In this section we're going to talk about some common mistakes people make while raising money. We are not, however, going to talk about what the best shirt to wear is.

Clint: Let's start with the NDA, the Non-Disclosure Agreement. What kind of mistakes do entrepreneurs make around this?

Brad: The mistake entrepreneurs make around NDAs is asking venture capitalists to sign them. You should never ask a VC to sign an NDA. It makes no sense. There are a couple of reasons for it, the biggest is that it just signals naiveté on your part.

The fundamental reason VCs can't sign NDAs is that you end up in a situation if you do where you have all these documents that are confidentiality agreements in lots of different forms that you have to keep track of. As an early stage entrepreneur, the NDA doesn't really protect you in any substantive way and the reputational dynamic associated with the VC is actually more important.

Understanding how a VC treats information is useful to know, but generally speaking, whatever you're going to share with them isn't really of a significance that an NDA is going to help you anyway.

Clint: How about getting that first meeting with a VC, what are the mistakes entrepreneurs make there?

Brad: The first meeting with a VC generally comes through an introduction, or a proactive outreach on the part of the VC. A common mistake would be carpet-bombing VCs with email. You can easily get lists of VCs at this point, and I'm on the receiving end of many emails that say, "Dear Jim," and then a bunch of stuff. I usually respond to all of the emails I get and when I get and email like that I respond with, "I'm not Jim."

Those are not a particular effective way to get a VC's attention. The problem is, when you do that you're actually using an approach that doesn't give you, when you do eventually get an introduction, much credibility because you were that person who sent that random email.

Don't focus on a broad spraying out email approach. Instead, focus on getting introductions. They can be via email, but from someone who knows the VC or someone who is connected to you in some way.

Clint: Let's say I'm an entrepreneur and I've gotten that first meeting and they say, "No." Should I be like the tenacious entrepreneur and not take "No." for an answer?

Brad: As a sales person you should never take “No.” for an answer, classic sales training 101. In the context of interacting with a VC, “No.” usually does mean “No.” The thing that changes over time is that as time passes you may make progress where it makes sense to go back to that VC for some reason.

Developing a relationship and evolving that relationship over a long period of time can end up having a “No.” turn into a “Yes.” but it’s very atypical in the context of a single round of financing.

An example I can give you of a “No.” turning into a “Yes.” over time is the case of Rally Software, they approached Graylock I think three or four times before one of the partners there, after multiple series of round eventually lead a late stage round for the company.

In that case it wasn’t that the entrepreneur didn’t accept “No.”, but each time they went out to raise the next round they went back to that same person who had some interest in what they were doing, but not in investing. They kept the relationship developing with that person over time.

That’s very different when I would say “No.” to someone and two days later they respond with, “Let me try and convince you why you’re wrong for saying ‘No’.” After I say “No.” again, they come back again and say, “You’re really making a mistake by not investing in us.”

After, I say, “Look, I’m sure I’m making a mistake, but I really don’t want to.” Then the next email I get is, “All venture capitalists are slime. You’re terrible for saying ‘No.’ to me. I hate you.” That’s not a particularly effective way to engage with a relationship over a period of time.

Clint: Let’s say I get a “No.” from you. Can I get a referral?

Brad: If I say “No.” don’t ask me for a referral. There’s one basic reason why that’s a bad idea. The very first thing the person that I refer you to is going to ask me is whether or not I’m investing. When I say I’m not, immediately that referral is not worth very much.

There are some cases where it does make sense. The cases would be where we have a relationship and it’s just not the kind of thing I invest in. That’s easily describable to someone I refer you to. In those cases, I’ll often offer to refer you to someone else. The idea that the response to a “No.” is “Can you introduce me to someone else?” is just not that effective for you as the entrepreneur.

The other is, if we don't have a relationship, you're now asking me to do some work for someone I don't know. If you got introduced to me, I looked at what you were doing and I responded with, "It's just not my thing. Sorry." and you ask me for a referral, I can't give a referral that has any credibility because I haven't spent any actual real time with you. You're asking me to do something that doesn't make any sense.

Clint: How far along in the process do we need to get before I can ask you for feedback and you're happy to give it once you give a "No."?

Brad: It varies from investor to investor the level of feedback they'll give. Some investors don't want to give any feedback because they would rather not offend an entrepreneur, they want to keep the door open for some reason, or they haven't spent enough time thinking about what they were presented with to give substantive feedback.

In situations where you engage deeply with an investor and spend a lot of time with a potential investor who ultimately says "No.", it's totally appropriate to ask for some feedback right after that person says "No." Really recognize the difference between asking for feedback from someone who you don't have a relationship with, not that useful and in some cases the person's response is, "I don't have time to give you any feedback."

At the other end of the spectrum, when you have developed a really substantial relationship, looking for constructive feedback is often very helpful.

Clint: How about solo founders?

Brad: There are success cases of solo founders, but the deck is stacked against you. It's much harder to be successful as a solo founder, and especially around the process of raising money for an early stage venture.

If you look at the history of successful entrepreneurial ventures, many of them have two or three founders. Every now and then you have four. Rarely do you have 17. It's usually a pretty narrow bound between one and four, and generally two to three founders tends to be an optimal amount.

There are a lot of problems with being a solo founder. One big one is it's just really hard to create a company. If you're by yourself in that journey versus having a partner too, there's such an overwhelming amount of stuff that you have to deal with. Without having someone early-on in the process to bounce it off of, that makes it very difficult.

The second is, a lot of investors are actually quite uncomfortable investing in solo founder based companies. What happens if that founder doesn't work out? Interestingly, a lot of companies that you would think of as solo founder based companies have three or four founders. There's just one that's very visible and the other ones are in the background.

That's perfectly okay. The other founders don't have to be in the foreground. The key for you as an entrepreneur is to make sure that you're starting out with the most muscle on the table, the most capability that you can as you're trying to get the business up and going.

Clint: How about patents? Is that something that's really going to get you excited?

Brad: As a software investor, I don't care about patents at all. I'm very outspoken in believing that software patents are invalid constructs. In fact, the USPTO would do us a favor and decide that software patents didn't actually have any validity.

For now, software patents do have validity, so companies that I'm going to invest in generally have software patents and spend energy because it is a system that we exist in. As an investor, that's not the driver to me. That's not what's causing me to make an investment in your company.

That's different for companies that are hardware based companies, or biotech based companies. In many cases those investors do care about patents and the patent opportunity for whatever you're doing. There are also some software investor who cares about software patents.

Understanding, again, about what the investor cares about and what's important to whoever you're interacting with is key.

Clint: Questions?

Student: You absolutely don't recommend emailing VCs without an introduction?

Brad: I think emailing VCs without any sort of connection or relationship is pointless. Now, you don't have to have an introduction. Here is how you get my attention or Fred Wilson's attention if we don't have a relationship. Do stuff that causes you to have a relationship with us.

We both have blogs. Those blogs have active comment sections. Start commenting on our blogs. Become part of the community of interactions we have through that kind of a mechanism. Over time that will give you license to be able to have an interaction, even if we don't have a relationship yet, because we'll be part of the same community.

One of the things that you often see is someone who literally just starts emailing a VC randomly with no connection to what they actually do or what they're interested in and then complain about how the VC doesn't respond. Some of it is VC non-response, but some of it is this overwhelming amount of stuff that comes in via email that has no relevance to anything we're doing, and the impossibility of responding to 500 emails a day and trying to have a thoughtful response to everything that's nonsensical.

Do your work. It's not that you can't interact that way, but it's so much more powerful if you get a referral in, or you figure out some way to engage with that investor other than just a cold email.