

The Top Ten Lies of Venture Capitalists

By Guy Kawasaki, Let the Good Times Roll, January 5, 2006, blog.guykawasaki.com

Venture capitalists are simple people: we've either decided to invest, and we are convincing ourselves that our gut is right (aka, "due diligence") or there's not a chance in hell. While we may be simple, we're not necessarily forthcoming, so if you think it's hard to get a "yes" out of a venture capitalist, you should try to get a conclusive "no."

This is because there's no upside to communicating a negative decision. Entrepreneurs will simply hate us sooner — instead the game is to string along entrepreneurs in case something miraculous happens to make them look better. (An example of a miracle would be Boeing approving a \$5 million purchase order.)

Alas, entrepreneurs are also simple people: If they don't hear a conclusive "no," they assume the answer is yes. This is an example of the kind of breakdown of communication between venture capitalists and entrepreneurs that causes much pain and frustration for entrepreneurs.

To foster greater understanding among the two groups, here is an exposé of the top ten lies of venture capitalists.

1. **"I liked your company, but my partners didn't."** In other words, "no." What the sponsor is trying to get the entrepreneur to believe is that he's the good guy, the smart guy, the guy who gets it; the "others" didn't, so don't blame him. This is a cop out; it's not the other partners didn't like the deal as much as the sponsor wasn't a true believer. A true believer would get it done.
2. **"If you get a lead, we will follow."** In other words, "no." As the old Japanese say, "If your aunt had balls, she'd be your uncle." Well, she doesn't have balls, so it doesn't matter. The venture capitalist is saying, "We don't really believe, but if you can get Sequoia to lead, we'll jump on the pile." In other words, once the entrepreneur doesn't need the money, the venture capitalist would be happy to give him some more — this is like saying, "Once you've stopped Larry Csonka cold, we'll help you tackle him." What entrepreneurs want to hear is, "If you can't get a lead, we will." That's a believer.
3. **"Show us some traction, and we'll invest."** In other words, "no." This lie translates to "I don't believe your story, but if you can prove it by achieving significant revenue, then you might convince me. However, I don't want to tell you 'no' because I might be wrong and by golly you may sign up a Fortune 500 customer and then I'd look like a total orifice."
4. **"We love to co-invest with other venture capitalists."** Like the sun rising and Canadians playing hockey, you can depend on the greed of venture capitalists. Greed in this business translates to "If this is a good deal, I want it all." What entrepreneurs want to hear is, "We want the whole round. We don't want any other investors." Then it's the entrepreneur's job to convince them why other investors can make the pie bigger as opposed to re-configuring the slices.
5. **"We're investing in your team."** This is an incomplete statement. While it's true that they are investing in the team, entrepreneurs are hearing, "We won't fire you — why would we fire you if we invested because of you?" That's not what the venture capitalist is saying at all. What she is saying is, "We're investing in your team as long as things are going well, but if they go bad we will fire your ass because no one is indispensable."
6. **"I have lots of bandwidth to dedicate to your company."** Maybe the venture capitalist is talking about the T3 line into his office, but he's not talking about his personal calendar because he's already on ten boards. Counting board meetings, an en-

trepreneur should assume that a venture capitalist will spend between five to ten hours a month on a company. That's it. Deal with it. And make board meetings short!

7. **"This is a vanilla term sheet."** There is no such thing as a vanilla term sheet. Do you think corporate finance attorneys are paid \$400/hour to push out vanilla term sheets? If entrepreneurs insist on using a flavor of ice cream to describe term sheets, the only flavor that works is Rocky Road. This is why they need their own \$400/hour attorney too — a s opposed to Uncle Joe, the divorce lawyer.
8. **"We can open up doors for you at our client companies."** This is a double whammy of lie. First, a venture capitalist can't always open up doors at client companies. Frankly, he might be hated by the client company. The worst thing in the world may be a referral from him. Second, even if the venture capitalist can open the door, entrepreneurs can't seriously expect the company to commit to your product — that is, something that isn't much more than a slick (10/20/30) PowerPoint presentation.
9. **"We like early-stage investing."** Venture capitalists fantasize about putting \$1 million into a \$2 million pre-money company and end up owning 33% of the next Google. That's early stage investing. Do you know why we all know about Google's amazing return on investment? The same reason we all know about Michael Jordan: Googles and Michael Jordans hardly ever happen. If they were common, no one would write about them. If you scratch beneath the surface, venture capitalists want to invest in proven teams (e.g., the founders of Cisco) with proven technology (e.g., the basis of a Nobel Prize) in a proven market (e.g., ecommerce). We are remarkably risk averse considering it's not even our money.

I'm at a Starbucks in Hawaii writing this blog. I've been at it for ninety minutes. I don't have

my charger with me. My PowerBook is out of gas. You're going to have to be happy with the top nine lies of venture capitalists until "Dear God" ships the PowerBook Vaio.

Written at: Starbucks Ward Center, Honolulu, Hawaii.

The Top Ten Lies of Entrepreneurs

By Guy Kawasaki, Let the Good Times Roll, January 8, 2006, blog.guykawasaki.com

(Since I've antagonized the venture capital community with last week's blog, I thought I would complete the picture and "out" entrepreneurs to begin this week. The hard part about writing this blog was narrowing down these lies to ten.)

I get pitched dozens of times every year, and every pitch contains at least three or four of these lies. I provide them not because I believe I can increase the level of honesty of entrepreneurs as much as to help entrepreneurs come up with new lies. At least new lies indicate a modicum of creativity!

1. **"Our projections are conservative."** An entrepreneur's projections are never conservative. If they were, they would be \$0. I have never seen an entrepreneur achieve even her most conservative projections. Generally, an entrepreneur has no idea what sales will be, so she guesses: "Too little will make my deal uninteresting; too big, and I'll look hallucinogenic." The result is that everyone's projections are \$50 million in year four. As a rule of thumb, when I see a projection, I add one year to delivery time and multiply by .1.
2. **"(Big name research firm) says our market will be \$50 billion in 2010."** Every entrepreneur has a few slides about how the market potential for his segment is tens of billions. It doesn't matter if the product is bar mitzah planning software or 802.11 chip sets. Venture capitalists don't believe this type of forecast because it's the

fifth one of this magnitude that they've heard that day. Entrepreneurs would do themselves a favor by simply removing any reference to market size estimates from consulting firms.

3. ***“(Big name company) is going to sign our purchase order next week.”*** This is the “I heard I have to show traction at a conference” lie of entrepreneurs. The funny thing is that next week, the purchase order still isn't signed. Nor the week after. The decision maker gets laid off, the CEO gets fired, there's a natural disaster, whatever. The only way to play this card is AFTER the purchase order is signed because no investor whose money you'd want will fall for this one.
 4. ***“Key employees are set to join us as soon as we get funded.”*** More often than not when a venture capitalist calls these key employees who are VPs at Microsoft, Oracle, and Sun, he gets the following response, “Who said that? I recall meeting him at a Churchill Club meeting, but I certainly didn't say I would leave my cushy \$250,000/year job at Adobe to join his startup.” If it's true that key employees are ready to rock and roll, have them call the venture capitalist after the meeting and testify to this effect.
 5. ***“No one is doing what we're doing.”*** This is a bummer of a lie because there are only two logical conclusions. First, no one else is doing this because there is no market for it. Second, the entrepreneur is so clueless that he can't even use Google to figure out he has competition. Suffice it to say that the lack of a market and cluelessness is not conducive to securing an investment. As a rule of thumb, if you have a good idea, five companies are going the same thing. If you have a great idea, fifteen companies are doing the same thing.
 6. ***“No one can do what we're doing.”*** If there's anything worse than the lack of a market and cluelessness, it's arrogance. No one else can do this until the first company
- does it, and ten others spring up in the next ninety days. Let's see, no one else ran a sub four-minute mile after Roger Bannister. (It took only a month before John Landy did). The world is a big place. There are lots of smart people in it. Entrepreneurs are kidding themselves if they think they have any kind of monopoly on knowledge. And, sure as I'm a Macintosh user, on the same day that an entrepreneur tells this lie, the venture capitalist will have met with another company that's doing the same thing.
7. ***“Hurry because several other venture capital firms are interested.”*** The good news: There are maybe one hundred entrepreneurs in the world who can make this claim. The bad news: The fact that you are reading a blog about venture capital means you're not one of them. As my mother used to say, “Never play Russian roulette with an Uzi.” For the absolute cream of the crop, there is competition for a deal, and an entrepreneur can scare other investors to make a decision. For the rest of us, don't think one can create a sense of scarcity when it's not true. Re-read the previous blog about the lies of venture capitalists, to learn how entrepreneurs are hearing “maybe” when venture capitalists are saying “no.”
 8. ***“Oracle is too big/dumb/slow to be a threat.”*** Larry Ellison has his own jet. He can keep the San Jose Airport open for his late night landings. His boat is so big that it can barely get under the Golden Gate Bridge. Meanwhile, entrepreneurs are flying on Southwest out of Oakland and stealing the free peanuts. There's a reason why Larry is where he is, and entrepreneurs are where they are, and it's not that he's big, dumb, and slow. Competing with Oracle, Microsoft, and other large companies is a very difficult task. Entrepreneurs who utter this lie look at best naive. You think it's bravado, but venture capitalists think it's stupidity.

9. **“We have a proven management team.”** Says who? Because the founder worked at Morgan Stanley for a summer? Or McKinsey for two years? Or he made sure that John Sculley’s Macintosh could power on? Truly “proven” in a venture capitalist’s eyes is founder of a company that returned billions to its investors. But if the entrepreneur were that proven, that he (a) probably wouldn’t have to ask for money; (b) wouldn’t be claiming that he’s proven. (Do you think Wayne Gretzky went around saying, “I am a good hockey player”?) A better strategy is for the entrepreneur to state that (a) she has relevant industry experience; (b) she is going to do whatever it takes to succeed; (c) she is going to surround herself with directors and advisors who are proven; and (d) she’ll step aside whenever it becomes necessary. This is good enough for a venture capitalist that believes in what the entrepreneur is doing.
10. **“Patents make our product defensible.”** The optimal number of times to use the P word in a presentation is one. Just once, say, “We have filed patents for what we are doing.” Done. The second time you say it, venture capitalists begin to suspect that you are depending too much on patents for defensibility. The third time you say it, you are holding a sign above your head that says, “I am clueless.” Sure, you should patent what you’re doing — if for no other reason than to say it once in your presentation. But at the end of the patents are mostly good for impressing your parents. You won’t have the time or money to sue anyone with a pocket deep enough to be worth suing.
11. **“All we have to do is get 1% of the market.”** (Here’s a bonus since I still have battery power.) This lie is the flip side of “the market will be \$50 billion.” There are two problems with this lie. First, no venture capitalist is interested in a company that is looking to get 1% or so of a market. Frankly, we want our companies to face the wrath of the anti-trust division of the De-

partment of Justice. Second, it’s also not that easy to get 1% of any market, so you look silly pretending that it is. Generally, it’s much better for entrepreneurs to show a realistic appreciation of the difficulty of building a successful company.

Written at: Vallco Shopping Center, Cupertino, California

Top Ten Lies of Entrepreneurs: Guy gets it right

Guy Kawasaki follows up his Top Ten Lies of Venture Capitalists with Top Ten Lies of Entrepreneurs.

By Jason Fried, January 8, 2006, Signal vs. Noise 37signals weblog

I obviously don’t get pitched for investment by other entrepreneurs, so I don’t know what lies are being told, but I’ll tack on some of my own “at face value” comments to the top ten (actually 11):

1. **“Our projections are conservative.”** Like Guy says, an entrepreneur has no idea what her sales will be. Projections, like fortune telling, are a waste of time.
2. **“Gartner says our market will be \$50 billion in 2010.”** 1. Who cares what Gartner says — Gartner isn’t giving you any of that \$50 billion. 2. If you have a slide like this in your deck, 1: get rid of it, and 2: get rid of your deck. Talk from passion, not from slides.
3. **“Boeing is going to sign our purchase order next week.”** I love this one. My advice: Never bet your business on one customer. Ever. Never give preferential treatment either. Every customer outta be the same to you or you’re going to start favoring the minority instead of the majority.
4. **“Key employees are set to join us as soon as we get funded.”** If you’re small (and you

probably are if you're pitching VCs), everyone should be a key employee. To say your key employees aren't on board yet is to denigrate everyone you already have and that's no way to build a passionate team. Further more, it's an empty promise. You can't control other offers other people may also have while waiting for your precious funding to come though.

5. **"No one is doing what we're doing."** It's exceedingly rare that you're 1. the only person whose thought of that, and 2. the only person doing something about it. It's possible you are, but highly unlikely. Don't bank on it. Like Guy says, "As a rule of thumb, if you have a good idea, five companies are going the same thing. If you have a great idea, fifteen companies are doing the same thing."
6. **"No one can do what we're doing."** Amen. Face it: technology is a commodity these days. If you can do it, someone else can do it. And it's likely they can do it better. What really makes the difference is design, copywriting, execution, clarity, passion, and the overall customer experience. The stuff you can't specifically define or bulletpoint are the things that matter.
7. **"Hurry because several other venture capital firms are interested."** If you cry wolf you better be ready to rescue yourself.
8. **"Oracle is too big/dumb/slow to be a threat."** Fear and fire are good things when it comes to being an entrepreneur. If you don't think you can be beat by the big guys you better think again. Yes, they're slower, but they may be slow enough to watch what you're doing, learn from your mistakes, and then clobber you down the road. I still think small has major advantages in the world of the web app, but you better be humble if you want to play this game.
9. **"We have a proven management team."** Guy says this one best: "If the entrepreneur were that proven, that he (a) probably wouldn't have to ask for money; (b)

wouldn't be claiming that he's proven. (Do you think Wayne Gretzky went around saying, "I am a good hockey player?")" Point here is that most of the people who have to tell others about their greatness usually aren't so great (except for Muhammad Ali, of course). The way to demonstrate greatness is to prove it today, not to point to the past.

10. **"Patents make our product defensible."** I don't know anything about this so I'll be quiet.
11. **"All we have to do is get 1% of the market."** If your goal is to get just 1% of the market then you don't have the fire necessary to get 2%. There's nothing closer to nothing than 1.