Chris Cunningham, founder of C2 Ventures

# Most Start-Ups Fail. Beat the Odds By Avoiding These Common Mistakes.

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*Chris Cunningham, founder of C2 Ventures, has built companies himself and now invests in them. I first met Chris seven years ago when I interviewed him for my "Corner Office" series in The New York Times, and he always has sharp insights about what makes companies succeed or fail, particularly in those crucial first two years. There are smart takeaways here for anybody in the start-up space — entrepreneurs, investors and directors.*

**Q. Let's talk about the critical first phase of all new tech companies – pre-launch through the first two years or so. What are the patterns you've seen? The do's and don'ts?**

A. In this day and age, first and foremost, without having technical DNA in the cockpit, you're doomed to fail. You have to have the understanding of how quickly technology is moving. It's not enough to hire your third or fourth person as the VP of Engineering and assume everything's going to be great. You need that person as committed from the outset as the potential commercial lead of the organization.

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*you're not serious."*

So mistake No. 1 is using some outsourced development shop or a friend who's going to do it. Without a best-in-class technology co-founder, that's a mega red flag. You can't really think about or present a company without having that domain expertise because you basically have half a deck of cards.

**Q. That would seem like table stakes to me.**

A. It's not, unfortunately. It's still problematic. A lot of people believe they can navigate the early stage through PowerPoints and things like that, and the truth is they often can. The biggest dilemma for some of these startups is that they lean on friends and family to raise, say, $750,000. Where most of the startup failure happens is when they go looking for the next tranche of money.

**Q. What else do you want to know about the team when they're pitching you, beyond their expertise?**

A. How long have you known each other? Did you just meet a few weeks ago? Is there a history of working together? When you look at a lot of successful companies, there are usually two founders who are friends, and what that means is that there is trust. Because without trust, you've got nothing. It doesn't matter if you have the idea for the next Instagram.

Investors also want to see some level of traction, sweat equity and pain. Show me your scars and bruises before you come ask for money. If you didn't quit your job to do this, then you're not serious. Did you max out a credit card? What risks were you prepared to take and what traction did you generate? Tell me that you spent $10,000 to get this MVP – minimum viable product – delivered.

*"Founders need Jerry Maguires. They need rabbis. They need mentors."*

The alternative to that is someone saying, "Here's my idea. I want your money." That's a relatively quick out for me from the conversation because you're not showing me that you're an entrepreneur. I need to see the fire in their eyes and that the hustle is there and that they're willing to literally run through a burning building.

When I started my company, AppSavvy, I had $650,000 in booked revenue before we raised money. The point is that there needs to be a there there. You need to show that that you're not going anywhere tomorrow and that you're willing to take the risk and make the sacrifice.

As an investor, you want to see that you have those characteristics, and those proof points.

**Q. How do you get a sense of whether the CEO can scale themselves as a leader and build the culture of the company?**

A. The first four to ten people are going to set the culture for you, long before the values are ever written on the wall. You may not realize it, but if everyone in the company is never late to a meeting, always responds in a timely fashion, are always respectful and follows through on what they say they're going to do, those four to ten people are going to set the leadership of the organization, perhaps even more than the CEO.

One of the biggest drivers of culture early on is getting some wins. Whether you get that first product out and people adopt it or you get that first check, a big part of the culture of the two or three companies I've been involved in is getting some early traction. If you feel like

around a common goal.

**Q. What else?**

A. Trust and transparency. Quite frankly, when I started my first company, I made a lot of mistakes. I wanted to send that beacon of light 24-7, which you need to do. You need to keep morale and excitement up. But people are smart, they're intuitive and they talk. If there's one moment of people feeling like you misled them a tiny bit, then you have a crack in the culture. Trust and transparency will take you really, really far.

**Q. It's a challenge for leaders – to inspire confidence when things are not going well.**

A. And a lot of times the founder-CEO can't let their ego go. Maybe the marketplace isn't buying the thing you created. At that point, you should regroup quickly and adjust. But sometimes the founder will push and push. They're not trying to be deceitful, but they want to believe their idea was right. If they have that blind perseverance, they might burn through three to six months of runway and cash.

When finally that conversation comes up, there's two months left and there's not enough time to adjust. This is probably the most fundamental breakdown I've seen with startups. You need an agreed-upon timeframe and some level of data that supports the fact that there is a there there.

**Q. When you give talks at business schools to aspiring entrepreneurs, what advice do you give them?**

A. I try to share some of these lessons and insights about the obstacles in front of them. It's not about giving them the reality check of X percent of all startups fail. It's more about telling them, "Go for it. Go start a company. You're in your early 20s, you can afford to fail, and failure's okay. Because with every failure, you're just going to learn and get better. You're not going to be able to take as much risk when you're 50 with two kids and two cars."

I also think we need to change the tune in regards to the acceptance of startup failure.

**Q. Because it's a black mark?**

A. Yeah, and 90 percent of startups do fail. But is it because you didn't have the technical co-founder? Is it because you didn't have that proof of concept? Is it because you didn't actually understand the market? Is it because you didn't have an investor who was patient and would stick with you once you have that proof of concept?

There's a list of 20 or 30 key components, but what I'd love to see is, how do we get the percentage of startup success to be higher? Founders need Jerry Maguires. They need rabbis. They need mentors. And you can't expect it to come from the VCs. At the end of the day, the VC wants a return, so they're going to make decisions that are good for the VC and for their board.

In a lot of cases, we're allowing founders to basically go out without the supervision that they need and they deserve. There's a great opportunity to provide more insight and experience with founders who are open to listening. And those are the ones you want to work with – the people who say, "I'm all ears. I want to listen. I want to learn. I don't have the ego."