-Founder. But he also wanted to run another business on the side. And was only willing to commit for a year. But he was the best I knew. 12 months later, he quit and I had almost no money left in the bank and had to figure it out, somehow.

Lesson? Make sure you are 100% aligned with long-term goals with your co-founders. This stuff is just too hard, and takes too long. I was committed for the long haul. The others were amazing, but they weren't as committed, to varying degrees. That was a mistake.

I then made the same mistake a third time ;)

The meta-lesson? When you find your dream senior hire, that's great. But also, slow it down. Make sure it's what they really want. That you are aligned on where they also want to be in 6, 12, and 60 months. And this is your job — not theirs.

87. What are some awesome questions to ask a CEO of a startup during an interview?

Ask how she develops talent, how she helps people grow to the next level and be their best. First time managers and CEOs may “fail” this question, that’s OK. But if you get a great and authentic answer, you may see a good snapshot into how you can achieve success and thrive in the organization.

88. Silicon Valley Salaries: What are the details of your compensation packages within your respective organizations?

As a VP at Adobe, I was paid a $250,000 base salary and a 40-50% bonus paid at FYE. I believe in pure salary + bonus, I was the lowest paid VP or close to it in the U.S. at least, apparently because I came in through an acquisition.

For most VPs, there is also a large equity package associated with that too (primarily RSUs) which could be worth a geometric multiple of that on an annualized basis … but vesting annually over 5 years, and layered in multiple grants made year after year. So to really make a lot as a VP, you have to stay maybe 8-10 years or longer … stay just 1-2 years, the equity is not worth that much.

As CEO at EchoSign, I started at $120,000 for myself once we were funded. Then I took $0 in cash for a while to stretch our cash to the Series B round, and instead took the equivalent of $120k (grossed up) in equity. Then, once we were at scale, my salary was $160k, with no bonus at first and then a $20k bonus the last year for exceeding plan.

89. How does a CEO/founder/owner pick their salary?

I'll share my stories.

In my first start-up, we raised $9m in our seed round -- a large seed round, but the times were different. The VCs set my salary without discussing or consulting with me (I know, weird, but this was '03, a different time). My prior salary as a VP before the company had been $150,000, and they raised it to $180,000, with a performance-tied bonus. On a monthly basis, that was a pretty small % of $9m for the guy that closed $5m in revenue in Year 1.

The second time, at EchoSign, we "only" raised $2.6m in our first round. There, each dollar mattered more … and also, I had a few nickels in the bank from the first one … :

My salary was $120k for the first 8-9 months or so.
Then, I took $0 for another 15 months or so until we raised the next round.
Then once we raised $6m, we raised my salary from $0 to ~$150k.
Finally, for a little stretch before our acquisition, I think we raised it to $175k, once we were cash flow positive.
It varies.

The "right" answer is probably the lowest practical salary when every single dollar matters. And then, probably, "low market" after that. But later … once you have positive cash flow, and/or a large amount of capital in the bank … you need to de-stress things. You really do. It's a 7-10+ year journey. So at least then -- take enough salary so it's not a stress point. If it is -- that's bad for the company. And everyone.

When I invest in start-ups now, if they have revenue and it's starting to take off … and they raise > $2.5m or so … this is one of the first questions I ask. Do you make enough? Because I don't want you sweating that. I'll just invest another $100k if that's the issue at that point. But pre-Initial Traction, and/or if you don't raise much … you have to manage your own salary like any other expense. And probably make it as small as possible.

90. In a SaaS company, should the CEO sit with engineering/product, with sales, or with the exec team?

As soon as you get even a handful of sales reps, you're going to need to split your SaaS company into "loud" (sales, support, success) and "quiet" (engineering, techops, product) halves physically. I call this the McDLT configuration, though many have no idea what I am talking about.

So who should the CEO sit with? It depends on the quality and completeness of your management team but I think generally, sales. For me, sitting in the middle of the sales team let me be very close to the revenue. But -- I had both a strong VPS and a strong VP Product. The truth was, I felt I could add more value on the revenue side. Because the customers always want to talk to the CEO if they can, at least at some point in the big deals.

I also worry if the CEO is too far from the customers. Sitting in the middle of the sales team sort of guarantees you aren't. But net, if you have a strong VPS, it probably doesn't matter operationally.

91. Why are founders and startup employees expected to take minimal salaries while VC partners rake in $500K-$1M per year plus carry?

You know, this used to really drive me nuts as a founder.

I mean, really.

Hearing about the wrong colored stitching in your latest Ferrari. The VC complaining about that at one of my board meetings really bugged me, man. Sorry. SEND IT BACK TO MODENA.

But … my learning is … get over it.

The thing is … founders think VCs are like them. Unless it's a very small fund (<$50m-$60m or so) … they aren't. If your VC is a general partner in a fund of >$500m or so of Assets Under Management -- they are highly specialized money managers. Highly specialized money managers with an expertise in start-ups, yes. But a money manager. Period.

Money managers are pretty well paid. And the more money under management, the more well paid they are. And they have to return a lot of capital. Much, much more than you need to, really. To do 3x net on a $500m fund, you have to do about upwards of 4x gross, or return $2,000,000,000 in cash. Two. Billion. In cash.

That's nothing at all like being an early-stage founder. Maybe a little like being a unicorn-stage founder, but nothing like an early-stage founder. Even if it sounds like it at the "board meeting" in your crappy co-working space.

92. How do so many CEOs fire people on the spot without any apparent consequence? Does some HR rep take them into a room and offer them a severance package and legal document which they are basically forced to take?

I've fired people "on the spot" probably 5-6 times in my career.

In half the cases, it was for truly inappropriate conduct. Hopefully, I don't have to explain why that was. Zero tolerance means zero tolerance. The more relevant times, it's been because what they were doing was so damaging to the company that I just needed them out. Immediately. I think this is what Tim Armstrong was trying to do, albeit very poorly.

In my first time as a new CEO, I had a unique engineer that was so critical to our technology that he was truly irreplaceable. And he took advantage of that constantly, leveraging it in ways that the rest of the company could barely tolerate. Finally, in one meeting, he so challenged my authority and undermined our mission that I just had to walk him out of the meeting, and fire him on the spot (although not in front of anyone). We found a way to survive without his irreplaceable skills when the alternative was such a literally toxic work environment that failure would be certain.

Another time, I had a poor performing VP that "quit". Apparently though, he half changed his mind that night and came into work the next morning early, and called a team meeting for his whole team. That was a little too late. I had to walk into his team meeting (it wasn't his team anymore), pull him out, and walk him out.

And in all these cases, especially the second category, it was my fault. I'd hired them, or approved their hiring. Blame yourself first for a bad senior hire. You let them in the door.

93. How should equity be split between founders, (early) employees, consultants and investors when the company is bootstrapped?

Here's my #1 suggestion for your co-founder. Both of you should have 5 year vesting with a 12 (or better yet, 18) month cliff, effective as of date of funding or full commercial launch, whichever is first. With zero pre-vesting before that.
Beyond that, you can figure out relative equity based on relative value and when they join. 1:1? 2:1? 4:1? I don't know.

But if you have 5 year vesting, that will ensure true mutual long-ish term commitment. And a 12-month cliff from the real Day 1 … with zero credit for all the hard work before the hard work … ensures you don't get burned by even unintentional short-timers. You'll find that those who aren't 100% truly committed tend to cycle out around months 12-18.

94. What should everyone know about mergers and acquisitions? What happens to the shares/shareholders of company A when company B acquires it by paying cash? What happens when they take A's shares and convert them into B's shares?

Let me take a stab at some perhaps less obvious things to know about M&A, from the perspective of a start-up founder at least.

Companies don't buy start-ups. People do -- CEOs and SVPs.

There are 1,000 companies Google or Apple or Salesforce or Facebook or Oracle or whomever could buy, that all could make strategic sense. But that's not how M&A happens. It's when a CEO sees a strategic gap in the future, or a VP sees a gap in what he/she can get done in the next 12-18 months -- and fills that gap with a deal, right or wrong.

VC multiples drive deal price.

Many deals are sort of valued off financial metrics and comps, but the actual price is often based on what would "clear" the VCs -- maybe 2x for the late-stage VCs (see Instagram, Yammer, etc. acquired at 2x last round price), or 3-4x mid-stage VCs. Corporate M&A departments and others are OK with this because it's a process and this is what it takes to "clear" seemingly good deals.

M&A is Capricious.

Because M&A is driven by individual executives at companies, not companies per se ... it's capricious. Especially at the non-CEO level. Priorities change. YYou may be just as good a strategic fit in 12 months, but if priorities change, that offer may never come back. In fact, it likely will only come once per individual potential acquirer unless you are Twitter, Facebook, etc.

You Have to Stay.

no longer is M&A a one-time cash-out. Most deals have 2-3 year retention, vesting, and re-vesting programs, and potentially 2-3 year earn-outs. Assume if you get acquired, you're committing at a minimum to 24-36 months at the acquiror.

No One May Care That Much in 6-9 Months.

You have to make hay after you are acquired. Everyone at the acquirer will have their eyes on you and want to help -- at first. Then, they'll acquire someone else, and attention will go there. You'll have to make it happen, and continue the momentum yourself.

95. As an employee of a start-up, what are the signs that we are about to be acquired?

Turns out if you are in a small enough company the signs are obvious if you look carefully but you do have to look very carefully:

- **CEO and controller / finance person working together much more often than usual.** Because big companies looking to acquire need like 10,000 different reports.
- **Big company guys (from acquirer) walk into office and act "all cool".** They're doing their on-site diligence. When an SVP from the big company walks in and tries to act cool, they're trying not to blow it. This is subtle but if you have a high EQ you can spot it every time. They act very differently from a big company VP coming in to do a regular business deal (when they usually make it very clear who the Alpha Dog is).
- **CEO and VPE off to off-site meetings together — and they never do this.** Not a customer, just a "meeting". They do this for due diligence. You can't tell if it's just the VPs because CEOs and VPs are always off working with customers but if it's the VPE and they're off to "a meeting at Google".
- **CEO suddenly stops caring about things she used to care about, especially hiring.** She longer cares if a certain key hire gets made this month? It's because she has bigger fish to fry. If you see substantial priority changes … you know … something's up …

The smaller the company, the easier it is to see these things if you're looking.

96. From the perspectives of people with significant experience and solid management backgrounds, what are the real reasons some people get promoted and others do not?

I'd like to provide some insights from my experiences both as a VP at a leading F500 tech company — and a reasonably successful start-up CEO.

Promotions in the F500 are indeed complicated but let me focus instead first on performance reviews which are the penultimate step to promotion and something in my F500 experience that materially impacts your compensation.

Here is my learning: reviews go into "high", "strong", "good", and "needs to improve" basically in all big tech companies. (Some have "super highs" but that's rare). In my experience, even at a F500 leader with 12,000 employees there were zero politics in becoming a "high" because it's so clear who the "highs" are.

The only real issues (the politics) are that some groups have too many "high" candidates (often the outperforming products) and some have too few which warps the curves a bit. So it's actually harder to be a "high" in an outperforming group than an under performing group.

Having said all that … really no politics. This was pretty surprising to me.

Now, of course, not every "high" can get promoted but even the promotions (while not always the decisions you or I might make) were always based on results.

I know some of you will say your experience is different but I'm going to suggest once you strip away the emotion and once you see how the sausage is really made that it's probably the same in any growing tech company of any scale that has solid, experienced management.

So now, how do you get promoted? Here are my learnings in how you get promoted based on both my big tech co experience and my post-20-50 employees start-up experience:

- **Demonstrate successful leadership.**
  This is what everyone is looking for. Everyone. Someone to take and carry the load. As long as you have an experienced boss they

will take notice because what we all really need is help, real help getting our initiatives done. If you can get one of my key initiatives done for me -- not talked about, not analyzed, not discussed, but done -- you are a rock star.

- **Don't schmooze. Just engage and be positive and respectful.**
  Schmoozing is a turn-off. Instead, as you demonstrate leadership, also positively (never negatively) engage with your peers and colleagues outside of your small group. Be critical as needed but always positive. Naked criticism will get you worse than nowhere, it will get you in the cellar. Your peers' feedback, even if just informal is critical to your promotion.
- **Don't sell up.**
  Yes, I know selling up sometimes "works" in big companies, but it doesn't really get you promoted -- and it's really a sign you are weak. Focus instead on selling down and selling across. Focus on getting your colleagues to follow your ideas and insights. That's how you demonstrate true leadership.
- **"Dress" for success.**
  I don't mean that completely literally but dress a little better than the rest (it can't hurt). Act and carry yourself like someone that cares. That always goes the extra mile. Never look at the carpet or yawn. Never be late to a meeting -- ever. Always be positive, give constructive feedback but never destructive feedback. Never be cocky, but be confident in what you know.
- **(Try) to Be Patient.**
  Even if you do everything right there can only be so many promotions. It may take another whole year. This isn't politics per se, but, companies of any size have a finite number that can make. Don't give it more than one extra year but assume it will take one more cycle than it should.
- **Ask.**
  Ask your boss how and what it will take to get promoted. If you don't ask, you probably won't get. Just be ready to get some tough feedback when you ask, to grow, change, and learn.
- **Working hard and doing a good job is insufficient.**
  Again, promotion in Big Cos and tech companies of any scale is about leadership, and in many cases, management. You'll get well paid if you work hard and do a good job. You just won't get promoted all that far.

Just my learnings/observations in the big tech cos. I'd say all but the second point also apply to start-ups too. I know some companies are much more fracked up than this. but I think and hope that maybe 50% of the well-run ones work this way.

97. How ridiculous is it to call yourself the CEO when your start-up is tiny?

I used to feel that way. I used to look at tiny little startups and wince when a founder went around talking about themself as "CEO".

But then I had to learn how to Ssell to big customers and sell to power, and what I learned is customers care. Customers and prospects want to talk to the CEO. They love to talk to the CEO (even the CEO of a 5 person company).

- **The more business process change is involved, the more they want to know who the CEO is, that she is there for them, that she's committed for the long run.**
  Customers are taking a risk on you, often a big risk, but in any event, in SaaS, they are changing the way they run their business to use your product.
- **Customers care just as much about talking to the CEO if you have 5 employees as 5,000, maybe even more because they expect more of a personal touch when you are small.**
  Customers know they are taking a risk in picking a start-up to work with. They expect innovation and a personal touch back as quid-pro-quo for taking that risk.
- **Now take it a step further and show up in person. The customers love it.**
  No matter how small you are. Go visit all your customers, all that you can and don't feel nervous or uncomfortable that you are a tiny company. You are important to them and few mid-level managers really get the chance to talk a CEO. They appreciate being treated as peers and as stakeholders.

Be the CEO externally even in the earliest days, make that clear and take advantage of it as a sales, customer success, and retention tool. Even if internally, you're just "one of the guys" in the early days.

98. What are the most underrated skills most employees lack from the perspective of a CEO? What would you recommend people to do in order to develop these skills? What resources could you point them to for further development?

From a start-up CEO perspective, the #1 skill you should develop is ownership.

Most employees just can't be owners. This may not matter at Adobe or Google, or wherever but up until you have 500 employees or so, the CEO is looking for owners. People that don't just play a role but truly own something, that make 100% sure it comes in ahead of time and ahead of expectations with as little drama as possible.

Ship your feature ahead of time and make it delightfully better than expected. Better yet, ship a feature everyone else said was too hard to build, that couldn't be done. Hit your sales plan well ahead of time while still making time to help others and show them how to do it as well. Hit your lead commit ahead of time. Don't just balance the books but exceed the collections goal, every month. Whatever it is.

This isn't the same as "taking the initiative", it's a superset of that. It's delivering and it's very, very easy to do in a start-up actually versus. Almost impossible in a big tech co. Just over deliver on everything you're given to do. And not just your part -- the whole project you are working on. See where others are falling behind, and help them. Folks around you will naturally gravitate toward that. You'll become a natural leader, over time.

That is the greatest gift to a start-up CEO any employee, at any level, can provide. And one way or another, over time, your career will skyrocket.

99. What are great questions to ask about a startup company during a job interview?

As an investor I try to understand what's really happening behind the scenes at start-ups from their perspective (and I need to find out quickly). I've learned you can find out a lot about the real prospects of a company that you can't otherwise scour from the web or from a standard interview consisting of two slightly nonstandard questions:

- **What will the company look like in a year? From any and all perspectives -- product, people, team, revenue?**
  You'd be surprised how well you can differentiate between that has true vision from one that doesn't, just by these answers... Is it rambling? It is delusional? Does it all make sense and tie to the data and learnings you have so far?

Take it out to more than a year (it's just powerpoint-level). Take it out to 90 days, (that's just tomorrow) but you're being hired really to make an impact 9-12 months out. The answer will help you learn a lot.

- **What do I need to accomplish in my first 90-120 days to be a success and have an impact?**
  You'd be surprised how many hirers can't answer this question. They just want to fill a slot but is a job all you want? Or do you want to have an impact? If it's a great opportunity, they'll know exactly how someone great (a great sales rep, a great engineer, a great customer success) can move the needle -- at least some needle -- and make an impact within 90 days.

If you listen closely to these answers I think you'll also get a sense of the inherent quality of the company beyond what you can tell from AngelList and TechCrunch. Go Columbo style, ask these two leading questions. They work for me.

100. My startup is nearing the end of its runway - and I found out my CEO has been taking money from the company. What should I do?

Unfortunately, this is a little more common than you think.

The very best CEOs never “take money from the company” in my experience but I’m guessing in at least 5% of venture-backed start-ups, some founders do something wrong here, pays themself back for “expenses”, Takes “a loan”. Whatever. There’s some paper justification but it is stealing.

A few thousand dollars, if that’s all it is, isn’t material. You may be wrong and small numbers are a wash anyway. I’m confident as a CEO, I had many tens of thousands of expenses I forgot to expense. A few nickels don’t matter but if it’s true, it’s someone you probably don’t want to work for. Get on AngelList and find something new.