Twitter Thread by Elizabeth Yin



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Saturday thoughts on funding: Where it helps. Where it doesn't. And how it affects team, success, and PM fit.

This is just my $0.02 after looking reviewing 30k+ early stage startups personally and having led 350+ investments across 2 VC firms & as an angel.

Let's begin! >>

1) Money is great to have in building a startup (for the least dilution and pain possible) That's true and always will be true. ■

But just like how money can't buy you happiness, it also can't buy you PM fit.

2) PM fit is the holy grail for software startups. (we're not talking biotech - if you have a cure to cancer, I guarantee you everyone wants it).

But for software startups, it's unclear if ppl want your product at your price pt.

3) If you don't find PM fit, in this day and age, you will be able to get some sales. Maybe even say $1m in sales (or more!) per year, and you can still make a living.

But having sales does not mean that you have a repeatable customer acquisition process that can be sustainable

4) As an aside, that is why we invest at pre-seed & don't care about startup traction, because I don't believe traction at the earliest stages suggest PM fit. Traction only shows that a founder can execute (& that's impt too) but there are other ways to assess execution earlier.

5) So going back to the crux of software startups.

Frankly speaking, finding PM fit is a LOT of luck. This explains why a lot of serial entrepreneurs who were successful on 1 venture have a hard time repeating that.

It's not a lack of capabilities.

6) That being said, experience from seeing a lot and doing a lot in startups helps you take a better guess at where there may be opportunities to find PM fit. And, serial founders can often execute more quickly on certain things they've done before.

7) But at the end of the day, there's still a lot of LUCK.

This is why SV VCs will often back "failed founders" again, because that failure isn't (always) an indicator of the founder -- there's also that big LUCK component of finding (or not finding) PM fit.

8) So then the q is how do you increase your luck?

I mentioned 1 way -- experience in seeing and doing a lot. (and learning)

Another way: focusing on only things that matter (mostly derisking sales) & ignoring all else to utilize time and resources efficiently and quickly

9) This speed and focus should not be taken likely. Every time you say no to something, you get time back A) by not spending time + mental capacity time on what you said no to and B) by also using that time to pour more focus into advancing PM fit experiments.

10) E.g. If I say "no" to doing a talk. 1 hr of talk time + 30 min of prep call / slides time + mental capacity time = ~10 cust calls to gather insights into their day-in-a-life to work towards PM fit.

But doing just 1 talk feels like nothing but it adds up.

11) So relentless focus and time is impt that most entrepreneurs disregard. Focus and limited are also things that ALL entrepreneurs have limited supply of. We all get 24 hours in a day. So making the most of this is impt.

Now where does money come into this?

12) The obvious one - everyone has a livelihood that requires money. Everyone has a diff cost on this.

And that affects runway. Runway affects # of PM fit experiments.

13) I have seen well-networked teams (both in my own portfolio & friends' cos) clearly not have PM fit after burning through lots of $$ and still be able to raise a LOT more $$ to keep trying.

Then, by extension of their runway, they find strong PM fit and the rest is history.

14) I would argue in both (near) unicorn cases that I'm thinking about, both teams are exceptionally strong. And these particular cos are not examples of VCs throwing $$ down the toilet.

However, I'm very aware that MOST founders don't get 2nd or 3rd chances like this.

15) This also happens in cases where the founders are well-networked AND also not strong and they are able to raise large amounts of money and end up fizzling out because they never get to PM fit and it's a disaster.

16) Money doesn't guarantee PM fit by any means. It does give ppl more shots on goal.

Should ppl get more shots on goal? That's a philosophical q above my paygrade. But the way we operate @HustleFundVC is that we just assume that each of our cos will only get 1 shot on goal.

17) As another aside, what ppl also don't talk about is how much you get diluted down as an early inv even if a co finds PM fit after raising so much more $$.

3 addl rounds -> your ROI is cut in half & that may not even return the fund even if the co "wins".

18) Raising $$ can help in other ways -- recruiting. Many would-be employees like to see some semblance of security & the big rounds help w/ that.

The flip side is if you don't have PM fit, having more ppl on the team makes getting to PM fit HARDER not easier in many cases.

19) So the tl;dr is

a) Money is great to extend your PM fit experiment runway. But only if you use it efficiently and stay lean until you find it.

b) Often ppl who raise big $$ w/ out PM fit end up blowing it / spending it unwisely & hiring too many ppl and never find it.

20) (cont)

c) PM fit is hard to find w/ or without money. This is why the IDEA matters so much. and market pull >> founders.

Good founders + great idea >> Great founders + good idea

Combined with money goes far.