# How To Appeal To Investors: Top VCs Reveal The Anatomy Of A Successful Entrepreneur

Rip Empson
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There's a lot of money floating around Silicon Valley right now, and it's becoming easier and easier for entrepreneurs to get access to the capital they need to get their companies off the ground. Resources like AngelList are trying to level the playing field, and facilitate conversations between founder and investor, and the passage of the JOBS Act will alter the landscape for early-stage companies by giving them access to crowdfunding from the masses. There are even charity initiatives like the ones launched by Exec and Motion To Dismiss Cancer that give a select few access to top entrepreneurs and VCs.

At a very fundamental level, the venture capital business is being reshaped. As the Kauffman report points out, most VC funds aren't generating more than the three to five percent on top of the return one finds in the public markets — the yield investors expect, the report finds. In fact, the report states *"VC returns haven't significantly outperformed the public market since the late '90s"*.

Speaking to a crowd at the Grind work space in New York last week, Fred Wilson addressed this ongoing shift, saying, *"there's two times as much capital in the venture capital business today than we, the professional investors who make up the venture business, can actually put to work intelligently."*

This isn't so good for VCs, Wilson says, but it is for entrepreneurs. Of course, the fact of the matter is that the top VC firms, super angels, and angel investors have unparalleled deal flow, they see hundreds, sometimes thousands of pitches, are privy to information few outside very small circles ever get to see. They are custodians of that equally valuable currency — information. As hard as the media and others work to reveal the goings-on behind the scenes, as Chris Dixon points out, most coverage doesn't reveal 90 percent of the relevant information. This is true not just of funding announcements in tech publications, it's true of panels at conferences, interviews, video, and more.

Sure, there are plenty of resources where entrepreneurs can go to learn more about VCs and top entrepreneurs, where they share their inside knowledge in order to enlighten and educate. And, as mentioned, there are an increasing number of options for funding: Incubators, company builders, accelerators, VCs, angels, crowdfunding portals, beneficent grandmothers, and more.

But, in terms of how one should build a founding team, or how one should pursue business ideas to best serve innovation — change, inspiration, product-focus — all these just become buzzwords without context. Illuminating this stuff was part of the motivation that led Mike Arrington to start TechCrunch.

In this landscape, capital is readily available, and the noise is growing — and will continue to grow. Thus, it's becoming even more essential to understand what it is about the anatomy of startups that makes them appealing to top investors, or, what is almost more valuable, why they fail.

If Dixon is right that incumbents fail because of ineptitude or irrelevance, is the same true for startups? Questions like this have led to the overwhelming interest in the Startup Genome Project, because, put simply, a group of entrepreneurs set to answer these questions by leveraging the ever-growing piles of available data produced on/by early-stage startups. We track everything today, so why not the life cycles of startups, right? Tracking the trends in those that thrive and those that don't eventually answer the most relevant questions to founders: What works, and why?

They are question that every entrepreneur, investor, and member of the media are (or should be) asking. "Why?" remains the most important question, or mantra, for founders, but it's not always asked in the proper context.

This is the reason I became fascinated with a new book, called Venture Capitalists at Work, co-written by Tarang and Sheetal Shah. Rather than present anecdotal stories, gossip, or allowing vapid buzzwords win the day, the two set out to provide entrepreneurs with real insight into how some of the top investors in the game evaluate, invest in, and mentor their startups — information that can be extremely powerful if put to use correctly.

Tarang Shah is a former VC himself, having spent 4.5 years at SoftBank Capital, and he tells us that his mission was simple: Leverage his connections in the VC world to offer a peek into knowledge that he says has thus far really remained in a "black box."

The book is presented in an interview format, which makes it easy to digest, and starts with a foreword from Charles River Venture Partner George Zachary before going on to pick the brains of Sequoia Capital Partner Roelof Botha, FLOODGATE Managing Partner Mike Maples, Highland Capital Partners' Sean Dalton, Rich Wong of Accel, Tim Draper, Howard Morgan, Gus Tai, David Lee, Steve Dietz, Ann Winblad, Eric Hippeau, and many others.

These interviews set out to answer three basic questions: Why do most startups fail, and what you can learn from these failures? Of those that do succeed, what's their secret sauce? And what are the main ingredients that VCs identify when funding startups?

## The Myths

Before jumping into the characteristics that were identified most consistently among the VCs he spoke to, Shah thinks it behooves us to address a few common misconceptions or "myths" that one hears a lot these days. First and foremost, there's a perception that the top reason startups fail is because they fail to raise funding, or don't raise enough. Startup Genome holds that, in fact, the main culprit is premature (or dysfunctional) scaling — in other words, a startup's core operational categories (product, consumer team, finances, business model) are out of sync.

Shah agrees with this, but puts it a different way: Lack of (or insufficient) funding is not the cause of failure, but a byproduct. The real root of the problem is when startups fail to hit their key performance metrics, largely because one or multiple of the categories the Startup Genome team identifies are out of sync, are mismanaged, or are not developed properly.

Secondly, Shah points out that many believe that the best entrepreneurs look for funding when they need it, and only raise the amount they need. This, he says, is a myth. In truth, the best entrepreneurs are always fundraising, and always look to raise more than they need so that they aren't forced to raise money at inopportune times.

The third venture funding myth Tarang sets forth in the book, which is especially relevant given the popularity of the lean startup psychology, is that it's always better to, whenever possible, build a business without raising venture capital — or to raise as little as possible. Shah says that, on a whole, there are very few high tech models that lend themselves to successful (long-term) bootstrapping in today's highly competitive market. *"The best companies use funding to scale rapidly and own the market,"* he says, *"it's not a tradeoff."*

## Big, Bold Ideas

**Five Must-Know Facts for Entrepreneurs**

1. **Big & Bold Idea (Non-consensus idea)**
2. **A.I.M. (Authenticity, Integrity, Motivation)**
3. **A+ DNA (Winning Team)**
4. **R.I.P. (Rapid Iterations & Pivoting)**
5. **Objectivity & Adaptability**

So these are important to keep in mind, but, in the end, what is it that VCs are looking for? Well, perhaps unsurprisingly for how much the word "disruptive" is thrown around and overused, Shah says that VCs love big, bold, and beautiful ideas. Consensus is your enemy, and entrepreneurs shouldn't be afraid of being contrarian. Often, it ends up being those risky ideas that people end up believing in the most, becoming passionate about, and with big ideas, there can be room to maneuver to overcome short-term failures.

While some VCs are market-focused and others are entrepreneur-first, obviously if you want to build a billion-dollar company, you're going to need both. But, when it comes to the entrepreneur, the common perception is that you need to be hyper intelligent, have a big ego, be a visionary, experimental, focused, and passionate. While these are all essential to the equation, Shah says the the traits that *really* matter most are authenticity, integrity, and motivation.

So, take "ego," for example. While an entrepreneur has to have enough confidence and ego to be stalwart in the belief that the current products on the market aren't good enough, and to be confident enough to pursue unconventional ideas and solutions, it's all about balance. One's ego has to be in-check enough to admit weaknesses, and be able to surround one's self with a team of people that are smarter than they are, and can leverage their strengths where you can't.

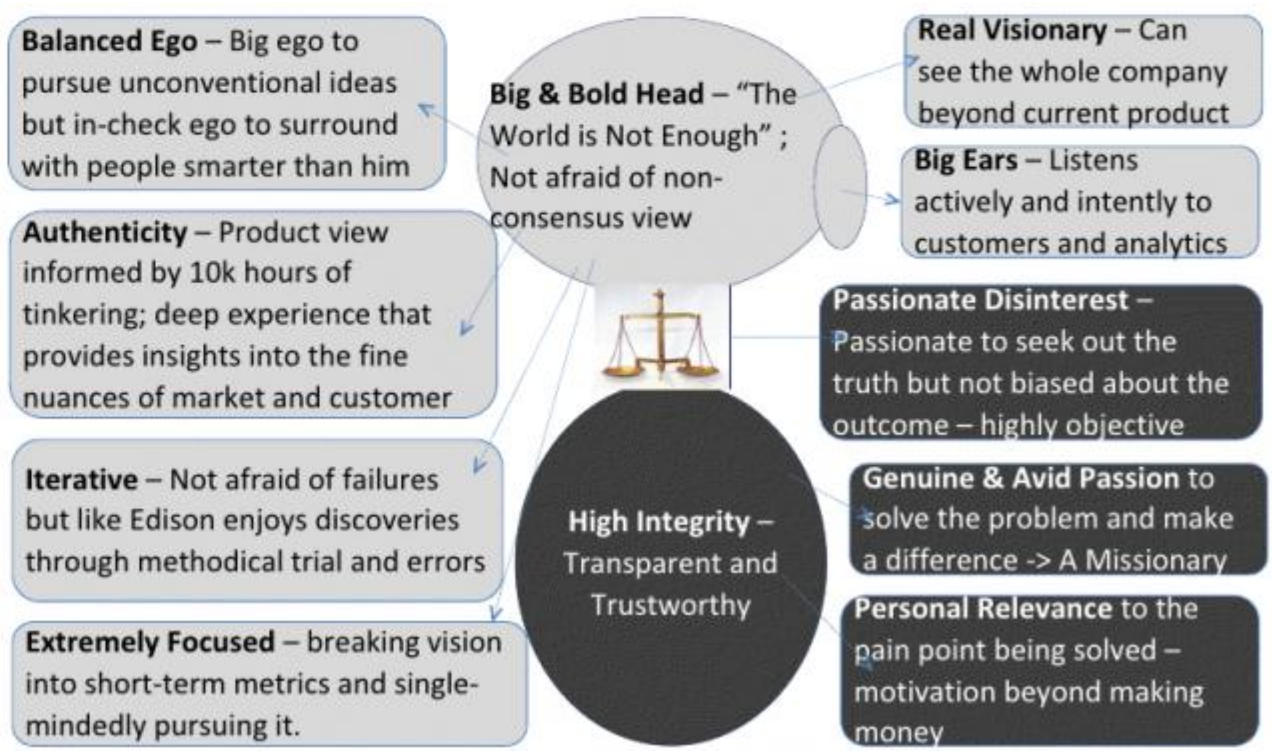
It's not about whether or not you've started eight companies: *"We do not look at serial entrepreneurship as a positive trait,"* says Mike Maples. *"We look at authenticity and unconventional, proprietary insight as the key difference."*

What's more, there are way too many entrepreneurs today who get caught up in the drive to make money, to become the next Instagram, lusting after that billion-dollar valuation. But that's not what turns on venture capitalists. *"The key characteristic is the desire to solve a problem for the customer. That is the driving passion, not 'I think this is going to be a billion-dollar company and I want to hop in because I can get rich,'"* says Roelof Botha. *"We're looking for people whose ideas get floated around. People who fight over the chance to work on solving a problem rather than passing the buck."*

## Authenticity, Integrity, and Motivation

Money is not a sufficient motivator to overcome the ups-and-downs of the startup journey, Shah continues, instead entrepreneurs have to search for their true motivation and pursue problems that they feel genuinely passionate about. But, again, passion alone is not enough. Something that many entrepreneurs suffer from today is letting their ego take control — because they believe in their vision and their idea, they assume that the market is theirs and theirs alone.

In the media, although often guilty of revving the hype machine ourselves, we see this a lot, and it's always a mark against. You're never alone, unless, as Peter Thiel would say, you can adequately (and subtly) describe how you've created your own market. And there are few that have the brains, cojones, and creativity to do it — Stanford/Harvard MBA or not.




Part of the "authenticity," which admittedly sounds like a buzzword, comes from experience and market analysis. But this is hard-won. Successful entrepreneurs aren't just passionate about their idea, they have a product view that's informed by Malcolm Gladwell's 10K Hour Rule — they have deep experience that provides insights into the finer nuances of both the market and their target customer.

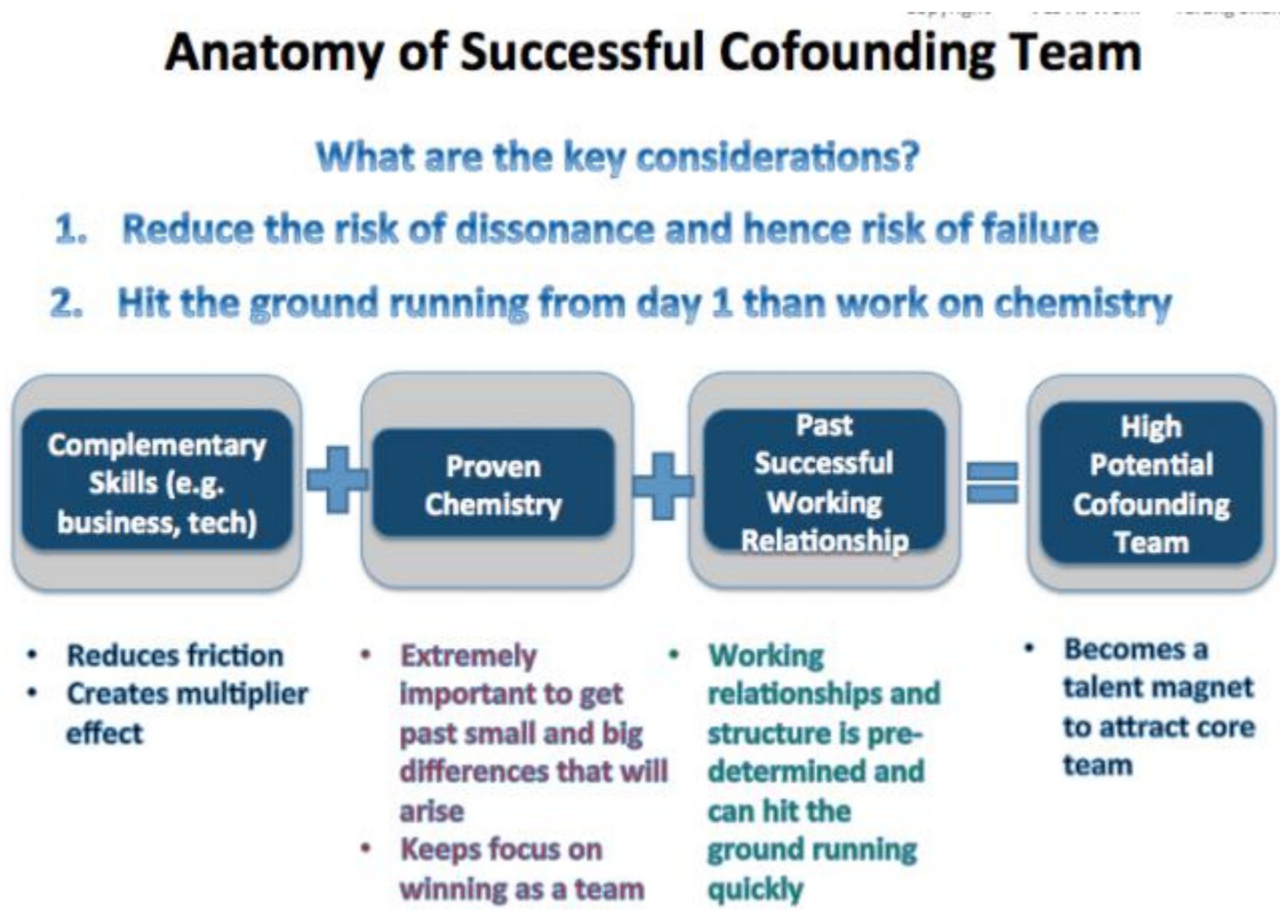
When we asked the co-founders of Lynda.com (which has made it to $70M in annual revenue without taking a dime from outside investors) what was the secret to their success, they kept coming back to the fact that it's not about finding an exploitable, untapped niche (market opportunity), but being experts — and passionate ones at that. Putting in the time and effort required to really understand the market is what can separate the big successes from those that find themselves floundering into the deadpool.

In the rush to get funded, to scale, and ship, a lot of entrepreneurs lose sight of this, Shah says. And I am in full agreement. When Shah asked Mike Maples what made Twitter appealing for him early on — while many in the media were busy writing Twitter off — was the fact that Evan Williams had gained his "authenticity," his experience and understanding of the market, from Blogger, informed his vision what micro-blogging could become.

Of course, the "authenticity" of one entrepreneur can't do the job alone. The other key, as mentioned before, is a passionate disinterest (or an objectivity) that leads one to be able to surround them with the best people — to admit weaknesses and build the right team accordingly.

## DNA

Shah found time and time again that one of the most overlooked parts of the process in building a company is those first 10 to 12 hires. The first handful of employees determine the "cultural DNA" of a company. While young companies without much capital may look to hire people that they can train on the job and can be molded into the right fit, Shah says that early employees need to hit the ground running, and make a difference right away.



That doesn't mean that their functional skills have to be out-of-this world, as the key is to hire people that are right for your culture — people that have the same passion. And this is where that "integrity" is so important. Because, let's be honest, the early stages of building a business are really tough. When no one knows your name, or your startup's name, what convinces the best people to join and stay with you while things are tough is your character, your belief, and those you surround yourself with.

Solo co-founders just aren't as successful as founding teams, Shah says, and those who hire co-founders that can hit the ground running tend to be the most successful. If you can reduce the dissonance inherent to a founding team by finding others that believe in the vision, personal chemistry can be worked on thereafter, if their personality and mindset is a good fit.

*"I think what matters most is team culture and unit cohesion. I almost always in some ways recruit the personality type as much as functional skill,"* says Rich Wong of Accel Partners in Venture Capitalists At Work. *"I have a triangle in my head — functional skill, raw intelligence, personal turning radius. Smart, hard-working, and paranoid together kind of radiates raw horse power."*

Just last week, we talked about the war for top talent that's currently being waged in the industry. It's tough for young startups that haven't yet closed those mega-million funding rounds to compete with the Facebooks of the world, which will always be able to offer more money, and more perks. But, if founders are willing to employ unconventional means to pursue top talent, sell the big idea for their business in an appealing and convincing way, they can win the battle for talent with creativity and by effectively wielding their integrity.

*"One of the things about 'A' people is that they hire people smarter than themselves, and they are actively searching for people with other knowledge that they do not have,"* says Howard Morgan of First Round Capital. *"They are also passionate and persistent. They are willing to suffer through the setbacks which will come, and not see them as the end of the world."*

## Objectivity & Adaptability

That's why "Objectivity and adaptability" are part of those fundamental traits commonly identified in Venture Capitalists at Work as leading to success. It's tough, but being passionately disinterested and brutally honest about everything that matters is key. In the book, Gus Tai talks about how it is essential for entrepreneurs to seek the truth, but not to be predisposed towards what they might find out. If it requires having to change direction quickly, throwing untold hours that have been spent on that one route, so be it.

This is where the final traits of the successful entrepreneur come in: Rapid iteration and pivoting. It's essential for founding teams to operate at high RPMs, iterating on product ideas and pivoting until they find the right product-market fit. The key is always to have the big goal, the big problem in mind, and be laser focused on it, but to be flexible and willing to pivot from idea to idea until one finds the right solution. Those that fail are more often than not unwilling to let go of the original solution. The companies that have iterated and pivoted from earlier, less successful versions are too many to name, but Facebook, Chegg, Groupon, and Instagram have all done pretty well.

In talking to Shah about his experience speaking to countless founders and top investors across the U.S., that's what struck me most. It's that so many entrepreneurs think that when pitching VCs it's all about the business model. That's not to say that VCs don't care about your business model or how you're going to make money — far from it — it's that they're just as interested in how they tell the story.

For VCs, whomever is behind the business plan tells the real story. During partner meetings, when investors sit around that boardroom table, hearing entrepreneurs pitch their business, they're just as interested in how the founder who's responsible about the business plan demonstrates the knowledge of their customer. Investors, Shah says, want to hear about the whole bullpen — or pipeline of ideas — that founders can turn to should that original business plan fail to make the grade. They want to know that entrepreneurs have put the time and thought necessary into understanding the core problem from 5 miles up and magnified 5 times under a microscope — well enough so that they have viable alternatives.

If you sit in that pitch meeting and don't demonstrate both a subtle and deep understanding of what your customers really need, if you can't present a workable structure under which the business can iterate and pivot until the right solution materializes — you're doomed. So, it's not just about a willingness to be flexible six months from now, it's being able to demonstrate a level of preparedness and a fullness of understanding that makes maneuverability a given from to get-go that will make you and your team appealing to investors.

Venture Capitalists at work is full of tremendous insight like this, and with analysis of more than 70 success stories of billion-dollar companies like AdMob, Bebo, Chegg, Facebook, LinkedIn, PayPal, Twitter, YouTube, etc., there are plenty of opportunities to find material that's applicable to your business. And if that doesn't convince you, the gushing review that sits prominently on the back cover of the book comes from Ron Conway — the Chuck Norris of venture capital.

For readers looking for more on this subject, you may also want to check out this recent guest post by Onswipe CEO Jason L. Baptiste, in which he shares an excerpt from his latest book The Ultralight Startup: Launching a Business Without Clout or Capital.