

Karen Zelnick:

Unicorn. If you're an entrepreneur, you've probably heard that term before. It's a coveted title for companies valued at over 1 billion, and it's safe to say every founder dreams of hitting that status. But can that level of success actually work against you? Join us in today's conversation with Dave Hersh, CEO of Mobilize and investor Gavin Christensen, as we bring you both sides of a Perfect Pitch. Perfect Pitch is a podcast from Kickstart that reveals the minds of both investors and entrepreneurs throughout a startup's journey. I'm your host, Karen Zelnick, and I'm excited to introduce you to today's guests.

Karen Zelnick:

Dave, first I'd like to tell everybody a little bit about you. Your professional history brings you back and forth between both working as an investor and as a founder. You've served in positions such as the founding CEO for Jive, a computer software company, and on the board for Andreessen Horowitz. You're an author of the upcoming book, Fighting Shape, where you're explaining how to transform startups into lean and focused organizations. Which it's going to be amazing and we'll be sure to include a link to that in our show notes when it releases. And is there anything else you'd like us to know about you?

Dave Hersh:

No, I'm also part of a small partnership with a guy named Bob Tinker, who was the founding CEO of MobileIron. Very similar background to me, where he started and took a company public. And we look for these types of companies where really strong bones, but maybe got over capitalized and had ambitious growth expectations they couldn't meet and acquire those businesses and restructure them for healthy, sustainable growth.

Karen Zelnick:

That's exciting. We're really excited to get into the discussion. And Gavin, of course, it's always great to have you on the show.

Gavin Christensen:

Well, thanks for having me back, Karen.

Karen Zelnick:

Anytime Gavin, anytime.

Gavin Christensen:

It's really nice to be back.

Karen Zelnick:

As always, we'll link to your bio in our show notes, and what's something you're seeing in the VC scene right now that you're interested in?

Gavin Christensen:

There's a lot of deals happening, M and A deals. There's a lot of financings happening, a lot of big financings happening. There's clearly some great fundamentals behind a lot of those financings and there's clearly some that there's not. So we're trying to make sure we stay grounded to make sure that

we're building real companies of substance and value that can take advantage of these times, but also build even when times get leaner and more challenging.

Karen Zelnick:

Yeah, it certainly is very fast paced right now, which is exciting to watch. But to your point, probably won't last forever.

Gavin Christensen:

Karen, we would love to ask you something that you're thinking about right now or reading that the audience has not heard yet?

Karen Zelnick:

I've just started reading Blitz Scaling, that book on scaling organizations. And I'm really excited to dive into that. Have you read it, Dave or Gavin? Have you read it?

Gavin Christensen:

Definitely read it. And I think it's kind of controversial because I think you're seeing a lot of people buying Blitz Scaling out there in the market. There's a lot of merit to it. It's also bad advice for a lot of entrepreneurs. So I would put it in the category of pretty binary.

Karen Zelnick:

Yeah. That's why I've seen some discussions around it. That's why I wanted to read it because it does seem to be a divisive book and I'm interested to dive in. So I'm excited about that.

Dave Hersh:

I'll be the anti Blitz Scaling voice today.

Karen Zelnick:

Okay, great. So I'll write up a summary of the book serving and see what we're talking about after I finish reading it and you can take your own stance, but Dave is against, and Gavin is, seems like they're both, it's not going to be too much of a debate if we debated the book on this podcast. But, so let's dive into stuff about you, Dave. As I mentioned, you have a unique perspective of having been both a venture capital professional and a startup founder. What have those transitions been like for you across your career?

Dave Hersh:

Yeah, it's been super helpful to me to see both sides of the table and to also understand some of the inherent inefficiencies of the model and some of the misalignment. Oftentimes venture capital can be a bit of a one out of 10 is successful hits business, which can work really well. And maybe that's the blitz scaling, those smaller percentage of companies for whom the flywheel's moving so quickly and they have to capitalize on a large scale and really grow things. But for the other nine out of 10, oftentimes that's not the appropriate fit.

Dave Hersh:

And so what I saw happening from both sides was that it's okay for the venture investors a lot of times to have a one out of 10 model and they can do really well on that. But for a lot of the entrepreneurs who put a lot of blood, sweat, and tears, not to mention the employees and everybody else involved in these businesses, they are awe struck at the unicorn approach and try to emulate it, but they are getting capitalized ahead of results, not based on results and tend to work themselves into a corner by getting too much money and not being able to support that with the growth rates that are expected of the board.

Dave Hersh:

So I saw this inherent problem and it was one of the things that led me to both write the book and do the work that I do, which is to try to rescue some of these companies that maybe aren't unicorn. To take these want to be unicorns and try to transform them into companies that a Warren Buffet could love. So there's nothing against venture capital by any means. In fact, I think it's a hugely important part of our overall economy. What I saw happening was too many entrepreneurs assuming that was the right path for them. To go A round, B round, C round. And just to kind of follow that and not necessarily see the destination of the train they were about to step onto.

Karen Zelnick:

So in 2018, I want to jump a little bit into 2018, you joined Mobilize and that you've had these years of experience, both in VC and at startup land to coin your phrase, I've seen it on LinkedIn, you're restarting startups. I would love to know how not chasing the unicorn led to your strategy at Mobilize.

Dave Hersh:

Yeah, I'm a bit of an oddball in Silicon Valley. I'm like the blue collar Silicon Valley guy. Put my day's work in, do a good job, build a healthy business, which can be anathema to some of the ways in which people view startups out here. But in the case of Mobilized, I knew the investors. I knew the founder, I had actually helped the original venture capital investors do their due diligence. So I knew the company, I knew the category they were in and like a lot of entrepreneurs and founders, they were pushed for growth rates and tried to accommodate those growth rates, but did so through a very wide aperture meaning they were trying to please a lot of different masters, a lot of different types of buyers, and that's incredibly hard to do in the software world. So when I bought them, they had gotten stuck and didn't have a lot of options.

Dave Hersh:

They literally had 24 hours left to live. I was in the middle of writing this book and said, what I need is a real time case study for my book. You know, I'm sick of reading those books where people just call out, hey, let's use Apple or Amazon as these case studies. These are like very, very rarefied area that you can operate in that capacity. And I was like, I want to have a book where I'm doing the thing I'm talking about in real time. So I can't lie about the results. I can talk about what actually happened and what it's really like and be back in it. And I thought that'd be a book that I'd want to read as well as the book that I wanted to write. So in the case of Mobilize, there was a big focus issue.

Dave Hersh:

They were trying to do too much for the sake of growth. And so when I first acquired it, it was you're trying to do all of these things, but you're good at this thing over here. Even though that's not a huge market, just go do that. Be the best in the world at this smaller thing over here and that's going to be the

best perch from which to identify larger market opportunities and what the actual growth rate of this company could be at scale. So that was the first thing was just giving them focus as well as a sense of purpose behind what they were doing and the discipline to go and execute on something smaller scale.

Karen Zelnick:

I like that you mentioned that it's discipline to execute on a smaller scale instead of the discipline to handle multiple projects. But Gavin, I'd love to know, do you see this is a problem with founders where they're trying to tackle too much. They're too focused on that unicorn status of being valued at over a billion. What's your perspective?

Gavin Christensen:

Certainly our roots at Kickstart, having raised our first seed fund, eight million dollars in the great recession, are very much in the vein of like, hey, let's build real companies that don't just rely on venture capital financings to allow them to grow. They've got just incredible customers that are raving about the businesses, they're creating all kinds of value and fundraising is a trailing indicator of success. That said, the reality of the venture capital business is that the hits, those are ones that get over a billion dollars in valuation, now we call them dragons. And dragons for us are investments where our investment in that one company can return an entire fund. We're thankful to have actually multi-headed dragons at Kickstart. That's really what moves the needle from a financial standpoint for the fund. Those dragons eat unicorns, so I have sympathies on both sides.

Gavin Christensen:

I'm very sensitive to what Dave is saying here, which is that venture capitalists have a portfolio and entrepreneurs don't. And that even though from a fund return standpoint, yeah, it's probably less than 10% of the companies, 20% of the companies that really matter for creating returns for LPs, all these are amazing entrepreneurs that are putting everything at stake. And so there is a huge duty to kind of help those entrepreneurs realize the outcome, even if it's not going to be a billion dollars plus. And so I think a key part of getting to the real business category, revenues, KPIs, growth, customer loyalty is focus. The reality is that most customers don't really want to deal with a startup.

Gavin Christensen:

They don't really, noone's like dying to go buy stuff from a startup but they do that because there's such a gap between the world they experience and the world they like. So really, the only advantage the startup has is just the ability to move fast and to be flexible and focused. And so really, when you're a startup and you're not focused, you're removing the only advantage you have, literally that's it, Because generally there's better finance, more talented teams out there, but your ability to focus is kind of your advantage.

Karen Zelnick:

Dave, I'd love your thoughts on that.

Dave Hersh:

The reason I partnered with Gavin on Mobilize was because we were so simpatico when it came to this belief. And that businesses are not metrics. Businesses are people that breathe and have things they care about and lives. And there's a lot at stake in these businesses. Since we saw eye to eye on that, I

was like, that's great. The agreement that we had early on with Mobilize was look, I'm going to try to find a dragon in here.

Dave Hersh:

But if not, I also want to find a healthy, profitable, sustainable business. So we'll do the best we can trying to build a dragon, but if not, let's call it what it is and let's build something that still has legs. So I believe that all businesses have a right to live out their destiny if they're working hard enough at it and they're good at that one thing. And so the beach head, this kind of being focused and being good at one thing is the right path for both the dragons, as well as the, what term do we use for my kind of fighting shape companies? [crosstalk 00:11:17]. Honey badgers?

Gavin Christensen:

There you go, honey badgers, I like that. Yeah.

Dave Hersh:

Yeah. The gritty ones that try and they keep working and it does well over the long run. But you know, Facebook had Harvard and Amazon had books. Google had an indexing tool. Every company, even if they are a huge dragon, starts out by being the best in the world at one thing. And so oftentimes what I see are these companies that have peanut buttered their strategy and are trying to do way too much for as small as they are. And that's in the guise of trying to go after what they see as a large market. So for them to raise money, they have to say, our total available market is 24 billion. Let's go right after it, and that's a very hard thing to do. It's much easier to say, hey, there's this quirky 50 million dollar market over here, or a hundred million dollar market that's underserved.

Dave Hersh:

Let's just go do this one thing. At Jive, that was discussion forum software. That was it. We built a \$10 million business selling discussion forum software. Not the sexiest thing in the world, but we were the best at it. And eventually what that did was gave us a couple thousand customers and a lens through which to kind of see this whole new category play out. And we were the best position to do that. And it was only because we solidified that beach head in that smaller target market. So I think focus is a huge part of any entrepreneurial journey that can often get lost in the shuffle for the sake of companies trying to raise more money to prove that they're onto something big.

Karen Zelnick:

What would you say are some early warning sign for companies that they are losing focus?

Dave Hersh:

So warning signs tend to be like an A round company who says, well, we serve three different markets. Or we've got a consumer side of our business and an enterprise side of our business. You can kind of get in there pretty quickly and sense that you're selling to too many verticals. Those verticals have different use cases and needs behind them. You're clearly trying to grab money as opposed to be thoughtful and take your time and experiment. When you're in that figure it out mode, the last thing you want to do is just sell a bunch of projects or try to do a bunch of work for different types of buyers with different needs. That's going to ultimately kill the company. And that's hard to see. And if the quarterly numbers are a ham-fisted proxy for company success, you're just going to get in trouble.

Dave Hersh:

So I think being very articulate about where the company is, in figuring out what it's great at, what it's the best in the world at doing, and having a board that's very supportive and taking the time and space needed to successfully execute on that initial offering. At which point you can start making decisions about scale. But scaling prematurely, as we know, is the biggest problem that entrepreneurs face. And I think a lot of times some of the board members can push too hard for growth too early. And that's what tends to break things.

Gavin Christensen:

Amen. Amen.

Karen Zelnick:

Yeah, Gavin.

Gavin Christensen:

I just list a few things. I think that what Dave said last's really important, which is that treating product market fit like an event, it's amazing when you're ready. It's horrible when you're not. Couple of things to watch out for would be frankly, seeing investors as the customer, maybe listening to investors too much. That's a signal for me. And taking money off the table in the form of secondaries is much more available than it's ever been, but there's just a real trade off. And there's a very real maniacal focus that is required to build an exceptional, remarkable company that endures. Any distraction from that can really be costly.

Karen Zelnick:

Thank you both for those answers and that raised several follow up questions. And I want to start Gavin with you. How can founders know, in the fundraising process, that they're connecting with an investor that they're aligned with? Do you have any tips for them?

Gavin Christensen:

I think about maybe the experience that Dave and I had, where we actually didn't really have a preexisting relationship, but we just had several really great frank face to face conversations. I think it's a great thing that we did because we ended up having some of the scenarios that we imagined, good and bad. So it's really important to know how someone's going to behave when things don't go great or they don't go according to plan. And the data's out there on most investors to understand that. Because, shocker, most companies don't go as planned, the vast majority. And so I am shocked how little reference checking goes on in the entrepreneurial community to check on investors. I would really encourage our audience to do that, among companies that did well and many that did not do well.

Karen Zelnick:

That's a good tip, reference checks. And the question I had for you, Dave, was you mentioned that sometimes boards push too hard for growth too soon. As an entrepreneur, who's had both a perspective of the VC who might want that growth too soon, and the founder, what can founders do to push back on that? Do you have any practical tips for them? Because that's a tricky situation to navigate.

Dave Hersh:

Yeah, it is. And you got to remember that board members typically spend about 5% of their time with your company. So it can be very hard for them to understand the real elements of the strategy and what's really happening at business. They're doing the best they can, but they don't have that innate sense. So I think for entrepreneurs, they have to understand that and have more confidence and conviction and a deeper sense of intuition about the right thing to do for the company. And if they've done a good job, to Gavin's perspective in finding the right board members, then they should be in a position where they have the freedom to do that. Where they have the rope that they've been given to go execute in the way that they see fit in the best long term interests of the company. Again, to Gavin's point, if you go and you're trying to sell a version of yourself to an investor who's fancy, it's not going to work out well in the long run.

Dave Hersh:

And I've made this mistake, so I know it. It's like being in a relationship, right? If you're you're dating somebody and you're showing them some false version of yourself because you think that looks more impressive, that relationship's probably not going to last. That's not a good marriage, right? I think the same is true at VCs. You really have to be able to sit down with them and have an authentic conversation about the reality of the business and the reality of your skillset and the market realities that are out there, and that's going to continue to play out at the board level. So, so vitally important that there is that authentic discourse that can happen. Otherwise, it's a lot of people trying to impress the other people and trying to do it in ways that are ultimately going to send the company down the wrong path.

Karen Zelnick:

Gavin, do you agree?

Gavin Christensen:

Yeah, I think that's very well said. As a basic rule of thumb, I think it's important to recognize the more national the firm, the larger the assets under management and the bigger the fund size, the less creative that fund's going to be able to be. And the more constrained they're going to be about how you have to fit into a box or they have to move on both from a business standpoint and then mentally and emotionally as well. That's not always true, but there's essentially a sliding scale where the bigger fund you have, the more professionals are on board, the more constrained you are, the more impatient you are for what something has to be. Because that individual might be facing pressure of like I have to show results this quarter or next quarter or this year, or I'm out. It's just important to recognize that and say, okay, am I ready for the big fund and the big guns? Great. But once you're on that platform, it has to go according to plan, or it gets a little chippy.

Karen Zelnick:

Thank you both so much for those insights. And Dave, you mentioned a little earlier in the conversation that the first tip was focus. As you're talking about startups that get stuck in the unicorn mentality, do you have any other tips for them?

Dave Hersh:

The second chapter of the book is all about understanding your own blind spots. The core idea being, your company's not going to transform until you do as a leader. So a lot of these companies that get stuck, get stuck due to the insecurities of the founder and the blind spots that they have. And we all

have them. Entrepreneurs by and large, and there's a lot of data behind this, do not have big egos, but they have fragile egos. And so oftentimes our companies tend to be a vehicle for our own validation in the world. The biggest insight that I had as an entrepreneur, because I suffered this myself and was extremely insecure as an early stage leader, was I had to transform.

Dave Hersh:

I had to get past those hangups and cloak myself in the leader's jacket as it were, and to really do everything that the company needed me to do and become that person that the company needed me to do and not to see it as an extension of my self worth, but that I am here to steward this thing to its ideal destiny. And that sounds like a lot of big words and highfalutin language, but there's reality in that. We can tend to be insecure. And I think if we can get out of the way of our own insecurities and do the right thing for the business, that's honestly has of an impact on a company's success or failure than anything else that I've seen. And I wouldn't have said that 10, 15 years ago. But having kind of gone through that process myself, I believe that's the biggest change that any entrepreneur can make towards the success of their business.

Karen Zelnick:

Thank you. And Gavin, you were nodding a lot. Would you like to add anything?

Gavin Christensen:

I guess I'm always nodding in these podcasts. But what I would add, because I think Dave makes a really great point and by the way, I'm excited for this book because Dave is an incredible CEO. It's been awesome to work with him. He's been very thoughtful about developing himself as a leader. And I just think this is one of those things that people don't realize, which is probably the single biggest limiter on any given business of its ability to succeed in scale is the limitations on the leader. There's incredible businesses that are led by very limited leaders all the time, but it just means that the underlying machine is so good it can overcome the leader. So much of that is overcoming our insecurities and being willing to partner and hire people that are better than us at those things to kind of get there.

Karen Zelnick:

Amazing. Dave, thank you so much for being on this podcast. And I just have one last question for you. And that is, what's an effective practice you've implemented in your work or personal life that you think has had a great impact on your success?

Dave Hersh:

One of the things I did was to set up a personal board of directors. Not people who are connected to my businesses at all, but just people who knew me and that would represent that ideal sounding board for some of the decisions I had to make. That's incredibly important. I think we all need tribe. It is incredibly lonely to be the CEO. We have more groups now, we have more of a talk about mental health. We have more of a discourse around what's really going on for leaders. But it's still really lonely at the end of the day. So one of the things that helped me the most was having that personal board of directors, people that I knew I could rely on to be there for me and to help me through some of those difficult situations.

Karen Zelnick:

And Gavin, how have you seen that practice influence Dave's success?

Gavin Christensen:

I think Dave stands out to me in how, as I said earlier, how thoughtful he is about his own development as a leader and his ability to really approach his role as CEO and founder in whatever instance, as a stewardship. And to really facilitate tough conversations in a way that's just super productive and actually quite easy, given the circumstances. So I think that comes from a lot of practice. I feel like I learned a lot from him.

Karen Zelnick:

Thank you. Again, thank you both so much. I've had so many aha moments throughout the conversation, definitely on checking your blind spots. And also just a reminder with focus on, remember you're a startup, you don't start out with the answers, you're working toward them and that requires focus. So thank you so much for bringing your insights and your wisdom to this discussion. It's been a pleasure and really appreciate it, Dave and Gavin. Thank you.

Dave Hersh:

Thanks so much for having me.

Gavin Christensen:

Thank you.

Karen Zelnick:

And of course thank you for listening as we dive deep into what it takes to create the perfect pitch. If you want to learn more about our investor, Gavin Christensen from Kickstart or our founder, Dave Hersh at Mobilize, we'll have a link to the company and a longer bio in our show notes at kickstartfund.com. You can listen to more episodes of Perfect Pitch wherever you listen to your podcasts. And if you like what you're learning, leave us a reviewer rating. We'll be back next time with more insights from entrepreneurs and the investors who fund them. So be sure to subscribe so you don't miss a thing.