Start-up Lessons from a Venture Capitalist

By June Zhu

Yunqi Partners Co-Founder Michael Mao (MBA 1997) provides advice, from an investor's point of view, on what makes a project a good deal.

"Since 1999, there have been about four waves of entrepreneurship, and this one is the biggest.

Two weeks ago, I visited Silicon Valley, where I encountered two Harvard Business School (HBS) graduates. According to them, almost 20 – 30% of HBS' fresh graduates have chosen Silicon Valley as the first stop in their career. In contrast, only a few of them attended [investment banking group] Goldman Sachs' HBS campus talk. This hot trend reminds me of the year 2000 when a lot of MBAs rushed into entrepreneurship. But after the bubble burst, many of them had to return to their previous positions, which we jokingly referred to as 'B2C' & 'B2B' – 'back to consulting' and 'back to banking'.

Currently, improvements in infrastructure such as intelligent hardware, cloud computing, and big data have significantly altered the way people are connected and have greatly improved efficiency. You have to combine the concepts of integration and trans-boundary elements to achieve innovation. If you can create something that provides users with an emotional connection and becomes a part of everyone's daily life, it will be more difficult for others to imitate.

Barriers lowered

In this wave, because of the numerous opportunities available, the barriers for entrepreneurs have been greatly lowered. Young entrepreneurs have the freedom, and prefer to, locate their companies in downtown areas where they can have a richer life. At the same time, it is much easier for small start-ups to grow into giants. For instance, after Didi and Kuaidi merged, the company's value rose to US$9 billion, and an American hedge fund bought their stock. This was impossible for us back in our time – if a company grew into a billion-dollar firm in just a couple of years, we would consider the growth rate to be really high. The main reason behind the difference between then and now is the improvement in infrastructure. Mobile internet is more powerful when it comes to accumulating resources; it is more disruptive, and a more effective platform than the Internet. If it refuses to reform itself, a company with 10 years of history will be targeted by new rivals who disrupt the market. In the traditional industry, it is not a bad thing for you to be ranked third or fourth; but in the Internet industry, the company that is first is good, the second can survive, and the third and fourth have to think up new ways out. It is a place of fierce competition.

How to attract investors

Investors are more concerned about where you are going. Are you going in the right direction and following the trend? The second is about the team's competitiveness. In today's competitive market, VCs attach great importance to a company's ranking – are you among the first tier? Compared to other teams, your team should have no obvious weakness, but should have its own strengths. Though it is easier for companies to obtain funding from angel investors,

when it comes to the B round or C round, investors will pay more attention to the indices, such as user data, which indicate your company's growth trend. Then if the company gets listed or really has grown into a giant, especially for those companies in huge industries, it is all about your liquidity.

How to build up a good team

CEO is the most important role in a team. A CEO's intelligence and ability to think logically is definitely important, but what is even more important is the ability to cope with stress. Many entrepreneurs have to face fierce competition, think about the company's inventory, and at the same time be responsible for their staff and investors. There is a lot of pressure.

I'd also like to stress how important it is to build a team culture. In my opinion, the most crucial time for shaping your team culture is when you have the first 500 employees. A company must build up a good culture from the very beginning, cultivating passion for entrepreneurship among staff. It will be very hard for you to do this when there are already too many people.

Regarding strategy

For an early start-up, if one of the cofounders has an absolutely bigger say in decision making, comparatively speaking, it will be better and fairer. But at the same, there should also be some flexibility in the company structure and it should be subject to adjustment as needed.

The start-up should try to find a good investor in the early stages. Now there are many investment organisations. You need to learn about their characteristics, and choose the one that's most suitable and easiest for you to communicate with. Starting up a business is a lonely task, and you need investors to talk to you, share their expertise with you and give you advice. Of course, for critical issues, you still need to make final decisions by yourself.

Given the pressure from the competition, the start-up team has to make sure there's no obvious weakness. I strongly suggest that CEIBS MBA students don't start up a business together with too many classmates. It could be harmful for the company. The best way is, when you enter a certain industry, you should partner with some experts in this area.

Entrepreneurship is a very stressful marathon, and every entrepreneur should take care of himself/herself both physically and mentally. Last but not least, I suggest everyone use every opportunity to communicate and exchange ideas with other entrepreneurs.

Excerpts from his speech during the launch of the CEIBS MBA Entrepreneurship Lab.