How to Evaluate Startup Ideas

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*These are my personal notes. It's **not** a full transcript of the essay/article. It's **not** an official summary.*
If you like these notes I strongly encourage you to read the original source in the link(s) above.

Investors and your idea

How can you predict if an investor will like your idea? That's ultimately what we're trying to figure out and the answer is really easy.

The definition of a startup is a company that is <u>designed or created to try to grow very quickly</u>. So if you're not trying to build a company that grows very, very fast, then you're just building a normal company, it's a small business. And there's nothing wrong with that but these companies are not the ones that investors are interested in.

Kevin has a confession to make. "If you ever meet me or talk to me about your startup, <u>I will never tell you that I do not like your idea</u>."

And there's a reason for that: Paul Graham says "The average investor or a lot of investors that you see when you talk to them about your idea it feels like <u>they're trying to poke holes in your idea</u>". They're trying to figure out what's wrong with it, and then they're like trying to show sometimes just how smart they are.

PG explains that his job and the way he sees their work at YC is that it's not to figure out what's wrong with the company but to figure out how it could possibly win.

The ideas that win are the ones that are non-obvious, so at YC they have to work on their imagination, they have to work on their optimism to figure out what is the way that whatever story that they're telling them could become a billion-dollar company.

Hypothesis

A startup idea is <u>basically a hypothesis</u> and this is the way you should think about it. It's a hypothesis about why a company could grow quickly.

Problem	Popular, growing, urgent, expensive to solve, frequent
Solution	Don't start here. Problem comes first
Insight	Why are you going to win versus everyone else? What's your **unfair advantage**?

You have to have an unfair advantage that explains why you're going to grow quickly than everyone else. There are 5 different types of unfair advantages:

Insights / Unfair advantages	
Founders	Are you 1 in 10 people in the world who can solve this problem? "I'm product manager at Google". There are lots of PMs at Google...
Market	Is your market growing 20% a year? By default, if you just build the solution in the space you're going to grow following a trend. It's the weakest unfair advantage
Product	Is your product 10x better than the competition? 10x faster? 10x cheaper?
Acquisition	How do I grow without having to pay for it? Really great companies are the ones who can grow by word of mouth
Monopoly	As your company grows is it more difficult for you to be defeated by competitors? Do you get stronger?

Y Combinator's example:

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Problem	It was hard for founders to raise money without knowing someone in venture capital
Solution	Investing in companies through an open application that would attract a lot of really great minds

Insights / Unfair advantages	
Founders	Paul Graham had built and sold the first SaaS company. Experts at both evaluating technology and also understanding startups and that whole process
Market	Future $B companies would be tech
Product	Cover 3 months of living expenses, give some advice, let them work on their product and then they pitch to a bunch of different investors
Acquisition	Paul Graham wrote books and online essays targeting hackers. Acquired them relatively cheaply
Monopoly	Alumni network more valuable than partners. It got more powerful and more valuable over time

Chart extracted from Land of the Super Founders, an article about 195 startups founded from 2005 to 2018 in the U.S. that at one point passed the USD 1B mark in valuation:

38) Almost 90% of These Companies Did Not Go Through Any Accelerator Program. Of the Rest, YCombinator Is №1

It is important to mention that most accelerator programs were started in the last 10 years and until recently there were limited to software/tech startups.

Accelerators
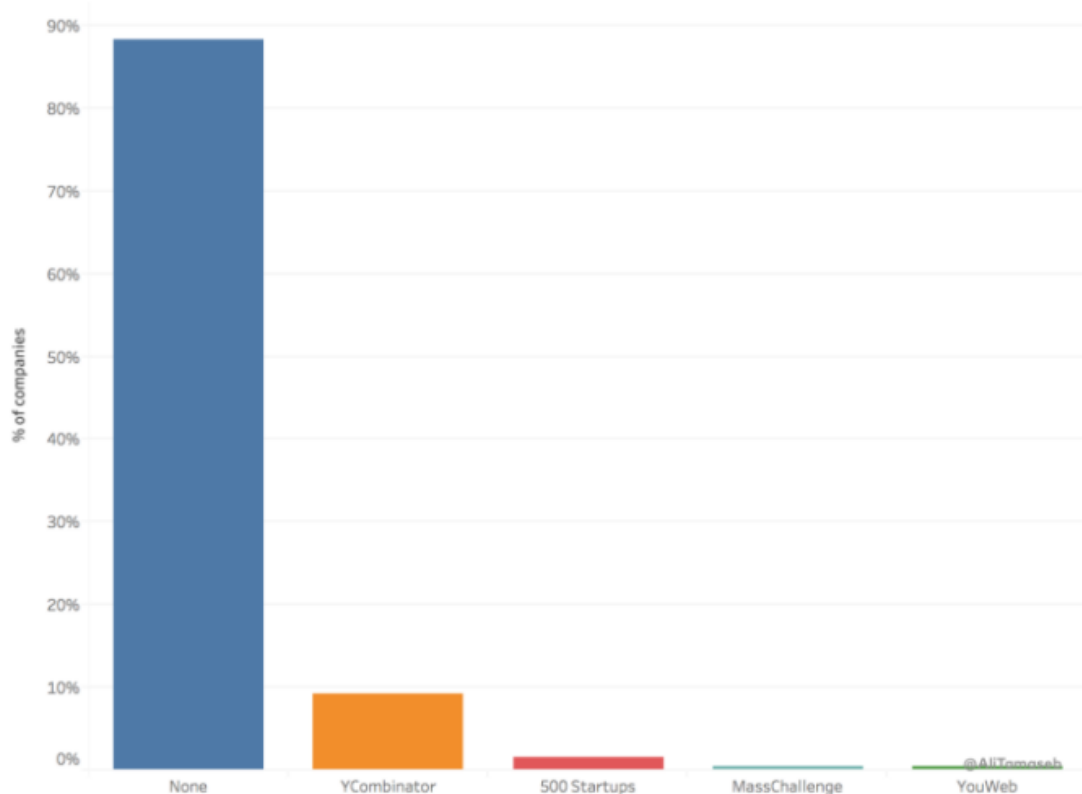
Wufoo's example:

Problem	Websites need to collect custom information, but you need to know how to code or hire a programmer
Solution	An online builder that lets non-technical people creates forms and surveys

Insights / Unfair advantages	
Founders	Wufoo didn't have this kind of unfair advantage
Market	Almost every website needs to collect data
Product	Wufoo's technology was 10x faster and the solution was 100x cheaper than hiring a programmer
Acquisition	Before launching Wufoo the founders built a blog with an audience of 100,000 developers
Monopoly	Wufoo didn't have this kind of unfair advantage