Founder's Space links investors and startups to create better fit

Francesca Martens

BIZ INSIGHT

Having recently moved to San Francisco from Shanghai, I set out to find standout people in the Bay Area who are bridging the divide between Silicon Valley and the startup ecosystem in China. This month, I sat down with Steve Hoffman, founder and CEO of Founder's Space, to hear his thoughts on Chinese startups and learn about his company's expansion plans in China.

Founder's Space is ranked a Top 10 Incubator in Forbes Magazine and the No. 1 accelerator for startups coming to Silicon Valley from overseas.

Hoffman, or "Captain Hoff" as he is known around the office, is still excited by the warm welcome he and Founder's Space received in Shanghai since they opened their first overseas office this summer.

Q: As someone who has spent so many years educating entrepreneurs, what is the most undervalued personality trait for startup founders?

A: The ability to have fun on the job and get the other people in the company to really enjoy being with them. When I look at startup founders, many of them take it too seriously: everything is urgent and matters so much, but in the end, it really doesn't. Most startups will perform better if they approach it from a more playful manner: when people are less stressed, they do a better job and everyone is happier.

Q: Founder's Space in China will be preparing startups for the Chinese market or the American one?

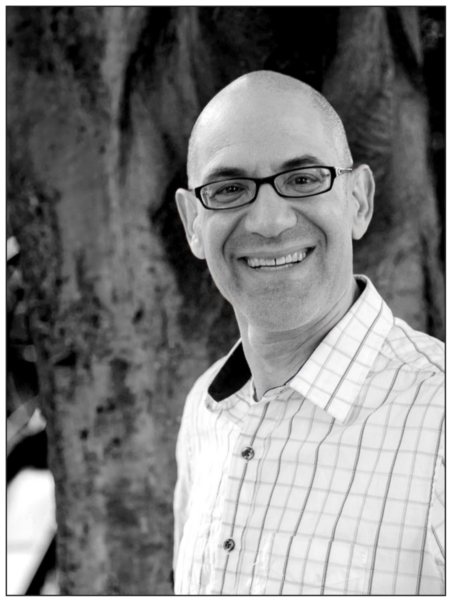
A: In China, we will mostly be preparing startups for the Chinese market so we will be working with Chinese startups, and with overseas startups we will help them enter the Chinese market. Now, we have a batch of Korean startups coming over to Founder's Space Shanghai in a week and a half, and we are preparing them to enter the Chinese market by giving them training and connections. In addition, we will be helping Chinese startups that want to go to Silicon Valley.

Q: Are you adapting the Founder's Space curriculum to accommodate Chinese business traditions?

A: Our curriculum will not be identical to the one we use in Silicon Valley. We will bring on partners that complement our program and understand the Chinese market and have relationships there. For us, the more partners we can bring in, the more we can collaborate, the better the results will be for everyone involved.

Q: What role do you see Founder's Space fulfilling within the Chinese startup ecosystem?

A: Educating startup founders as I discussed before, but also educating investors on how to select startups that are appropriate for investment. A lot of times, Chinese investors will invest in a startup that doesn't have its key elements in place, and then the investors are actually hurting the startup because as soon as you give a startup money, you are validating their business. An educated investor would help them first figure out what they need to do before handing them a lot of money, like figuring out market-product fit or telling them 'hey you guys don't really have something that's unique' 'there isn't a big enough market' or 'hey you're going down the wrong path'. Startups need that more than anything else. This is what we do at Founder's Space. When I attend pitches, I will dig deep in a startup and take them apart so the founders can see their shortcomings and address them as opposed to covering up their mistakes and pushing forward. As people, we are often blind to our own errors until someone points them out!



Steve Hoffman, founder and CEO of Founder's Space

> **Chinese are very good at grabbing an opportunity. When an opportunity presents itself, Chinese entrepreneurs will move super quickly and execute fast.**

Q: What are the most common struggles of Chinese entrepreneurs?

A: I went to Shanghai at two different times recently, and all I did was to attend startup pitches. It really helped me understand the startups in Shanghai and get a feel for their needs. For example, I noticed the quality of the pitch and the pitch deck for most startups was low. They need to learn how to pitch, how to put together a deck, especially if they are approaching investors in Silicon Valley or abroad. Even if they are pitching Chinese investors, by improving their communication skills, their chances of getting funded will go up.

Also, a lot of the startups are taking ideas that are not innovative. I'm not sitting in the meeting being blown away thinking 'oh wow, this is new!'. That rarely happens, and I would like to see more of that innovation and pushing beyond what everybody is doing.

Q: What can American entrepreneurs learn from their Chinese counterparts?

A: Chinese are very good at grabbing an opportunity. When an opportunity presents itself, Chinese entrepreneurs will move super quickly and execute fast. I also think Chinese entrepreneurs have a real sense of how to bring the cash in the door. A lot of US entrepreneurs are more idealistic so they won't really focus on the revenue or profitability. They'll focus more on big picture which sometimes is to their advantage and other times to their disadvantage.

The work ethic in China is also outstanding. Chinese will work seven days a week which is both good and bad. It's good in critical times when you need to get stuff done, but it is not so good when you want to have a balanced life.

The reverse side of this is that because they are so grounded, the Chinese will often think of what is obvious business as opposed to what will be coming in the future. Silicon Valley entrepreneurs will take a chance on what they think is a cool idea. Most of these ideas won't work out, but a few will become enormous.

Q: Many countries are trying to replicate Silicon Valley. However, the Bay Area remains the world center of entrepreneurship and technological innovation. What do you think are the key elements that help it maintain its place in the world of tech and innovation?

A: Silicon Valley has a number of advantages. It has a history of people [there] being dreamers, of not being realistic, and by not being realistic, you can look to the future and try things that other people would discount as unpractical until all of a sudden it becomes practical because technology is here and society has changed to accommodate it. This goes all the way back to the 1960s and 70s with the hippies and Steve Jobs, Stewart Rand. All these people were at the vanguard of believing they could do anything and coming up with big ideas to change the world. Because of this great legacy, Silicon Valley has this momentum that is hard for others to catch up on: there's a concentration of VCs, a concentration of technology, a concentration of entrepreneurs and a magnet for startups from all over the world who migrate or pass through Silicon Valley; so if you are in the Bay, you can do business with the whole world without ever leaving because anybody who is anybody in the tech world will pass by Silicon Valley.

Q: After Shanghai, where are you planning to open offices?

We are in talks with possible partners in Hangzhou, Shenzhen and Beijing. These are our top cities that we are focused on, but we are also considering Chengdu and Wuhan later on.

Francesca Martens writes about entrepreneurship, higher education and personal development. She lives in San Francisco, CA.

China able to steer clear of debt crisis

Qinwei Wang

BIZ COMMENTARY

AFTER reviewing the recent developments around the debt issue, we have not changed our view that China can still avoid a systematic crisis in the near term, as the issue remains largely a domestic problem and in the state sector.

The composition of China's debt issues is largely within the country, unlike typical cases in emerging markets. Its external balance sheet still looks relatively resilient as China continues to run current account surpluses. China has also been building up net foreign assets over the last decade, and is one of the largest net lenders in the world and domestic savings remain high enough to fund investments.

In addition, the situation in the domestic markets still looks manageable. In fact, the borrowers have been largely in the state sector, directly or indirectly, through various government entities or state-owned enterprises. The lenders are also mainly state-linked, with banks (state dominant) making loans, holding bonds or channelling a big part of shadow activities.

The People's Bank of China has prepared plenty of tools to avoid a liquidity squeeze, with capital controls still relatively effective, at least with respect to short-term flows.

Ultimately, the government has enough resources to bail out the banking sector or major SOEs if necessary to prevent systemic risks.

The private sector does not appear to present big concerns, at least for now. In particular, following a major property correction since 2013, the health of the sector looks to be improving, although there is still a long way to go in smaller cities. Households have been leveraging up, but their debt levels are still relatively low with saving rates remaining high.

We are not too concerned about the existing troubled debt, as there are possible solutions to clean it up while avoiding a systemic crisis, and the implementation process has already started. The more challenging issue is how to prevent the generation of new bad debt.

A first step in this direction is to improve the efficiency of resource allocation. Ongoing financial reforms, including the liberalization of interest rates, bond markets, IPOs, private banking, a more flexible foreign exchange regime as well as the opening of onshore interbank markets over the last couple of years are positive attempts.

Continued efforts to shift toward a more market-driven monetary policy transmission mechanism is also helping. The anti-corruption campaign has also effectively enhanced relatively better supervision of the state sector. That said, SOE reforms have been relatively slow, with mixed signals, although we see certain positive developments, such as individual defaults allowed and a pledge to remove their public functions.

(Qinwei Wang is an economist at Pioneer Investments)