Lecture 20: Closing Thoughts and Later-Stage Advice

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Good afternoon. Welcome to the last class of How to Start a Start Up. This is a little bit different than other classes, which have been about things that you should think about at the beginning of a startup. Today we're going to talk about things that you don't have to think about for a while. Since I'm going to not going to get to talk to most of you again before you get to post-product market fit stage, I want to give you the list of things that you need to think about as your startup scales. The list of the things that founders usually fail to make the transition on.

These are the topics we're going to talk about. Again, these are not writing code or talking to users, which means with a few exceptions that I'll try to note, you can ignore them until after you have product market fit. For most companies, these things become important between months 12 and 24. Write these down somewhere and look back them when you get there.

The first area we're going to talk about is management. In the beginning of a company, there is no management. This actually works really well. Before 20 and 25 employees, most companies are structured with everyone reporting to founder. It's totally flat. That's really good. That's what you want because at that stage, it's the optimal structure for productivity.

What tricks people is when lack of structure fails, it fails all at once. What works totally fine at 20 employees is disastrous at 30. You want to be aware that this transition will happen. You don't actually need to make the structure complicated. In fact, you shouldn't. All you need is for every employee to know who their manager is and for everyone to have exactly one manager. Every manager should know their direct reports.

You ideally want to cluster people in teams that make sense but the most important thing is that there is a clear reporting structure and that everyone knows what it is. Clarity and simplicity are the most important things here. Failing to do this correctly is really bad. Because it works in the early days to have no structure at all, it feels cool to have no structure. Many companies are like, "We're going to try this crazy new management theory and have no structure." You want to innovate on your product and your business model.

Management structure is not where I would recommend trying to innovate. Don't make the mistake of having nothing, but don't make the other mistake of having something super complicated. A lot of people fall into this trap. They think people feel cool if they're someone’s manager and if they're just an employee, they don't feel cool. So people come up with convoluted circular matrices management structures where you report to this person for this thing, and this person for that thing, and this person for that thing, while this person reports to you for this thing. That's a mistake.

This is the first instance of an important shift in the founder’s job. Before product market fit, your number job is to build a great product. As the company grows past 25 employees, your main job shifts from building a great product to building a great company and it stays there for the rest of your time. This is probably the biggest shift in being a founder.

There are four failure cases we see all the time as founders become managers. So I am going to talk about the four most common ones. The first one is: "being afraid to hire senior people." In the early days of a startup, hiring senior people is usually mistake. You just want people that get stuff done, and the willingness to work hard and aptitude matters more than experience. As the company starts to scale, and at about this time when you have to put in place the basic management structure - it is actually valuable to have senior people on the team. Executives that have built companies before. Almost all founders after the first time they hire a really great executive, and that executive takes over big pieces of the business and just makes them happen - the founder says, "Wow! I wish I had done that earlier!" But everybody makes this mistake and waits to long to do this. So don't be afraid to hire senior executives.

The second mistake is "Hero Mode". I will use the example of saying someone that runs the customer service team. Someone who runs the customer service team -- they want to lead by example. This starts from a good place. It's the extreme of leading by example.

It's saying, “You know what? I want my team to work really hard rather than tell them to work hard I'm going to set an example. I'm going to work 18 hours a day. I'm going to show people how to get a lot of tickets done." But then company starts growing. They have the normal discomfort of assigning a lot of work to other people. So the company starts growing and the ticket volume keeps going up. Now they're have to do like 19 hours a day, and then 20 hours a day. It’s just obviously not working. But they won't stop and hire people because they're like, "If I stop even for one day we're going to get behind on tickets." The only way to get out of hero mode in this case is to say, "You know what? We're going to get behind on tickets for two or three weeks 'cause I am going to go off and I am going to hire three more support team members. I've calculated based off our growth rate that this is going to last this long. Next time I'm not going to make the same mistake. I'll get ahead of it and hire again."

But you actually have to make a trade off. You actually have to say, "You know what? I need to hire more people and we're going get behind on other stuff." That is the right answer. The wrong answer is to stay in hero mode until you burn out. Which is what most people do.

Third mistake: "Bad Delegation". Most founders have not managed people before and certainly have not managed managers. The bad way you delegate is you say, "Hey, employee, we need to do this big thing. You go off and research it. Come back to me with all the data and the tradeoffs. I'll make a decision and tell it to you and then you go off and implement." That's how most founders delegate. That does not make people feel good and it certainly doesn't scale.

A subtle difference but really important is to say, “Hey - you're really smart. That's why I hired you. You go off. Here the things to think about. Here's what I think. But you make this decision. I totally trust you. And let me know what you decide." That's how delegation actually works. Steve Jobs was able to get away with the former, and make every decision himself and people just put up with it. Every founder thinks they're the next Steve Jobs. A lot of people try this. For 99.9 percent of people, this second method here works a lot better.

Then the fourth area -- it's just a personal organization one. When you are working on product, you don't actually need to be that organized in terms of how you run the company and how you talk to people about what they're working on. But if you fail to get your own personal organization system right - where you can keep track in some way of what you need to and what everybody else is doing and what you need to follow up with them on - that will come back to bite you. Developing this early as the company begins to scale is really important.

Two other things that we hear again and again from our founders they wish that they had done early: simply writing down how you do things and why you things. These two things - the how and the why - are really important. In the early days, you just tell everyone. "Employee, when you're sitting around having lunch or dinner, you know this is how we think about building product. This is how we push to production. You know, this is how we handle customer supper."

Whatever. As you get bigger you can't keep doing that. If you don't do it, someone else is just going to say it. But if you write it down and put it up on a Wiki or whatever that every employee reads, you as the founder get to basically write the law. And if you write this down it will become law in the company. And if you make everyone read this - as the company hires a hundred and then a thousand employees - people will read this and say, "Alright. That's how we do things."

If you don't do it, it will all be random oral transition of whatever the hiring manager or their best friend that they make it their first week in at the company tells them. So writing down how you do things and the why -- the why is the cultural values. Brian Chest talked about this really well. Every founder I know wishes they written down both of these - the how and the why- earlier to just establish it as the company grows. And then this becomes what happens. It's one of the highest leverage things you can do that people don't.

Next area - "HR". HR is another thing that most people correctly ignore in the first phase of start up because, again, it's not writing code. It's not talking to users. But it’s a huge mistake they continue to ignore it. The reason I think most founders ignore it is they have in their mind this idea of like TV sitcom HR, you know. Awfulness. But it doesn't have to slow you down. Actually it speeds you up.

Most founders will say out of one side of their mouth, "People are our most important asset." And the other side, "We don't want any HR." So what they mean is that we don't HR - we don't want the bad kind TV HR. What good HR means is a few things. A clear structure. Which we already talked about you know a path for people about how they can evolve their careers. Most important, one of the most important things is "Performance Feedback." Again, this happens organically early on. People know how they're doing. As the company gets to 25, 30, 45 people - that gets lost and it doesn't have to be complex. It can be super simple. But there should be a way that it happens and it should be frequent. People need hear pretty quickly how they're doing. It should tell if they are doing badly to where you get them out of the company. Or if they're doing well it should. There should be a clear path to how this ties to compensation. That’s the next thing.

In the early days of a startup, people compensation is whatever they negotiate with the founder and it's all over the place. As you grow - it feels hopelessly corporate but it really is worth putting in place these "Compensation Bands". So a mid-level engineer is in this range. A senior engineer is this range. Here's how you move from this to this. It keeps things really fair. Someday everyone will find out everyone else's comp. If it's all over the place, it will be complete meltdown disaster. If you put these bands in place early you will at least be fail. It will also save you a lot of crazy negotiation.

One thing that I think is really important when it comes to HR is equity. Most people get this right now for the early employees. They give a lot of equity. But you should continue to give a lot of equity all the way through. And this is one place that you investors will always give you bad advice. I think - not YC. But all other investors give bad advice here. Most do. You should be giving out a lot of equity to your employees. Now this dilutes everyone.

Right? This dilutes you as the founder and the investors equally. For some reason founder usually understand this as good. Investors are very short-sighted and don’t want to dilute themselves so they'll like fight you over every equity grant. But, we've seen a lot of data at YC now and the most successful companies - and the ones where the investors do the best - end up given a lot of stock out to employees. Year after year... After year.

So I tell founders, "You should think about for the next ten years you're going to be given out 3- 5 percent of the company every year 'cause you just get bigger and bigger. So the individual grants gets smaller but in actuality it's a lot of stock. This is really important to do if you value your people you should be doing this. Specifically, you need to do this with refresher grants. And you should get a plan in place for this early. You never want an employee in a place where they vested 3 out of their four years in stock and they start thinking about leaving. So you should ALWAYS stay in front of peoples vesting schedules. And you know how they plan early where you have refresher grants in place.

There are a lot of new structures that people have been using here. I personally like six year big grants - but six years of vesting. 'Cause I think these companies take a while to build. There's pyramid vesting where you back weight someone’s grant. In year four they get a lot more of the vesting than year one. There's a concept - different names for it, but something like continuous forward vesting where people's grants are automatically re-upped. Every year. At the same number of share. Whatever you decide, get an option management system in place at about this point. The normal way people do this is just someone keeps an Excel spreadsheet. I have seen mistakes that have cost employees or companies tens of millions of dollars because they didn't get this right.There's really good option management systems or software and you should get those in place around this point.

The other sort of HR stuff to touch on - there are a bunch of rules that change around 50 employees. Common examples are that you have to start "Sexual Harassment Training and Diversity Training". There's a bunch of others as well. But just put a little pen in your mind that when you cross 50 employees there's a new set of HR rules that you have to comply with.

"Monitoring your team for burnout." Again, it's up to product market fit. It's just a sprint. Now it becomes marathon. At this point you actually don't want people to work a 100 hours a week forever. You want them to go on vacation. You want them to have new challenges and do new things. And if you let the whole company get burned out all at once - that is often a company ending thing.

This is also a good time to put in place a "hiring process". Another thing that most founders regret is they don't hire - as soon as everything is working, you should hire a "full time recruiter". If you do this early - that's bad 'cause you'll hire too fast. That usually implodes. But most founders get behind the ball on this. There are a lot of sort of hiring process tips.

For example, I think most companies - even til they get up to say 3 or 4 hundred employees - should announce every offer on some internal mailing list or something before they make it. Because like half the time you do that. Someone in the company will know something good or bad about that employee. The companies that I know that have instituted this have been really happy. Also a good time to have a program in place to ramp up employees. So when someone starts, you know what their first week looks like. How did they get spun up? How do they learn everything they need to learn? Are they going to have a buddy that's going to think through them? That's going help them think through everything about the company.

Here’s one that you do need to think about before the 12 to 24 month mark. Which is "Diversity on the team." The most common place this comes up honestly is people that hire you know all guys on their engineering team for the first 15 or 20 people. And at that point you get a culture in place that sort of takes on a life of its own. Most founders that I've spoken to that have made this mistake regret it. They wish they had hired some diversity of perspective on the team earlier on. Engineering teams are not the only place where it comes up. But that's where you see it the most often, and if you get this right early, you’ll be able to grow the team much more quickly over the long term.

The other thing to think about is what happens to your early employees. So a common situation that happens is the company past the early employees. You know the company - you hire a engineer who's a really great engineer but then as the engineering team grows, you need a VP of engineering. The early engineer wants to be the VP of engineering. You can't do that, but you don't want the early employee to leave. They are an important part of the culture. They know a lot. People love them. So I think you want you be very proactive about this. You want to think about, "What's the path for my first 10 or 15 employees going to be as the company grows?" And then just talk to them about it. Very directly. Be up front, you know. Sit them down and say, "I want to see where you want to see your career go inside of this company."

Alright, so - "Company Productivity". This is something that you don't need to think in the early days because small teams are just naturally productive most of the time. But as you grow, it - the productivity - goes down with the square of the number of employees if you don't make an effort. Because it's sort of one these connections between nodes. Every pair of people add communication overhead. If you don't start thinking about the systems that you're going to put in place when the company is 25-50 people to stay productive as you grow - things will grind into a halt faster than you can imagine.

The second word that matters most to keep the company productive as it grows is "Alignment". The reason companies become unproductive is people are either not on the same page and you know don't know what the same priorities are. Or they actively working against each other. Which is obviously worse. But if you can keep the entire aligned in the same direction, you have won well over half of the battle. The way to start with this is just a very clear road map and goals. Everyone in the company should know what the road map for the next three or six months or a year - depending on where the company is in its life cycle.

You know a classic test that I love to give - is if I walk into a company getting - beginning to struggle with these scaling issues - I'll ask the founders, "Like, if I walked around and pulled 10 random employees and asked them what the top three goals for the company are right now - would they all say the same thing?" And 100 percent of the time the founder says, “Yes. Of course they would."

Then I'll go do it and 100 percent of the time, no two employees even say the same three top three goals in order. The founders can never believe it. Because they're like, "Well I announced it in all hands like three months what are goals were going to be. And how can they not remember?" But it's really important to keep reiterating the message about the road map and the goals. Almost no founder does this enough. And if you do it, you know the company will say, "You know, alright. These are our goals. We understand them and we're going to get them. “ Self-organize around that. But if people don't know what the road map of the goals are, it won't happen.

We already talked about figuring out your values early but I want to reiterate that. 'Cause that'll also really help company make the right decision. If everyone knows what the framework to decide it - they'll make hopefully the same decisions if they're smart people.

You want to continue to be run by great products and not process for its own sake. This is a fine, fine line. Because you do need to put some process in place. But you never want to put process in place that rewards the process. The focus has to always be on great product. One easy way to do this that a lot of companies try is they just say, "We're gonna ship something every day."

And if you do that - you know there's at least a continue focus on delivery. And then "transparency and rhythm" in how you communicate are really important. Most founders wait way too long on these but having a management meeting every week of just the people that report directly to the founder and the CEO - critical. All hands meeting - not quite sure how often is optimal for those. At least once a month. Where you go through the results and the road map of the entire company. Really important. Then doing a plan every quarter of what we're going to get done over the next three months and how that fits into our goals for the year - also becomes really important.

I put "Offsite" up there, because people don't do those nearly enough. A surprising number of the successful companies we've been involved with do a lot of off-sites. Where they take their best people for a weekend to a cabin in the woods or somewhere and just talk about what we want to be when we grow up. What are most important things to be doing? What are we not doing that we should be doing? But get people out of the office and out of the day today. Everyone I know that does thinks they're well worth the time.

So the goal in all of this productivity planning is that you're trying to build a company that creates a lot of value over a long period of time. And the long period of time is what's important here. You can avoid all of this and with the authority of the founder - make sure the company ships a great next version. But that won't work for version 10. It won't work for version 11. The single hardest thing in business is building a company that does repeatable innovation and just has this ongoing culture of excellence as it grows. If you look at the examples of this - most companies fail here. Most companies do one great thing where the founder just pushes to get it done and then don't innovate that well on follow on products. It really takes founders that think about how I am going to do this second thing - this really hard thing to get something like an apple that can turn out great products for30 or 40 years. Or longer.

Alright - these are super tactical "Mechanics". This is definitely just to put on a list and remember these things for later. Alright - in the early days. People basically ignore all accounting and maybe if they're lucky have a shoebox full of receipts. They certainly don't have anything that looks like a financial report. This is is a good time to get it in place. You know when things are working say month 18 or whatever - you can do this with an outsource person. Just say, "You know what? We like to get our books in order. We want to start getting audits every year. We want to start a relationship with an accounting firm." Easy to do. Definitely worth it.

This is also a good time to collect your legal documents because it's easy to fix things now. If you actually assign someone to go through and collect every agreement that the company has ever signed, then when your landlord tries to screw you out of your lease and no one can find the lease... Which happens like half the time somehow. Someone will be able to find it. Also, you're almost certainly missing something. Some employees didn't sign their PIAA or whatever and you'll find it now - it’s easy to fix now. It's gets really hard to fix like in the middle of your next round of financing. So again this is time to bring like a little of the order to chaos.

"FF Stock" is a special class of stock for founders that founders can sell in a later round without messing up the common stock valuation. It used to be that most people set this up right when they started the company. Founders fund sort of popularizes which is why it's called FF stock. But it became a really bad signal. Right that were obsessed with their own personal equity when the company had nothing - turned out to fail most of the time. So investors learned if founders pushed on this in the seed round, it was a very, very bad sign. Most founders don't actually want to sell stock until the company is worth like a billion dollars or something like. You can actually safely set this up after things start working in the next financing round and then you can sell it two, three, four years down the road. But it's a good thing to remember by around the time you get to the B round.

"IP, Trademarks and Patents". Actually just IP and trademarks. So, you have twelve months after you announce something if you want to patent it. And if you miss that window, it's very hard to do. So eleven months after launch or first publically talk about what you're doing - is a good time to file provisional patents. We recommend people just file provisional patents. All that does is hold your place in line at the patent office, and it gives you another year to decide if you want to patent something or not. It only costs about 1000 dollars. It takes way less effort than a full patent. And most of the time you'll know whether or not you'll need a fully patent a year later. But if you just do this one step, you'll at least have the option.

It's also a good time to file trademarks for the US and major international markets. Again, if you don't do this at this stage - most people end up regretting it. And while you're at it - a good time grab all the domains.

FP&A -- good time, also to think about someone to start doing FP&A. Most companies don't end realizing where they knobs on their financial model are until far too late. It turns out that if you have someone build a really great model of the business - and by really great, apparently Roelf Botha - who was the PayPal CFO and built their FP&A model - the top, like the top sheet of his spreadsheet was 15 hundred lines just a level of the detail people build these to. But you can really optimize the business and understand it at a level that most people totally miss. Most people don't hire someone like this until their many hundreds of employees. It's worth hiring earlier.

Another thing that I think is worth hiring earlier that almost no one does is a full time fundraiser. Let's say you hire someone really, really great and their full time job is to raise money for the company. You hire them after your B round. And you say, "You know what? By the time we raise our C round, we want the valuation be double what it would have been otherwise." You almost certainly get better results than if you hire an investment banker or someone else if it’s just someone internal with the company. And you end up paying way less money and take literally half the dilution. This is one these slightly non-obvious optimization that people just fail to make.

"Tax structuring". This is another thing. Once things are working it would be worth you spending a little bit of time thinking about how you set up the tax structure for the company. I confess I don't know a lot about the details here 'cause I just find it personally really boring. But like if you assign the IP to some corporation in Ireland that licensing it back to the US Corporation. You end up paying no tax. No corporate tax. But I know that you can only do that relatively early on. And this ends up being a huge issue for companies that don't do it that compete with companies that do it you know once they're big public companies. So that's worth doing.

A lot of people through the class have talked about "Your own Psychology" as a founder. Here's what they haven't said. It gets worse. Not better. As the company grows you continue to osculate. The highs are better but the lows keep getting worse. And you really want to think about this early on and just be aware that this is going to happen. And try to, try to manage your own psychology through the expanding swing that it's going through.

Another thing that happens as you begin to be successful as you go from being someone that most people rooted for - kind of the underdog. To someone that a lot of people hating on. You see this first in internet commenters who will be like, "I can't believe this shitty company raised money. It fucking sucks. It's like awful. And it only bothers you a little bit. But then journalists that you kind of care about it start writing this and it just goes on and on. This also will go on and on as you get more and more successful. You just have to make peace with this early. But if you don't it will bother you all the way through.

This is also a good time to start thing about how long of a journey this is going to be. Very few founders think long term. Most founders think kind of a year in advance and they think, "You know what? In three years I am going to sell my company and either I am going to become a VC or sit on the beach or something." Because so few people make an actual long term commitment to what they're building - the ones that do have a huge advantage. They're in a a very rare flight class. So this is a good time to sit around with your co-founders and decide, "You know what - we're going to work on this for a very long time and we're gonna build a strategy that assumes that we're going to be doing this for the next ten years." Just thinking that way alone, it's probably a very high leverage thing you can do for success.

Take vacation. Another common thing that we see is founders will run their business for three or four years without ever taking more of a day of vacation. And that works for a year or two years or something like that. It really leads to a nasty burn out.

Losing focus is another way that founders get off track. This is a symptom of burnout. When you get really burned out on running business you want to do easier things or sort of more gratifying things. You want to go to conferences and have people tell you how great you are. You know what to do all these things that are not actually building a business. And the most common post YC failure case for the companies we fund is that they are incredible focused during YC on their company - and then after, they start doing a lot of other things. They advise companies. They go to conferences. Whatever. Focus is what made you successful in the first place. There are a lot of reasons people lose focus. But fight against that really, really hard.

This is a special case of focus. As you start to do well - you will start to get a bunch of potential acquires sniffing around. And it's very gratifying. You're like, "Wow! I can be so rich." And I'll be so cool. And MNA negotiations feel really fun. This is one of the biggest killers of companies. Is that they entertain acquisition conversations. You distract yourself. You get demoralized if it doesn't happen. If an offer does come in - it's really low. You've already mentally thought that you're done and so you take the offer. As a general rule don't start any acquisition conversation unless you're willing to sell for a pretty low number. Don't ever just check it hoping that you're going to have the one miracle high offer. If that's going to happen you’ll know because they'll just make you a big offer before you can meet them. But this is big company killer.

And then - just a reminder to everybody - that things that kills startups at some level is the founders giving up. So sometimes you should quit but if you mismanage your own psychology and you quit when you shouldn’t, that is what kills companies. That is the final cause of death for most of these startups. And so if you can manage your own Psychology in a way that you don't quit - don't get to a place where you need to quit or give up on the startup. You'll be in a far far better place.

So "Marketing & PR" is something that we tell companies to ignore for a long time. Everyone thinks in the early days that the press is going to be what saves them. We tell them all the time it doesn't work that way. It’s definitely true. Press is not what's going to save your start up. But as you start to be successful - this is something that the founders themselves need to spend time on. So once your product is working - switch from not caring about this to caring about it a little bit. The two most important things for the founder to do - the founders to do - figure out the key messaging yourselves. Never outsource to your head of marketing or PR firm. You founders have to figure out what the message of the company is going to bet. And once you've set that it kind of sticks. Very hard to change this once the press decides how they’re going to talk about you.

The other thing is getting to know key journalists yourself. PR firms will always try to prevent you from doing this because they need to have a reason to to exist... And so they're like, "We're going to handle the relationship with the journalist. We'll just bring you in for interviews." No journalist wants to talk to a PR flag ever. They're so much happier to hear from to just hear from the founder. The biggest PR hack you can do is to not hire a PR firm. Just pick three or four journalists that you develop really close relationships with that like you. That understand you - which you get. Then you contact them yourself; they will cover every story you ever give them. And they'll actually pay attention and get to know you and care about the company. This is so much better than the normal strategy of having a PR firm blast 200 contacts that never read their emails with every piece of news. This is something that I think is important to start doing.

This is also the time in a company when business development starts to matter. And so in the early days you can basically ignore anything that would be like doing deals. Except maybe fundraising and sales. This is a time when they're important. And everything or many things that you do like even fundraising. It falls under the category of doing deals.

So there are - here’s my one minute crash course on this. There are five points that are important to understand here. We've talked about this a lot. Nothing will matter if you don't "Build a great product". So assume that you've done this before you go try to get anyone to do anything with you.

"Developing a personal connection" with anyone you're trying to do any sort of big deal with is really important. For whatever reason, most founders fail to this. Or many founders fail to do this. But no one wants to feel like they're this transactional thing. That you're using them to get distribution for your product or to raise money or whatever. So figuring out some way to actually care about this person and care about what you're doing with them. And not view them - you brave to in your own mind not just view them as this one off transaction. You have to actually care about them and what they're going to get out of this.

"Competitive dynamics" - this is a basic principal of negotiation. Most founders learn this the first time in fundraising. But it actually matters for everything. The way you get deals done and the ways you get good terms is to have a competitive situation. You don't do this deal with party A, you're going to do it with party B. It's not always an option but it usually is. And this is the single thing that makes deals happen and makes deals move.

Tyler talked about "Persistence" -- the last lecture. So I won't hit on that again too much other than to say you go beyond your comfort point here most of the time as a founder.

And then the fifth point is that "You have to ask for what you want". This is another thing - I still have trouble with this and certainly most of the founders we do have. If you want something in a deal - just ask for it. Most of the time, you won't get laughed out of the room and might get it. But you have to be - at some point, you actually have to say, "You know this is what I'd like to do." Even if it feels aggressive or an over-reach or whatever.

So I am going to close this part of the talk with an image. One of the Airbnb founders drew this on like a business card or something for another founder that starting a company and then I saw it once and took a picture of it. 'Cause I thought it was such a good summary. And what he had tried to draw here was the YCombinator process as he remembers it. I love it 'cause it’s like so simple and it looks so doable when it’s written on a business card. But you're trying to find product market fit. You're trying to build a product and you're trying to close the gap between those two gears. The only way to do that is to go off and meet the people. You can't do this without getting really, really close to your users. And then he drew this graph that sort of on a white board that at YC and gotten kind of sort one of the YC rites of passage. But that's the graph of how adoption goes for a new company.

So you launch on the press. You get a huge spike. It falls off to nothing. At some point at least one point things look like they're going to completely die and kind of dip below the X access. They recover a little bit, you have this long, long troth of sorrow before things work. In Arabian B's case, it was a thousand days before the graph started taking upward. You have these wiggles of false hope. And then finally, finally, finally, finally things start to grow. Three years later. So starting a startup ends being this very long process. It is - it can be very rewarding. It's definitely long but it is doable. That's what I love about that drawing.

So with that. I have about ten minutes left. I can questions on this or anything else in the course that we've covered. If anyone has some.

Yes.

Audience member #1: You hold that diversity is important, but an earlier speaker said that diversity wasn't important and that you should just hire people that are very much like you and trust you...

Sam: So the question is how you square the device of diversity being important with earlier speakers saying that you want people that are very similar.

The difference is that what you want is diversity of backgrounds. But you don't want diversity of vision. Like where companies get in trouble is when they have people that think very differently about what the company should be doing or don't work well together. You don't want that. You do want hire people that you know and that you trust and that you can work with, but if everyone on the team comes from exactly the same background you do end up developing somewhat of a monoculture. Which often causes problems down the road. Not always. Some companies have been successful with that.

So what we tell people is hire people that you know and that you've worked with before. But try to hire people that complementary and aligned towards the same goal. Not people that are exactly the same. 'Cause you just get a better skill set.

Audience member #2: So what are some examples of ways to make up productivity on a personal level? How do you do that on a personal level and also on an advance level?

Sam: How to keep track productivity systems. So, the one I use which I actually thinks works really well is I keep one piece of paper with my goals for sort of three to twelve month time frame. And I look at that every day. And then separately I keep one page for every day of my short term goals for that day. And so if I need to do something in like a week I just flip forward seven pages and I write down. And then I also keep a list of every person and what they're working on and what I need to tell them and what I need to talk to them about. What we talked about last time. So every time I sit down with someone I kind of the full state and a list of things for that person that works really well.

Audience member #3: So we talked a lot about the startups growing but most startups fail. Any advice for how to fail gracefully?

Sam: Yeah. Yeah. Great question. We should have covered that.

How to fail gracefully. So, most startups fail and Silicon Valley almost goes too far on how it loves failure. Failure still sucks. You should still try not to fail. And this whole like thing of like "Ahh failure is great!" I don't agree with, but it will happen to most people most of the time and it's a very forgiving environment. As long as you are up front about it and ethical and don't let anyone get into bad situation. So if you're failing, first of all you should tell your investors, and second of all, you should not totally run out of money. What you don't want is blow up which a bunch of depths that the company owe and everyone showing up to work one day and the door being locked.

You'll know when you're failing and you'll know the company - things just aren't going to work. And you should just tell you investors, "Like hey. Sorry. This isn't going to work." No one will be surprised. Like I expect to lose my - or I'm willing to lose my money on every investment I ever I make. I know that happens most of the time and the winners pay for it you know still with a factor of a hundred. And so it's ok, No one - people will be very understanding and supportive. But you want to tell people early. You don't want to surprise them. And you want - you don't want to like let your employees get shocked when they know they don't have job. You want shut the company down in a graceful way. Help them find jobs. Make sure you give the two or four weeks of severance payment so they're not suffering a cash flow problem. All that stuff is pretty important.

Audience member #4: How many immigrant founders have you seen in YCombinator?

Sam: How many immigrant founders have we seen in YCombinator? In the last batch - I think it probably went up for this next batch. In our last batch 41 percent of the founders we founded we're born outside the US. From thirty different countries. So it's a pretty big percentage.

Audience member #4: I was just thinking - what do you think are the good places to start start ups?

Sam: Apart from the Valley where do I think are other good places to start a startup. Well I still think the Valley is the best by a very significant margin. But I think it's finally maybe beginning to weaken a little bit because the costs have just gotten out of control. To be clear - if I was going to start a company I still wouldn't think about it. I still will pick Silicon Valley. And think if you look at the data of companies of over the last few years that is to wins by a lot. But Seattle, LA - Lots of places outside the US - I think all of these makes sense.

Audience member #4: Like places outside the US?

Sam: I hesitate to make recommendations because I haven't spent enough time in the cities to really have an intuitive feel. But like - you know as well as I do the common ones people talk about start up hubs. I just can't make a personal recommendation there.

Audience member #5: So when should the founders start to thinking about hire a professional CEO - a senior guy?

Sam: When should the founders think about hiring a professional CEO? Never. You - if you look at the most successful companies in tech they are run by their founders for a very long time. Sometimes forever. Sometimes they even hire professional CEO and realize that is not going to like build a great company and so Larry Page came to be CEO again. I think if you don't want to be the long term CEO of a company - you probably shouldn't start one. I am not totally sure about that. I think there are exceptions. But generally that the transition that I talked about today if you go from build ing a great product to building a great company being a founder for nine of the ten years is going to be about building that great company and if you're not excited about doing that - I think you should think hard about it.

Audience member #6: What are some of the most common and alarming warning signs you should be looking for when you're trying to make the shift from building great product to building a great company?

Sam: What are the most common mistakes to make when you're shifting to building a great company? I think I went through most of them here. I tried to put everything here that I see people mess up most of the time. Yes.

Audience member #7: Is there a way to get involved in the Yom community before getting accepted?

Sam: Is there a way to get involved with YC before getting funded? No and intestinally not. I say the one thing you can do is if you work at a YC company and then later apply - I think probably like - well not probably that definitely if you get a good recommendation from those founders will help with YC. So you know, working at a YC company helps but there's not much you can do to help. And that's intention. Like there is no pre start up in a way that there is premed. You should just focus on whatever doing and then when you start a start up - there are `things like YC and others that are structured to help you. Most of the founders we fund we don't know at all before we do it. You know you really don't need to get to knopw us or get involved. We're all good that way.

Audience member #8: The statistic you saying now harder to get into YCombinator than getting into Harvard. So I am curious the criteria’s that you use to pick up startups. Does it change over time?

Sam: The question is what criteria to pick startups and has it gotten harder? Has it changed? The two things that we need to see are good founders and a good idea. And without both of those we won't fund the company. But that hasn't changed. That is always been the case. The applicant pool to YC has grown quite a bit. But most of - a lot of the growth is people who shouldn't be starting start up anyone that are just do9ing it 'cause it is sort of the cool thing now. So you know if you're really passionate about an idea and the idea is good and you are smart and you get things done and your we executing - I still think you have a very reasonable shot at YC even though the headline number is bigger.

Audience member #9: There's a certain market that you’re really excited about that don’t necessarily know all about yet - is there a certain track you recommend or ways to?

Sam: Sure - if there's a market that you’re excited about but don’t a lot about yet what should you do? Two schools of thought on this. One is to just jump right in. Learn it as you go. That's worked a lot of times. The other is go work at another company in the space or do something in the market for a year or two years. I lean slightly towards the second but as long as you are willing to really learn and really study and to get uncomfortably close to your users - either case would work. And I don't even thinks that it’s that much of a disadvantage. I think all things being equal go spend a couple of years learning about it in detail but I don't think you have to.

Audience member #10: I have a question related to YC - So I think YC did a fantastic job in promoting partnership in Silicon Valley. In fact, I plan to invest in some in the next three years. You guys pump 180 companies per year coming to the market it looks like its hard to follow each of the YC company any more. Do you think that this will create some - some people will walk away from YC because they cannot follow large batch of companies and the company had to be very polished and the firm had to be think of the world about ideas?

Sam: Alright so I think the question is do I think investors are going to fund less YC companies as we grow. No. Definitely not. Like certainly the trend in this is the other way. We have more and more investors saying that half their portfolio is not YC companies and they look forward to the day where it's three quarters. No I don't think that’s a problem at all. I think that so not on my top hundred problem list. The opposite of that maybe.

Alright. One more question.

Audience member #11: When should a group of founders raise a seed round or Series A?

Sam: In general it's nice to wait until you have the idea figured out and initial signs of promise before you raise money. Razing money puts some pressure on the company. Sometime pressure. And once you've raised money you can't be in this exploratory phase in definitely. You end up having to rush and so like if you haven’t raised money and your idea is not working you can fall around and pivot until you really hit on the thing that’s working. But if you've raised money and your `idea doesn’t work - You're in this oh shit moment. And you have to pivot and you pivot to whatever vaguely plausible idea is. And that’s bad. So I think if you can wait to raise any outside capital more than say like a hundred or 200 thousand dollars even necessary - but ideally not even that. Until things are working or at least pointed in the direction of working you're way better off.

Alright thank you all very much! This was fun!