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Q&A with Michael Seibel, Y Combinator CEO

Singapore Management University

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This is the transcript of the questions posed to and answered by Michael Seibel, CEO of Y Combinator during the Q&A session at the sidelines of the recent Lee Kuan Yew Global Business Plan Competition.

Q: You go to demo day and you're meeting the founders for the first time. How do you find the teams or founders who will succeed? How do you optimise demo day?

Michael Seibel: As an investor I think there are two ways to optimise demo day. One: You start before demo day. The best investors scout the best companies way before demo day. The second thing is: Take your time. It's very easy to get caught up in the five or 10 companies that the investors think are the hottest companies.

What you should know is we tell founders: 'Look. This is not correlated to success. You will have friends in the batch who will have raised $2 million in two days. That looks like success but it's not.' The message to the investor as well is: 'Take your time with the companies, meet with them, and you can decide to invest now or in six months or a year.' Of course the more time you spend with them, the more you're going to know about them.

Those are two optimisations. But demo days are horrible if you're just betting on demo day. How long is it going to take to filter through 7200 companies? We've sorted out 7200 companies and presented you with 130 to 150 companies of the best ones. These are the highest quality founders you can meet in two days without having to do any work beforehand. It's not as horrible as it could be.

Q: How an accelerator should approach being a mentor programme?

MS: One: We don't call anybody at YC a mentor. Two: Every single person who is working with a company at YC has done a startup to some degree of what I would call spectacular success or spectacular failure; both experiences are invaluable.

The next thing is that we try to pull in as many as we can what we call experts as visiting partners from our alumni pool. We have a specific philosophy about how YC should work, and it's best to bring people in who went through YC.

The last thing is: We don't believe in a curriculum. So much of the advice we give could be reduced to, 'Did you ask your customers what they think?' or 'Is this the number one problem you have in your business? No? Then ignore it.'

Q: What kind of skills are you looking when selecting a founder or company for YC?

MS: You'd be surprised. The process of selecting YC companies is more a process of disqualification than qualification. What do I mean by that? When I assess an application, the things I'm looking for are: Can the founder communicate an idea clearly?

The most important question in the application is: 'What does your company do?' 50 percent of the answers, if I read them to you, you'd have no idea what they're talking about. You might vaguely figure out who the customer was but there would be lots of marketing language such as 'synergy' etc. I disqualify those.

I also look at how the founder has split his equity. If the founder introduces me the co-founder and he says, 'He has one percent of the company.' That tells me how he sees the team.

I look at the progress: When did they start? How far have they gotten? You can talk a good game but if it's been two years since you started and the website hasn't been launched yet, then that sucks.

I look at how well the founders know each other. One of our big data points is that if the founders have only known each other for a relatively short period of time, YC can break the company because it's so stressful and you'll get into a fight with your co-founder that you resolve.

I look at whether the company has the ability to build the MVP (minimum viable product) itself? We invest in tech companies, so if you're outsourcing the tech part then what are we investing in?

The last thing we look at it: What is your unique insight/Is there something you've learnt? You'd be surprised that the people who check these boxes are more often than not are beginners.

What I'm not looking for is what school you went to or what credentials you have or what awards you won. I don't care about all that. Good founders get things done. When you're in an interview, you have a one in four chance of getting into YC. That's how we do it.

Q: What are your views on ICOs (Initial Coin Offerings)?

MS: I think it is not a solution for fundraising. However, if you want to have a blockchain-based company and it really makes sense to do an ICO, then that's a viable option.

I look at Filecoin, they're a YC company that did a large ICO, and when I was hearing their pitch everything makes sense. It made sense to build the company using coin.

When the coin is seen as an add-on to the company as a solution for fundraising, that's when it doesn't make sense.

Q: How do you align short-term vision alignment with long-term vision alignment between an angel investor and founders when everything is still in flux?

MS: This is a common question for YC founders. The first thing I say is, ‘A good investor gives you money, signs paperwork when you tells them to sign it, and shuts the hell up.’ There’s a lot of room below ‘good’ – that’s an A investor. There are A+ investors but A is pretty good.

I think oftentimes there is an overemphasis on investors being helpful. The best help they can give is not getting in the way. There are many things an investor can do to make things really bad, and there are few things they can do to help the company. That’s the first thing.

The second thing I tell founders is, ‘You can optimise for the quality of the investor more the later you are in the fundraising process.’ If you want to raise a million dollars, you can be a lot more picky when you’re raising your last $250,000 than your first $250,000.

The last thing is you do want some minimum qualifications. Where you get into trouble when raising angel money is when these are people who have not invested in tech companies before or haven’t come up through the tech world because they have bad expectations. A good angel investor is thinking, ‘I’m flushing this money down the toilet. But maybe, magically, one day a cheque will be coming back to me but it will be a total surprise.’ That’s a good angel investor.

If someone’s made money in another industry, they often don’t have that mindset. We always tell our founders, ‘Do your fundraising and get back to work.’ The more time you spend fundraising, the less time you have to talk to your customers.