



Stanford eCorner

An Angel Investor's Strategic Advice for the Start-Up

Ron Conway, *Angel Investors LP*; Mike Maples Jr., *Floodgate*

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A million dollars should last any new venture at least a year. And companies are most productive when they're less than ten people strong. These business axioms are good advice for any enterprise, says Ron Conway, investor in over 500 companies, and fellow investor Mike Maples. A lean and mean staff gets the most accomplished, and a low burn rate and ample experimentation are nearly always a calibrator for success. In addition, simultaneous customer development along with product development is what gives a successful concept legs.



Transcript

But some companies, who I've learned is that if you keep your burn low and I think that this is a really important lesson not just about financing but just in general. Companies that have low burn rates by themselves hugely better probabilities are getting lucky over time. And so there have been companies I've invested in where it seemed like we're going out of business in a month. And just because we're on such a low burn rate, we could try a lot of different things. And then lo and behold, one of them starts working. And you look at each other like, "Oh my God! It's working. Hey, let's do more of that." And then all of a sudden it goes from being a C to an A in the portfolio. Ron Conway: And there's dollars coming in. Mike Maples: And you're like, "Oh my gosh! We've got like profits and a business model and customers are growing. And the VC's are calling." So one of the things I've learned, and this is what's so hard, is you've got to be willing to not too be formulaic about when did you turn over another card.

You've got to be willing to really talk to people that you trust and get their sense of perspective about is time to give up or is it time to be persistent? But I don't think there's any rule other than keep the burn low. Mike Maples: But a million bucks better last over a year roughly. But what Mike is saying the lower the burn rate the better. If you start with three people at the end of year one, it shouldn't be more than five or six. That's plenty. Companies are the most productive when there are less than 10 people. It's when you get over 10 people that people start looking over their shoulder. They're just not as productive. And so with that first million bucks, you want to have lean and mean six people or so. And everybody works their ass off and everybody accomplishes a lot for the company.

Host: Great! So did you want to say something? Ron Conway: And there is one observation that I think compliments low burn rates. And that is having a customer development strategy in addition to a product development strategy. And so most companies in Silicon Valley, when you ask them what their milestones are, they describe an engineering project. So it's Alpha, Beta, limited availability, first customer shift, general availability. There's a really good book written by Steve Blank who started a company called Epiphany, called the Four Steps to the Epiphany. And the basic thesis of the book is that the company should do customer development in parallel with product development. And that like it, product development milestones you have customer development milestone around customer discovery validation, creation and company scaling. And the companies that pursue the path of low burn experimentation dramatically help the probabilities in their favor. And in this world of the lamp stack, offshore labor, search engine marketing; there are reasons to be very optimistic. That the cost of experimentation is asymptotically approaching zero.

And in a world where you could experiment for near zero, you see companies like Slide releasing their products six times a day. That's the brave new world of entrepreneurship. Low burn experimentation done a lot. Find out the winning answers. Discard the losing answers. But don't scale until you know it works. Discover the business before you scale the business.