Steven S Hoffman of Founders Space (book review)

[00:00:04.77] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode. Hello, this is Hall Martin with Investor Connect. Today, I'm here with Steve Hoffman, chairman and CEO of Founders Space and author of Surviving a Startup, amongst others. Steven, thank you for joining us again.

[00:00:33.42] It's wonderful to be here.

[00:00:35.43] Can you remind us a little bit about your background? What did you do before founder space in this book?

[00:00:39.99] Well, I've done so many things that I like to say. I've had more careers than cats have. Why? So I began as an electrical computer engineer. Then I went on to write screenplays. I worked as a Hollywood TV executive. I became a mango rewriter. I then went on to design video games and then I began launching my own video game companies. And then that led to other tech companies. And now I am an investor and I won founder SpaceX, a global startup incubator and accelerator group.

[00:01:15.69] So what inspired you to write this particular book?

[00:01:18.09] What what inspired me to write Surviving a Startup is that I've been through it. I've been in the trenches. I've worked with hundreds of entrepreneurs around the world here in Silicon Valley especially. And I know how hard it is to not only survive a startup, but to make it a success. And so all the things that I've learned over the decades, I wanted to put in there and I made sure this book isn't like a one concept book where they have one concept kept being repeated and repeated. This book is like chock full of stuff. If there's so much information, it's literally like everything you need to know as an entrepreneur.

[00:01:55.45] Great. So let's look at the book itself. I notice you have a whole section for fundraising and that's what we do, is it's about funding. And some of them jumped out at me is

I wonder what he has to say about that and why did he write it that way? For example, know your valuation. What do you mean by know your valuation? I sometimes tell people valuation is more of a negotiation than a formula. But what do you what was your take on that?

[00:02:18.48] Well, my take is similar to yours. I think it's impossible to know your valuation when you are an early stage startup because literally most early stage startups, you don't have any revenue. You might only have a few test users. I mean, what is the value of your company? So really, what is the value of your company is what somebody will pay for it. And that in large part is determined by the market, supply and demand. How many startups are out there going for money? How much money? How available is that money? Know if there's if there's a lot more money than there is startups. Valuations go up if the money shrinks and the startups don't and there's not much money and everybody's fighting over, the valuation goes down and valuations also change according to location. So you can have one valuation in Silicon Valley. You could have another one in Beijing. It might be higher in China. Sometimes it is. You could have another one in Berlin, you could have another one in New Delhi. So just like housing, the value of your startup changes depending on location and then even within your location like you look, it's another similarity to real estate is that how do you know what a house is worth? Like every city housing is different, but how do you know, even in a particular city, a particular neighborhood, what a house is worth when you look at what the neighboring houses are selling for and then you say, oh, they're selling for around this, that's what my house is worth. So with your valuation, you do the same thing. You look for what similar startups are getting funded, that at the same stage you are, and that's how you begin to figure out your valuation grade.

[00:03:56.04] Do you find the valuation is impacted by the stock market? And if so, how much

[00:04:00.21] Will the stock market as a public market? So it's different than the private capital markets so they can be out of sync. They're not always perfectly in sync, although both of them generally correspond. They tend to move together. So when things are good, when money is flowing, when interest rates are low, like right now, you know, we see high valuations in the public market and high valuations in the private market because there's lots of money sloshing around, looking for a home, looking for better returns. On the other hand, when that money tightens up, we're going to see a different scenario.

[00:04:34.02] Sure. Where the stage now, where the stock market is making all time highs. And you get to say that almost every other week now. So it's a great time and there tends to be a lot of money sloshing around at this point. So now they tend to demand more from the start ups. And so there's now prices go up because there's more money chasing a certain number of deals that are out there. So it's interesting to see the interplay between the two.

[00:04:57.66] Yes, it's fascinating right now, if you're an entrepreneur out raising money, it couldn't be a better time. I mean, there is so much money out there. These venture capitalists are fighting over startups. Now, I want some entrepreneurs are still struggling because honestly, all the money tends to go to those hot startups, the ones that kind of break through and get traction and get attention. Then all the investors flock around them and there becomes bidding. Well, as other startups, which really haven't gotten on their radar, they can still have a hard time getting money even in a good market.

[00:05:30.72] Great. And then you talk about your investor pitch deck and what do you see as the role of the pitch deck in the startup? Fund raising, of course, is important, but how do you see it being used?

[00:05:39.80] So the pitch deck is your calling card. You're using your pitch deck for two things. So one thing is a lot of investors will say, send me your deck. Right. So I tell entrepreneurs have two decks, one deck. You have that they read a readable deck because you're not in the room with them and they're going to read this deck just like somebody who's hiring. You would read a resume and use it to screen you out. They're basically using the deck to say no. So you want to give them every reason to say yes. You still want to be very simple, like 12 slides, not too long, but you want enough text. And as they read it, to get the gist of your business, what's that secret sauce you have? What's the value you're creating? And then you need another deck, an investor pitch deck that you actually show them in person. Now, this can have far fewer words because honestly, you don't want them reading the PowerPoint slides as you're talking. You want them listening to you and looking at you. And people tend not to be able to do both at once. So you want that deck to be very visual and really both decks, actually. You want to be as visual as possible. You want to show things, show them your product, show them the numbers, get get them viscerally involved. Don't just put a lot of text on the screen, although especially the one that you pitch in person, that should be like a backdrop. Think of it as a backdrop for you and you are the focus because you want all eyes and all ears focused on you when you're making your presentation on screen.

[00:07:01.73] But you also talk about qualifying investors and where to dig into that more. How do you qualify investors and what are you looking for?

[00:07:09.05] Also, as when I when I work with entrepreneurs, when I was an entrepreneur, even now as an investor, I qualify other investors. And I kind of have a simple rule of thumb for all people out there who want to qualify investors when you don't want to waste your time chasing those investors who will never invest. So, first of all, go if they have a website and they're in a venture firm or even an angel investor or they're on angel list, go look at their profile, see if who they are and what they invest in is aligned with what you do. Secondly, you can ask them if they contact you out of the blue, you can say, when was the last investment you made if they never made an investment? The chances are they're not going to invest in you. Now, honestly, there are some investors out there who are only saying they're an investor so they can sell you something like they there are warriors, they run a marketing company, they run a hosting provider, and they say they're an angel investor, but they almost never invest. You don't want to just listen to their sales pitch that can waste half a day in your time is valuable. So you want to screen all those out. We want to find investors who are the right fit, who are actively investing right now in your sector or similar sector. The second thing, as an entrepreneur, you want to make sure that their portfolio doesn't have conflicts with you. So before you meet with them, before you send them your debt, just ask them basically describe your idea in a few sentences and say, do you have have you invested in any other startups that are doing the same thing? And, you know. Ninety nine percent of investors will just answer you. They'll just tell you yes or no. And if it's too similar, you can just say I don't feel comfortable meeting. So this way of qualifying investors is a really important strategy, can save you a lot of time and some headache.

[00:08:50.99] Great. And then you talk about how to talk to investors. What's your advice to startups when you say we meet the investor, here's what you need to do. What do you tell them?

[00:08:59.33] I tell them don't talk at the investor. Don't like just talk, talk, talk like a used car salesperson because it's so easy to do. You're passionate about your company. You want to explain everything. You want to make sure they get the complete download of information. But that's not what investors want. What investors want is a dialogue. They want a two way communication. And if you really want to engage investors and get them interested in your company and not have them just tune out. Oh, it's my fiftieth pitch of the week. And I in their mind is wondering what you want to do is get them to ask you a question. So instead of being a motormouth, going on and on and on and on, you need to do in your investor pitch when if you meet them over coffee, a lot of times you will or even if you go into their offices and actually pitch them at a partner meeting, does it matter? What you want to do is pause and you want to look at them and give them a chance to ask you questions, even if it throws you off your track? Because if the investor is asking questions, if they are proposing even better, they come up with their own ideas.

[00:10:08.18] In their mind, they are embracing your idea. They are actively thinking about it. Think about you when when you walk into a store to buy something, do you want that pushy salesperson who's just talking about all the features this product has and trying to get you excited or. You want a sales person who looks at you and says a little bit about the product and then ask what you want to know, what are you interested in knowing about this product? And then they start to respond to you and you have a dialogue. That is what exactly what investors want. Really good salespeople spend a lot of time listening and a lot of time trying to understand who they're selling to and what they're thinking. If you can get inside that investor's head and find out what that investor do, they have problems with your business? Are there things that they don't understand that can be really valuable to you, not just in terms of getting them to like your company and invest, but in terms of you getting actionable feedback from them? These investors, a lot of them are extremely smart. They've been entrepreneurs. They've looked at hundreds of companies. Their feedback could really impact your business if you take the time to listen.

[00:11:12.77] When you talk about keeping a poker face. And what do you mean by that? What are you looking to communicate with that poker face?

[00:11:19.28] Well, this comes out of personal experience, like incredibly tough experience. So in my very first venture funded startup, I spent a year trying to raise capital. It was really because I was in the early days, there were no incubators. I didn't know anybody in Silicon Valley. I just landed here and I didn't know what I didn't know many investors and I didn't know how to get them to close. And finally, after such a long time, I got this, a big company that's actually big firm with a lot of money. And Michael Milken was one of the partners in the firm. And there were tons of all these Hollywood people. I got them to say they would invest in my company. And we spent two months negotiating the contract, the entire contract. And I spent a lot of my own money on these lawyers. And when we were done with this contract, they said, wait, you haven't launched yet. We're going to wait and see your launch, which is coming up in a couple of months before we give you the money that was so painful. You know, it was just like brutal. And then a couple of months go by. It's like getting into December. We launch, it's successful. We go back to them, give us the money, because we're totally out of money, like we are totally running on fumes.

[00:12:33.89] Now, we have all these costs since we've launched on our bootstrap company. And you know what they said? They said, we'll give you the money, but you have to cut your valuation in half. We're like, what? We agreed. And we did a successful launch, a more than successful launch. They didn't care. They were going to play hardball because they I didn't have a poker face. They knew we needed the money. They knew we were about to die. And it was just before Christmas. And as everybody in Silicon Valley knows, everybody goes away over the holidays and then they don't come back. Then there's C, CBS and all these distractions before the investors actually get back into investing mode. So they had me over a barrel, but I was so upset and so were my co-founders that we just walked away from the deal. We said, no way, we're not doing it. And then that nearly killed us, nearly killed us. But we kept trying to get into VCDs. And finally in February, all this time had passed. We got into a v.c. And what I did during that pitch, the finally got into it. I kept a poker face. I didn't tell them all the problems we had. I didn't tell them that we're begging our employees to say I didn't tell them that we were behind payments on our hosting and it was all about to crumble.

[00:13:44.18] I kept a poker face. I told them how great our product launch was, how great our product is. The investor, after all that said, give me a minute and left the word, this is my first pitch. I thought it was over. The investor comes back with a term sheet and says, Here's our term sheet. We want to give you seven million dollars. And I was like at the valuation that we originally had. So more money at the same valuation. We were ecstatic and I kept my poker face. In fact, I really want to close that deal. So I did something that people usually don't do in these deals is I told the investor, no, we only asked for five million. We didn't ask for seven million. So I will tell you what, I will take six million dollars of your money if you can close this deal in two weeks. But you have to close in two weeks if you want me to take that much. And you know what they said. Yes. And so two weeks later, we had six million dollars and they closed the deal. That's my poker face story.

[00:14:46.97] Great. Congratulations on that. That's a good lesson for everyone to take. You also talk about three strikes and you're out, and I'm curious to learn more about that. What do you mean by three strikes and you're out?

[00:14:56.48] So pitching an investor is like baseball, three strikes, you're out. So what I say is the first time you pitch an investor, you that's like the first pitch in baseball, right? You get your chance to swing at it. It's going to be a strike or you're going to hit a home run or get to first base. Now, usually on the first pitch, you don't you don't connect with the ball. It's very hard, although I did. I just told you an example. I hit a home run on the first pitch when I walked into that investor, so it does happen, but usually not. Usually it's the second or third pitch. But I will tell you from experience, remember I said I spent a year trying to raise capital for my first venture funded startup and it was just brutal. All the investors I talked to, it's because I didn't understand that you have to set limits on your investors. You can't let them just think you're going to always be there whenever they want you. I had one investor that kept me for an entire year coming back to them, and that investor never, ever invested. They were they just kept having more questions about my business. I was like, when is it going to end? Like, every time they called me, I thought, OK, now it's going to end. Then I decided after that experience that I'm going to tell every investor after the second meeting, look, we've had two meetings. I've given you all the information about our company that we have. And I've answered all your questions. Either you invest now or I'm moving on. Basically, they've had two strikes if they don't hit the ball. But on the third one, they're out, not me. They're out. I'm moving on to find other investors. And if you don't have the confidence to do this and don't set timelines, it's really hard to close a deal.

[00:16:37.12] That's a good point. Absolutely. I always tell startups you should be doing as much diligence on them as they are doing on. You should be asking as many questions of them as they are asking of you. If you're going through a grilling every time, well, they should be going through a grilling every time. And then you'll find those meetings shortened up quite quickly after that.

[00:16:53.71] Absolutely. I tell I tell entrepreneurs the same thing. You need to know as much about them as they know about you because they're going to be your partner. It's like marriage, like you're letting them on your board of directors usually. And this is you know, if it's a small investor who doesn't have a board seat, not quite as important, man, when they have a board seat, when you're giving them preferred shares, you better know who they are.

[00:17:15.61] And then you talk about artificial deadlines. How does one use those in the fund raising process?

[00:17:20.86] I alluded to this just previously, and that's basically if you give people a deadline, they tend to respect it. If you don't give them a deadline, they will drag their feet. And this is especially true of investors. So, again, let's go back to that real estate analogy. When you walk into a home, you look at it and say, this is a pretty nice home. It's pretty good. It's better than the other ones I've seen. And the real estate agent, if they tell you, oh, yeah, this house will be on the market, you can come back any time. Don't worry, you'll probably say, OK, thanks, I'll look at some other homes and see if I find something even better. And then if I don't, I'll come back. But if the real estate agent says, look, this house is hot, like if you walk out of here, I can't guarantee this house will be on the market. When you get back, it will be sold. You have to make a decision. Then you will usually make a decision right then. And whatever decision you make, it would have been a decision you would have made anyway. Because really, honestly, if you want the house, you would buy it. And if you never really were willing to buy the house, you will just go away.

[00:18:21.67] But you would have never bought that house. The same is true with investors. You need to give them a deadline. I usually like to give them two weeks. I'll say, look, I've given you all the information. You have two weeks to make a decision. If you can't make a decision in two weeks. We have other investors in my time is really valuable and I can't engage with you anymore. I'm sorry. I can't promise you'll be in the deal, because if they know you're just sticking around in a while as investors will do this, they say, I don't want to leave the investment. I don't want to be the first investor. I let me follow go out and find other investors and then I'll come in. That, to me, is so annoying because like, if you believe in this company, invest. And if you don't don't don't tell me you want to just follow other people and you can't make a decision. They're of no use to you. And in fact, they're just draining your time and resources. So you say, no, I don't need followers. I want somebody who's willing to step forward. I can't promise you that other investors won't take the whole deal. So if you want to get in, let me know now.

[00:19:17.20] Great. Here's a favorite of mine is called Emails that work I'm always interested in seeing. How do you make that process work and what's your advice?

[00:19:25.18] I cold emails that work so a lot of investors will tell you and a lot of books will tell you don't send out cold emails. They never work, but honestly they do. If you write the right cold email and hit the right person at the right time, it works. You know, I told you when I came to Silicon Valley, I didn't know anybody. I had no introductions, no warm introductions. The only way for me to get started was to email these vaccines. And a lot of them have they're surprisingly have their email address on their website or a contact form, especially in the olden days. It was quite common. Not so much now. But honestly, if you can get their email address and you contact them with the right pitch in the right way, I've gotten through the Sequoia Ventures, all the top Mayfield, all the top firms on cold emails, like literally in the door. So it's always better to get a warm introduction, let's face it. But sometimes you don't have that. You don't you don't know people here and it takes time and you want to move. So you want to move fast. With your company, so don't hesitate to do that even at guessing, like I guess Steve Jobs is email. You know, back when when he was around and I emailed him and he responded and set up a meeting with his vice president. So, you know, even Steve Jobs is busy, incredibly busy as well as a young guy.

[00:20:41.35] I didn't know anybody, but I wrote the right email. Now, my rules for writing code emails are simple. Keep it short, keep it concise, have a hook and give them what they want. So basically, I try to keep my emails to you know, I usually have an opening sentence that would describe the business right. When I'm an entrepreneur and say opening sentence, describe your business in one sentence as clearly as possible, then put three bullet points of things that will stand out to them, like your team is from MIT. You won this incredible award and you already have this many users growing at this rate, whatever it is, those three bullet points, and then say, I'd like to meet with you, don't attach your business plan. Don't give them any other reason to say no. If they just literally a short email like that is great. And then if they follow up, they'll usually say, well, send me your Investor Day or whatever. Even better than an investor deck is to send them a video. Here's a video of me pitching my startup. It's much more exciting they get to see you. If you produce a great video, it doesn't have to be high production value, but really filled with the information that investors need to know that to be way more powerful than just sending them a PDF trustme or a PowerPoint.

[00:21:48.01] Right. And finally, how do you stand out from the crowd? How do you distinguish yourself as a startup in front of investors?

[00:21:54.55] Ok, well, let me tell you, a lot of entrepreneurs out there all do the same thing. They act in the same way. They speak in the same way. And as an investor, you're hearing literally imagine being an investor like I am now. You're hearing pitches every day. And if you're a professional investor, not an angel investor, it's every day, all day long, you're hearing pitch after pitch after pitch. It gets really boring, especially if you contact them in the afternoon in their sleepy and things like that. So when you go into an investors office, make a statement, you do something that engages them. So like a food startup, if you're a food tech startup, bring your food. If you're doing lab grown meat, bring the lab grown meat, don't talk about the lab, grow meat, bring a burger for them. Really fresh burgers, have them or steak, have them eat, have them try it, do something that stimulates them. If you have a robot, don't just show a slide of your robot. Bring your robot. Assuming it's not too huge. Right. Bring your robot into the pitch. You know, there's this VR company in the early days of VR that came to me and they were like, let's work on my deck, let's do this and have found our space. Let's do all this stuff. And I'm like, forget about your dad, show them the product, have them put on those VR goggles and experience it. And literally they did that with I had to make do that with me, blew me away. It's the first time I tried VR very, very, very early. And we I sent them to Santero in literally the first investor. They met with investors when they when they have been through the experience and they've got five million dollars right off the bat. So show your product, engage the investor. Very important.

[00:23:34.21] Ok, well, that's great. Great advice. In the last few minutes that we have here, what else should we cover that we haven't?

[00:23:39.01] Oh, there's so many things like this is just what I tell you. Like in my book, I just like cram all these different experiences I've had. But I really like to tell entrepreneurs that one thing I want them to know is when you start out at the beginning, don't spend forever building your products. Too many people do they think they'd spend forever building the product. Don't do this. The first thing you need to do is build your team, put 90 percent of your energy into finding the right people. If you find amazing people who are even more talented than you and have skills you don't have, then whatever product you build be so much better. So usually companies fail because at the inception, you know, there isn't the right team there. They don't have all the right pieces in place. Now, even if you have the wrong idea but you have the right team, you'll figure out that it's the wrong idea and then you'll be able to move on the right track and come up with it. But if you have the wrong team, even if you have the best idea in the world, you're going to bungle implementation. Execution is really hard. So put a huge amount of time into forming that team initially. Don't waste a lot of time on the idea. In fact, I like to tell entrepreneurs the idea is going to change. It's going to change throughout your business, like especially at the beginning. You're just experimenting. You only have something in your head. It's not real. Instead of spending all this time on the idea, put together the most awesome team you can and then pick a direction and say, look, we're going to try this idea and that idea and this idea of going this direction. And together we'll figure out what works.

[00:25:09.67] Well, that's great. Well, in the last few minutes that we have here, how how should listeners get back in touch with you?

[00:25:14.59] Well, I'm easy to reach. Basically, you can search for founders face on any of the social networks. And I am there or. You can come to founder's space dotcom and you can contact me. Literally, there's an email contact page. It goes right to my team. You can put my name on it. We will respond. So just go to Founders' Face.com.

[00:25:33.65] Great. We'll put those in the show notes. We want to thank you for joining us today. OK, have you better follow up soon.

[00:25:38.48] Thank you. I loved it.

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