

Lecture 19 - Sales and Marketing; How to Talk to Investors (Tyler Bosmeny; YC Partners)

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SUMMARY

Tyler, the CEO of Clever, shares insights on sales strategies for early-stage startups based on his experience transitioning from a technical background to sales. He emphasizes the importance of founders engaging in sales themselves, leveraging their passion and industry knowledge, and outlines effective techniques for prospecting, closing deals, and avoiding common pitfalls.

- *Sales is often perceived as mystical, but founders should embrace their role in selling their product.*
- *Founders have unique advantages in sales due to their passion and understanding of the product and market.*
- *Effective sales involve a structured funnel: prospecting, conversations, closing, and follow-ups.*
- *Prospecting should focus on identifying early adopters, utilizing personal networks, attending relevant conferences, and crafting concise cold emails.*
- *Listening during sales calls is crucial; founders should aim to spend more time asking questions than talking about their product.*
- *Following up persistently is essential, as many potential customers may not respond immediately.*
- *Avoid common traps such as getting caught in endless negotiations or offering free trials, which can hinder revenue and commitment.*
- *As sales grow, founders should consider how to scale their sales process and pricing strategy for sustainable growth.*

Okay, great. So okay, great, thanks for having me. So, my name's Tyler I'm the CEO of Clever and what I want to talk today is about sales. And I've a little bit of insight into this I graduated college, I actually studied math and statistics, probably like some of you here in this room. And thought I was destined for this world of, finance. I was about to go start at a hedge fund. And at the last second, a friend of mine roped me in to join his startup, and asked me to do sales there, which was something that I knew nothing about, and so, had to figure out on the fly, and spent a couple of years there, figuring out sales for this very early stage company.

And then, when it came to start Clever, you know, we started Clever, and I did it with two co-founders who are very technical, and one very product-oriented, and we wanted to build this product for schools, and I thought that experience would have no relevancy whatsoever. But it turns out that some of the things that I picked up at the, this previous job, where it was figuring out sales, have been huge parts of what's made Clever grow so quickly today.

Quick background on Clever, we build software for schools. We are an app platform used by developers and it's used today by about one in five schools in America. And we started it about two years ago. And so sales have been a be, key piece of that, and I want to use this time to just share some of the things that have worked for me along the way. Of course, there's a million ways to do this, so you'll find what works for you.

So first I want to start about how most, how I used to perceive sales. And a lot of people see sales as having this, you know, a lot of mystique around it. You know, it's people who are you know, really articulate and impossibly charming. And they have these, you know, killer closing lines that they use. And I think this is how I saw sales, and I think this is how a lot of founders I talked to see sales, because they say things to me like, you know, we're just going to work on the product and build a great product, and then when it's finally finished we're going to hire the salespeople.

And what I've learned is that hire the salespeople, as a founder, the reality is that's you. And so you know, Paul Graham likes to talk about how there's two things you should be doing at any point in time when you're starting your company. You're either talking to your users or you're building your product. And that talking to your users part, that's selling. And so. You know, this is intimidating to some people because they're like, I've never done

sales, and I don't, wouldn't even know where to begin.

But it turns out that as a founder, you have some unique advantages that make it, possible for you to be really, really good at sales. And one of those is your passion for the product, and what you're building. And the second is your industry knowledge of what your, of the industry and the problem that you're solving. And those two things actually totally trump sales experience from what I've seen. So, this is actually my cofounder, doing sales.

This is what sales, looks like in the very early stage of a startup. It's not Don Draper. It's a lot of calls like these. But this is something that even as a founder who's never done it before, it's very easy to do, but you have to commit yourself. And what we did at Clever was we dedicated one founder, which was me, to peel off and say, okay, Tyler you're going to go figure this out and and work on this full time because it's so important to our business.

So, couple things that I've picked up about sales along the way and in, in trying to figure this out. You know, the first thing that everybody knows about sales is they say, okay, it's a funnel. And you have these different stages of funnels and you, of, of the funnel and you move your customers through it. Pretty common categories. There's this prospecting category where you're trying to figure out who's even interested. Then you're having a lot of conversations, which is the second level of the funnel.

Then you're finding out who's really serious and you want to close them and sign the deal. And then of course, you're in the promised land of, of revenue. And what I thought would be interesting would be to talk about each of the stage, a

couple strategies that we've used at Clever that have, worked really well. So that these aren't abstract things but things that, you know, you can hopefully use at your startup. So, prospecting. So, prospecting is the process of figuring out who will even take your call.

And you know, one of the things that I realized early on, so there's this guy Everett Rogers who, who's created this technology life cycle adoption curve. And he describes it as bell curve where you've got you know, your innovators and who will try new things, and you've got your early adopters, your mid-stage adopters, your late adopters, your laggards. And one of the things that was really helpful for me in understanding sales in an early startup is he's quantified the tail of this bell curve and this part over here, the innovators, those are your potential customers.

And it might seem discouraging that only 2.5% of companies are your potential customers that would even consider buying from a startup that has no users and no revenue. But actually, I found just the opposite. I found it to be extremely helpful to have this frame of mind, because you realize, when only 2.5% of companies will even take your call or consider using your product, you realize what a numbers game this becomes. So if you want to reach that 2.5% and you want to get some early sales, you, you've, if you're starting to do math, you're hopefully starting to realize you have to do a lot of calling.

You have to do, talk to a lot of people. So early on in the early days at Clever, this was my job. You know, in the, in the 2 months the first two months of YC, I reached out to over 400 companies trying to get them to take a call and and talk to us about what we're building. There's, there's three ways that I have found most successful in, in prospecting and getting these people, one is

your personal network.

That's obvious. I'm not going to spend any time there. Another one is conferences, which is surprising to a lot of people, and then the one that people are most familiar with is cold email. And when I say conferences, this is what people think. They think I'm talking about CES or, you know, E3 or something. And actually, the kind of conferences where sales happen look more like this. And we've got, we would in the early days would go to a lot of these because you've got to where your users are.

And if they're, if you're selling to CIOs and there happens to be a gathering of them at a hotel in Milwaukee, guess what, that's probably where you should be. So we go to conferences like these. We get the attendee lists in advance. We email every single person in advance, and, and try and set up meetings so that when we get there, every single minute of that trip was, was well spent. And this was huge in Clever's early days.

These, this was where we met all of our earliest customers. The second thing I mentioned is cold email. A lot of people don't know how to write cold emails. It's actually really easy, and the key is not to write a lot. Should be really concise. This is an email template that I used early on and you're welcome to copy it, but it's really short. Here's who I am, here's what I'm building, and I'd love to talk to you about this.

Could we find time tomorrow? It's really easy and, and you can customize this and find out for every business you want to sell to who's the right person to send it to and you can send out quite a few of these. So all right, that's prospecting. And the reason this is so important is because you've gotta build that first layer of the funnel. Then you get them to take your call. And this is another place

where a lot of founders I think just have a lot of questions about what to actually do.

And the biggest thing to take away, in fact if you only take away one thing from this presentation today, the number one thing you should remember is when you get them on the phone, remember to shut up. And that's really surprising to people. So many founders, when I help them with their first sales pitch, they finally get somebody on the phone who wants to talk to them about their product. And they're so proud of this thing they've been building for the last three months that all they want to do is get on the phone and talk about every feature and talk about all the different things they can do and talk about why it's the greatest thing in the world.

And I have that temptation too. It's just part of being really proud of something. But it turns out that if you watch the best salespeople, like the best salespeople in the world, the top 1%. And you have a chance to listen in on a call with some of those people, like I have, the most surprising thing is how little talking they do. In fact, I've seen calls where the, where the salesperson told me their goal was to only spend 30% of the call talking, and have 70% of the call the other person.

And they would ask a lot of questions. They'd say things like, why did you even agree to take my call today? This problem that we're talking about solving for you, how do you solve it today? You know, what would your ideal solution look like? And they're not, they're not doing the talking. They're finding, they're doing everything they can to find out what this person needs, and hopefully understand their problem even better than they do. That's what really great sales is and in fact this is something I, I, I drill into everybody at Clever.

It's a really important part of sales and there's actually now if any of you use Uber Conference, they have this amazing feature where when you hang up a call it sends you an email automatically and tells you how much you talked versus how much the other person talked. And looking at one of those emails you know, if someone doing sales at Clever, I get one of those emails, I can tell immediately how likely the sale is based on how much talking we were doing.

So, you got all these people, now you got on the phone, do a lot of listening, really understand their problem. And then the other part of this stage that surprises a lot of people is follow up. So here's a lot of different steps that you can imagine going through. You know, emailing somebody, not getting a response, and emailing them back. Calling them, leaving a voice mail, having a pricing call. You know, there's probably like you know, 60 things up here on this slide that could be steps for closing a deal.

These actually aren't just random things, this is one deal that, this was the second deal Clever ever signed. These are all the different steps that we had to in order to get this done. And you can see there's a lot of really embarrassing things up there like I emailed somebody and they didn't respond and I emailed them again and they didn't respond. And then I emailed them again and this is from somebody who wanted to buy our product.

Isn't that crazy? And that surprises a lot of people. I see so many founders today have a great call with someone, they send an email, they don't hear back and they say, oh that person might not be interested. Well, guess what, this is what it looks like in the best case and. And so you really have to have kind of, this unhuman, unreasonable willingness to follow up, and drive things to closure. Now, qualify with that with one thing.

Which is to say, when you're starting a company, your time is extremely valuable. because it's your only resource. And, and you couldn't possibly do this for every single person who might buy your product. So your goal should be to get people to a yes or a no, as quickly as you can. Where you die is if you have a thousand maybes. And sometimes I talk to founders who say oh, yeah, I have this great pipeline of you know, a hundred people who are, who have expressed interest in our product.

And the maybes are what kill you. If you can get to a yes or a no, in some ways a no is, is even better than a maybe. Because it allows you to move on and focus on somebody who might be a yes. So, have this super-human level of, of follow up and ambition. But make sure you're focusing it on the right pieces. All right. So you've talked to someone, you've talked to a ton of people.

You've had all these phone calls. You've followed up with them ridiculously. To the point where they, they just know you're not going away, and they've gotta sign an agreement. This final step is something that, if you haven't done before, it might seem opaque, but it's actually really simple. It's called redlining. So you'll send over an agreement. Their lawyers will mark it up. Your Lawyers will mark it up and you kind of go back and forth. If you're part of YC, this is really easy because YC has standard template agreements that they give you.

So you don't have to find these and you can just you know, use those. But they've never been available, you know, if you weren't part of YC you kind of had to figure this out on your own. One of the things that I'm really excited about is, as part of this presentation, YC has agreed to open source their deal documents. So these documents that YC founders used to get are now going to be available to everybody.

So this should never,
hopefully, never be a barrier to anyone
who wants to do sales for their start up. You've got some great
documents. And then the other thing I'll
say about this, a place I see so many smart,
smart people go wrong, is you gotta remember what
your goal is. Your goal is to sign some
deals, and get some reference customers,
and get some validation and get
some revenue. That, if you don't do that, your start up is, is, you
know, toast.

So in light of that, it's
really surprising how many smart people will want to do
ten rounds of document review. Quibbling over the most minor
points because of pride, because of intelligence,
whatever. You know, make sure the
agreement is the way you want it, but then sign it
and move on. I've seen founders spend
months quibbling over some indemnification clauses. And their business would have
been way better off if they'd you know, just signed the deal
and moved onto the next one.

So, that's one closing trap
you can fall into. I've two more. One other closing trap that I
see founders struggle with a lot, is they're talking to a
company who says, I will use your product, but I
just need one more feature. You know?
Or they say you know, I'd love to
use your product but it doesn't have this one
feature so we're just not ready. And to most people, especially
if you're ambitious, when somebody says that to you
what you want to hear is, oh, well I can build that feature.

Great.
You know, I'll build that feature and then they're going to use my
product. But the problem is, it almost
never works that way. In fact, somebody telling you
that they would use your, they want to use your product
but it's just missing this one
feature. I would almost map that to a
pass in your mind. Because nine times out of ten if you actually build that

feature. You go back to them and then there'd be one more feature, or there'd be some other reason that they're not using the product.

So, if somebody says to you hey, I want to, but, you know, there's this one thing that's preventing us from using your product. I would do one of two things. One say, well that's great. Let's sign an agreement. And we'll put in the agreement that we're going to build this feature. In which case, you know, you know that if you build it you're off to the races. Or more commonly, what we did at Clever was we would say, that's great.

We're going to wait to see if we hear that demand from more customers. And then once you have a lot of customers requesting it, then you should build it regardless. And then, and then you're not, you don't have to worry about doing something that's customer one-off, which is what you really want to avoid. So, don't fall into this trap, it happens all the time. And the other trap I would highly, highly recommend you try to avoid is the free trial trap.

Because this hap, happens all the time. People, you know, they go down this path with a, with a customer, it seems really exciting. And then the customer says, oh, well can I get a free trial? And you can't blame them. That's a totally reasonable thing to ask for. But the problem is, when you're starting a start up you need revenue, you need validation, you need users, you need commitment. And free trials get you none of those things.

So you go, you do all this work, and if you end up with a free trial, unfortunately, you haven't made as much progress as you. It's actually terrible. You, you think you've made progress. But really, at the end of the free trial, you're going to have to sell them all over again. So the way I handle this that has worked really well, is when somebody says, can I get a free trial? You say, well we don't, we

don't do free trials.

But what we can do is we're going to, we do annual agreements here. And what we'll do is for the first 30 or 60 days, if for any reason you're not happy, you can opt out. And that's a way to get you the things that you need, while giving them the comfort that they might need to take a chance on a start up. So that minor change is actually makes a night and day difference when you're, when you're thinking about these things.

All right.

So, you've prospected. You've had a lot of conversations. Now you've closed people. You've gone through the redline process. You worked out the free trials. And you're on your way, hopefully, to your first sales. Now early on, you could think of sales as just like any other thing of a start up. Your goal is to, you don't have to do things that scale. In fact you can purposely do unscalable things to try and get early customers.

That's, that's the fun of it. But the other thing that I think is really important to keep in mind is, once you've done this enough. What you should start thinking about is, well what aspects of this are repeatable? And, and what aspects of this, you know, are we going to scale further? And there's this, Cristoph Janz has this really great blog post online about the five ways to build a \$100 million company. And he talks about, he can have a thousand customers buy a product that costs \$100,000.

Or he can have 10,000 customers buy a product that costs \$10,000. Or he can have 100,000 customers buy a product that costs \$1,000. And even though you don't need to know on day one, which bucket you're going to fall into. Most companies do fall into one of these buckets. And so, you should start thinking about that as you're doing this. If, if you want to be in the elephant category of \$100,000 product, that's great. And you're going to have a

really high touch sale cycle, and that's fine.

You know, that's sales force. That's work day, that's great. But if you think you're going to be a rabbit, and sell products for \$1,000 a year to businesses. And your sales process involves flying out to see them three times and eight demos and, and you know, three months of redlining. Then you probably have to rethink something. And so I see a lot of startups most commonly in that, who want to be the rabbits. And sell for a low priced product to businesses, not thinking about how to do it in a scalable way.

And that's one area where you can get underwater. Or it just forces you to increase your prices. So this is how I think about different businesses. And it'll be helpful for you when, once so you can get started, and once you've done enough of the sales to say, okay. You know, where am I? And the corollary to that is, is, how do I have to price my product, to be a viable business? So that is, those are some of the things that I figured out along the way building, building sales now at a few, at a few different companies.

And specifically on this very narrow stage of, of zero to 1 million. After you get to 1 million, you'll find there's a million blog posts, you know, about how to get from 5 million to 50 million. Or 10 million to 100 million. But this zero to one step, I wanted to ded, focus the presentation on that today. Because there's not as much written about it and it is something that I think is very opaque to a lot of founders.

I figured this out just by doing it. And I'm confident that if you're starting a company, you can too. If for whatever reason you would like to do what I did and join a startup that's figured it out and, and hone your skills and hone your craft. We are hiring at Clever, so that's an option. >> But even if, and if that doesn't, if you do want to start your

own company, and you have questions about sales, I put my e-mail address up here.

And feel free to reach out at any time, I'm happy to help. So, thank you. >> Thank you very much. >> Yeah. >> That was awesome. All right.

So now, we're going to talk about a little bit more detail on how to raise money. Michael Seibel is first going to talk about how to have a pitch. And then Dalton and Qasar will do investor role playing. >> Yeah, sure. My name is. Mind blowingly you know, new.

It really is basic blocking attack. And the one point I wanted to make before we get started is, we actually don't spend a lot of time at YC focusing on this. The main reason is, the best way you can make your pitch better is to improve your company. If you're, if you have traction and your product is doing well, these conversations are like, the investors want to see you succeed. And so, if you remember anything, it's make your company better and the pitch will be easier.

We're going to spend the time in the three kind of sections before the meeting, which Michael will kind of focus on. We'll do a kind of, a role play of what meeting's actually look like. And then we'll just wrap it up. We are going to do Q&A at the end, we'll kind of save five minutes. So if there's something we don't cover, please write down your questions and we'll go through them. Now, without further ado. >> Beautiful.

>> All right. >> So, my name is Michael Seibel. I'm a current YC partner. I've started two companies. One was called Justin TV. It ended up selling to Amazon. The other was called SocialCam, which sold to Auto Desk. And what I really wanted to do was break down and demystifying the process of creating a pitch. Because I think what happens too often, when I see companies come to

talk to me, is that they don't know how to simply explain what they do, and then ask for money.

And that's basically what you have to do as a founder. So we're going to go over four things. The first is what your 30 second pitch is. This you need to be armed with constantly. This is basically, how you talk about your company. This is magic. Whether you're talking to people who want to give you money or don't want to give you money. You're talking to your parents. This is your go to. The second is your two minute pitch.

This is for people who are more interested. This is people who you might want to raise money from. Or people who you might want to get to work for you, or people you actually. Kind need to get a little bit deeper. Notice that's where I stop. A lot of people practice 10, 30 minute pitches, hour pitches, I think that's all garbage. I think you can get everything you need done in two minutes. And one thing I like to tell founders is the more you talk, the more you have the opportunity to say something that people don't like.

So just talk less and it'll probably be better. So, then I want to tell you about when to fund raise, because I think a lot of companies get this a little bit wrong. And then, quickly, how to set up investor meetings. So, 30 second pitch, this is so simple, it's three sentences. You can take your time, you can breathe when you do this, you don't have to get that much information out. The first is one sentence on what does your company do.

Everyone I meet for the first time screws this up. You have to be able to do it in a way that is simple and straightforward, that requires no pre-information on my part. You have to assume I know nothing, literally nothing, about anything. This is how you make it super

simple. So you know, usually what we tell people is apply the mom test. If in one sentence you cannot tell your mom what you do, then rework the sentence.

There is a one sentence explanation that your mom, or your dad is going to understand. So really, really start there, and it's okay if you use really basic language. It's okay if you're saying hey we're Air B and B, and we allow you to rent out the extra room in your house. That's simple, right? You don't have to say we're Air B and B and we're a marketplace for space. I don't know what that is. And it's going to require more time.

So use simple language. Very, very important. The second is how big is your market? It makes sense to do a couple hours of research. Figure out what general industry your product is in. Figure out how big it is. Investors like to hear that you're in a multibillion dollar market. It's pretty simple to do this. You know, Air B and B might say, how big is the hotel market? How big is the vacation rental market? How big is the online hotel booking market?

These are simple numbers to look up on Google. And it makes an investor understand, oh wait, if we're big, if we really blow this company up, it can be worth billions of dollars. Don't skip this step. Second sentence, how big is your market? Third sentence, how much traction do you have? Ideally this sentence is saying something on the order of, we launched in January and we're growing 30% month over month. We have this number of sales, this amount of revenue, this number of users.

Very simple. If you can't speak to traction in terms of pre-launch, you need to convince the investor that you're moving extremely quickly. So, the team started working in January, by March, we launched a beta, by April,

we launched our product. Right? Convince the investors that you guys are moving fast. That this isn't some long slog that you guys aren't thinking about this like a big cooperation. Your thinking about it like a startup where you can move fast and make mistakes.

That's all you have to do in 30 seconds. Three sentences. From that basis you should be able to start a conversation about your company. From that basis I understand exactly what you do. You have no unders, you have no idea how valuable it is to be able to explain to someone what you do in 30 seconds, so really internalize that. Like if you take nothing else away, that's going to help you. Okay. Two minute pitch. Now you've got someone you actually have to convince of something.

Maybe even someone you have to ask for money. So, I like to add four additional components and these also go by very quick. The first is unique insight. Now, if you talk to VCs they'll say stuff like, what's your secret sauce, what's your competitive advantage, what's your unique insight? It's all the same thing. When I think about unique insight, what I think about is here's your opportunity to tell me something that I don't know. Here's your opportunity to tell me something that the biggest players in the market you're trying to enter don't understand or don't do well.

This is the ah-ha moment. And you'd better have it down in two sentences. The ah-ha moment. So you've gotta crystallize all of the reasons why you guys are going to kill the competitors, or the really intelligent thought that got this business started. In two sentences, and I need to ah-ha. You can see whether it's happening when you're saying it. That's why I like two sentences, so you get in and out fast. So if I look at you and I'm like huh.

Then it's okay, you've nailed it. If I look at you and I'm like, I already knew that, then you didn't nail it. If I looked at you and I just don't understand what you're talking about, you definitely didn't nail it. So, practice that unique

insight. In your two minute pitch, that's all, you're only going to get two sentences to get that out there, so it can't be complicated, and that's basically the theme of this whole thing right, it cannot be complicated.

Next, how do you make money? You know, your business model. I see so many founders run away from this question because they think things like, if I say advertising, people are going to be like, oh, that's stupid. Just say it. Don't run away. If it's advertising, say advertising. Facebook's a massive advertising business. So is Google. If it's direct sales, it's direct sales. If it's you know, a game and you're selling in-app in-app add ups, like that's fine.

Just say it. Don't run away from this sentence. It only has to be one sentence long. Where founders get tricked on how will you make money is, they say, well, we're going to run advertising, maybe some virtual goods, we're going to figure out how to do this, and maybe this, and maybe this. Well, now you're saying nothing. Now you've told me you have no idea how you want to monetize this. This was a checkmark that I just wanted to write, oh, they know how they're going to monetize.

Instead, I'm writing a big question mark. So, do the thing that everyone else in your industry does to monetize 95% of the time. Say it and move on. Like, it's totally okay, no one's going to hold your feet to the fire and say three years later, you didn't monetize this way. But it's much better to be clear and concise than it is to start spouting out every single way your company can make money. The next one is team.

I think that this answer is actually really clear. I think you're trying to do two things. If your team has done something particularly impressive, you need to call that out. We were the founders of PayPal, probably want to say that. We were the founders of

Amazon, might, probably want to say that. So if you guys have done something that has made investors money, you want to say that. If not, then please don't go on about the awards your team has won, or the PhDs or the I don't care, I don't care.

What we want to hear is how many founders. Hopefully between two and four. What we want to hear is how many of them are technical. How many engineers versus business people? Hopefully it's 50 50 or more engineers. We want to hear is that how long have you guys known each other. We don't want to hear you guys met at a founders' dating event three days ago. ideally, you've known each other either personally or professionally for at least six months.

We want to hear is that you're all working full-time. It's really helpful, we're all committed to this business. And what we want to hear is how you met. That's it. You can get in and out of that two sentences very easy. Your only way to build credentials is if you've accomplished something. And with an investor typically it's if you've accomplished something that's made someone some money. So don't try to overinflate yourself if you don't have that stat on your resume, move on.

The more you talk about a bad thing, the worse it looks. So, the last one is the big ask. When it comes to this and you have to figure out whether this is a conversation involves fundraising or not. What I tell people is like this is the time where you kind of have to know what you're talking about. This is a time where you have to know, are you raising on a convertible note? Are you raising on a safe?

You have to know what the cap of that safe is. You have to know how much

money you're raising. You have to know what the minimum check size is. These are things where if you don't know these these things, investors going to be like, oh these guys aren't serious, or they haven't done their homework. So whereas in the rest of this whole thing you shouldn't use any jargon. In this part you shouldn't just be like, oh, we're just raising some money.

Like now it's time to actually use a little bit of that jargon. If you don't know that jargon, Google search it, like, it's real simple. You guys will learn it fast. So, that's it by the way. That's too, that's all your pitch. Done, like, game over. Now you let them talk. So, when to fundraise. I think this is so important. Right, you've got this little Growth graph here. Investors like to invest based on traction. And so literally it's always better to raise money when you've got more traction than less.

Often times though, you guys'll be in a situation where you're just starting. Or maybe you just launched. So what you need to do is you need to think about how do you flip the equation? Your entire mindset should be, typically you are the ones asking investors for money and therefore they are strong and you're weak. How do you create a scenario, where you are strong and they are weak? Right? That's where you want to be fundraising.

So first, how do you know that you're strong? If investors are asking you to give you money, you're strong. That might be a good time to start fundraising. If investors aren't asking about giving you money, are you talking to people about your startup? Or are you running super stealth. If you're talking to people about your startup and you're getting the word out, either that's through the press or just through talking to your friends or people you know doing startups, that's a good way to kind of start feeding that.

The second thing is have you created a plan so that you can launch and grow without needing to raise

a bunch of money. 95% of the startups that I meet can get a product to market with a very, very little bit of money. So never put the investor in the ultimate position of power. We can't do anything until you give us money. You always want to flip it around. You always want it to be, this things moving, we all left our jobs, we're all working full time.

And it's moving, if you want to jump on great, if not. There are a lot of angel investors. That's the attitude you want to have. That's the confidence you want to have. If you need money early, always plan for needing less money. And always be able to show that you've got a fully committed team that's working fast. That's going to be how you gain an advantage when you can't show traction. If you can show that investor that you haven't launched yet, but you've done eight months of work in one month, or two months.

That you've got a great team that have all quit their jobs and they're totally committed. You get some of that advantage back. But you don't get all of the advantage unless you're launched and growing. So something to keep in mind. Finally, how to set up investor meetings. This is really, really simple, but I'm surprised at how many companies don't get this right. The first is you want a warm introduction from another entrepreneur, preferably, or a previous investor of yours.

That's where you want to start. If someone who has passed on your company as an investor offers you, to make introductions, that's kryptonite. Don't touch that. So first, warm introduction. Very simple, you don't want to cold call these people, you don't want to bum rush these people, the person, the credibility of the person who's introducing you to an investor is a big part on whether the investor will take that meeting. Second, think in parallel. So many people that I meet will run the fundraising this super slow process, we met with one guy this week, we're going to schedule a

meeting with another guy next week, another guy three weeks from now.

When you're fundraising you're on. It's a sprint, it's not a marathon. So you want to schedule all of your meetings during the same week. It's extremely hard to do, but here's one trick that I love. Tell when you're emailing investors, you're getting those warm intros, the investors email you back. You say, hey, we'd love to set up a meeting but we're building like crazy for the next two weeks. So can we set it up in that third week?

Right? So then, you've, I've e-mailed every one that, right? So every one schedules that meeting three weeks out. It's better for them because their calendar's open. It's better for you because you've got all your meetings in one week. And also, what did you do? You hinted, hey, I'm not desperate for the money. We're building. Like, I could meet you in three weeks. But we're building. We're busy. Like, it's signalling all of the right things. So that's the best way to kind of go about how you're going to do that.

The last thing is one team member should be invested in fundraising full time. It shouldn't be something that takes over the whole company, because it's very, very distracting. So with that, let's kick it off to the next part of this. Who am I handing it to? Big Dalton. Yeah, that might. Oh, beautiful. All right. Hi my name is Dalton Caldwell I'm one of the. Camera can get us here, okay. Yeah, I'm one of the partners at YC and one of the things that we're going to do today real quick is a mock pitch.

And first of all I know this is a bit contrived but this is in this format of like a college class, we're going to do our best to, to have fun and kind of demonstrate what it's like. And I realize there's a million reasons why this, why you could say, oh this isn't realistic of what pitch is really like but you know,

again, there's, there's a lot. Yeah.

That we can show you. Just in terms of my background over my career, I've raised 85 million over several companies, so I've sat in a lot of investor meetings.

And so, I'm going to be pulling as many things as I can. So again, we're just going to try to show you something to talk to, and use it as a learning session. And you already did your intro earlier Caspar, right? It's yeah I've, I mean, I've done a couple startups. Cool.

Yeah, yeah, yeah. So we're going to do two pitches, and we're going to go through them pretty fast. And as, as Michael said, these tend to go fast.

So let's go dive into the first one. Okay, so so Caspar, I understand you, you're coming to pitch me to, can, what can you tell me about what you do? So we're building a communication platform that will allow you know, businesses and consumers to collaborate on one single platform rather than the kind of fractured state that they're in right now. and.

I don't know, I, I don't follow. So, like think about like what like WhatsApp or Snapchat that's for consumers.

We want to do that for businesses. and, and so, what the. I have to do this with a straight face. What, what that what that means is we want to enable consumers to talk to businesses. And that's really, what really the goal of our business, of our startup business. I still don't, so, who uses this, what does this product do? so, I mean, it, it. It's for consumers and businesses, a messaging product. a, it allows consumers to send.

Why, why would, why would a consumer want to use your product? Because they want to message a business. okay.

well, okay, what can you tell me about the, the market or what the opport, what's the size of this. How is this coming together? Well, I mean. Messaging companies are very big. Obviously Whats App sold for like \$19 billion and Snap Chat is like really growing very quickly as well so we, I mean we think the opportunity is very big.

Okay ,.

So, okay. Okay, could you tell me a little about your traction, your numbers. Like, have you, have you given this to people yet. yeah, I mean we don't want to kind of open the Komodo and kind of go into all the details here. I, kind of at a high level. We're live. We definitely have thousands of users in the Bay area. Hundred of business, you know, have kind of. Can you tell me who some of those businesses are?

There's ones that you've been to. We don't, we don't really want to get too much into the details, because, you know, we're still early and we don't want, you know, we're trying to stay stealth. Okay, well, can you tell me about what you've learned so far, what insights you've had from. Yes.

The consumers are sending messages to these businesses, and we think that's great. so, and these businesses are responding to the messages, and we think that's, you know, I don't think that's obvious that that would happen.

So, can you tell me about what your business model is, and how. Yeah, so we, we charge businesses like a monthly rate. We haven't precisely figured out what that is we've, we've, right now we're free for the few hundred companies we're in right now. But we're looking to probably do a monthly something. How much do you think a business will be willing to pay? We think certainly 10 to \$15,000 a month. Okay so, so anyway could you tell me a little bit about your team and who you have working on this.

yeah, there's we have five
founders technically I'm the only one who's full time
right now the, we're raising money so we can
get, you know, the rest of the team on board
yeah. That's this. Or can any of the founders
program, or, or. yeah, yeah. I mean we have, I mean one of
them is a bio PhD but he's like he's really picked
up coding. the, the. I mean, I'm a Python
developer, I did learn Python the hard
way.

Oh, look at the time. Well, it's been really great
meeting you. Please keep me in the loop,
this sounds fantastic. [CROSS-TALK]. I'll send you an update. Great.
That was awful. So let's just go through, so. That was obviously not strong. So let's just talk about some
of the mistakes. So first of all, you need to make sure the person you're
talking to knows what you do. This just seems really simple,
but it's not. Yeah, this seems simple, but
it's not.

So many times, people get
flustered. They get nervous, and they
start talking really fast. And there's no way you're ever
going to convince anyone of anything if they don't know, even what your app actually
is. You have to know your numbers
obviously. If you're very vague or evasive, like don't even have
the meeting. If you don't feel comfortable
telling an investor what your numbers are, don't even meet
with them. It means you're not ready yet,
right?

For market size, try to give
some plausible bottom-up analysis and don't just
name-drop big companies that aren't even really related to
what you're doing. People tend to do that a lot. Try to have insights, try to
convince me that there's something that I don't already
know about the market that I learn talking to you, rather
than just what everyone knows about what
the market is. Right, I learned nothing
during that particular pitch. also, the team's just like,
why are you working on this, why are you suited for it is a
good thing to do.

And finally, like, he didn't drive the conversation anywhere. Like, obviously that went poorly, and he just let the conversation just, like, flail around until I cut the medium because we ran out of time as fast as I could. So anyway, that was, that was not a good pitch. So let's, let's try that again. Okay, all right. Let's do this. Okay. All right Caspar, well so I understand you have a company and can you, can you just tell me a little about what you guys do.

Yes.

So we're a messaging product. We allow, I mean that sounds kind of vague, so what we allow you to do you to do is essentially message a location. So when you walk into a Crate and Barrel, you can send the Crate and Barrel manager a message like hey there's puke in the hallway. Or if you're in the airport, I'm trying to find this specific gate because I'm not at this airport, where is you know where's a terminal for Virgin.

Or if you're at Target, what aisle. Okay, so is this a mobile app or what how do I use it? Yeah, so on the consumer side we have iOS Android app, but really getting consumers to download apps is obviously very difficult. Yeah.

I don't, I don't. In.

I don't usually just download apps. Yeah.

To send a message. [CROSS-TALK]. In, in most businesses we have a called action, which says text the owner directly. Oh. We've tested actually a bunch of copy that works the best in small print.

We have, the messages are anonymous, they also lowers the barrier to entry. I think the most counterintuitive thing we've learned in the kind of launch that we've had where, in 350 locations in the Bay, we've been doing this for about three months we're about

11% weekly growth rate in terms of acquiring businesses. But the most counter-intuitive thing that we learned, because we weren't actually sure, is, will people send messages when they walk into [CROSS-TALK] and they do.

What's the number one type of message that people send? So you would, so originally, we started this product off thinking this is going to be, like, in-location feedback. That was the premise, in-location feedback. What we found is more than half the messages, are actually not about feedback at all, they ask things like we, we were in this location in San Jose this Kabob stand, father and son, it's just a take out place, and we saw messages that go through, that went through that said like are you hiring?

And that's like very strange because you would think like why wouldn't you just ask the owner. Yeah. But we realized that we know this is the owner, and the person who's walking in doesn't and so they, they do prefer to actually just text the owner because they think that's a, that's an easier medium. Okay, so it's like a suggestion box, or it's like a way to just like message a business. Yeah, initially that's what we thought it was, but what we actually discovered was the vast majority, I shouldn't say vast majority, over half the messages are actually just things like when do you open, when do you close because that's not on Google.

Do you, do, you know, are you catering can you, do you have any reservations available tonight, et cetera. Okay, okay. Well, look, in terms of your traction it sounds like you said you had some businesses, like. Yeah. Tell me about what, what you guys have right now. So we have about 350 businesses, all from San Jose to San Francisco. We sold them ourselves as three founders. We're all technical, but we actually did all the sales because we learned a lot about

how these businesses work.

We actually come from a retail background. We originally built this product for large enterprise players like Starbucks and Walmart. But we recognize that closing those contracts, and our limited amount of runway wouldn't really be possible. So we wanted to get the product in the hands of users. So we did SMBs. And that's when we discovered hey, this like, this messaging product. >> Okay, okay, that sounds interesting. It sounds like you have some customers. >> Yes, so we get. >> How, how could this be big though?

Like, okay, maybe you can 100,000 customers. >> Yeah, so, in terms of like, numbers, we, we see one and half messages on average per location per day. That might not sound a lot, but for a business, that's skidding 30 messages. You take like a Yelp review or a Google review. In a lifetime of visits, they might get five or seven. So they're getting a, a huge volume of messages relative to what they tend to experience and they're private, so they're not public.

So in terms of, how do we actually make money, it's not, you know, frankly speaking, we don't have a very clear answer there. The two paths are the SMB side or the LCS side, the large customer side. Large customers, we know from our retail experience, just regular feedback tools are 3 to 4 million per year, so a like a Sear's, where we came from. SMBs we've tested with are willing to pay \$50 a month, so, I, I, you know, I certainly I think this is.

>> Okay.

>> This can be a large business, but, and there's clear ways to make money, but. I could see, I could see that. Just a couple things like, can you tell me about your distribution strategy and also just a little bit about

the team. >> Yeah.

So distribution so the thing that we learned in selling to these SMBs is it's really freaking hard. there, the formula LTV minus CPA, lifetime value minus cost price acquisition in SMB is never going to work out.

Right.

>> And so we have two solutions. One is to go up market, like we originally planned, the Starbucks or Walmarts or two is actually essentially pair with consumer facing companies Yelp, Google, Facebook. >> Have you been talking to them, do they actually want to do it? >> Yeah, so we've talked to Google and Facebook we're meeting with Yelp. What we're basically want to do is every time you search for a business there should be a message button.

We want to get consumers in the habit of knowing, they can send, essentially a text message to any business. That can help us get broad distribution. Our real vision is to become kind of that infrastructure, that messaging infrastructure between consumers and business. If that doesn't work, let's say Google, Facebook, and Yelp don't want to give up that valuable property. It's really an ad unit. >> Okay. >> we, we do want to sell this as a feedback tool to large, large players.

>> All right.

Can you tell me a little about the team? We're running low on, on time. >> Yeah, there's three of us. All technical. We Mike and I did a company before. Sunny is an ex-Google engineer. We come from retail. So and our first startup was a failure. So, I don't know if that's good or bad but, we've, we've worked together and, yeah. We're all technical, we built everything ourselves. And we sold everything ourselves. >> Okay.

>> So we've already had a couple conversations with your firm.

We're raising 500,000 and 8.5 million convertible note. Of that 500, 250's committed by Mike Mapels, Eli Gill, and Aiden Sinkit. And Mike with Floodgate is willing to fill the round. We think your, you know, you particularly, you and your firm can bring a lot to the team with your retail experience. Is this something that's interesting to you? >> Yeah, you know, I, I think this is really interesting. I mean, I would need to talk to a couple more folks on my side, but I do think this this, this could be pretty big.

>> Yes, since we've had a couple conversations before and and we're certainly willing to meet again, we are closing a round this Friday. And so, certainly take time and let, you know, and let, your other partners know. I'll be available between now and Friday. I'll give you another call before Friday. Before we close the round. But we'd love to actually see you, see you in the round. >> Okay. Well sounds good. I gotta go, but thanks for talking to me.

>> Great.

Thanks. Okay. All right.

>> So very different class type of, type of a conversation. >> Yeah, so do you have a clicker. >> Yes.

>> So in terms of that one, you know, some key points here is, try to actually tell a narrative that makes sense to people. You notice there was narratives there. He was talking about people, how they really use it. Were able to tie it down to the real world, which is good.

He was able to demonstrate insights, and actually tell me something I didn't already know about the market, like, there were, there were some tidbits there. It was more, it was more of a collaborative meeting where it felt more like a conversation than just like a, like I was interviewing him about something in, in my opinion. He actually asked for money. And this is the other key thing is at the end, you saw I could have easily

just been like, okay, gotta go.

But he, he did talk about fundraising as, as Michael mentioned. And he was able to provide all the context and all the questions I would need to actually have a serious conversation with him. If he was cagey about it or shy about it, and not clear on the numbers, that there's a very high, good chance that, you know, I probably would have just ended the conversation, due to time pressure. >> Yeah, it's interesting. And we, we sit on this side a lot.

You really, you can tell when people are very passionate and know their business very, very well. And that's what you have to become. okay. So closing thoughts here before we, what you want to do after the meeting. Before we get into the Q&A. We're running a little short on time. After the meeting, the first thing, just like Tyler said in the sales thing, follow up. This is, this is important. And anything other than a check, or wired funds is a no.

So if they say, we gotta keep talking to partners, I assume that's a no. And so, you do want to put some pressure. The way that you can do that is get deal heat. Deal heat is just a term which means there's a demand for your, to, to be in your round. This is the easiest way and an important way to actually drive up price, et cetera. Due diligence on the investors. So let's say you have that 500,000 raise for your seed round on the 8.5 million like we used in this example.

Due diligence investors. If you do find it, I, I do, due diligence on adults, and I find, hey, he's actually not a great investor. I can get Elaud, or Mike Maples, or whoever to actually fill the rest of the round. It's surprising to us, how many entrepreneurs don't do this. You would, it's like, you would actually spend a lot of time hiring somebody. You're selling a part of your

company to somebody, you should know who you're selling it to.

To make sure they, you know, they're the type of people you think they are. And then last, know when to stop. So some founders get so good at fundraising they just want to do it all the time because it's much easier to do than actually building the company. >> Yeah, you think you can fundraising does not equal success and just because. >> Yeah.

>> You fund-raise does not mean you succeeded and nobody realizes that and I'm, we say this and we'll say this now, but I'm sure everyone will still equate fundraising with success and read about someone's fundraising and assume that means they're successful.

>> Well my, my, my intuition as to why this is the case is because a lot of smart people their whole life, they've like, applied to good schools and applied to good jobs, and they, they just think fundraising is another like application they can just kind of check off. And building a company is much more ambiguous, but. Anyways, that's, that's the session. I don't if we have time for, oh. The edge is under, underlining, building your company.

Fundraising is not the goal. >> Can you guys just stick around for a few minutes after, and answer questions? >> Sure.

>> Yeah, we can do that. >> All right.
Thank you very much, that was great.