POWDERKEG PODCAST TRANSCRIPT : ERICA DUIGNAN MINNIHAN

Intro: Erica Duignan Minnihan knows what investors like to see in startups, and she knows the difficulties founders face meeting those expectations. She has more than 10 years of experience in early-stage startup investing, and now she's out to help both investors and entrepreneurs be better at their jobs.

Minnihan is currently the Managing Partner at 1000 Angels, a digital venture investment platform that helps independent investors around the world assess potential deals and build their personal portfolios. She also runs the CoFoundersLab Virtual Accelerator, a six-week online program that teaches founders all the basics of starting up with fewer constraints than brick-and-mortar accelerators.

Minnihan was kind enough to invite me into her New York City apartment and let me pick her brain on all things investing and starting up. In our interview, she lays out the basics of the CoFoundersLab accelerator program, explains how to draw up a roadmap for building your business or product, and shares some of the most important things that investors look for in founders and their startups.

My thanks go out to Minnihan for taking some time to educate the community on the important topics of business planning and investing. Connect with her on Twitter @ericaminnihan, or check out the virtual accelerator if you're interested in jump-starting your business, and enjoy this episode of Powderkeg: Igniting Startups.

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Matt: Erica, thanks so much for hosting me. Tell me where we are right now.

Erica: Thank you! We are at my apartment in Tribeca, above Whole Foods, in New York City.

Matt: Awesome, and I just had a late lunch at Whole Foods, so it was super convenient.

Erica: Oh, good. I'm sure you had something healthy.

Matt: I did, indeed. It was a nice change of pace between all the slices of pizza that I've had lately.

Erica: Yeah, that's good. Well, you have to take a balanced approach to life, so I'm glad you're eating healthy. Take care of yourself.

Matt: Trying to. Thank you so much. I've heard so much about Tribeca, and of course, we connected here a couple days ago. You were telling me a little bit about this neighborhood in particular. What's interesting in Tribeca in terms of the tech scene in New York?

Erica: Yeah, well, New York in general has an awesome tech scene, but neighborhood-by-neighborhood has its own vibe of founders, entrepreneurs and VCs. Here in Tribeca, we have our own little community. We've got Tribeca Ventures down here, and Tribeca Angels down here. A lot of founders in the tech space, once they get their big exit, this is the neighborhood they choose to move to. So, we've also got a lot of latent talent in terms of people who are looking for their next big thing, starting their next big thing, potential advisors, mentors, cofounders. It's a pretty fun neighborhood to live in.

Matt: Do you get some of that serendipitous connectivity happening naturally, or is it such a big city that you're not really—and everyone's moving so fast that you're not necessarily serendipitously running into each other at Whole Foods, or something?

Erica: Well, there's some natural stuff that happens. I have a bunch of neighbors in my building who I'm friends with who have done startups, really successful startups. So, you meet people that live on your floor or live in the building. We also have a really great public school here, PS234. You're going to meet a lot of parents through there. You'll usually find parents who have done really amazing things in their careers, so that's a great way to meet people. There's a couple other more structured programs for meeting people in the neighborhood. One is Charlie O'Donnell from Brooklyn Bridge Ventures. He always does neighborhood dinners for people in the venture community, to bring together founders and entrepreneurs for these sort of private, curated dinners. I hosted one probably a year and a half ago for at least 12 people. We jammed a lot of people at this table, and it was really fun. My friend David Olk also has a company called Voray, where he will host folks in the community. I've hosted a dinner with them. I actually went to a dinner earlier this week—which was really fun and had a lot of Tribeca people, but was mainly, like, founders and folks from the FinTech community—that was sponsored by Brian Hirsch from Tribeca Ventures. We're a pretty tight-knit community, and I think that we like to have fun together and build relationships. That's what makes being in the tech ecosystem in New York a lot of fun.

Matt: Shared experiences. You can probably have some pretty amazing ones here in New York.

Erica: Yes, you do. [laughing] We're not going to talk about all of them. [laughing] What happens at the dinner party stays at the dinner party.

Matt: Fair enough. Is there one experience that you can share that has been particularly catalyzing or interesting, just to give a taste for the kinds of collisions that can happen?

Erica: Oh, just collisions? I don't know if I would describe them, necessarily, as collisions. But I think one of the really cool things that happened for me was that I was working on a startup at least four years ago, almost five years ago now, and then one of my cofounders—co-collaborators—on that startup...we were working out of our building, and he ended up loving my building so much that he ended up moving in here, became my neighbor. Within the next couple of years, worked on a few different things. We stayed in touch. Over the last two years, he's actually started a really amazing FinTech company called Stash, which is like, one of the most successful FinTech apps in the market. It's just really interesting how you kind of maintain relationships with people, and you run into them, and you build a community. And then, sometimes people will create things that are really special. You can sort of never tell where it's going to end up.

Matt: Of course, now you're more on the investment side, and even helping people with this virtual accelerator that you're running. I definitely want to make sure we talk a lot about that. But maybe you could talk to be a little bit about that startup you were working on three, four years ago. What's it like starting a startup in New York City?

Erica: Well, you know...I've done a couple of different things. The one that I was talking about was actually an angel group that I was starting. That was fun in itself, but it definitely doesn't fall into the category of "startup." I actually did start, in 2009, a beverage company that made a holistic health beverage for breastfeeding moms. That was a really interesting experience. That was a true startup experience. Starting a consumer brand from scratch, building the brand, and then I was lucky enough to sell the company about three years later.

Matt: Wow, in the beverage industry, too. That's a tough one to crack into.

Erica: It was very, very tough, but a large part of the reason that I wanted to do it was because I'm very committed to a career in early-stage venture capital, and I think that in order to really be a viable advisor, mentor, investor, you need to have gone through the experience yourself. It was a great learning experience for me. Even now, with CoFoundersLab, we are still kind of a startup. Building and growing in New York City. We're not that early, but we're still...I still consider us kind of startup-y. We're scrappy, we're growing, we're trying to serve our customers really well. Even now, even though I'm an investor, I'm also kind of in startup mode.

Matt: You've definitely got that vibe, the culture of a startup.

Erica: Yeah, absolutely.

Matt: That's cool. Tell me a little bit about the angel group, because it seems like there's so many angel groups in New York. Coming from the Midwest, we don't have quite so many angel groups per city. What's that like as an angel?

Erica: You know, there are a lot of angel groups all over the country. New York has a few. We also just have a lot of super angels—people who don't necessarily do groups, who are maybe experienced investors and like to do their own deal selection. 1000 Angels is a little bit different. It's not really a New York City angel group. In fact, it's not really an angel group at all. It's actually a digital venture investment platform. It's basically a platform for people who want to build a portfolio of high-quality, early-stage seed and Series A investments, but they don't really have the time, or energy, or inclination, or they're not in the right geographical location, to actually participate in an angel group. Traditional angel groups usually require a little bit more of their members. You have to go to meetings, you're supposed to do the diligence, it's really kind of more about the process and networking. 1000 Angels is for people who have other things going on in their lives that they're busy with, and they just are looking to get exposure to this really awesome asset class. We provide a digital portal where they can get all the information that they need on a very select, curated pipeline of opportunities and start to build a portfolio over time. They can achieve the kind of diversity that would be very hard to replicate on their own.

Matt: That seems like a huge value prop to someone that isn't going to necessarily be 100% focused on angel investing and building out their portfolio. What are some of the challenges that come along with that value-add that a user might find—or someone that wants to get into angel investing on one of these platforms, like 1000 Angels?

Erica: Everyone has a different level of knowledge, a different background, a different interest in the amount of education they want to do to kind of get up to speed. Certainly, I would say that the asset class is unfamiliar to most people, so there is going to be a little bit of a learning curve. But with a platform like 1000 Angels, our job is to help you get up that fairly quickly and to distill the important information in a consistent format every time so that we don't have to worry about people trying to figure it out on their own or spend a lot of time evaluating each investment opportunity.

Matt: Sure. That makes a lot of sense. Do you guys offer education outside of just the education about the companies themselves? Is there education on the platform?

Erica: Yeah. I do a little bit of a hybrid. We try to keep the...so, what's really important about investing at the early stage is to kind of understand what criteria you're looking for. There are certain criteria that make an investment appealing. You're thinking about things about market size, things about potential revenue, things about multiples for the sector, you're thinking about exit opportunities, you're thinking about IRR of the investment, but most importantly, you're also thinking about, "Is this founder a bright person? Is it somebody who I can trust, who I know is going to take my money and do really prudent things with it, and hopefully, in the next five years, can rally other people around them and build something amazing?" What we kind of do is make sure that all of the boxes are checked, as appropriate, so that investors are never accidentally getting into the wrong deal because there was some aspect of diligence that they overlooked, or some really important component of the opportunity that they overlooked. Beyond that, they have a lot of leeway in terms of, "Wow, I really like this product," versus, "That one doesn't really turn me on." The format of our offering in itself—like showing on each deal, "Here are the different important things that we look at. Here are the numbers."—provides some level of education. But, in addition to that, I also do teach courses. We do an intro to angel investing, which is like a virtual course that our members can sign up for, and then also an advanced topics in angel investing, which I've done for our members, anyone who's interested in doing it. Actually, I was just contracted by a new angel group in Sweden—all the way in Sweden—to teach their angels the basics of angel investing. It's going worldwide, which is great. I think it's really resonating with people. I just think it's really important for people to understand—not just on a "what makes a deal investible" perspective—what is a really smart way to invest in the asset class. Like: "What size checks should I be writing? How much diversification do I need for this to make sense? What do I need to know about follow-on rounds?" All those kinds of things are also really important factors.

Matt: What made you decide to go from entrepreneur and starting up to then going into the investment side of things?

Erica: I've actually always been on the investment side of things. It was actually more of the reverse. I started my career in investment banking. I did investment banking for eight years, including two years at Columbia Business School. In 2006, I got into early-stage venture. I was doing early-stage venture for almost three years as Executive Director of Golden Seeds, which is one of the largest angel networks in the world. I was really enjoying my experience there, but we were one of the first groups to focus on investments in women-led companies. We were getting a lot of attention in the press. I was getting quoted in the Wall Street Journal. I was going on all these TV shows. All of a sudden, I felt like I had a lot of attention on me as an expert in the space, and I felt like, "This doesn't feel authentic to me because I don't actually have experience doing a startup. Yes, now I've gained experience making investments, but how am I going to advise a founder when I've never actually done a startup myself?" I purposefully left the industry for a few years to do my own startup—that's when I did the beverage startup—but always knowing that I wanted to get back onto the investment side. I think that what you'll find, essentially, with a lot of people in the New York ecosystem, because our primary—or, at least, since the old days—our primary industry is finance, that people will very fluidly go between investing and starting.

Matt: Yup. I like that. I would imagine your perspective changed a little bit as an investor after you went into the entrepreneurial space. Could you talk to me, maybe, a little bit about what you learned once you jumped on the other side of the table? What kinds of things did you learn during that entrepreneur phase, when you were working on that beverage startup, that changed how you approached investing? Or did it change?

Erica: I think it changed a lot. I learned just how hard it is, and it gave me a lot more empathy for founders. I kind of think about the person that I was, evaluating deals before doing my own startup. When you come out of the world of investment banking, it's not exactly...there's not a lot of love there. It's not the kind of industry where there's a lot of love. It's about the numbers, and people can...it's not as bad now, but back in the late 90s, early 2000s, it was a completely different animal. I think that I gained an eye for understanding what it takes in a person to be successful running a business. Really understanding the difference between the quantitative side of it, the numbers, the, "Is this a great market," whatever, and really, kind of, the emotional side of it, the energy of that founder. The other thing that I learned that was really crucial was that marketing is everything. You'll see that that's the biggest thing that creates a challenge for founders, especially in the tech world. They kind of think, "Oh, you know, I'm going to build something great, and then everyone's just going to use it." I remember that was exactly what happened to me when I started my product. My husband said to me, "Alright, you've built this. You have this idea for this really great drink. How are you going to market it? What's your marketing plan?". I was just kind of like, "I don't know. We'll see." And then, when I actually got into it, I was like, "Wow, this is way harder than it looks."

Matt: Especially a consumer brand.

Erica: Yes. It is really, really hard, and it is getting out there and pounding the pavement. It's a whole other ball of wax. I really learned the importance of having a great marketing strategy and knowing how you're going to sell something before you bring it to market. And then also just having the empathy for these founders who have gotten some traction, and to realize it's a really big deal, and they've worked really hard. And to really have respect for the type of work that they're doing. I think it deserves a lot of respect. I'd say a lot of it is much more touchy-feely stuff.

Matt: Sure. I think empathy is something that probably doesn't get talked enough about in the entrepreneurial world. Why do you think empathy is such an important entrepreneurial trait?

Erica: Because what differentiates a good founder from one that's less likely to succeed is being able to realize that your company and your product is not about you. It's about your customer. You see so many founders that are like, "I have this idea, and I think…" And it's like, "Well, it doesn't really matter what you think." All that matters is what your customer wants and what your customer thinks. Can you listen to them, and can you get over your own ego about making it about you and craft a business that's going to address your customers' needs, but also support you? I've seen a lot of people who will create very negative financial situations for themselves by refusing to give up, as they say. But at the same time, they don't realize that they're kind of ignoring the market. It's great to believe in yourself and to have faith, but there's no law that says everyone is allowed to create whatever they want and have it be successful. I think that founders who aren't so ego-driven, and can really understand other people, are much more adaptable when it comes to making the pivots they need to make a business successful.

Matt: Absolutely. That makes so much sense to me from a standpoint of...those founders that say "I" and "me," as opposed to "my customers" and "they." Is that something you listen for as an investor now, when you're hearing a pitch or talking to a founder about their company?

Erica: Yes, I guess so. [laughing]

Matt: Maybe not overtly.

Erica: Yeah. It's just one of the list of 40-50 things that you're looking for. But really, it's just, "Is this person responsive to the market? Are they responsive to their customers?". And are they a good person? I think that all those things contribute positively to investment performance.

Matt: Are there specific activities or actions that you see founders do that would signify, "This person is responsive to the market," or "This founder isn't responsive to the market"? Or even, "This is a good person," or "This is not a good person"?

Erica: I would say that one of the biggest indicators of somebody being a person that you want to back—and it's weird how it is manifested...great, you're making me give away all my secrets here, but… [laughing]

Matt: It's my job. I've got to. Hopefully we're making better investors out there, and more prepared entrepreneurs.

Erica: One of the biggest indicators is a founder who can get a really great team around themselves from the very beginning. We're investing...we just invested in this one company called MaidBot, that does automatic—do you know them?

Matt: Yeah!

Erica: Oh, how do you know them?

Matt: I don't...were they in Vegas at one point in time?

Erica: I mean, Micah was traveling all over the country.

Matt: OK. I've definitely heard of them. Tell me about Maidbot.

Erica: Maidbot was literally started by this, like, 18-year-old kid. I think maybe he's 19 now. He's very, very young. Great kid, Micah Green. Really cool product, really smart kid. The story, I think, really shows his empathy. He was at Cornell Hospitality School. Part of what they do at Cornell is, I guess, you have to do all the jobs in a hotel, including being the housekeeping person. He had to do the housekeeping, and really learned about it, and thought, "Wow, I bet you there's a way that I can really innovate on this." So, he built an automated vacuum cleaner, basically, a robot vacuum cleaner that the housekeeping person doesn't have to push around. The regular vacuum is very, very heavy, so it reduces injuries, makes it faster and easier for them to do their job, and then also provides more data to the hotel management. Number one, there's the empathy there. The first thing I asked him was, "How did you even think of doing this? What do you know about that?". Hearing that he had actually spent time cleaning rooms, that was, like, point number one. You're not just some kid who's coming in here trying to change things. You've actually taken the time to experience it. And then number two: just getting a kick-ass team around him. I mean, he's got folks that previously worked for NASA, and Tesla, and all of these amazing tech companies, and a pretty well fleshed-out team, and a great product.

Matt: I remember, now, how I know him.

Erica: Oh, how?

Matt: Now that you mentioned the model. It was through Recess. They did, like, a pitch competition thing, so I worked with them on their pitch, and brought them on stage. I think a couple of times, because I think they made it to the finals out in L.A., and they killed it.

Erica: Yeah, they're a good team. But, you know, to me, a great founder has the ability to convince other amazing people to come onboard and help them realize their vision.

Matt: And when you've got that at 18, 19 years old, it's only going to develop, right?

Erica: Which is crazy! Yeah! I could hardly believe it when I found out how young he was.

Matt: That's really impressive.

Erica: Yeah, it's kind of crazy, but good for him

Matt: Yeah, I was like, “What was I doing when I was 18, 19?”.

Erica: I know, right? [laughing]

Matt: Selling vacuum cleaners door-to-door.

Erica: Oh, yeah, you were in the vacuum—I remember!

Matt: I was in the vacuum business, too! Yup. A little bit different vacuum business. I was not quite revolutionizing the vacuum industry like he is. That’s really cool, and a good example of some of those qualities that you’re looking for in founders as you invest. I love that you’re really focused now on helping make entrepreneurs better entrepreneurs.

Erica: Yes, I am.

Matt: Can you tell me a little bit about this virtual accelerator?

Erica: Sure! It’s been really fun. Before starting 1000 Angels, I was actually Managing Director at Dreamit Ventures for a couple of years, and was part of a traditional, full-time accelerator. We would take in about 15 companies who would work with us every day. Everybody’s in the same space for three months. You know, we would invest in the companies and spend a lot of time with them, and then make follow-on investments out of our fund. That was really wonderful, but...it’s not a model that works for everybody. One thing is you’ve gotta give up equity. You’ve gotta move. You kind of gotta be at the right stage where somebody necessarily wants to give you the $25,000. And also, just, not everybody can do it. It’s a highly competitive process to get into a Techstars, Y Combinator, Dreamit, AngelPad, whatever it is. It’s not accessible. The timing also might not necessarily work for you. So, our CoFoundersLab community started to grow, over the summer, we were fortunate enough to merge with FounderDating. We brought the whole FounderDating community into our existing CoFoundersLab community as well. We started to think about resources that we could provide to this group of 300,000 founders that could help them get to where they need to be faster. I kind of thought back to my accelerator days, and thought, “Hey, wouldn’t it be really fun if we did a light version of the accelerator? It’s only six weeks long. We’re going to cover the same material, but there’s no equity investment, you can be at any stage. We’ll bring in some really amazing mentors. It’ll all be virtual, so you can just dial in from your computer during your lunch hour.” For us, it was kind of like, “OK, let’s create an MVP of this,” which I did, and we started it in November of last year. The first cohort was a big success. The participants were so grateful. They were like, “This is the best thing ever.” I also really appreciated it, because number one, I love not just personally helping advise other founders, but bringing out all the resources that I can from my own relationships with other successful founders who have successfully raised or successfully scaled businesses, and then investors who could potentially fund their businesses, as well. It’s been a really amazing journey, and I feel really grateful, because by doing it, I feel like I’m kind of learning something new every day, too. And that's really important in this business, because this business changes, like, week to week. You have to keep sharp and fresh.

Matt: What resonated the most with that first cohort in November?

Erica: I think that...one of the most important things...well, first of all, we cover, in a high-level way—because it's only six weeks—really, A to Z. So, like: where do you go with an idea? What's the roadmap when you have an idea? How do you develop your MVP? What are some things that you can do to break into the market and gain traction? Once you've found product-market fit, how do we now map out a vision for your company? How do you build your financial model? How do you pitch to investors? What's it like to actually go out there and raise money? We cover a lot of things, so they get a very solid background on all of the different steps. But the thing that I think people love the most is that each week, we're bringing in a really different, awesome mentor to talk to them, and to share, very personally, their own journey. I bring in a range of companies. Some people have maybe just closed on a seed round, some have done a seed and Series A, some have even done all the way through Series B. Occasionally, we've had somebody from a corporate innovation department, so people can understand—if they're in, like, enterprise sales, how do they approach that? I think that getting to one-on-one—or small-to-one, small group to one—really get exposure to founders who've been really successful—and we're not talking about ten years ago, we're talking about recently, now—and figuring out, "How did you do that?", that's the most valuable information people can get. Also, it's very inspiring to hear…"Wow, I've heard of your company, and it's awesome, but you had challenges, too. It wasn't just an easy, paved road. There was a lot of stuff that you had to learn and overcome, and now you're sharing that with me." I have to say that as far as working in this industry goes, I probably love it more than anything. When I tell people that I work in the venture capital and startup industry, people go, "Oh, is that a cool job?". And I'm like, "Yeah, it's, like, the best job in the world. What planet have you been living on?", because people are so generous. That's a thing that I love the most. There's rarely ever been a founder who I've called and said, "Hey, I've got a group of 30 people in my cohort who are aspiring founders. Could you volunteer an hour to talk to them?"...everyone says "yes." It doesn't even matter who they are. One pretty mega founder—I'm not going to mention his name—was like, "I can't do it." But he did send, like, a junior-to-him person, but another person. He was like, "I'm going to have this person do it." And the person that he sent that was the backup was also, like, a rockstar, so I was like, "OK, it's fine." [laughing] But in general, people are pretty amazing with their willingness to help other people who are going through the same journey.

Matt: Yeah. I think that is something that definitely permeates the entire tech industry. There is that kind of ground-level empathy across all founders and people who have gone through that before.

Erica: I don't know. Maybe we're just hanging out with the nice ones. You always hear stories of the bad ones in Silicon Valley.

Matt: We must just avoid them. What can founders do to get the most out of digital programs, whether it's a virtual accelerator like the one you put together, or a Udemy course.

Erica: Well, you know, there's a lot of resources out there, and I think that a hybrid approach is good. One of the things that I like about the accelerator program that I do—and there's a million different programs that you can do for all different stages and different types of information—sometimes it's nice to do something that has something of a real-time component, just to keep you accountable a little bit. Because if I download a series of videos, I'm like, "Maybe I'll watch these." Nobody is really paying attention to: do I participate? Did I complete assignments? Where am I getting in my progress? There's zero accountability. I think that taking advantage of all the wonderful, inexpensive and free resources that are available on the web is awesome. Read all of the great books. There are some really good books that we recommend. My friend, David Ronick, who is one of the founders of Stash, always recommends a book called *Running Lean*, which I haven't read yet. But he's amazing, so I know that if he recommends it, it's gotta be good. Of course, *The Lean Startup*, everybody reads. I love the book *Zero to One*. I feel like everyone should read that before they even start figuring out what their idea should be. Not an endorsement of Peter Thiel, but an awesome book. And then we also love to point people just towards...you know, you can go down a whole YouTube rabbit hole with all the amazing videos that are available there from, like, Harvard Business School, and all the different business schools that are bringing in some real heavy hitters. But at the same time, I would complement that with something that you might have that will give you some accountability and a timeline. Whether that's a program like CoFoundersLab Accelerator, or even just having your cousin check in with you once a week, and you have to give a full progress report. You definitely want to have something that's going to provide a little bit more structure to your progress.

Matt: Some kind of accountability partner.

Erica: I think it helps. That's one of the big things that we did at Dreamit, was that you have three months to work your ass off. It's a very artificial deadline, but as long as you know that it's there—"Oh, demo day's in three months. I gotta do all this stuff." Sometimes you have to give yourself artificial deadlines for things to work. It's kind of like being in school again. [laughing]

Matt: What are some of the things that founders can do to put what they learn into practice? Talk to me about, as they're going through this virtual accelerator, what sorts of things are you looking for to see if founders are really getting the most out of it?

Erica: Ours is very simple to follow. There are actionable deliverables that you're going to have a chance to work on during the program. Whether you finish them all in six weeks...I would say that you probably have to be more of a superstar to get it all done in six weeks, just because, to me, all these items are very natural, but that's just because I've been doing this for 20 years.

Matt: What are some of those?

Erica: I'll tell you what we do. The first thing that we do is putting together an MVP questionnaire. Basically a complete outline of, like, "This is everything that my product is." A million questions around what your product should be doing, how you want it to work, who your customer is, what's the problem that you're solving. Really filling out a very complete questionnaire to make sure that you've kind of thought through all the aspects of your business.

Matt: On that MVP questionnaire, I would imagine that the temptation, sometimes, for founders would be to put more into that MVP than is actually "M", or minimum.

Erica: Yeah, and if they're doing that, I'm going to tell them, "Delete all of that." So, that's kind of the point of it, is to figure out, "What can I really build that is, like...what is the problem, and what's the minimum viable solution? Let me figure that out." Then we work on user surveys and questionnaires. This is something that a lot of people don't want to do, but it's so important. Because—same thing—you've got the ego problem, which is that it's really hard to hear people tell you that your idea sucks. I've been there. I've been like, "Oh my god, I have this great idea!" And then I start talking to people about it, and some of my potential customers are like, "Yeah, I don't really like that." And it's horrible when you hear that, and you're like, "Oh, man." But you have to go through and do it, because otherwise, you're just kind of lying to yourself, and you're going to put yourself into a bad position. We help people figure out how to do a user survey that's going to give them the kind of valuable information that they need to either validate the problem that they're solving or to figure out, "Is there something else that they can address?". Then, we have a really amazing digital marketing person who comes in and does a whole session on growth hacking and traction channels, and she actually has this amazing 7-step plan to getting your first hundred customers. We really lay things out, like, "Here are some actionable things that you can take what you have and start doing," either to build a pipeline of customers or to start getting customers, sort of depending on where you are with development.

Matt: Outside of that accelerator, have you talked to founders that skipped that user feedback stage and jumped right to marketing?

Erica: Almost everybody does, because they don't want to hear it.

Matt: They're protecting their egos a little bit?

Erica: Yeah. It's like, "Well, you can do that." I don't advise it. I know it's more fun to skip that part. But to me, that's the way...

Matt: Maybe in the short term.

Erica: Yeah. That's the, like, "eating your vegetables" part of starting a business. The other thing, too, that we learn during the program that I actually learned from another founder—this was a great quote that I got from the founder of Kissmetrics, who came in and did some one-on-one work with our team a couple weeks ago—it that a lot of people are not aware of whether or not they have product-market fit. Instead, they're trying to grow when they don't have product-market fit. That, to me, is the biggest problem that we see with startups, which is that, "Why are you investing money in growth if you don't have product-market fit? And do you know what product-market fit is?". Well, his definition, which I think is the best definition that I've seen, is basically that you do a survey of your users, and you simply ask them, "How upset would you be if you couldn't use this product anymore?". They can pick, "Very upset," "Kind of upset," "I really don't give a shit." [laughing] If at least 50% of your customers don't pick "I would be very upset," you do not have product-market fit.

Matt: That's a good test.

Erica: It is a really good test, and it's like, "Oh, damn." You kind of realize, products that you really love, you would say, "Oh, I'd be very disappointed." And the other ones, you don't really care. Then you realize, "Do my users not really care if I disappear tomorrow?", and you realize just how high a bar it is when you want to have a successful product and a successful business. Things that have product-market fit: Slack. I'd be very sad if that disappeared tomorrow. Facebook, although we said it's been very stressful lately, but I would still be very sad. It's, like, very obvious when you're going to miss something. Same thing: this is a very black-and-white test that doesn't let you lie to yourself about whether or not you've achieved product-market fit.

Matt: That makes me want to do that test right now.

Erica: You should do it, right this minute.

Matt: Absolutely. That's good.

Erica: What did you think of Erica's interview? "I could live without it." [laughing] Just kidding.

Matt: I meant more for our users at Verge, but, yes. I think, definitely, if people are still listening at this point—which, of course, they are—that means that there's definitely product-market fit on this particular episode.

Erica: Thank you.

Matt: I love this concept of a very prescriptive, "Do I have product-market fit?", and it's very binary.

Erica: Yeah. And things that sort of get you to face the truth without making it feel like it's about you personally. So, after we do that, we review how to build a financial model the right way.

Matt: What is the right way? Bottom-up? Top-down? Side-to-side?

Erica: Well, yes. Everything is bottom-up. I will punch you if you come at me with the top-down one. Literally, I will kill you.

Matt: [sarcastically] But the market's so big, Erica.

Erica: [laughing] "If we just get 1%. Oh my god, we're going to be rich!" Yeah. So, it's always bottom-up. We always have revenue drivers from marketing activities or things that we can reasonably predict. And then, just showing people what is really the purpose of it. How are we projecting our future cash needs? And also analyzing, "Is there a business here?". Will this thing ever make money? Is it scalable? Are there enough deep pools for this to be scalable? The last part is figuring out how to successfully do an investor pitch. We do a very to-the-point, ten-slide format for an investor pitch, and just get people comfortable with being able to present their idea in a way that's compelling, and understanding what investors want. And then, we wrap it up with a very small, virtual demo day, where I'll bring in four or five angels, super angels, VCs. We'll let people do their presentations and then get some feedback. You kind of come out of it with the chance to at least pitch to a few real investors and get feedback from them. They're sort of a captive audience. They have to listen to you, so it's nice. But, yeah. Hopefully, by the end of the program, you've actually gotten some things done. For somebody to come in and come out with everything done, full financial model, great pitch...we've had some of the companies actually get there, but usually, that means you started a little bit further ahead. But it's perfectly fine for people who don't even have an idea yet to participate, and they just want to learn, "When I have an idea, what would the process be?" or "What are some of the things I should think about when I'm evaluating the different ideas that I might want to turn into businesses?". It's really something that's applicable, and great information for people at almost any stage.

Matt: I love that. I think that those last two pieces—the financial model and then the pitch—sometimes get a little too connected. I don't know if you've seen pitches like this, but, like, where the founder will jump right into their financial model right off the bat. And they skip some of those steps like hooking attention, relating to the audience, and actually talking about why this is a pain point and how to solve that pain point. Is that a problem that you see?

Erica: Is this, like, a Midwest thing? I feel like most founders are like, "Oh, god. Do I have to do a financial model? Why are you making me?". [laughing]

Matt: It could be. It's hard to get the founders to do the financial model?

Erica: Oh, god. I see the opposite. Today, I was just finishing up due diligence with a friend of mine who's got an amazing startup, and she's closed on 50% of her $2 million seed round, and we want to invest in the rest. She sends me all the materials, and I'm like, "Hey, where is the model?". And she's like, "Oh, you want that?". I was like, "Yes." She's like, "I did it, because I'm a total nerd, but most investors don't really want that." I'm like, "I want it. Please send it to me." A lot of times, it's like pulling teeth. The thing I just try to impress upon founders is that, listen: yes, I think it's very lazy investing to invest in startups without going through a model, or invest in startups that don't have a model, but I also think that as a founder, the model's really important because this is you putting on paper, "Hey, this thing that I'm expecting to do actually will make money one day." And unless you've proven that to yourself with math, I don't know why you're doing anything. You know what I mean? And if it's obvious, then fine, it should be easy to make the model. But you don't know what your capital requirements are...I mean, look at that company Zirtual and what happened to them. The founder, literally, after torpedoing the company, was like, "Oh, I just didn't know what burn rate was. I never built a financial model. I thought this thing was just, like, obvious." It boggles my mind that people can get to that level and not even once run the numbers properly. At the end of the day, it's dangerous. For you as a founder, but then also for your employees. You have a responsibility to your employees, to your investors, and to yourself to make sure that whatever it is that you're building, and the way that you're building it, that it makes economic sense.

Matt: Twenty, 30 minutes of time in an Excel sheet can go a long way.

Erica: Yeah.

Matt: Which, of course, you can model a lot further than 20, 30 minutes, but...it's clear sometimes when founders haven't even done that.

Erica: Yeah, and a lot of them don't, especially in California.

Matt: [laughing] You mentioned a couple of key metrics there. Capital requirements, burn rate. What are some other key areas of that financial model that you really hone in on when you look at it?

Erica: What we're looking for is scalability. We're looking to make sure that the assumptions are reasonable. The biggest thing that a proper model shows is that you've thought out your marketing channels. That's the number one thing that this is showing me. If you're doing a top-down one, then I'm going to punch you, because I know you haven't thought about your marketing channels. Because why else would you be saying, "Well, we'll just get 1% of the market per month," or whatever insane assumption it is that you've made? We're looking for: do the marketing channels make sense? Are the pools as deep as you think they're going to be? Is your customer acquisition cost reasonable? Have you really done the research and thought that through? How much total capital does this company need—how much are they going to burn, total—before they get to be cashflow positive? Do they get to a significant enough level of revenues that they would make an attractive acquisition target? Because M&A is the most likely outcome for most companies. And is it right?

Matt: Check the math.

Erica: Yeah. When there's mistakes in it, it tells me something about you.

Matt: Yeah. That last point's a really good one. Check your work.

Erica: Right. It has to be perfect.

Matt: Yeah. Measure twice, cut once.

Erica: Yeah. Former bankers know all about that.

Matt: [laughing] Yeah, I bet. I bet you hone in pretty quickly.

Erica: You get killed if there's something wrong with the model.

Matt: The pitch. Talk to me a little bit about the pitch. When these founders complete your accelerator—

Erica: Oh my god. So, yeah. I'm basically giving away all my accelerator info. No, there's obviously more that happens. But the number, number, number one—

Matt: Well, the value's in the experience, not knowing the process.

Erica: No, I know. But the number, number one thing that happens, and it doesn't matter how many times I say it. It really doesn't matter how many times I say it. It really does not matter. Founders continue to do this. You'll give them an ironclad template for what's supposed to be in the pitch, and then they'll instead just talk about their product the whole time. And it's like: this is a pitch to an investor to make me feel like if I give you some money now, you're going to make me rich, and inspire a greedy feeling, not for me to hear how awesome your product is. Because the thing is, an investor pitch is an investor pitch. It's not a product detail demo. Getting people to focus on: "What is the problem?". Who has that problem? Who is my market? What is my solution? How am I going to make money doing my solution? Why am I the right person to do this solution? It's, like, a very, very simple formula, but time after time, I will go through this whole thing—"Here are the ten pages. Here's what you need to cover on each page. One of them can be about your product. Not all ten."—and then people will be like, "Oh, I did my deck, Erica. Should we go through it together?". And then it's all just about their product. So, really getting people to realize that a business is not about your cool idea. It's about a pain point. That's what you need to focus on to investors. "People have this problem," not, "I came up with this cool thing." That's the number one problem that I see with bad pitches.

Matt: Can you tell me about a founder that did a really good job of describing and bringing that pain point to life in their pitch? Is there one that stands out to you out of all of the pitches that you've seen?

Erica: You know, I can't think of one off-hand, probably just because I've seen so many pitches in my life, and it's something that I've spent a lot of time working on.

Matt: What's the pain point that Slack solved? You mentioned that product earlier. If you were getting pitched by Slack—

Erica: Oh, god, well, that's a really easy one, right? Email is horrible, right? Inboxes, like, the structure of an inbox is awful. We use Gmail at work. Messages get threaded, I'm constantly missing things because it got threaded under another subject line, so I never saw it. Everybody knows how painful email is, and so Slack basically was like, "Hey, let's get you guys onto something totally different that makes it easier to communicate." I think that pain point is very obvious to everybody, and it's pretty intense.

Matt: It definitely is intense. You get the head nod pretty quickly in the room if you're pitching a product that solves that pain point.

Erica: Yeah, absolutely. We had, in Dreamit, a really good girlfriend of mine—she was actually my first roommate in college—who I worked with, and we invested in through the Dreamit fund, who was solving the problem of doing dynamic pricing for fitness studios. What was the pain point? Well, you look at what's happened with ClassPass and all of these platforms that are creating a lot of economic havoc for these studios that...they don't really understand the numbers, they don't understand how going on ClassPass or [inaudible] is going to actually catalyze their business, and they don't really have tools for extracting the most value from their courses. I'm sorry, their classes, not courses. But, if you look at hotel industry, airline industry, it's something like: every time an industry has instituted dynamic pricing, total revenues for the industry go up by, like, 30%. So, we could see how, "Hey, there's this very serious pain point for the studios. This is something that's been successful in other markets. Let's apply it to this $6 billion market."

Matt: That's something that's really interesting that I've noticed that successful founders do, is they'll compare this industry with this industry, how technology affected this industry, or how cycles tend to repeat themselves in terms of software and how software is eating the world, which gets tossed around quite a bit as well. That's a really good point. Just kind of pointing out...not only describing the pain point, but showing how this same thing happened in another industry.

Erica: Yeah. That's a very valuable tool when you're trying to convince investors that what you're trying to bring to the market is possible. If your name isn't Elon Musk, people are going to have a really hard time using their imagination.

Matt: [laughing] Fair enough. Well, I would love to see the next round of pitches for the virtual accelerator.

Erica: Yes, I definitely will invite you to be on our panel. That would be really fun.

Matt: I would love to see it, and if I can be helpful in any way, certainly let me know. If listeners would like to check out the accelerator through CoFoundersLab, where should they go?

Erica: You can go to cofounderslab.com and click on "Accelerator." I think it's just, like, a link on the top there. We have a whole Learning Center, but I think you can just go straight to our accelerator. I'm pretty sure it's learning.cofounderslab.com/accelerator, but you can always just click it and link there from the homepage. If you want to chat with me, if you're interested in the program, you can email me. My email is erica@onevest.com. Happy to answer any questions that you have about the program and learn more about your startup.

Matt: Thanks for making yourself available. I really appreciate that. We'll definitely link it all up in the show notes so people can check it out and get enrolled.

Erica: Yeah. I'd love to see some cool people from the Verge community.

Matt: Me, too. Well, hopefully you'll see some of our founders listening there. Erica, thank you so much for taking the time to share your expertise.

Erica: Thank you. I always love a good chat with you, and getting to spend some time together. Now that you're going to be a New Yorker, hopefully we'll do more of it.

Matt: Of course. Let's make it happen. Thanks so much.

Erica: Thank you.