VLAB and SNR Denton present a Legal Series: Entrepreneurs Uncensored

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Speaker Series 1, September 28, 2010:

Top 10 Mistakes Entrepreneurs Should Avoid When Launching a Startup

Go to: Organizing the Founding Team | Working with Investors | Products and Markets, Operations

VC Perspective Carl Showalter, **General Partner**, **Opus Capital**	**Startup Perspective** Drew Houston, **Dropbox Cofounder and CEO**	**Attorney Perspective** Craig Menden, **Partner, Sonnenschein**
OPUS CAPITAL	Dropbox	Sonnenschein. Venture Technology.
Dave McClure, **Founder, 500 Startups**	Dave McClure, **Startup2Startup, Geeks on a Plane**	
Organizing the Founding Team		
Not being honest with oneself on what role one should really have in the company as it scales. Which is more important? My title or the company's success?	Picking your cofounder and hiring are the most important things.	Failure to utilize legal advice properly. Most entrepreneurs either under-utilize or over-utilize legal counsel. It is always cheaper to do it right the first time. Fixing legal mistakes is costly and some mistakes cannot be fixed.
Not partnering with strong co-founders whose skills and talents complement each other nicely. The tendency is to start a company with buddies.	Business model fails back-of-envelope test. Selling ads, $0.99 apps, freemium products where 1% pay, etc. require staggering scale to get to a $100mm+ businesses. "Getting 'just 1%' of a $100bn market" rarely happens.	Failure to nail down ownership and capitalization and to document it properly.
Not having clear early discussions and alignment among founding team on goals an vision for the company and equity allocation and philosophy.	Tough questions with team not answered early. Founder/team equity, title, role decisions should be written down **before** the work is done.	Failure to communicate effectively, including hesitancy to bring the venture investors' Board members into decision-making processes early and not appreciating the need to provide full and complete information to facilitate more informed judgments.

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Failure to be transparent to the board. Trying to over-manage or hide information – bad news never ages well.		
Not hiring the best team possible due to insecurity, lack of generosity or other reasons.		
Not developing a strong support group of advisors and other entrepreneurs whom you can bounce concepts/concerns off of without feeling like you are being judged.		
Working with Investors		
Taking venture money too early, before it is needed to accelerate the business. It is an expensive accelerant and must be used judiciously.		Failure to take into account the impact of proposed terms on future financings and strategic transactions as well as governance.
Not "doing diligence" on VCs – partnering with the highest investment amount or the smoothest talker or best firm reputation; committing to 6-8 years of monthly board meetings.		Failure to run the numbers and understand exactly what the terms mean in the context of various exit scenarios.
Not treating fundraising/VC meetings correctly. The only goal of the first meeting is to see if both sides want to have more meetings; fast fail is best.		Failure to anticipate inquiries of prospective investors (and impatience with the give-and-take of the dialogue) along with a failure to exude passion and enthusiasm.
		Failure to give sufficient consideration to a venture firm's fit, temperament and value add including whether the fund has sufficient and available dry powder for failure rounds, alignment of expectations and adequate pain threshold in the event of unforeseen hiccups, and giving undue weight to valuation offered by the venture firm. A key corollary is the failure to appreciate that you are entering into a long-term partnership.

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		Failure to properly undertake due diligence in connection with the fund, including communications with the head and former heads of portfolio companies.
Products and Markets, Operations		
Not getting a product into customers hands as quickly as possible. Perfect is the enemy of good enough. Until customers speak, you don't really know what you have.	Not a big enough market or pain point. The top-most startup killer is lack of customers. Billion dollar companies can't be created without billion dollar markets.	Failure to define your product succinctly upfront, and articulate its value proposition. Why is this product a "killer app" or disruptive technology and how will it address a significant market need?
	Failure to know your users. A customer who doesn't know they have a problem isn't looking for a solution and doesn't know what one would look like. AdWords won't help if no one is Googling a solution to a problem they don't have.	Failure to identify the market and articulate the market demand and competitive landscape.
	Product doesn't solve the customer's problem. Most products suck because they are confusing, unreliable, overcomplicated, ugly or incomplete. There is no substitute for real user testing.	
	Lack of focus or chasing shiny objects or competitors/partnerships. Just because a competitor does something doesn't mean it's a good idea. Focus on making something your users love.	
	Optimizing the wrong things, defending against unlikely threats. Great companies are not made by founders mailing in $20 rebates, making elaborate amendments to standard contracts, or entering purchases into Quickbooks. Capital is easy to get, hire experts and spend your time on what you do uniquely well.	
	Lack of scalable customer acquisition strategy. Fundamental theorem: lifetime value must be	

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	greater than cost to acquire a customer, and you can't get money from customers who don't know about you.	
	Ramp up sales/marketing/burn rate before product/market fit. Big bang launches, fancy execs and big ad budgets won't save you if no one wants what you're making.	
	Lack of outside accountability/reality checks. Failing fast is not nearly as bad as the "zombie": the startup that dies slowly, neither truly succeeding nor failing. Board meetings aren't just for investors, they're for you to get your head above the weeds at least once every several weeks to see if you're really going where you said you'd be going.	