

Graham Sees More Room for Women in Venture Capital

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Interviewer: Twice a year, the incubator Y Combinator, otherwise known as the Harvard for startups, invests a small amount of money into a large number of fledgling companies. But YC also helps the chosen flesh out their ideas and develop them into real businesses. Corey Johnson is live with Y Combinator founder Paul Graham, who held office hours earlier today at Disrupt. Corey?

Interviewer: Yeah, Emily. Of course, Emily being from Harvard would think the Harvard of startups would be a good thing, right? A great compliment. Yes, indeed. So, uh let's talk about his conference because this is unique. I haven't been to this conference before. Uh because in my prior life, I was very much focused on publicly traded companies of which I'm sure a lot of these people would like to be. Uh very interesting crew here. There's a lot of startups here. That's who's at this conference, right? This is sort of like kind of like a trade show for startups and and uh and startups that really have big plans. I mean, they really want to be something. I'm struck by how many companies are littering the halls here that are often just a couple of guys with an idea and maybe a little bit of code.

Paul Graham: They have to have big plans, right? Not all businesses are startups. If someone starts like a new cafe or a new landscaping company, that is a newly started business, but it's not a startup. What makes a startup different is that it has big plans. It is it's not a shrub. It's a redwood seedling.

Interviewer: Well, the the metaphor I was using earlier today was I was saying, you know, it's like when the pen hits the paper, you don't know if it's going to be a scribble or if it's going to be Picasso's Guernica. But at certain point, the pen or the brush has to hit the paper.

Paul Graham: Well, you got to keep going. That's the thing. It initially it often looks like a scribble. Think about what Facebook looked like when it first got started. It was just this thing for a small number of college students to waste time at Harvard, right? Someone who is sufficiently sharp, which essentially no one is, but someone who is sufficiently sharp could have looked at that and said, you know, if they keep expanding eventually they'll get all the colleges and then they'll get all the high school students and then they'll get everyone, right? And they'll have hundreds of millions of users.

Interviewer: And we have an it's interesting because that's an example we all know cuz we've seen

the movie if we've seen the movie and there's sort of an image of that. But there is this this uh uh fever that the people in this room that these kinds of people I mean you see these people all the time. They come into your door and they say what? They say some kind of marketing slogan. Actually, usually they say we help people engage with other people. And I have to say, what are you like an email service, a dating site? What? Right. I'm always trying to get people to be more matter-of-fact.

Paul Graham: Well, it's funny that you say that though, but when you were on the stage earlier, you we got to see in a little bit what it sounds like when a random entrepreneur sits in front of you and tells you their story. Sometimes they've got that, you know, Kellogg management school mission statement. We are a total turnkey solution provider for the enter nonsense.

Interviewer: Well, sometimes they've got something to say.

Paul Graham: Well, the more specific the better. That's what I need. Um I mean maybe marketing works on users or some kind of investors, but I'm kind of like a doctor, right? You can't go to your doctor and say, "Doctor, I feel bad." He's going to be able to help you more if you tell him specifically like, "I feel bad when I, you know, turn my neck like this, but only after I just wake up."

Interviewer: Well, I I want to get into you and your investing process a little bit later. But I wonder when you walk through this room and you look at the people here, how are the startup type people different than normal people? How are you?

Paul Graham: Well, they're almost all men. For example, if you walk around here, the founders are all men. So, that's a big difference. 50% of normal people are female. Um it it it is strange in this world that there's theoretically a meritocracy of ideas, but indeed quite often the the venture capitalists backing them are men and the and more men get backed than women. There's lots of although you know I think that there's going to be more room for women in venture capital. This is an interesting idea. But what's happening is that venture capital is investing earlier and earlier, right? And the earlier you invest, the more you're investing in the founders and the less in the idea. And it therefore becomes more a matter of judging people, which I think women are better at.

Interviewer: So, but what else? What what are these people like? Like what's their energy like if you're if you you know you if you were coming in here from some strange place like say Manhattan, how would these people seem different to you?

Paul Graham: They'd seem badly dressed.

Interviewer: Said the guy wearing flip-flops, but okay.

Paul Graham: Everybody here seems badly dressed. I remember the last time I came back from New York, I was walking in San Francisco airport and I thought, "Boy, this seems different from New York." Like, what is it? It's like everybody is like they don't care as much about clothes here. You know what? And it seems like I'm going off topic and talking about frivolous stuff, but the reason is they care about something else, right? They care less about how they present themselves and more about the underlying thing. That's what nerds are. Uh, and there is there is a nerd quality to it as well where you walk around this room and it's a bunch of energetic nerds, pairs of energetic nerds pouncing on you.

Interviewer: Last thing, do they want to get rich or do they want to make their idea work? Are they different? Are those different goals? Can you see the difference when you meet that person?

Paul Graham: The thing about a startup is getting rich and making your idea work are identical, right? So, they amount to the same thing. What these guys probably are thinking is long-term they want to get rich. Right now they just want to survive and and that survival on some level is getting to some kind of round of financing which is I I I see guys here who I can see they're spending their last time to be here make a name for their company.

Interviewer: Yeah. Yeah. Yeah. It could be a sort of goal line stretch for some of them. Some of them will make it. I mean the odds are bad for startups. That's just the nature of the business. Okay. They want your money. Whoa. These guys walk into your office and what do you say to them?

Paul Graham: I say what are you doing? Please tell me what you're doing. That's what I say.

Interviewer: They recreated this scene up on the stage there. It was really neat. They had a office hours with Paul Graham at Y Combinator where they picked some random entrepreneurs from the crowd, sat them up on the stage and we listened to them try to tell you the story against a stopwatch. Those office hours were almost exactly like what Y Combinator interviews are like. So, uh sometimes they had a as we talked about before a very focused pitch like uh story. Sometimes they got lost in the weeds of trying to figure out what they were doing while they were doing it.

Paul Graham: I want to figure out what they're really working on, what the essential thing is. In a startup, you have to focus, right? And you only have a couple guys. You don't have much time, no resources. So, you have to find out what is the most important thing and focus just on that. That's what I try and do.

Interviewer: Getting them to focus though. You can see you can see in the stage how they would really tick off someone who's got hey it's my company it's my idea and yet they're asking you for

advice but they might not like what they're hearing.

Paul Graham: Well if you give me enough time I can get it out of you.

Interviewer: So what is the piece of advice you find yourself giving most often to a company?

Paul Graham: Talk to users. Talk to users. You cannot sit in a in your office alone and cook up something that millions of people are going to love. You have to go out and talk to people and figure out what they really need.

Interviewer: And when you talk to these guys, I mean, do you get a sense of their motivation or is that an important uh uh characteristic of an investment that you make?

Paul Graham: You know, possibly this the founders who are more driven by some kind of long-term goal than just to make a quick buck are going to be more successful. But I'll tell you, people's motivations change. People's motivations change. They get sucked in. They might be trying to do trying to get a quick buck initially and then they realize, whoa, wait a minute. In this world, the people who are most respected are the guys who are like who make something really big and longlasting. I'll try and do that.

Interviewer: Um, is there is there hunger and necessity a necessary part of a startup?

Paul Graham: Yeah. Yeah. Ace Greenberg, Bear Stearns' chairman for a long time. He used to call the PSDs. He wanted people that were poor, smart, and desperate to be rich.

Interviewer: But is the desire for money important in the people that you bet?

Paul Graham: I don't think it's that important to be desperate to be rich because if you think about it, Bill Gates was already rich. His family was rich and he was very successful. He wanted to make his mark in the world, right? And and being getting rich and making your mark in the world are not two completely unrelated things. That's what people want. The most successful.

Interviewer: So, uh talk to me about what a successful business plan looks like at the angel stage.

Paul Graham: At the stage we look at it honestly what it looks like is some good guys who are working on something that might turn out to be something I wouldn't even describe it as a business plan it's more like

Interviewer: But don't they have a book here they hand you the presentation and it's got some financials and it's got some imaginary run rate?

Paul Graham: No we would never voluntarily look at a presentation. PowerPoint is completely banned at Y Combinator. All we want to do is talk to the one of the guys on the stage.

Interviewer: One of the guys on the stage had a PowerPoint-based company. No wonder you were so hostile.

Paul Graham: Well, that's okay. If it's a demo of the actual product, then it's cool. But otherwise, no. No presentations. We want to just ask them what they're working on. You know what it is? What it is at this stage is a problem. People have got some kind of problem they've identified. Like for example, you know, uh the Harvard Facebook is still on is still printed on paper. That's crazy. Why isn't it on the internet? Right? That's Facebook, you know?

Interviewer: And so when you look at these guys, how many of your investments do you know are you not obviously you don't make an investment thinking it's going to fail, but how many do you expect will succeed?

Paul Graham: Maybe half if we're lucky. If we're really lucky accurately and break even more like a third. No, success is uh bimodal distribution. Things either do real well or real [unclear].

Interviewer: Badly. There's not much middle ground. And so at what point do you do triage trying to save these failing flailing companies?

Paul Graham: As long as they want to be saved, we'll try to save them. We don't ever say, "You guys are hopeless. Why don't you just give up?" Right? Because there's plenty of successful companies that have had some point in their history when things looked hopeless.

Interviewer: Right. Well, look, as as I've been talking to you and as we were talking to Ron Conway, the the entrepreneurs have been gathering around the stage. So, I'll let you get to the uh the hungry horde, Paul Graham, Y Combinator. Really appreciate it. Interesting stuff. Thank you.