

COFOUNDERS! – Can't Live with Them, Can't Live without Them

Founder Institute (*fi.co*)
San Juan, Puerto Rico

July 24, 2013

Thomas Forest Farb
Mentor, Founder Institute, San Juan

What Are Desirable Characteristics of A Cofounder?

- Entrepreneurial
- Highly-capable in a skill area needed to launch project
- Intense belief in the need & the project
- Highly committed & willing to make sacrifices
- Believes in the need for you as a Cofounder & will work to make the relationship positive
- Providing \$ does not = Cofounder characteristics
- Generally involved in the first year or two of the company & prior to funding or significant revenue generator



Q: How could you not want one of these???

A: 'Cause when they are bad they are really bad!

Major Personal Lessons Learned

- Chose Cofounder too quickly/superficially:

- This is a process that requires face time – no accelerator available.
- Try before you buy (business plan, sales calls, investor pitches, conference)
- I did not do reference checks or due diligence on the person (but later our venture investor did!)
- Thought I had to have a Cofounder to raise money (but investors had a better person in mind).
- You rarely need to rush & you need to be diligent.



My Cofounder Mistakes

- Chose the wrong Cofounder:
 - Overly impressed by the resume but personality, objectives, character, commitment levels can swamp other success factors.
 - Chose person for immediate problems that were facing the company (prototype, customer sales, raising money).
 - Picked somebody not like me & did not do it correctly
 - Did not know how to evaluate credentials.
 - Did not have a common language to communicate.
 - Incorrectly evaluated the candidate's level of experience – it all sounded so good!
 - Picked someone just like me – we just made the same mistakes!
 - Did not carefully evaluate the individual's personal situation
 - The spouse thought he was a Cofounder too!
 - Cofounder not willing to leave Bigco. (The Cofounder who never joined!)



My Cofounder Mistakes

- I structured the relationship incorrectly
 - Not every competent person should be a Cofounder. More than one way to work with an individual.
 - Cofounders don't have to be forever (Different ways to structure & compensate so not locked-in).
 - Thought that because I couldn't pay the person cash, I had to give them founder status. But you can pay cash tomorrow for hamburgers today!



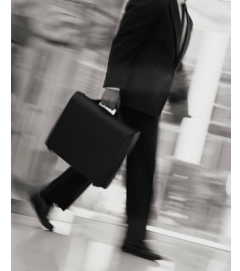
- Just because you are Cofounders, doesn't mean somebody shouldn't be in charge.



How Experienced Should the Cofounder be?

- Experienced/Successful Cofounders not always better

- Can buy experience, but not vision, commitment, trust...
- Success in one field & one company can give warped view



- Inexperienced Cofounders can be painful

- Particularly if equates with maturity level of the individual
- They have to bring something to the party
- Depends on the industry & product – frontier/fluid versus complex/regulated



- And by the way Quantity \neq Quality -- more Cofounders is not always better



Doing It Right – Major Lessons

- Don't make the decision too quickly.
- Get others' input into decision & compensation.
- Look at longer term needs of company – think needs over two years, not six months
- Consider other roles for a talented individuals.
- Equity Splits
 - Don't overestimate the value of just an idea.
 - Use vesting and milestones based on joining/achievements.

Resources

- The Founder's Dilemma – Anticipating and Avoiding the Pitfalls That Can Sink a Startup by Noam Wasserman (2012)
- The Partnership Charter: How To Start Out Right with Your New Business Partnership by David Gage (2008)
- Slicing Pie: Funding Your Company Without Funds by Mike Moyer (2012)
- cofounderslab.com

CONTACT INFORMATION

Thomas Forest Farb
Estabrook Ventures
Waltham, MA 02451

tfarb@estabrookventures.com

Mobile: 978-201-9081