Stanford eCorner

Honest Advice on Starting a Company (Entire Talk)

Mark Suster, *Serial Entrepreneur*

October 14, 2010

Video URL: http://ecorner.stanford.edu/videos/2516/Honest-Advice-on-Starting-a-Company-Entire-Talk

Entrepreneurship is an emotional and economic roller coaster, says venture capitalist and serial entrepreneur Mark Suster. In this candid and informative lecture, Suster defies some of Silicon Valley's conventional wisdom. Based on his extensive experience with multiple companies, Suster shares his thoughts on the real day-to-day life of startups, smart ways to raise the right kind of funds, and offers honest advice in making your way as an entrepreneur.

Transcript

It is my since pleasure to introduce our special guest today. We have Mark Suster. I want to tell you a little bit about him. He earned his BA in Economics from University of California of San Diego. He then went on and got his MBA from the University of Chicago. He then spent 10 years as a consultant at Accenture both in Europe, in Japan and the US and then he started his first company. His first company was called BuildOnline which was a large global content collaboration company. That's very alliterative. It was focused on engineering construction sectors and then this company was sold. He then started another company called Koral which he then sold to salesforce.com and worked for Salesforce for about a year and then left to join the VC firm, GRP Partners which is headquartered in LA.

His talk today is called Lessons on Starting a Company. Without further ado, Mark. I had originally titled my presentation Irreverent or Nonconformist Lessons on Starting a Company because I think most of my ideas, am I allowed to wonder or for video purposes do I need to stay put? The other thing I thought about calling it was Heresy in Silicon Valley. My rationale is virtually everything that I had learned about startups is heresy in Silicon Valley. Just I'll talk you through one or two examples. There seems to be an ethos in Silicon Valley that if you don't build something worth $100 million, you're a failure. I've had this conversation with so many young entrepreneurs who get their first offer for $15, $20, $30 million and I do the math for them on what that's worth. I say okay, let's do the exercise on what this is going to look like if you do that $10 million round and what this is going to look like if you try to scale something and create something big and you might be successful and you may not. I don't encourage people to sell early. I just encourage people not to be pressured by the standard Silicon Valley mantra that you're a failure if you sell as Michael Arrington called it a deep shit company.

I know that Dave McClure noted that by his standard, his actually was a deep shit company. I assure you he'll be building a very nice house wherever he chooses to live next. I learned this the hard way. I started a company in 1999 based in London called BuildOnline and at the time, we became the poster child for startup companies in Europe or at least one of the top 10 front cover of the top venture capital magazine in Europe. We were front cover of the business section of the Financial Times. I got a dot-matrix in Wall Street Journal. I was invited to the private wine cellars of Bernard Arnault to drink ancient champagne with the CEOs of 40 other companies called Sony, Dell and other companies like that. I was a really, really big deal until I wasn't. That period lasted about six months. In that period, we turned down an offer to be acquired for $150 million.

We thought $150 million acquisition between three friends was chump change because I had Goldman Sachs as an investor and they were telling us we were going to IPO, and the IPO would be within a year and it would be a billion dollars. It sounds crazy now if you weren't part of those times. For those of us with less hair or gray hair, we know we lived through that. But we looked at Chemdex which became Ventro that was trading for $8 billion on $2 million in revenue, so a billion dollars seemed achievable and we gave out the spreadsheets to our employees joining, telling them how much money 0.25% was worth of the billion dollars. You do the math. We were all proud of ourselves until the world changed. My second company we built the product; in total we worked on it for about a year and a half. I had an offer to sell before I raised venture capital. When I sold my first company, I owned 10% of the company. When I sold my second company, I owned 73% of the company.

Those were different outcomes for me. So I'm not saying there's a right answer for anybody. For each of you, you have to choose whether you pursue your passions, whether you really believe it's a big idea, but I like people to understand the framework. I lived in Palo Alto. My second company was based here and I was under so much pressure not to sell but luckily, second time around, I wasn't stupid. So my background, I guess you already heard so I now live in Los Angeles which means if you're in Silicon Valley it might as well be Arkansas and nothing wrong with Arkansas but it's somehow disconnected and can't possibly build tech firms but we have. We built a small company called Overture that my firm invested in. Back then, Google was saying that you shouldn't have advertising and search. Bill Gross who's from Los Angeles and Pasadena, a graduate of Caltech said actually we have this concept called sponsored search where we can have links and you can bid to the top and Google sort of laughed at that until we were a very large company. No question Google kicked their ass but they still sold for $1.6 billion.

They settled the $500 million lawsuit. It was a $2.1 billion outcome. AdWords, the concept of it was innovated in Los Angeles. When you look at AdSense and I presume most of you know the difference but in case you don't, AdWords being on the O&Otraffic, owned and operated traffic of Google; AdSense being those that they share with their parties was innovated in Los Angeles. Another graduate of Caltech, Gil Elbaz who created a company called the Applied Semantics, he had a cofounder, I don't remember his cofounder's name, in Los Angeles. So I just want to point out that there are tech people there. We do have an industry. We have had many exits. It is not and never will be Silicon Valley, but that's not what I'm here to talk about today. I'm here to talk about getting started, raising venture capital and some lessons that I learned.

I'll start at the kind of most superficial level which is having an idea and it sort of sounds obvious but this is actually where most people get stuck. If I look at the funnel of potential entrepreneurs, I think this idea phase people get crippled by it and it's the reason most people don't start businesses. I like to tell people, you actually don't have to be a genius to start a business. You have to kind of be a genius if you want to create Google, but 99.9% of successful startups are not Google and yet still lead to very rewarding careers where you can work for yourself, choose your own destiny, have your own experiences and make a lot of money doing it but you have a problem. That problem is you have to get started. So how did I get started? I was working at what was called Andersen Consulting. It's not called Accenture. I started as a software developer and we did what probably a lot of you guys do or you will do in the next five years, is we sat around with a bunch of buddies after work at a coffee shop and we talked about starting a company. We seemed to do this for about nine freaking months and nobody would do anything about it. Many years later and this is always how it goes, everyone said I had the idea to do something like Skype and if I would have only done it.

I'm sure you've heard people say that. I had the idea for eBay. I had it long before eBay started. But really, people don't do anything about it, so I like to tell people if you have conviction in life to be an entrepreneur and I want to tell you and it's part of my presentation later, being an entrepreneur is not sexy. It is pretty awful. It is stress, long hours, huge responsibility, huge pressure, competitive. It is not for everybody. It's a rare unique individual who chooses to do this really crazy thing called being an entrepreneur. But if in your gut you think that's you or you want it to be you, this is the single biggest gate in gating items that keeps most people from being entrepreneurs, starting, as dumb as it sounds. The next mistake I made, and by the way I didn't start by saying this, I made every mistake at my first startup, every single one.

You name it. If you read it on a blogger and a textbook, I made it. I raised too much capital. I hired too many people. I started talking in the press before my product was any good. I charged too much for my products. I staffed up quickly. I built four products in five countries. The one thing I had was the conviction to see it through. I'm going to talk about this later, this BS idea of fail fast.

I said I made a commitment. I took people's money. I got people to quit their jobs. I told customers to use our product and I'm going to see this through. I'm going to be better than just having been a bunch of PR and marketing. The one mistake I made because I did see it through, the one mistake I made was I chose a topic that I wasn't passionate about. I'm passionate about technology. I'm passionate about film. I've spent a lot of time in the corporate world on corporate initiatives before I ever got started as an entrepreneur but the way that I got started was a friend of mine from business school had an idea. His idea was we could make engineering and construction firms imminently more effective and efficient.

The way we would do that is we would take an industry that on average spend about 0.7% of revenue on R&Dand IT and IT initiatives compared to between 1.5 to 2.4% for most companies. And because they were so far behind in IT, there was such a gap that we could really revolutionize this industry. Construction, engineering, transportation, these big projects represent between 11 to 13% of GDP; big market, ripe for innovation, actually could've done something huge. I still believe it. I just hated it. I hated going to all these stupid meetings with all the contractors and engineers. We're talking about stuff that I'm sure was really fascinating. I'm sure people have no interest in the tech stuff that I'm interested in, like I live in LA where people like to talk about scripts and Hollywood and they kind of get bored if I'm talking about Jason, but it's what I'm passionate about. Choose something that you are. You need to do a bit of research.

Silicon Valley, you're not going to want to hear this, is lazy. I don't mean lazy as in don't do your hard work or work long hours or productive. I certainly wouldn't accuse Silicon Valley of not being smart and innovative. It is a model or us all to learn from, myself included. But for whatever reason, this town has come up with the idea that doing research about a market is a bad thing, as though somehow I just have to launch products and learn. But the most basic of research, I'm not talking about writing an 80-page Word document. I'm talking about doing a spreadsheet, some basic economics, like if you're going to launch something, asking yourself the question, what do I imagine someday? Do I imagine someone's going to pay me for this product or am I going to monetize for third party? If they're going to pay me for it, what else are they paying for? Basic microeconomics, what am I replacing? If it's going to be third party revenues, is that going to be ad supported, is that going to be selling data? If it's ad supported, what are industry CPMs these days for a vertical offering, for a horizontal offering, for an email newsletter? If I'm in the email newsletter business, who else is in there? What are the click-through rates? What have the people who have come before done? What worked? What didn't work? When people come to see me and they don't know the history of the industry that they're choosing, I pass always because if you're not going to do that research, it tells me that you're probably not the kind of person in my opinion who's going to do big things. And yes, people win the lottery. Everyone likes to use that as an example of why I can just launch Twitter and see what happens, but the exception does not prove the rule. I'm just talking about the most basic research.

You do yourself all a favor and get a prototype built. When I started BuildOnline, it took about $2 million to get the company off the ground. Why? I had to buy Sun serves; I had to buy Solaris; I had to get an Oracle license; I had to have expensive web hosting, bandwidth was really expensive. It's not longer the case. It costs $15,000 to $20,000, maybe even $5,000 to $10,000 to get initial prototypes built. I don't know. Are there engineers in the room or software developers? Can you raise your hand if you develop software? So for all you people, you have a huge advantage which is you can do most of this yourself. For anyone who can't do it themselves, I still encourage you even if it's throwaway software to get that first veneer built. Why? All this stuff Steve Blank talks about, going and testing it with customers. They can't visualize their way into deciding if you've got an interesting offering.

It is far better to sit with HTML mockups and walk people through what you do and get feedback on that and say, well, what are you using today to do this and how would you imagine working through this workflow? How much would you pay for an offering like this? And being able to show people. When you're raising money being able to show venture capitalists what you have is almost a requirement these days. I still see a lot of people who are pitching ideas of what they want to build and I just don't think in 2010 that's acceptable. Most of that is fairly straightforward. I want to go into the heresy bit a little bit. So this bit's not heresy: assemble a diverse team. I can't remember who told me. I do remember who told me. Seth Sternberg. I was talking with Seth of Meebo maybe about a month ago and he said, you know what, tall people hang out with tall people.

Obviously, I have no experience from which to judge that but he said short people hang out with short people. I guess as an average person, I hang out with average people. We tend to hang out with people who are kind of like us. He was saying his number one advice and I agree with it, is get outside your box, figure out the people you're going to assemble around yourself that are different from you that you can learn from, they're going to stretch you. If you are naturally an introvert, there ought to be someone on your team who's an extrovert who's going to spend a little bit more time out with customers and business development and pushing things that maybe is your comfort zone. You still got to go do it. You're going to learn from them but having people that you push outside your comfort zone for me is really important. So thinking in terms of diversity. Heresy. The biggest illusion that comes to you as an individual comes before you ever see an evil venture capitalist.

You're going to argue to me that you should only take 22% dilution instead of 24%. We're going to fight over 0.75%. You're going to fight with me about whether we should have a 15% option pull versus 17% option pull versus 13% option pull, but you're willing to see two-thirds of the value of your company walk out the door before you've ever done a day's work. I just don't get that. I don't get it. If you're trying to create something and create value for yourself and you have the confidence of your conviction, my recommendation is to start on your own. That's the biggest heresy that I'll ever say. Now, there are people for which are missing certain skill sets to build a company. That's okay. I just have a sequencing for them.

Because that you are paid such a premium to take the first leap, my Andersen Consulting experience, sitting around with a bunch of guys who just kept saying, we should do this and we should do that, and I freaking did it and then they came to work for me for 1%. They come to work for me for 1% four months after I jumped. Now, don't misunderstand me. I believe in having partners. I believe in inviting people in and giving them large stakes. That stake may even be 20%, 25%, 30%, 35% but there's kind of a mythology in Silicon Valley which is that the cofounder's model is the only model and we know it because we have Larry and Sergey and we have Steve Chen and Chad Hurley and David and Jerry. Each of these images that I pulled up, I never had to type the last name. I literally just typed Jerry and David and it came up, and I typed Steve and Chad and it came up. That's how baked into our system it is. Just because this model has worked does not mean the model works.

I'm here to tell you what happens on the inside because we know most companies fail. I spent so much time as a marriage counselor with startups who don't get along, and it happens something like this. Life event, someone wants to throw himself at this company, the other person doesn't. Someone gets married and they have a girlfriend or boyfriend and they get pulled to other opportunities. Some people perform better, some don't. We had cofounders; we didn't decide who was CEO. Now we got a company and people are interested in funding us. Which one of us is going to be CEO? These kinds of issues are garden variety happen all the time. We just don't talk about them because we know this Silicon Valley myth that it always works. So for me, it's a sequencing thing.

I say to people even if you started and you decided to give 45% to somebody else to do it but ultimately, I prefer a stable environment where I have a passionate founder, passionate leader, willing to share equity, willing to bring people in decision-making but divorce clauses. I saw a company recently, very interesting company that had two cofounders and one of them walked and they didn't have founder vesting, so the guy who walked has a free ride on 50% equity while the other mug sweats his, I won't say it, and tries to create something big for this guy who's not even working. If you go for the cofounder model which I'm not telling you don't do it because I know everybody likes to, make sure you have founder vesting. You protect yourself as an individual and you protect your partner by the way, too, because it might be you who decides not to work. There has to be a clause that says what happens if we fall out of love. What happens if one person's passionate and the other person isn't? I will tell you also it becomes a problem in fundraising. We look at a company. We see four founders, two of them are gone, two of them only have 12% equity each because they raised angel money. They had four founders, they started at 25, they got diluted down to 12. As a venture capitalist, I'm just thinking okay, let me tell you what happens.

I put in money, your 12% becomes 8%. We do another round, your 8% becomes 5% and then I got to top you out with stock options and we play this BS game. So often when I see situations like that and I think some VCs feel like this, I just prefer not to get involved. Make sure that tech is part of your DNA. I'm probably in the wrong place to say this message because I think it's pretty well understood here, but particularly outside of Silicon Valley you see a lot of people who have third parties build their software. I'm okay if a third party builds your prototype just to get it up and running but you have got to. If you want to be an internet business or a tech business, you got to have a foundation, the DNA has got to be technical. I guess Jason Neus in LA can attest to this how many people in LA come to me and it's three business guys who know Ashton Kutcher. You don't know Ashton, do you? Did I say that to you when you came in? Okay, sorry. But I normally tell people it's for your own good, go find a tech person because this idea that I can have a third party build it for cheap somewhere else and we're the business guys, we get it.

It just never works. It never scales. It never becomes interesting. People often don't think about when businesses are bought, if they're bought on profits, okay, they're buying you for a different reason but if they're really buying you in the $15 to $50 million range which I will repeat, is a lot of money. If they buy you in that range, they're often buying what you have, the technology, the market positioning but they want you, they want your team. They don't want to buy something that has eight guys remote for a third party building software. Raising capital, I always tell people that you obviously need to raise capital but be careful about raising too much. You start by raising a small amount enough to really get going. Why do I say this? There are people who build an interesting idea. It gets competitive.

They have talents. They have a PhD from Stanford and they can raise $5 million from the get-go. Let's say they raise it at an $8 million and pre and they diluted more than they should. In a business, there are two problems with raising too much capital too quickly and I made both of them, I made both mistakes. Number one is the expectations of you are that you're going to do something big and you got to go fast, and I say it's like adding rocket fuel before you really know where the rocket is pointing. It's very destructive to a company. You will feel pressured to spend it and you'll feel pressured to go fast. The second thing is you take all your options off the table. Whatever you're building isn't working, wouldn't you like to have some option to safely park something, meaning a sale that's not huge but at least preserves what you've built, preserves the customers, preserves some of the jobs from the people you took out of their other companies and maybe creates a little bit of wealth for yourself? You give up that option if you raise too much too quickly. So I want to tell you an interesting story.

Two days ago, I was on this god-awful website, it's called Formspring. Do you guys use it? Really? I got suckered in the way probably some other people as someone posed a question about me. Mark Suster says that a lean startup shouldn't raise that much money and then eventually if it hits product market fit should become fat. I said that. It's true. Eric Reese, one of the most beloved young speakers, lecturers in Silicon Valley, someone who's reading I read and enjoy wrote a response which I found curious. He said, Mark misunderstood the meaning of the term lean startup. Luckily, there's an internet so I pulled up the definition of lean. Without much flesh or fat, not plump, of edible meat containing little or no fat, lacking in richness, full, spare, economical. And yet he says the lean startup is about moving fast.

The fast startup is about moving fast. The rapid startup is about moving fast. The quick startup, not the lean startup. Okay, it's not my movement, I'll let you have your movement but I believe in lean startup. Then something changes. You raised a little bit of money, you work on your product. You don't do what I did which is spend too much money, hire a bunch of developers before you figured it all out. What I often tell people is you should be flipping hamburgers if you're going to run a hamburger chain. That means that you're doing customer support, you're answering phone calls, you're going on sales calls, you're involved in product management, you do user testing. Raising too much capital too quickly before there's a product market fit makes this very hard to do.

So I sort of agree with what Ben Horowitz said which is the fat startup, and it's okay later in life, obviously I would think this, to get a bit fat. What I mean is if you become Foursquare, you got two choices. You can sell and that $100 million outcome for most people that Yahoo reportedly had offered would have been quite the nice, but the founders that already had one exit and I think they really wanted to change the world and I think that's great. But if you're going to change the world and you wake up the sleeping lions of Silicon Valley to this opportunity, you better get fat pretty quickly because you've got yelp in town here and those guys are smart and move fast and you obviously have Facebook in town. Those guys are very smart and move very fast. So if you're going to compete with people in what people call winner take most markets, you need to be fat. So we see Groupon and LivingSocial who have raised money and are big and are growing. I don't think number 5, 6, 7, 8 are going to be that relevant in the long run. So there are times where fat is okay. The other Silicon Valley thing that I find really curious is this idea of fail fast and people told me I misunderstood fail fast so I looked it up in the dictionary.

To fall short of success in something you expected, to receive less than passing grade or mark, to be or become deficient or lacking, to dwindle away, pass or die. And yet, the fail fast mantra somehow in Silicon Valley means launch product, see what people think about it, pivot, change your product. How is that failing fast? Okay, I know everyone likes to attack me when I say that because I'm slaying a dragon or sacred cows. Is that what they call them? Sacred cow. I think the one thing I could teach Silicon Valley is, first of all, your name should be your URL. If your name is wildfire, your URL should not be wildfire-interactive.com. Call yourself wildfire-interactive. Call yourself anything but this confusion in the internet era doesn't make a lot of sense to me. Make sure your name doesn't box you into a corner. I said to Bill Gross, the guy who created Overture and jest when he created a company called TweetUp, I publicly said I predict within one year this company will company will not be called TweetUp.

Why would you build something that has one channel, Twitter? Why would you build something that has one channel, salesforce.com, Apple iPhone, Facebook? If you're building a product, you need multichannel. It's okay to start somewhere but if you don't start by thinking multichannel, I think you'll be in trouble. Salesforce would have you believe, and I know a thing or two about Salesforce that you ought to build on their platform called force.com. You ought to do that if you haven't thought through how to build a company, but if you've thought I want to have a multichannel strategy and I don't want to be beholden to one individual component of that channel and one player then I don't suggest it's a very good idea. So TweetUp is now called PostUp. I was right. I should have put money on it. The second prediction I made not too long ago that was that BlackBerry or the owner of BlackBerry, RIM, would be sold within a year so we'll start the clock on that one and see if I'm right on that but that's a total aside. The thing I could teach Silicon Valley is the last one, be careful about words that mean something else because I'm sort of flippant about it but I see so many young entrepreneurs these days who tell me, well, I raised $200,000. I launched and learned and I created a product.

I didn't do any research. They probably don't say that but they didn't. The market didn't come so I'm shutting it down and I'm moving on to my next one. I say wow, why? Oh, well, I'm failing fast. Okay. How about those customers who signed up for your service and trusted you to at least give it your best college effort? How about those employees who joined you even if it was $45,000 a year customer support person because they believed in your vision and that you were going to stick this through? How about the person who gave you $200,000? It's okay if it was an evil venture capitalist because $200,000 is not that much money but how about everybody else? I don't believe in stupidly staying with your business. I stupidly stayed for six years. I knew that I wasn't going to make that much money. I knew that the structure of what I had built had inherent problems. I knew that I wasn't passionate about it.

I probably after about four years should have recruited someone more passionate than I was, but I felt this deep sense of commitment. I just hate that there's a whole generation of people and I'm not saying everybody, but there's certainly enough of them that don't feel that same sense of commitment to see something through when you say that you were going to do it. So that's why I have an issue with fail fast. And if you're going to call something lean startup, I mean, I won't say it, I'm on tape. Another conventional wisdom, I say if you can avoid the three Fs, you should. For anyone who doesn't know what the three Fs are, it's friends, family and fools. It's the mythology of where you start. Okay, if your uncle, your father is Steve Jobs, your cousin is Mark Zuckerberg, you can start with friends and family. But for everybody else if they're doctors and dentists and architects, I mean if you can't raise money somewhere else, then I get it but you ought to try. Why? Because your business is likely going to fail.

Hopefully not fast but fail. It just creates this tension and awkwardness and doctors, dentists, lawyers, pharmacy people, teachers, whatever, they're not used to this idea that I write a check and it's wasted. I tell my wife literally every time I write an angel check which I prefer not to, and I've been suckered into nine times in the last 18 months, I say take that off our asset register. It is gone. It's done. Most angel money is wasted and there's this new myth and everybody wants to be superman or at least super angels, and I think Manu who's here in the room and I said it publicly is one of the smartest one who's out there so if you need, he's got lots of it. But a very clear sense of purpose and a very clear prioritization of what he wants to invest in. I'm probably putting words in your mouth so I hope I don't misrepresent this, but companies that are lean, companies that are technical, companies in the Silicon Valley, companies that are going to be capital efficient and not pile on with a ton of cash. There's a series of other things but it basically boils down to be an angel investor and make money is hard and if you're just going to invest across the patch in a bunch of stuff, it sounds cool because there's some BS thing called social proof. Most people who do that lose money but you don't read about that in TechCrunch.

So I'd say avoid friends and family. What I think you ought to start with is start with technical people who have had a lot of exit, made a bit of money and have something to add because more than anything, they will understand you, your business, what you're going to go through. They will be able to coach you and mentor you. And if it does fail and it probably will or at least it won't make them the money they expected because you'll raise more money that'll dilute them, at least it was someone who went in realistic and doesn't make Thanksgiving awkward. Angels versus VC. So angels are on the right. I tell people ironically but truthfully start with angels. Angels are okay if you raised 250k, 500k and you sell for $8 million and that's a good outcome for most people and angels will be fine with that. Or if you get an offer immediately for $15 million within a year and a half and you say, okay, I'll have door number two because that allows me to buy a house, kids' college education even though I don't have kids yet, retirement money, I'll take door number two. Angels will be fine with that.

Raise VC money when you really think you want to go on a rocket ship. Now, there are some people, and I think it's okay, I don't want to imply that I think this is bad, who know. Larry and Sergey didn't. They tried to sell for a million dollars. But there are some people who say I want to do something, and that's okay. Then for me, it doesn't come down to angels versus VCs. It comes down to people. McKenzie is probably the best strategy consulting company out there and it's still filled with a lot of people who know nothing. It's filled with a lot of people who know something. It depends who you get.

Wilson Sonsini is probably the best law firm in town or at least in the top three or four; it's filled with some great lawyers and some bad ones. Really, what I would say to people, number one, you need to fill a human connection. I used to say this. I need to think of a better way to say this. Assume I said this in a better way. I tell people raising venture capital is worse than marriage. The reason I say that, I'm very happily married and I've only been married to one woman in my whole life and I hope that always is the case. But in marriage, if things don't work in this country you can get divorced. You can't get divorced from your venture capitalist. People want to come to me.

They've never met me before. They want to come in and in two weeks or a week, they want to decide whether or not to take money from me. I'm like, why would you do that? You don't know me and you don't know what it's like to work with me. I mean, don't you want to get to know me if you're going to marry me because I could bury you? I could make your life miserable as a VC. I've done six investments in the three years I've been a VC. I've done nine angel deals. I think those 15 people would say that there are some positive and there are some negative. I hope they would say the positive outweighs the negative, but all that's discoverable. Spend time getting to know these people and don't rush into it. I always say to you every VC, and I'm off topic here a little bit, is going to give you the list of the five portfolio companies you should call and of course you have to call them, but make sure you call the other five that they didn't give you.

I mean I'm sure they've taught you here about selective bias. If they give you five CEOs and they don't all say this is the best firm I've ever worked with then definitely don't work with that firm. It's not that hard to research who else they worked with and that's where you ought to put your effort in the due diligence. I think it's a false dichotomy. If you want to raise small amounts of money and preserve options, focus on angels. If you really want to build something big, there are pros and cons of angels and VCs. Angels in a bad market tap out really quickly and are not able to follow on as easily. VCs who put in money and you don't prove what you were supposed to prove for your first 500k, writing the next 500k is not that painful. It's different with angels. Sometimes VCs get involved very early and then they don't spend time with you and if they decide not to fund you, there's this thing called signaling that we need to worry about, and it's true.

If they don't support you, life becomes harder to raise capital. There are pros and cons of both these. It's not that easy. So how do you get access to us? I'm going to talk for a maximum five minutes, maybe even three because I want to save time to answer questions. The best way to get access is other entrepreneurs. It's pretty easy in a social networking world to figure out how to get access to me and if you can't, that probably is a defining way of figuring out whether or not you're a real entrepreneur. It's pretty easy in this era. So how do you get our money? The first thing you need is an anchor investor. Most investors, no secret, no prices for guessing this, are not willing to take a risk and put their name on a deal and say I want to do this. At least early stage investors, they're looking for other people so you need to get an anchor investor.

There are two strategies for doing this. Number one, invite them to be an adviser, get to know them, work with them as an adviser. If they get excited about you, sometimes they'll get our their checkbook. Number two, people don't like to talk about this but I always say no matter how rich you are, you want a deal. So if you could say to someone I'm planning to raise at 2.5 pre, I'd like to invite you in at 1 pre to work with me first. Getting that first person on board really matters, and everybody else sort of follows. The industry, unfortunately, the way it works is there's a lot of sheep. So critical success factors. If anyone comes and tells me about freaking badges or check-ins, I'm done, like meeting over. So many people are skating where the puck is and they read about something on TechCrunch and think this is a fun idea.

I want to know where the puck is going. If your check-ins for TV, I'm sorry, like you've got to have a second act like check-ins for TV for me is not a big idea. Ship your product. The defining moment for most startup is they don't ship product and I think that's a big failure in this world of MBP. Get your product out the door, show you can ship, refine it. You don't have to open it up to the world but show you can ship product. Test monetization early, figure out what people are willing to pay for and not pay for. You don't need to raise $50 million to become Ning and then figure out you should not have a free offering. Test monetization early. I like to tell people that a sausage factory is never pretty.

Everyone thinks that being inside a startup is great and then the people get in there like, man, this is hard, like everyone is fighting and people don't get along and we can't figure out direction. I'm like hello, like go see Google, Twitter or Facebook, Zynga or whatever. I mean it's a sausage factory on the inside and you have to enjoy that chaos and the end result of sausage which is ironic for someone Jewish but the sausage making process is ugly and it's true for almost every startup. So that said, have fun with what you do. I always saw being an entrepreneur as a game. In my darkest moments when we had less than two weeks cash, I'm like I literally thought to myself, well, at least I'm going to figure out what bankruptcy is like. I swear to you that crossed my mind, and it just became a game. I was abstract. In my own head, it was someone else's life that I was just playing. If you take it too seriously as I did it when I first started, like I just had way too much stress.

I talked to too many entrepreneurs these days who internalize all those stress. If you can abstract and have a bit of fun, I think you'll enjoy it more. So thank you. Okay, great. Since we only have 10 minutes left, I'm just going to ask a couple of quick questions and open it up to the audience. So the first question to follow on that all of this angst and anxiety that goes with running a company, what's the best part? This is one of the questions from one of the students. What's the best part about being an entrepreneur? What's the best part about being a VC? Okay. So it's like a roller coaster. I'll start with what sucks about being a VC. Well, no, let me take what's good about it.

I get paid to have smart people come tell me how they're going to change the world and we get to debate those ideas and if I like it, I can spend three weeks on it and if I don't like it, I spend an hour. That's great. I have no more quarterly sales targets. That's kind of nice. I can spend six months, nine months, 12 months making no investments. I can come to Stanford and speak anytime I want and there's nobody waiting back at the office saying, Mark hasn't given me directions. There's a lot of great things. I wrote a blog post called "You'd have to be a pretty big baby to complain about being a VC." That said, think about a roller coaster and how exciting that is and it's terrifying but exciting. Being an entrepreneur is like being on a roller coaster; you get the high highs and the low lows and we don't. We're living vicariously through you.

The problem with the industry is we take all the credit for your success because we helped with that deal and when you guys screw up, it was your fault and that's a failure of the industry but it's natural. It's the same way consultants and bankers act. We don't get the high highs. We don't get them. I would take the high highs any day of the week. Great. So next question just to follow on with that is how do you measure your success as a VC? Well, the interesting thing about venture capital is your success is measured hopefully on a 7- to 10-year horizon. If your performance is measured on a year or year-and-a-half horizon that means you didn't do very well. The majority of companies despite what you read about in TechCrunch take seven to 10 years to produce huge successes. My firm is the top rated firm for the year 2000.

If you aggregate 2000 to 2004, we're still the top firm. If you take 2000 to 2008, we're the 12th best firm in the country. We're the firm nobody has ever heard of. They produced 15 companies worth a billion dollars or more and nobody has heard of them. Each one of those took seven, eight, nine, 10 years to mature, so this idea of quick flips, fail fast or whatever does not produce big results. So the weird thing as a VC and I actually wrote about this, people ask me on Quora if you want to go read the answer, is Mark Suster a good venture capitalist? I divided it into three phases of VC. Number one is can you get a good pipeline of deals? On that, I think I've done pretty well so I've established a name for myself in three years and gotten access to deal flow I think a lot of people don't. Number two is do you work well with your companies? Can you help them get through dark moments? Can you help them get financed? Can you help them recruit talent? The jury is still out on phase two but I'm in that phase. I've got six portfolio companies. I was up till 11:30 talking with one of the CEOs last night about his problems.

That's the phase I'm in. The last phase is how well do you harvest your investments, getting trade sales, getting exits? Are you Kleiner? Can you get $400 million for ng:moco when it probably wasn't worth it? Maybe it was worth it. But if you're good at harvesting, you'll have good returns. And in the end, I'm only judged based on returns so I don't know if I'm a good VC yet. Great. So let's take some questions from the audience. Okay, George. So I have an idea about check-ins with it now. So when you say get to know your VC or get to know your investor, I guess in many senses like a lot of times, you get one meeting with them and maybe meet with them afterwards. What do you think an entrepreneur should look for in those two or three weeks of hanging out and maybe getting another potential investor? What should they look for in terms of what is a good investor like on an experiential level, not from just hearing from other people obviously? I think hearing from other people is the most important thing to be honest with you because VCs are charming; not all of them but enough of them are charming and they're all smart cut from good pedigree.

So you'll meet them, they're on their best game, best behavior. You find out what they're really like from other people so I would focus on that. But building a relationship with a VC I believe firmly in seeing them early. Keith Rabois and I were back and forth arguing on Quora about this and he disagrees because he says if you see them early, you kind of burn out the VC and when you haven't sorted out what you're going to do, it makes it harder to go back to them. That's true if you go to a full partner meeting. If you go and you pitch and you flop, you're done. It's hard to go back. It's true also if you overset expectations but I like to say tell a VC I want to see you, I'm not raising yet, I'm likely raising in nine months to 12 months. We haven't changed the world yet but we have some really interesting early ideas. I'd like to get your thoughts and I'd like to know you early so that when I'm raising, you're one of the first people I call.

They'd like to hear that. Then you drop them little emails and don't send long emails for god's sake, little emails with bullet points. Just every six or eight weeks, say I wanted to update you, we just got a deal signing with Zynga, we hired two more people or whatever. Stay on the radar screen. Find a way to say you'll have coffee with them 20 minutes, 30 minutes; promise them you won't overrun. There are some people who just have the skill despite my best will to bat them away that stay on my radar screen consistently and a year later when they're looking for funds, they've got a much higher chance I think. My name is Peter Basso. I'm wondering where do you see the future of VC given that the industry seems to be somewhat saturated. Define saturated. Too much money and probably too many VC firms given that the business model itself isn't very profitable.

I disagree with your last assertion that the business model is not profitable, but let me answer the direct question and I'll talk about that. If you look back to '95, '96 and '97 the venture capital industry was significantly smaller than it is today. '97 through 2007 it exploded at mushroom. Venture capital funds last 10 years which strangely a 10-year venture capital fund really means it last 13 years, don't ask me why, but a 10-year fund last 13 years. So that means if you raised '97, '98, '99, 2000, 2001 even if you don't raise another fund, even if you weren't so successful, you're still around. Too much money in venture capital in my opinion is a problem. It means you fund a lot of stupid ideas. It means when you start a company, you've got four competitors, each giving away product for free when they probably shouldn't be. A lot of people who didn't have skills to be a VC stepped into the industry. So if you take the results of the last 10 years, you're right.

In aggregate, very poor returns, but you can't measure in aggregate. If you look at the top tier or the top 10% or the top 15%, the returns are quite good. Our IRR is significantly better than the stock market. So I don't think the model is broken. I don't think the venture capital model is broken. I don't think you can say a venture capital firm is not successful. There's too much money in the industry, the industry is shrinking, that's going to be a net positive I believe for the whole industry. I've said publicly I think the super angel movement has the risk of also expanding too fast and too much capital coming in. I believe if you look at X and Y axes, you have different points of risk and reward and return, early stage investors, less money, lower price; should expect to get more returns than someone who's investing at late stage. I think each of those markets seed A, B, expansion, IPO ought to be a fixed size and I don't know what that size is but if it expands too much then in aggregate the industry doesn't do well.

Top tier does fine. Great. Another question? Going once, going twice, okay. What about VC firms that have invested in online real estate and the real estate is down right now? What are your thoughts about it? Who are really what's right? Focused on online real estate company when the real estate market is down. What's the take on that? Companies that focus on it, meaning people who focus on Zillow. Look, I said earlier skate where the puck is going and I mean it for entrepreneurs but I mean it for VCs too. I want to invest in the things that nobody finds sexy. We just invested and we haven't announced it yet in a company that's trying to change the way mortgage origination works. A lot of people are scared of that market. We're looking at a secondary market for autos and for mortgages because there's a lot of disruption in that market.

By the way, it's a huge market. I was looking at enterprise software when people said enterprise software was dead. I mean, if you're skating where the puck is going and investing in today's fad, you're probably missing something I think. I want to ask one more question. Yes, please. I've got a whole long list from the students. This is changing gears a little bit. This is a student who wanted to know your attitude about work/life balance because apparently you've written some things in your blogs that might be a little bit conflicting about not waiting for, just having a deferred life plan, sort of waiting to have all the good stuff later, you don't want to do that. On the other hand, you have to work like crazy to make your business a success. How do you reconcile those two? I think work/life balance is smart.

It's not easy so I often say like people are on the deferred startup plan. The number of people who have said to me I'm thinking about being a CEO one day, in fact today I had coffee with the guy, I'm guessing in his late 30s, and he says well, I want to try out being COO one more time before I become CEO. That's fine but there's no perfect age to be CEO. There's no perfect age to do startup. In fact, it's easier when you're younger. I have two little kids, five and seven; I have a mortgage; I have a wife. I have responsibilities; I have to get home, I have to do PTA meetings. If I look at my life when I was younger and crazy and an entrepreneur and doing all this stuff, it would've been pretty tough to kind of balance that but part of the deferred life plan in my mind is thinking you want to be an entrepreneur and not trying and waiting because one day when I figured it all out, I'll be an entrepreneur. Whatever you want to do, I think you ought to do when you're young. I want to give you one example.

In 1994, I had been working on internet technology before the internet was big and I was at the protocol layer. We were building middleware software and I was with a group of 12 people who went and established an internet practice for Andersen Consulting which is now Accenture in Europe. A lot of my friends quit and joined startups even in '94. As an ex-tech guy, I love software. I was really interested. I wanted to live in Silicon Valley, but my whole life I wanted to live and work in Europe and I had this offer to move to France and honestly, I chose life. I worked hard but I got to travel all over Europe. I lived in Barcelona, I lived in the south of France, I lived in Rome, I lived in London. I told a humorous story on my blog about how I decided I wanted to live in Tokyo and I just went out there without permission and made it happen. These things that I did in my life are harder for me to do now.

I really want to live in China now. I have this kind of passion to live in China. It's not likely going to happen for me, at least not till my kids are through high school for a variety of reasons which I won't discuss. But whatever it is that you want to do, make it part of your life. That's all I think. Thank you so much. This was terrific.