HOW TO START A STARTUP

THE
Silicon Valley Playbook for Entrepreneurs

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This is a sample preview of *How to Start a Startup: The Silicon Valley Playbook for Entrepreneurs*.

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Preface

How to Start a Startup is based on a Stanford University course of the same name taught by Y Combinator, the prestigious startup accelerator behind billion-dollar companies like Dropbox and Airbnb.

This reference book was written and published independently by ThinkApps, a product development service powering top Silicon Valley startups and innovative enterprise companies.

ThinkApps' mission is to build great products. From our headquarters in San Francisco, we've designed and developed apps used by millions of users and, in the process, become deeply immersed in the world of startups.

When Y Combinator began its "How to Start a Startup" course, we quickly recognized that its lectures captured many of the key learnings from which early-stage founders would benefit.

Using the course material as a starting point, we decided to write the ultimate Silicon Valley playbook for entrepreneurs — a detailed guide to everything you'll need to know in the earliest stages of your company.

In the chapters that follow, you'll learn from 25+ insiders like:

- **Reid Hoffman**, LinkedIn co-founder

- **Dustin Moskovitz**, Facebook co-founder

- **Marc Andreessen and Ben Horowitz**, co-founders of Netscape and Andreessen Horowitz venture capital firm

- **Peter Thiel**, co-founder of PayPal and Founders Fund, early Facebook investor

- **Ben Silbermann**, Pinterest co-founder and CEO

These experts will reveal the secrets to raising money, building products users love, hiring a great team, getting press coverage, attracting customers, scaling up, and more.

Our hope is that *How to Start a Startup* will take the wisdom and energy of Silicon Valley and spread it worldwide, motivating and educating aspiring entrepreneurs and early-stage startup founders around the globe.

ACKNOWLEDGEMENTS

In addition to acknowledging Stanford University and Y Combinator (especially president Sam Altman), we'd like to recognize the tech founders, executives, and investors who

served as speakers for the "How to Start a Startup" course. Their lessons are highlighted throughout this book.

Our thanks also go to Tarun Agarwal, Katelan Cunningham and Becky Cruze for their substantial roles in bringing this book to life, as well as to Hrvoje Bielen for cover design.

Introduction

"Starting a successful startup is similar to having kids; it's like a button you press and it changes your life irrevocably." ~Paul Graham

As Paul Graham, co-founder of the prestigious Y Combinator startup accelerator, noted in a lecture at Stanford University, starting a successful startup — like having kids — is life-changing.

It's similar to raising children in another way, as well: it's one of the most challenging yet rewarding things you can do.

STARTUPS ARE EATING THE WORLD

Modern life is shaped by products and services conceived and developed by creative people. Where we live, what food and entertainment we consume, and how we learn, work, and travel are all constantly evolving.

In 2011, legendary entrepreneur and investor Marc Andreessen claimed, "Software is eating the world." Today,

it might be more accurate to say that *startups* are eating the world.

But before jumping into an in-depth discussion of startups, let's make sure we're all working off the same definition of these businesses.

As defined by Graham, "A startup is a company designed to grow fast."

Disruption and innovation are the driving forces behind these high-growth companies. Naturally, disrupting the status quo and inventing new products and services is hard work with unpredictable outcomes.

Yet, despite the challenges, there are always entrepreneurs willing to cast off the safe and familiar in order to explore the next frontier.

A large portion of these entrepreneurs seem to be living and working in Silicon Valley. Why is that? And is it necessary for success?

SILICON VALLEY IS STARTUP CENTRAL

Clusters are an important organizing principle. Within the United States, for example, there are clusters of financial firms (Wall Street), automobile makers (Detroit), institutions of higher education (Boston), and entertainment companies (Los Angeles).

With proximity comes dissemination of knowledge, cross-pollination of ideas, and economic efficiency of activities.

As one of the oldest and most successful technology startup clusters, Silicon Valley continues to offer advantages for new entrepreneurs. One can learn from experienced founders, hire talent, find partners, raise funding, etc. more easily than in most places.

However, modern technology companies are unique in that geographic location fundamentally plays a limited role in the final product. Software can increasingly be *built* anywhere and *used* anywhere regardless of where it is built.

EXPORTING SILICON VALLEY EXPERTISE AROUND THE GLOBE

Successful startups are built on new ideas. However, that doesn't mean they have nothing to learn from those that came before. In fact, quite the opposite.

Although the path traveled by each startup will have its own particular twists and turns, there are many common challenges founders will face along the way:

- How can you test the merits of your business idea?
- How do you build the right team to help you?
- How do you raise funding to fuel the engine?
- What legal and financial basics do you need to know?

- How do you get the attention of the market and learn about your (potential) users?

- What's the best way to build and ship products?

- How do you transition from the early stages to realizing a full business?

While each situation is distinct, knowing what has succeeded or failed in similar contexts in the past provides a great starting point.

Fortunately, Silicon Valley has a strong culture of openness, with founders and investors willing to pull back the curtain and share what they've learned along the way. And these lessons will most likely be relevant regardless of where your startup is based.

OUR GOAL

This book brings together advice from more than 25 experienced entrepreneurs, technologists, investors, and business executives behind successful companies of the past and present like Netscape, PayPal, Facebook, LinkedIn, and Pinterest.

Our objective is to share insight across the entire startup journey, from the earliest days when an idea is germinating all the way to when you ship products and begin scaling your business.

You can read this book over a weekend and get the inside scoop on the hard lessons these smart people have learned over the course of decades.

Ultimately there is no exact recipe for success, but learning from the experience of others can help you to be better prepared as you set off on your own journey to explore the next frontier.

PART I

Early Days

Whether you're working from your living room, a coffee shop, or a coworking space, it's never too early to lay a solid foundation for your business.

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Read This Before You Even Think About Starting a Startup

Featuring: Sam Altman and Dustin Moskovitz

Becoming an entrepreneur is not all luck and a few late nights. No matter how fun big startup offices look, getting there takes a lot of work.

That was the theme when Sam Altman (president of Y Combinator) and Dustin Moskovitz (co-founder of Facebook and Asana) gave a joint lecture at Stanford University.

THE TRUTH ABOUT STARTUPS

Their talk kicked off with the words of Phil Libin, CEO of Evernote:

> *"People have this vision of being the CEO of a company they started and being on top of the pyramid. Some people are motivated by that, but that's not at all what it's like. What it's really like: Everyone else is your boss – all of your employees, customers, partners, users, [and the] media are your boss. I've never had more bosses and needed to account for more people. If you want to exercise power and authority over people, join the military or go into politics. Don't be an entrepreneur."*

In other words, only start a startup if you feel compelled by a problem and think that building a company will solve it.

Altman said that the passion comes first and the startup second. Along with the passion, you need the aptitude.

Moskovitz broke it down like this:

- **Passion means you need to do it.** You'll need that passion to endure The Struggle and to recruit effectively.
- **Aptitude means the world needs you to do it.** The world needs you somewhere, find where.

ROADMAP TO STARTUP SUCCESS

Got the passion and the aptitude? Then starting a startup may be your true calling. But, you'll need some guidelines to help you flourish.

According to Altman, the first two things you need to maximize startup success are:

1. **A great idea**
2. **A great product**

FINDING YOUR GREAT IDEA

Altman said that no matter how well you execute it, a bad idea will get you nowhere.

This is where a lot of founders drop the ball. There's this pervasive rhetoric in startup culture that it's feasible to start your business with a bad idea. That maybe, if you pivot enough, it'll all work out in the end. But Altman said this is not a good move because it doesn't actually work out.

If your startup succeeds, chances are you'll be working on it for 10 years — if it fails, the timeline is more like five years. If you're going to be in it to see your idea through to success, it's essential that you seriously mull it over and nail down your mission.

The best companies are mission-oriented. With a solid mission in place, you'll get a more motivated team that will rally around you.

HOW DO YOU KNOW IF YOU HAVE A GREAT IDEA?

- **You can answer the question: Why now?** Why is this the perfect time for this particular idea instead of two years ago or two years from now?

- **You're building something you yourself need.** (If not, get really close to your customers.)

BUILDING A GREAT PRODUCT

After the idea stage, the next step is building an amazing product.

Altman said that looking at market growth is key. You need a market that's going to evolve in 10 years. And it's better to have a small but rapidly growing market, instead of a large but slowly growing market.

Build something that a small number of users love, not just like. If customers are pretty desperate for a solution, then they'll settle on the first product even if it's subpar. If your customers love your product, your startup will grow by word of mouth.

When it comes to getting feedback, handpick your early users. Pinterest co-founder Ben Silbermann (who is featured in a later chapter) actually went up to people in coffee shops and asked them to test the then-unknown social network.

He would even go into the Apple Store and put it in the browsers on all the laptops so it was the first thing customers saw. Whatever works!

THE PRODUCT BUILDING CYCLE

1. **Show it to users.**
2. **Get user feedback.** What do they like? What features

would they pay for? Would they recommend it? Would they be bummed if your product went away?

3. **Make a product decision based on your findings.**
4. **Repeat.**

BECOMING A STARTUP FOUNDER IS NOT FOR EVERYONE

If, after reading this, you realize that the startup life isn't for you, that's okay. You've been spared a ton of stress and soul-crushing responsibility. It's not the end of the road for you.

It may not seem like it because of the way the media romanticizes entrepreneurship, but there are other things you can do with your life if you want to maximize your earning potential, have a flexible schedule, and be successful.

When you consider that the 100th engineer at Facebook made far more money than 99% of Silicon Valley entrepreneurs, not being the person in charge starts to look pretty good.

Moskovitz recommended proposing a late-stage feature to an established company if you want to be innovative, use your talent, and receive a big financial return. All of that comes without the stress and responsibility of being the founder because you're not starting from scratch.

Indeed, innovating for a later-stage company means you get access to a massive user base, existing infrastructure, and an established team.

Need more motivation? Google's 1,500th employee created Google Maps. Facebook's 250th hire led the project for the "Like" button.

THE TAKE-AWAY

Being an entrepreneur is not the only path to innovative success. But if it is the path for you, read on for insights from some of the top founders, executives, and investors in Silicon Valley.

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