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Founders, Pay Attention to This Stuff—Not the Stock Market

Daniel Zimmermann | 3/23/18

The Dow Jones Industrial Average. Nasdaq. Startup exits. Funding rounds. In our 24/7 connected world, there's no shortage of data you can access, study, and agonize over. The market's latest move—from boom to correction—has commentators and analysts in a tizzy; many investors are feeling anxious, too.

It's easy to get distracted by all this chatter, so I'm encouraging founders to tune it out and double down on their business goals—which raises the questions of what information entrepreneurs should follow and what they can safely dismiss.

Let's start with what to ignore. Though it's tempting, don't get sucked into the minutiae of the economy and macroeconomics. Unless you're a securities trader, blow off the day-to-day fluctuations of the U.S. economy and never let them drive your decisions. VCs have to obsess about these shifts because they can influence valuations and, ultimately, exits, but entrepreneurs should have far more urgent demands than watching the market inch up or down.

Disregard any numbers you can't control. If a former classmate or colleague raises a Series A round that is significantly larger than yours and you think their product isn't as good, of course you're going to obsess. We all seek benchmarks to gauge how we're faring in a world where entrepreneurs compete for venture dollars.

Remember that every company is different. A $15 million Series A round means different things to different startups in different industries at different points of their lifecycle in different cities. The term sheet you get is, ultimately, the term sheet you get. If you think a $10 million valuation is too low, well, it is what it is.

So what numbers do you want to watch? At the top of any entrepreneur's list should be cold, hard cash. Having **cash in the bank** is critical to your ability to raise more of it. Yet many founders mistakenly believe that if they need an infusion, picking up more will be as simple as making a few stops on Sand Hill Road.

That strategy sounds fine until you realize your competitors are gaining on you and you have to get to market faster than you anticipated. If you have six months of cash on hand, you'll burn through it even more rapidly as you accelerate operations. Now you're just a few months or even weeks from a zero balance.

Once your back is against the wall, investors can smell desperation like a shark smells blood in the water. They'll assume—perhaps not incorrectly—that they can push on the valuation because your company is foundering.

Plan your cash position and model out when you'll need infusions of capital. If at all possible, keep 12 months of operating capital in the bank. Never dip below six months of operating capital. And obtain a credit line long before you need it. Because one of the ironies about getting credit is that the only time it's hard to get money from a bank or venture lender is when you really need it.

Along those lines, be fanatical about following your **revenue model, go-to-market strategy, and business development.** New companies often have an exciting product but are murky on how they're going to monetize it. Remember too that there's nothing more powerful than being able to go to a VC and say, we don't need to raise any more money because we're already profitable.

You also need to follow **what your competitors are doing**. Please don't tell me you have no competitors! You probably just don't yet realize who they are. If your product or service is solid, someone will move in on your territory or pivot to do so. And if you truly have no competitors, there is most likely no addressable market.

Listen to your instincts and trust your expertise. One of my clients has spent years researching and testing an idea he's confident will revolutionize an industry. He knows that the technology he developed is faster, better, and cheaper than what's out there. When someone is that smart and thorough and knows their field like nobody else, I advise him to listen to one person in particular: himself.

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