

Lecture 1 - How to Start a Startup (Sam Altman, Dustin Moskovitz)

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SUMMARY

Sam Altman, President of Y Combinator, introduces CS183B, a course aimed at teaching the fundamentals of starting a startup, emphasizing the importance of a great idea, product, team, and execution. The course features insights from successful entrepreneurs and focuses on practical advice for aspiring founders, highlighting the challenges and realities of startup life.

- Startups require a compelling idea, product, team, and execution to succeed, with luck also playing a significant role.*
- Founders should only pursue a startup if they are passionate about solving a specific problem, rather than for financial gain or glamour.*
- A great idea is crucial; many successful companies start with a strong foundational concept rather than relying solely on execution or pivots.*
- Founders should focus on building a product that a small number of users love, as this is easier to scale than a product that many users merely like.*
- Early user feedback is vital; founders should engage directly with users to refine their product and ensure it meets their needs.*
- The market's growth potential is essential; startups should target small but rapidly growing markets rather than large, stagnant ones.*
- Founders must be prepared for the stress and responsibility of entrepreneurship, including the need for constant commitment and the management of their own mental health.*
- The best reason to start a company is a deep-seated passion for the idea, which will sustain founders through the inevitable challenges they will face.*

Welcome. Can I turn this on? Maybe, all right. >> Can people hear in the back? >> Can you guys hear me? Is the mic on? No, ah, maybe you can ask them to turn it on. Maybe we can get a bigger, ah, there we go. All right. Maybe we can get a bigger auditorium, we'll see. So welcome to CS183B. I'm Sam Altman. I'm the President of Y Combinator. Nine years ago, I was a Stanford student and then I dropped out to start a company.

And then I've been an investor for the last few. So, at YC, we've been

teaching people how to start startups for nine years. Most of it's very hands on and specific to the startups. But, 30% of it is pretty generally applicable. And so, we think that we can teach that 30% in this class. And even though that's only 30% of the way there hopefully it'll still be really helpful. We've taught a lot of this at YC already, but it's all been off the record.

And this is the first time that a lot of what we teach in YC is gonna be on the record. So we've invited some of our best speakers to come and give the same talks they give at YC. We've now funded 720 companies. And so, we're pretty sure that a lot of this advice is pretty good. We can't fund every startup yet, but we can hopefully make this advice very generally available. Guest speakers are gonna teach 17 of the 20 classes.

I'm only teaching three. Counting YC itself, every guest speaker has been involved in the creation of a billion plus dollar company. So the advice shouldn't be that theoretical. It's all been, it's all from people who have done it. All of the advice in this class is geared towards people starting a business where the goal was hyper-growth. And eventually building a very large company. Much of it doesn't apply in other cases and I wanna warn people up front.

That if you try and do these things in a lot of big companies or non startups, it won't work. It should still be interesting. I, I really do think that startups are the way of the future and it's worth trying to understand them. But startups are very different than normal companies. So over the course of today and Thursday, I'm gonna try to give an overview of the four areas that you need to excel at in order to maximize your chances of success at a startup.

And then throughout the course, the guest speakers are gonna drill into all of these in more detail. So the four areas, you need a great idea, a great product, a great team and great execution. These overlap somewhat, but I'm gonna have to talk about them somewhat individually to make it make sense. You may still fail. The outcome is something like idea times product times execution times team times luck, where luck is the random number between 0 and 10,000.

Literally that much. But if you do really well in the four areas you can control, you have a good chance of at least some amount of success. One of the exciting things about startups, is that they are surprisingly even playing field. Young and inexperienced, you can do this. Old and very experienced, you can do this too. And one of the things that I particularly like about startups is that some of the things that are bad in other work situations, like being poor and unknown are actually huge assets when it comes to starting a startup.

Before we jump in on the how. I want to talk about why you should start a startup. I'm somewhat hesitant to be doing this class at all, because you should never start a startup just for the sake of doing so. There are much easier ways to get rich and everyone who starts a startup always says, always, that they couldn't have imagined how hard and painful it was going to be. You should only start a startup if you com, feel compelled by a particular problem.

And that you think starting a company is the best way to solve it. The specific passion should come first and the startup second. In fact, all of the big successes we have at YC followed this. So, for the second half of today's lecture, Dustin Moskovitz the co-founder of Facebook and Asana, is going to take over and talk about why to start a

startup. We're so surprised by the amount of attention that this class got. That we wanna make sure we spend a lot of time on the why.

Okay.

So the first of the four areas. A great idea. It's become popular in recent years to say that the idea doesn't matter. In fact, it's almost uncool to spend a lot of time thinking about the idea for a startup. You're just supposed to start. Throw stuff at the walls. See what sticks. And not even spend any time thinking about if it'll be valuable if it works. And pivots are supposed to be great. The more pivots, the better.

So this isn't totally wrong. Things do evolve in ways that are difficult to predict. And there's a limit to how much you can figure out, without actually getting a product in the hands of users. And great execution is at least ten times more important and a hundred times harder than a good idea. But the pendulum has swung way out of whack here. A bad idea is still bad. In the pivot happy world that we're in today, it feels really sub optimal.

Great execution towards a terrible idea will get you nowhere. There are exceptions, of course. But most great companies start with a great idea, not a pivot. If you look at successful pivots, they almost always are a pivot into something the founders themselves wanted, not a random made up idea. Airbnb happened because Brian Chesky couldn't pay his rent, but he did have some extra space. In general, though, if you look at the track record of pivots, they don't become big companies.

I myself used to believe ideas didn't matter that much, but I'm very sure that's wrong now. The definition of the idea, as we talk about it, is very broad. It includes the size and the growth of the market, the growth strategy for the

company, the defensibility strategy and so on. When you're evaluating an idea, you need to think through all these things, not just the product. If it works out, you're gonna be working on this for ten years.

So it's worth some real upfront time to think we've a long term value in the defensibility of the business. Even though plans themselves are worthless, to exercise a planning is really valuable and totally missing in most startups today. Long term thinking is so where, anywhere, but especially in startups. That it's a huge advantage if you do it. Remember that the idea will expand and become more ambitious as you go. You certainly don't need to have everything figured out, in a path from here to world domination.

But you really want a nice kernel to start with. >> You want something that can develop in interesting ways. As you're thinking through ideas, another thing that we see young founders get wrong all the time, is that someday you need to build a business that's difficult to replicate. This is an important part of a good idea. I wanna make this point again because it's so important. The idea should come first, and the startup should come second.

Wait to start a startup, until you come up with an idea you feel compelled to explore. This is also the way to chose between multiple ideas. If you have several ideas that all seem pretty good, work on the one that you think about most often when you're not trying to think about work. But we hear again and again from founders that they wish they had waited to start a startup until they came up with an idea that

they really loved.

Another way of looking at this is that the best companies are almost always mission oriented. It's difficult to get large groups of people to the extreme levels of focus and productivity that you need for a startup to be successful, unless the company feels like an important mission. And it's usually really hard to get that without a great founding idea. A related advantage of mission oriented ideas is that you yourself will be dedicated to them. It takes years and years, usually a decade to create a great startup.

If you don't love and believe in what you're building, you're likely to give up at some point along the way. There's no way I know of to get through the pain of a startup without belief that the mission really matters. A lot of founders, especially students, believe that their startup's only gonna take two or three years and then after that they'll work on what they're really passionate about. That almost never works. Good startups usually take ten years.

A third advantage of mission-oriented companies is that people outside the company, are more willing to help you. You'll get more support on a hard important project than a derivative one. When it comes to starting startups, in many ways it's easier to start a hard startup than an easy startup. This is one of those counter-intuitive things. It takes people a long time to understand. It's difficult to overstate how important being mission-driven is, so I wanna emphasize it one last time.

Derivative companies, companies that copy an existing idea with very few new insights, don't excite people and they

don't compel the teams to work hard enough to be successful. Paul Graham is gonna talk about how to get startup ideas next week. It's something that a lot of founders struggle with but it's something I believe you can get better with it, better at with practice. And it's definitely worth trying to get better at. The hardest part about coming up with great ideas is that the best ideas often look terrible at the beginning.

The 13th search engine and without all the features of web portal. Most people thought that was pointless, search was done, and anyway, it didn't matter that much, Portal's where the value is at. The tenth social network, and limited only to college students with no money? Also terrible. MySpace had won, and who wants college students as customers, or a way to stay on strangers' couches? That just sounds terrible all around. These all sounded really bad, but they turned out to be good.

If they had sounded really good, there would have been too many people working on them. As Peter Tills discussed in the fifth class, you want an idea that turns into a monopoly, but you can't get a monopoly in a big market right away. Too much competition for that. You have to find a small market in which you can get a monopoly, and then quickly expand. This is why some great startup ideas look really bad at the beginning.

It's good if you can say something like, today only the small subset of users are going to use my product. But I'm gonna get all of them. And in the future, almost everyone will use my product. >> Here's the thing that's gonna come up a lot, you need conviction in your own beliefs, and the willingness to ignore others nay saying. The hard part is that this is a very fine line. There's right on one side of

it, and crazy on the other.

But keep in mind that if you do come up with a great idea, most people are going to think it's bad. You should be happy about that. It means they won't compete with you. This is also a reason why it's not usually dangerous to tell people about your idea. The truly good ideas don't sound like they're worth stealing. You want an idea about which you can say, I know it sounds like a bad idea. But hear specifically why it's actually a great one.

You wanna sound crazy, but you wanna actually be right. And you want an idea that not many other people are working on. And it's okay if it doesn't sound big at first. Common mistake among founders, especially first time founders, is they think that the first version of their product, the first version of their idea, needs to sound really big. But it doesn't. It needs to take over a small, specific market and expand from there. That's how most great companies have started.

Unpopular but right is what you're going for. You want something that sounds like a bad idea, but is a good idea. You also really wanna take the time to think about how the market's going to evolve. You need a market that's going to be big in ten years. Most investors are obsessed with the market size today, and they don't think at all about how the market is going to evolve. In fact, I think this is one of the biggest systemic mistakes that investors make.

They think about the growth of the startup itself, they don't think about the growth of the market. I care much more about the growth rate of the market than it's current

size. And I also care if there's any reason that it's gonna top out. You should think about this. I'd prefer to invest in a company that's going after a small but rapidly growing market than a big but slow growing one. One of the big advantages of these sorts of markets um, these small but rapidly growing markets, is that customers are usually pretty desperate for a solution.

And they'll put, put up with an imperfect but rapidly improving product. And a big advantage of being a student, one of the two biggest advantages is that you probably have better intuition about which markets are likely to start growing rapidly than older people do. Another thing that students usually don't understand, or at least takes a while you cannot create a market that doesn't want to exist. You can basically change everything in a startup but the market.

So you should actually do some thinking, to be sure or at least as sure as you can be, that the market your going after is going to grow and be there. There are a lot of different ways to talk about the right kind of market. For example, surfing someone else's wave or stepping into an up elevator or being part of a movement. But all of this is just a way of saying you want a market that's going to grow really quickly.

It may seem small today. It may be small today. But you know, and other people don't that it's gonna grow really fast. So think about where this is happening in the world. You need this sort of a tail wind to make a startup successful. The exciting thing is there are probably more of these tail winds now than ever before. As Mark Andreessen says, software is eating the world. It's just everywhere. There are like, so many great ideas out there and you just have to pick one, and find one that you really care about.

Another version of this, that would, gets down to the

same idea, is Sequoia's famous question. Why now? Why is this the perfect time for this particular idea and to start this particular company? Why couldn't it have been done two years ago? And why will two years in the future be too late? For the most successful startups we've been involved with, they've all had a great idea, great answer to this question. And if you don't, you should be at least somewhat suspicious about it.

In general, it's best if you're building something that you yourself need. You'll understand it much better than if you have to understand it by talking to a customer to build the very first version. If you don't know it yourself and you're building something that someone else needs, realize that you're at a big disadvantage and get very, very close to your customers. Try to work in their office if you can. And if not, talk to them multiple times a day.

Another somewhat counter-intuitive thing about good start up ideas, is that they're almost always very easy to explain, and very easy to understand. If it takes more than a sentence to explain what you're doing um, it's almost always a sign that it's too complicated. It should be a clearly articulate, articulated vision with a small number of words. And the best ideas are usually either, very different from existing companies in one important way. Like Google being a search engine that worked just really well and none of the other stuff of the portals or totally new, like Space X.

Any company that's a clone of something else that already exists with some small or made up differentiator, like we're gonna be x beautiful design or we're gonna be y for people that like red wine instead. That usually fails. So as I mentioned one of the

great things about being a student is you have a very good perspective on new technology. And learning to get good at having new ideas takes a while. So start working on that right now.

That's one thing we hear from people all the time, that they wish they had done more when they were a student. The other is meeting potential co-founders. You have no idea how good of an environment you are in right now for meeting people that you can start a company with down the road. And the one thing that we always tell college students, is more important than starting any particular startup is getting to know a lot of potential co-founders.

So I want to finish this section of my talk with a quote from 50 Cent. This is from when he was asked about vitamin water. I won't read it, it's up there. But it's about the importance of thinking about what customers want, and thinking about the demands of the market. Most people don't do this, most students especially don't do this. If you can just do this one thing, if you can just learn to think about the market first, you will have a big leg up on most people starting startups.

All right, and this is something. This is probably the thing that we see wrong with Y Combinator apps most frequently, is that people have not thought about the market first. And what people want first. So for the next section, I'm gonna talk about building a great product. And here again, I'm gonna use a very broad definition of product. It includes customer support and copyright explaining the product. Anything involved in your customer's interaction with what you built for them.

To build a really great company, you first have to turn a great idea into a

great product. This is really hard, but it's crucially important, and fortunately it's pretty fun. Although great products are always new to the world and it's hard to give you advice about what to build, there are enough commonalities that we can give you a lot of advice about how to build it. One of the most important tasks for a founder is to make sure that the company builds a great product.

Until you've built a great product, almost nothing else matters. When really successful startup founders tell the story of their early days. It's almost always sitting in front of the computer, working on their product or talking to their customers. That's pretty much all the time. They do very little else, and you should be very skeptical if your time allocation is much different. Most other problems that founders are trying to solve, raising money, getting more press, hiring, business development, et cetera.

These are significantly easier when you have a great product. It's really important to take care of that first. Step 1, is to build something that users love. At YC, we tell founders to work on their product, talk to users, exercise eat and sleep and very little else. All the other stuff I just mentioned, PR conferences, recruiting advisers, doing partnerships, you should ignore all of that and just build a product. And get it as good as possible by talking to your users.

Your job is to build something that users love. Very few companies that go on to be super successful get there without first doing this. A lot of good on paper startups fail because they merely make something that people like. Making something that people want, but only a medium amount is a great way to fail and not understand why you're

failing. So these are the two jobs. Something that we say at YC a lot is that it's better to build a small number, it's better to build something that a small number of users love than a large number of users like.

Of course, it'd be best to build something that a small number of users love. But opportunities to do that for V1 are rare, and they're usually not available to startups. So in practice, you end up choosing either the grey or the orange. You make something that a lot of users like a little bit, or something that a small number of users, like, love a lot. And this is a very important piece of advice. Build something that a small number of users love.

It's much easier to expand from something that a small number of people love to something that a lot of people love. Than from something that a lot of people like to a lot of people love. If you get this right, you can get a lot of other things wrong. If you don't get this right, you can get everything else right, and you'll probably still fail. So when you start on a startup, this is the only thing you need to care about until it's working.

>> Excuse me, can you explain that again? >> Sure. So you have a choice in a startup. The best thing of all worlds would be to build a product that a lot of people will really love. In practice you can't usually do that because of big company. If there's an opportunity like that, Google or Facebook will do it. So there's like a limit to the area under the curve of what you can build and you can either build something that lot of users like a little bit or you can build something that a small number of users love a lot.

And, like, the total amount of love is the same, it's just a question of how it's distributed. And there's like this law of

conversation of how much happiness you can put into the world with the first product of a startup. And so startups always struggle with which of those two they should go. And they seem equal, right, cuz the area under the curve is the same. But we've seen this time and again that they're not. And that it's so much easier to expand.

Once you've got something that some people love, you can expand that something that a lot of other people love. But if you only get ambivalence or sort of like weak enthusiasm. And then try to expand that, you'll never get up to a lot of people loving it. So the advice is, uh, find a small group of users and make them really love what you're doing. Does that make sense? All right. I'm, I'm, one way that you know when this is working is that you'll get growth by word of mouth.

If you make something people love people will tell their friends about it. This works for consumer products and enterprise products, as well. When people really love something, they tell their friends about it and you'll see organic growth. If you find yourself talking about how it's okay that you're not growing because there's a big partnership that's gonna come save you or something like that, it's almost always a sign of real trouble. Sales and marketing are really important, and we're gonna have two classes on them later.

But if you don't have some early organic growth, then your product probably isn't good enough yet. A great product is the secret to long term growth hacking. You should get that right before you worry about anything else. It doesn't get easier to put off making a great product. If you try to build a growth machine before you have a product that some people really love, you're almost certainly gonna waste your time. Breakout companies almost

always have a product that's so good that it grows by word of mouth.

Over the long run great products win. Don't worry about your competitors raising a lot of money and what they may do in the future. They probably aren't very good anyway. Very few startups die from competition. Most die because they themselves fail to make something users love. They spend their time on other things. So worry about this above all else. Another piece of advice to make something that users love is to start with something simple. It's much, much easier to make a great product if you have something simple.

Even if your eventual plans are super complex, and hopefully they are, you can almost always start with a smaller subset of the problem than whatever you think is the smallest. And it's hard to build a great product. So you wanna start with as little surface area as possible. Think about the really successful companies and what they started with. Think about products that you really love. They're generally incredibly simple to use and especially to get started using.

The first version of Facebook was almost comically simple. The first version of Google was just an ugly webpage with a textbox and two buttons but it returned the best results, and that's why users loved it. The iPhone is far simpler to use than any smartphone that ever came before it and it was the first one that people really loved. Another reason that simple is good, is because it forces you to do one thing extremely well. And you have to do that to make something that people love.

The word fanatical comes up again and again when you listen to successful founders talk about how they think about

their product. Founders talk about being fanatical in the way they care about the quality of the small details. Fanatical in getting the copy that they use to explain the product just right and fanatical in the way they think about customer support. In fact, one thing that correlates into success among the YC companies is the founders that hook up pager duty to their ticketing system, so that even if the user emails in the middle of the night when the founders are asleep.

They still get a response within an hour. Companies actually do this in the early days. These founders feel physical pain when the product sucks. And they wanna wake up and fix it. They don't ship crap. And if they do they fix it very, very quickly. And it definitely takes some level of fanaticism to build a great product. You need some users to help with the feedback cycle. But the way to get those users is manually. You should go recruit them by hand.

Don't do things like buy Google ads in the early days to get initial users. You don't need very many. You just need ones that will give you feedback every day and eventually love your product. So instead of trying to get them on Google AdWords, just find a few people in the world that will be good users. Recruit them by hand. Ben Silverman when everyone thought Pinterest was a joke, recruited the initial Pinterest users by tagging up strangers in coffee shops.

He really did.

He just walked around Palo Alto and said will you please use my product. He also used to run around the Apple store in Palo Alto. And he would like set all the browsers to the Pinterest home page real quick before they caught him and kicked him out. So then when people walked in there, they were like oh, what is this? This is an important example

of doing things that don't scale. If you haven't read Paul Graham's essay on that topic you definitely should.

So get users manually and remember that the goal is to get a small group of them to love you. Understand that group extremely well, get extremely close into them, close to them, listen to them and you'll almost always find out that they're very willing to give you feedback. Even if you're building the product for yourself, listen to outside users and they'll tell you how to make a product they'll pay for. Do whatever you need to make them love you, make you're doing, cuz they're also gonna be the advocates that help you get your next users.

You wanna build an engine in the company that transforms feedback from users into product decisions then get it back in front of the users and then repeat. Ask them what they like and what they don't like, and watch them use it. Ask them what they pay for. Ask them if they'd be really bummed if your company went away. Ask them what would make them recommend the product to their friends. And ask them if they've recommended it to any yet.

You should make this feedback loop as tight as possible. If your product gets 10% better every week, that compounds really, really quickly. One of the great advantages of start, of software startups is just how short you can make the feedback loop. It can go circle in hours, and the best companies usually have the tightest feedback loops. You should try to keep this going for all of your company's life. But it's really important in the early days.

The good news is that all of this is doable. It's hard, it takes a lot of effort, but there's no magic. The plan is at least

straight forward and you will eventually get to a great product. Great founders don't put anyone between themselves and their users. The founders of these companies do things like sales and customer support themselves in the early days. It's critical to get this loop embedded in the culture. In fact, the specific problem that we always see with Stanford startups for some reason is that the students try and hire sales and customer support people right away.

And you've gotta do this yourself. It's the only way. You really need to use metrics to keep yourself honest on this. It really is true that the company will build whatever the CEO decides to measure. If you're building an internet service, ignore things like total registrations. Don't talk about them. Don't let anyone in the company talk about them. And look at growth in active users, activity levels, cohort retention, revenue, net promoter scores. These things that matter.

And then be brutally honest if they aren't going in the right direction. Startups live on growth. It's the indicator of a great product. So this about wraps up the overview on building a great product. I wanna emphasize again, that if you don't get this right, nothing else we talk about in the class will matter. You can basically ignore everything else that we talked about until this is working well. On the positive side, this is one of the most fun parts of building a startup.

So I'm gonna pause here, I'll pick back up with the rest of this on Thursday and now we're gonna have Dustin talk about why you should start a startup. Thank you for coming Dustin. >> Sure. But yeah. So Sam asked me to talk about why you should start a startup. There's a bunch of reasons you might have. And there's a bunch of common reasons that people have that I hear all the time for, for why you might start a startup.

It's important to know,
like, what reason is yours. Because some of them only
make sense in, in certain contexts. Some of them will actually
like lead you astray. You may have been misled by
the way that Hollywood or the press likes to romanticize
entrepreneurship. So I wanna try and like
illuminate you know, some of those potential
fallacies, so you guys can, can make the
decision in a clear way. And then I'll talk about
the, the reason I like best for
actually starting a startup.

It's very related to a lot
of what Sam just talked about but surprisingly I
don't think it's the most common reason usually people
have one of these other reasons or they just wanna
start up, you know, start a company for the sake
of starting a company. So the, the four common
reasons just to numerate them are it's
glamorous. You know, you'll be, you'll
get to be the boss. You'll have flexibility, especially over your
schedule. And you'll have the change
to have, you know, bigger impact.

And make more money than
you'd, than you might by joining a
later stage company. So, okay, so uh, you know,
you, you guys are probably pretty
familiar with this concept. When I wrote the Medium
post, which a lot of you guys read
a year ago uh, I felt like the story in the press was
a, a little more unbalanced. You know, entrepreneurship
just got romanticized quite a
bit. You know, the movie, The
Social Network, came out, had a lot of sort
of like bad aspects of, of, you know, what it's like
to be an entrepreneur.

But mainly pa, sort of painted this picture
of like. There's a lot of partying
and you just kinda move from like one
brilliant insight to another brilliant insight um, and

really made it, you know, seem like this, like really cool thing to do. And I think the reality is just, you know, not quite so glamorous. There's sort of a, there's an ugly side to being an entrepreneur and also just more importantly what, what you're actually spending your time on is, is just a lot of hard work.

Sam mentioned this, but you're basically just sitting at your desk heads down, focused answering customers, customer support, emails, doing sales, figuring out hard engineering problems. So it's really important that you kind of like, go in with, with eyes wide open. And then also it's, it's really quite stressful. This has been a popular topic in the press lately. The Economist actually ran a story just last week called like entrepreneurs anonymous, and shows like a founder kinda like hiding under his desk And talking about like founder depression.

This is like a very real thing, like, you know, let's be real. This, if you start a company, it's gonna be extremely hard. Why is it so stressful? So, a couple reasons. One is you've got a lot of responsibility. So people in any kind of career have fear of failure. It's kind of just like a dominant part of the psychology. But when you're an entrepreneur your fear of failure on the behalf of yourself and all of the people who decided to follow you ah, so that's really stressful.

In some cases these people are depending on you for their livelihood. Even when that's not true, they have decided to devote the, the best of your, years of their life to following you. And so you're responsible for the opportunity cost of their time. So that's a big deal. And you're always on call. If something comes up maybe not always at 3 in the morning, but for some startups that's true. But if something important comes up, you're gonna deal with it.

That's kinda the end of the story. Doesn't matter if you're on vacation. Doesn't matter if it's the weekend. You kinda always got to be on the ball and always be in a, in a place, mentally, where you're prepared to deal with those things. And then a sorta special example of that is, is or of this kind of stress is fundraising. So a scene from The Social Network. This is us partying and working at the same time.

And somebody's spraying champagne everywhere. You know, so The Social Network spends a lot of time kind of painting these scenes. Mark's not in the scene. The other thing they spend all their time on is kind of like painting how, him out to be a huge jerk. This computer? >> Yes. Oh. >> Okay. So. This is an, an actual scene from um, See it. I'm gonna move this just a little. >> Oh, no. >> This, this will work.

>> This will work. Okay. On the PDF as well? >> Yep >> Okay. Okay, cool. This is an actual scene from Palo Alto. Spent a lot of time, his desk, just kinda heads down and focused. Mark was still kind of a jerk sometimes, but in this more like fun loveable way, not a like sociopathic scorned lover way. So this is him like, signaling his intention to, you know, just be focused and keep working. Not be social.

>> So then there's also the scene sort of demonstrating the like brilliant insight moment. It's kind of like straight out of A Beautiful Mind. >> They literally stole that scene. So they like to paint it as you just kinda jump from one of these moments to, to the other moment with

like partying in between, but really we were just at that table the whole time. So interestingly if you compare this to the other photo, Mark is in the exact same position, but he's wearing different clothes.

This is definitely a different day. So cool. So that's what it, that's what it's actually like in person. And I just covered this bullet up here. This is the Economist article I was talking about a second ago. So another form of, of, stress is just, like, unwanted media attention. So part of it being glamorous is you get some positive media attention sometimes. It's nice to be on, like, the cover of Time and, like, be the person of the year.

It's maybe a little less nice to be on the cover of People with, like, one of your wedding photos. It depends who you are. Some people would like that. I'd really hate it. But when Valleywag like, you know, analyses your lecture and just tears you apart, like, you definitely don't want that. Nobody wants that. And then, one thing I almost never hear people talk about is, you're just a of more committed. So if you're an employee of a startup.

and, you know, things are stressful, it's not going well, you're unhappy, you can just leave. For a founder you can leave but it's, it's very uncool. It's pretty much a black eye on the rest of your career. And so you really are committed you know, for ten years if it's going well probably more like five years if it's not going well. So three years to figure out that it's not going well and then if you find, like, a nice landing for your company, another two years at the acquiring company.

And if you leave before
that, again, it's not only gonna
harm yourself financially, it's gonna harm all your
employees. So you pretty much don't um,
so if you're lucky, and you have a bad startup idea
you fail quickly um, but most of the time, it's not
like that. All right, moving right
along um, so. And I should say, I have had a lot of this
stress in my own life, especially in the early
years of Facebook.

You know, I just got really
unhealthy. I wasn't exercising. I had a lot of anxiety. Actually, I threw out my
back, like, almost every six months,
like, when I was like, 21, 22. Which was, like, pretty
crazy. And so, if you do start a
company. make, you know, be aware that you're gonna
have to deal with this and you have to actually manage
it. It's actually, like, one of
your core responsibilities. Ben Horowitz likes to say,
like, the number one rule of a CEO is managing your own
psychology.

It's absolutely true, make
sure you do it. so, another reason so people
especially if they've already had a job at
another company. You tend to develop this
narrative of like, okay like, the people running this
company are idiots, they're making all these
stupid decisions, they're spending their time
in, in these stupid ways. I'm gonna start a company
and I'm gonna do it better. I'm gonna like, set all the
rules. It's a pretty attractive
idea. Makes a lot of sense.

If you've read my Medium posts you know what's
coming. I'll give you guys a second
to read this quote. Cool.
So this, this really resonates with
me. And one thing I'd point out
is you know, the reality of these decisions is pretty
nuanced. The people you thought were idiots probably weren't

idiots. They probably just had like a really difficult decision in front of them. And people pulling them in multiple directions.

So the most common thing I have to spend my time on. And, and focus my energy on as a CEO is like. The, the problems that like other people are bringing to me. The, the other priorities that people create. And it's usually in the form of a conflict. People wanna go in different directions. Or like customers want different things. And like I might have my own opinion about that. But really the, the game I'm playing is like who do I disappoint the least?

And like just trying to like navigate all, all these difficult situations. And even on a day to day basis I might come in on Monday and like have all these, you know, grand plans for like how I'm gonna improve the company and what I'm gonna spend my time on, but then if like an important employee is threatening to quit, that's what I'm spending my time on. That's my number one priority. So a subset of you're the boss is you have flexibility.

You have control over your own schedule. This really attractive idea. So here's the reality. And their Phil Libin quote. So this, this truly resonates with me as well. And some of the reasons for this, again, you're always on call. So maybe you don't intend to work all parts of the day but you might not get to control which ones. You're a role model, this is super important. So if you're an employee of a company um, you might have some good weeks, you might have some bad weeks, some weeks when you're, you're low energy, maybe you wanna take a couple extra days off um, that's really bad if you're, you're an entrepreneur like your team will really signal off what you're bringing to the table.

And so if you take your foot off the gas, so will they. And you're always working anyway. So, if you're really passionate about an idea, it's just gonna like pull you to, to keep working on it. If you're working with great investors, you're working with great partners, they're gonna wanna be working really hard, they're gonna want you to be working really hard uh, and again, you're gonna wanna work really hard. So some some companies like to tell the story about you can have your cake and eat it too, you can have, like, four day week, work weeks maybe if you're, if you're, Tim Ferris maybe you can have a 12-hour work week.

It's a really attractive idea and it does work in a particular instance. Which is if you wanna like actually have a small business or go after a niche market. Then you're a small business entrepreneur. That makes total sense. But as soon as you get past like two or three people uh, you really need to step it up and, and be full time committed. cool. So, this is the big one this is the, the one I hear the most especially like candidates applying to a Asana they tell me, you know, I, I'd really like to work for, for a much smaller company, or start my own because.

Then I have a much bigger slice of the pie, I'll have much more impact on how that company does and I'll have more equity so I'll make more money as well. So let's examine when this might be true. So I'll explain these tables they're a little complex but let's focus on the left first so these is, this is just explaining. Dropbox and Facebook. These are their current valuations. And this is how much money you might make as employee number 100 coming into these companies.

Especially if you're like, an experience, a relatively experienced

engineer, like, you have five years of, of industry experience. You're pretty likely to have an offer that's around 10 basis points. So if you joined DropBox a couple years ago, the upside you'd have already locked in. As about ten million, there's plenty more growth from there. If you leave the company if you joined Facebook a couple years into its, its existence you made \$200 million. This is a huge number.

And if you. Even if you joined Facebook as employee number 1,000. So you joined it in like 2009 you still made \$20 million. That's a giant number. And that's how you should be benchmarking when you're thinking about what might I make as an entrepreneur. So moving over to the table on the right uh, these are two theoretical companies you might start. So Uber for Pet Sitting, pretty good idea. If you're, if you're really well suited to this, you might have, uh, a really good shot at building a \$100 million company.

And then your share of that company is pretty likely to be about 10%. That certainly fluctuates. Some founders have a lot more than this, some have a lot less. But after multiple rounds of dilution multiple rounds of option table, option pool creation, you're pretty likely to end up about here. If you have more than this, I recommend Sam's post on like the equity split between founders and employees. You probably should be giving out more. And then but so basically, if you're extremely confident about building this \$100 million business, which is a big ask it should go without saying that you should have a lot more confidence than Facebook in 2009 or Dropbox in 2014 and you might, for a start up that doesn't even exist yet.

Then this is worth hearing. So if you have a \$100 million idea and you're pretty confident you can execute it, I would consider that. If you think you're the right entrepreneur to build Uber, Uber for space travel, that's really huge idea. \$2 billion idea. You're actually gonna have a pretty good return for that. You should definitely do

that. This is also only the value after four years. And this idea probably has legs. So definitely go after that.

If, if you're thinking of building that, you probably shouldn't even be in this class right now. You should go and, go and build that company. So why is this, financial reward and, and impact, I really think that financial reward is very strongly correlated with the impact you have on the world. If you don't believe that let's talk through some specific examples and not think about the equity at all. So why might joining a, a late-stage company actually provide you a lot of impact?

You get this multiplier They have an existing massive user base. If it's Facebook, it's a billion users. Or if it's Google it's a billion users. They have existing infrastructure you get to build on. That's also increasingly true for new startups. Things like AWS. Like awesome independent service providers. But you usually get some, like, proprietary technology and it's all maintained for you. It's a pretty great place to start uh, and you get to work with a team and they'll help you just leverage your idea into something great.

So, a couple of specific examples Bret Taylor came into employee around or came into Google as around employee number 1,500. And he invented Google Maps. This is a product you guys probably use every day. I used it to get here. And it's used by hundreds of millions of people all around the world. Didn't need to start a company to do that, did happen to get a big financial reward. But the, the point is he had massive impact.

My co-founder Justin Rosenstein. Joined go, Google a little later after Brad he was a PM there. And just as a side project

he ended up prototyping a chat which, which used to be a standalone app as integrated into Gmail, like you see it on the upper right there. And before he did that, like people didn't even think you could do chat over AJAX, or chat in the browser at all, and he just kind of like demonstrated it, and showed it to his team, and made it happen.

Again, this is probably a product most of you use maybe every day. And then, perhaps even more impressively, shortly after that, JR left, he became employee around number 250 at Facebook. And he led a hack-a-thon project along with people like Andrew Bosworth and Leah Pearlman uh, to create the like button. So, this is one of the most popular elements anywhere on the web. Totally changes how people use it. And again didn't need to start a company to do it and almost certainly would have failed if he had tried.

Because he really needed the distribution of Facebook to make it work. So important to, to keep in mind the context for uh, what kind of company you're trying to start and like, where will you actually be able to make it happen. So what's the best reason? So, Sam already talked about this a little bit but basically, you can't not do it. You're super passionate about this idea. You're the right person to do it. You've gotta make it happen.

So how does this break down? >> Cuz we're getting close to end here. How am I doing on time? >> Cool. Sweet. Perfect. So this, this is sort of like a word play. You can't not do it in two ways. One is, you're so passionate about it that you're just like, you have to do it. You're gonna do it anyway. And this is really important. Cuz you'll need that passion to get through all of those like hard parts of being an entrepreneur that we talked about earlier.

You'll also need it to effectively recruit. Candidates can smell when you don't have passion. And there are enough entrepreneurs out there who do have passion. That they may as well work for one of those. So this is sort of like table stakes for being an entrepreneur. Your subconscious can also tell when you don't have passion and that'll be a huge problem. And then so the other way to interpret this is the world needs you to do it.

So this is sort of validation that the idea is important. It's gonna make the world better, so the world needs it. If it's not em, if it's not something the world needs, go do something the world needs. Your time's really valuable. Um, there are plenty good ideas out there. Maybe it's not one of your own. Maybe it's an existing company. But you may as well work on something that's gonna be good. And then the second way to interpret this is the world needs you to do it.

You're actually well suited to this problem in some way. If this isn't true it may be a sign that your time is better spent somewhere else. But also just best case scenario if this isn't true, you out compete the team for which it is true. And you just end up with like a sub-optimal outcome for the world. That doesn't feel very good. So drawing this back to my own experience at Asana, you know, Justin and I were kind of like reluctant entrepreneurs.

We, before we founded Asana so we're working at Facebook. We were already working on a great problem. And we would basically work all day long on our normal projects and then at night we would keep working on this internal task manager that was used internally at the company. And it was just cuz we were like so passionate about the idea that was so clearly valuable, that we couldn't do anything else. And at some point we had to

have the hard conversation of like, okay
well what does it mean if we don't actually
start this company.

We were pretty, we were able
to see the impact it was having
on Facebook. We were pretty convinced it could be really valuable for
the world. We were also pretty convinced nobody else was
gonna build it. The problem had been around
a long time and we just kept seeing sort of
incremental solutions to it. So if we didn't go out with
the one that we thought was best, we thought there'd be a lot
of value left on the table.

And yeah. So we just couldn't,
couldn't stop working on it. And literally the idea was
like beating itself out of our chest, like forcing
itself into the world. And I think that's the
feeling you should really be looking for when you start a
company. That's how you know you have
the right idea. So I'll go ahead and stop
there. I'll put some recommended
books up here, but won't narrate them. And maybe, that's the end of
the class.

>> Yeah, thank you. Maybe you guys could stick
around for a few minutes if you have
questions for him. And uh, see you Thursday. Thank you.