



Stanford eCorner

Optimize for People, Not Valuation

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May 11, 2011

Video URL: <http://ecorner.stanford.edu/videos/2740/Optimize-for-People-Not-Valuation>

"Seeking venture capital is like hiring people for your team," says Instagram Co-Founder Kevin Systrom. Here he encourages aspiring founders to find funding from individuals that truly believe in what you are trying to achieve, rather than those seeking immediate boosts in valuation. According to Systrom, "Rather than optimizing for valuation, it's far better to optimize for people." In this clip, he recounts Instagram's ability to launch with limited expenses and discusses the importance of working on prototypes rather than company slide decks.



Transcript

This one's kind of interesting because I feel like in all the books I read in college, people are like, what you want to do is you want to build this beautiful SlideDeck with graphs going up into the right, and you want to go up and down Sand Hill Road and tell everyone that, 'Yeah, Kleiner's in on the deal. Are you in on the deal?' You play everyone off of each other. When we were going to raise money, I said to Mike, "I don't want to meet with all these people. What I want to do is I want to seek out"... and if we can actually show the reality... "I want to seek out the people we really want to work with." I think instead of optimizing for things like evaluation, you should consider optimizing for people. There are a lot of venture capitalists out there with a lot of knowledge, and I guarantee you, your idea matches really well with a select group of those folks. In a way, you have to think about bringing on venture capital as you're hiring part of your team, and who are the people you want to hire. And I think far too many people you talk to, even at an angel stage, are like, 'We need to optimize for getting some ridiculous evaluation right out of the door.' And then they end up with some VC firm they don't have a lot in common with and they don't get along, and bad things happen. It's all about the people.

And I think that's what you have to remember when you're going out to raise money. Find the people that believe in what you're doing, that are going to give you the capital to achieve your goals. The other point here is you can go off and raise \$40 million in a Series A, but it turns out you don't need a lot of money to get off the ground these days. We spent like 60K to launch our first version of Instagram. Sixty K. We had raised 500 and we were kicking ourselves the second day after... not after we raised, but after things started taking off. We were like, 'We have all this money left over and we got this far.' It turns out you can bootstrap yourself with Amazon Web services. You need two engineers these days to do things well. And it turns out that you can get a lot done on a shoestring budget, especially with all these incubators and things that are happening these days.

It's something to remember. So the main takeaway here is, optimize for people, don't optimize for evaluation. Because if you have a great idea, it's going to get a great evaluation, you're going to do well. But those people are what make the difference. The second point on this slide I just want to make very quickly is that bringing a prototype into a pitch meeting is so much more powerful than a bunch of graphs that say you're going to make lots of money in the future. Prototypes are tangible. Prototypes are things that people can sink their teeth into and use and react to and ask questions about. We have yet to create a pitch deck for Instagram. We don't have a pitch deck anywhere. It was always a prototype that we brought in and we showed.

I think that while you should probably create a pitch deck, and that's probably not a lesson to learn from us, what's more

important is that I think people really attach themselves to prototypes.