

# From Seed to Series A | Greylock

12-15 minutes

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The term “early-stage” covers a lot of territory in venture investing, from incubating a brand-new idea, to investing in a Series A. Moreover, the indicators that show founders are ready to take on new capital in order to progress to the next phase of company-building – be it hiring, expanding into a new market, launching a product or more – can vary from company to company.

As the Greylock team has learned after decades of partnering with early-stage founders, the best approach is establishing a core set of fundamental questions that can be tailored to each individual company, rather than looking at a rigid set of metrics.

On the latest episode of Greymatter, Greylock partners Reid Hoffman and Sarah Guo discussed this process in detail, with a special focus on startups operating in fast-growing sectors like productivity tools and cloud SaaS platforms that power the modern working world. You can listen to the podcast [here](#).

Below are some of the key highlights from the conversation.

## What metrics should a founder show to raise a Series A from a VC firm like Greylock?

Sarah Guo: “We’re not very metrics-oriented when investing at the Series A stage, as long as we can see the network effect, the platform effect on the ecosystem, or their other defensibility (should their vision come true). Reid and I have both done Series A investments in companies that have no metrics to speak of. Perhaps that’s a characteristic specific to Greylock – [Chronosphere](#) was one of these, as was [Aurora](#). [Obsidian](#) is another one of these where we knew the entrepreneurs deeply, and we had a high level of conviction in what they were going to do. They’ve been thinking about this problem, of how to give security teams visibility into cloud apps, for years and years, and knew how to deploy [Series A level capital].

Of course, we’re also happy to meet companies that got to a couple million dollars of SaaS ARR efficiently – so please call me about that! But for us, revenue is not a hard prerequisite because some of our bets are based on our conviction around technology or platforms that might take a little more time to build out and get going.”

Reid Hoffman: “Sometimes the best evidence for that huge market isn’t current numbers. You know, I love the [investment in Airbnb](#), but the numbers [when Greylock led the Series A] were tiny. You’re not looking at current numbers, you’re looking at what it could be.”

Sarah Guo: “We do need at the Series A, a higher level of market conviction. We’re choosing people, and then markets that are (hopefully) big enough. At the seed stage, we have backed very non-obvious, non-pedigreed entrepreneurs, in spaces that weren’t obvious, who ended up being amazing.

One of the immediate bets that you are taking with entrepreneurs is that they can actually deploy capital successfully. What are Series A companies going to spend their money on? They are going to hire people. So when I look at a Series A, before I am thinking about the metrics, I’m thinking about what kind of team you want to build. Do I believe in your ability to recruit for that company? Recruiting is something that you should have a clear picture of when raising your Series A.”

## How does Greylock evaluate companies at the seed-stage?

Sarah Guo: “One framework that I encourage is for entrepreneurs to ask themselves, “What are the core questions for this company? What is the core thing they can de-risk over the next year?” There shouldn’t be 18 different questions. There should be one to three, at most. I consider it a very good sign if the entrepreneur can tell me what he or she thinks are the core questions of the company, and what they’ve done to de-risk it themselves.”

Reid Hoffman: “When evaluating technology at the seed stage, it’s much more often a case of evaluating the people building the technology, not the technology that’s currently there. We can also help evaluate the market. For example, we maintain this whole [CXO] customer group so we can bring customers to you and validate your approach, and make the investing process as helpful as possible. We’ve even done this with companies that we’ve not ended up investing in. [Greylock] has helped build companies from literally the first one or two people, as with [Palo Alto Networks](#) and [Workday](#).”

## **Once a company has your attention, what are the next steps in the diligence process?**

Sarah Guo: “We have to make technical and product calls – and figure out if your particular architecture is going to win a particular set of use cases. To a large degree, we’re going to rely on our own opinions as product people, but then we’re also probably going to call our smartest five friends in an area and say, ‘Does this make sense to you? Can you picture this future?’

If you already have customers, it makes it easier to validate your value prop and initial product. If you don’t, we can introduce you to our network and pitch customers together. Let’s see if we can find people that are believers in this problem you are trying to solve.

One of the really interesting things that we’ve discovered about diligence is that the smartest people will actually often disagree. So you may not get a clear answer from diligence, but all those different people’s input adds up to the kind of data we collect to make our decision. Diligence is specific to the company. Say you are a bottoms-up SaaS company, or consumer company or another marketplace – how likely is it you can get a core loop around the community- contributed UGC for the company to actually begin to work? Do we believe in that hook or that initial liquidity? It’s not an easy question to diligence. Founders need to help us understand what their tactics are – what is the value you’re driving to one side of the marketplace or your initial contributors? That’s what we need to be able to figure out.” It’s going to be really idiosyncratic. The questions that we’re thinking about during diligence are going to be very specific to your company.”

## **What’s different about early-stage investing in this moment?**

Sarah Guo: “We’re all operating on new ground here, but we do have companies in our portfolio that think about the next nine months to two years as a special time period for execution. If you feel like you have a special environment that creates more openness from consumers or businesses to use your new product, then there are reasons to actually operate more aggressively or with more speed than you might in another environment.”

Entrepreneurs need to ask themselves, ‘does my company feed into the needs that have been introduced by the pandemic, or are there headwinds for me? And if there are headwinds, how do I navigate around them?’ And so that is going to be a question that we ask every entrepreneur that we’re considering working with over this period of time, just because it’s such a world-changing event.

There are many hundreds of processes (and every enterprise) that will be transformed by an infusion of AI over the next decade. The pandemic does not change my point of view that we should invest in technologies that democratize AI for the enterprise. So if you’re talking to early-stage, long-term-oriented investors who have some picture of the future, you can get through this period. And if you can use this period as an accelerant, even better.”

Reid Hoffman: “It’s always worth paying attention to what’s still the same. You can find great founders who are approaching an interesting market with an amazing idea and who have a go-to market plan that is robust and well thought through, but that doesn’t necessarily mean it’s proven. And all of those things are still the case.”

We are still asking, ‘do you have a plan to get to the seed stage and have the tools to do it?’ And we need to see that while you are actually doing the seed stage, you’re executing on that plan towards the Series A. But now you have had to add some new capabilities because of the way the market has changed because of the pandemic. And you need to think about what it takes in terms of talking to us and having an in-depth relationship even if we may not have had a chance to meet in person this year.”

## **How should entrepreneurs who are seeking seed or Series A funding connect with and select VC investors?**

Sarah Guo: “In a very good way, VC has become much more transparent today than it was seven or eight years ago when I started investing. There’s a lot on the internet about all of us – like the

investments we've made, what our investment theses are, what stage we do, what domains we're interested in. You can even learn about people's style. Go watch a video or listen to a podcast of Reid or Josh McFarland or any one of my partners giving a talk and ask, 'Do I like that guy or gal?' You can get a sense of investors as humans and potential partners in a much richer way than you were able to just several years ago. I think that the entrepreneurial community would do well to adjust to the fact that they can do research to find their tribe and their believers."

Reid Hoffman: "I think it's very important to have both parties do reference checking. Checking with your advisors is helpful, but I think it's helpful to triangulate with multiple references."

Sarah Guo: "You have to evaluate how educated and credible the reference is. How close is the person who you're referencing to the person you're considering? Did they work for them for 10 years, or did they meet them at a cocktail party? Because I think sometimes relationship depth is not measured accurately, especially for people who have very broad networks. If I am a seed stage entrepreneur and I am thinking about working with Reid, I'll ask somebody who knows Reid whether he is a great partner to work with. If that reference is a three-time founder who has had 15 VCs on his boards, he has a richer perspective than somebody who has not had the experience of working with multiple investors."

## **What are some key areas you're looking at for potential Seed and Series A investments?**

Reid Hoffman: "One of the areas that I know Sarah has been paying a lot of attention to (and I have been paying some attention to myself) has been the whole transformation of work. We now have to work in different ways. What are the new patterns of work, and which of those new patterns will be persistent once we get to the other side of the pandemic?"

Sarah Guo: "I think the future of work is remote, flexible, global, and digital-first. That's a set of four characteristics that's quite different than the past. And I'm not saying every company becomes GitLab. I think that's quite extreme, and GitLab has a very particular culture and set of norms. Every company is going to get more distributed, more flexible, more global, and more digital-first. And Reid and I are investing as actively – if not more actively than before – because we see a lot more opportunity."

We actually have this amazing opportunity as mostly early stage investors (or for our listeners, early stage entrepreneurs). We got this dump truck of problem statements alongside the public health tragedy that's happening. And this set of problem statements supports a Cambrian explosion of new software to meet those needs."

Reid Hoffman: "One of the things that we believe is that collaboration and productivity tools like [Coda](#), [Figma](#), and [Clubhouse](#) are not just 'SaaS for getting things done.' The broader theme is that all individual productivity software is now collaboration software."

Sarah Guo: "What is most exciting now is the openness of end users and business leaders to actually say, 'We believe that this stuff needs to be more collaborative because we can't just talk to each other in the office about it, or look over someone's shoulder.'

I think another opportunity now is the huge channel shift underway. Take B2B companies. Before Covid, you had field sales, you had events, you had tours with resellers. You had different ways to reach customers. The shift to video webinars, online social events, and online community for differentiated go-to-market is pretty transformational. And I don't know how long that lasts, but I think that there is an opportunity there."