

The founder of CapitalG shares what he looks for when deciding whether to invest in a growing startup.

SUCCESS STORY

David Lawee: What Does It Take to Create a Billion-Dollar Company?

By Laurie Mega

Entrepreneurship runs in David Lawee's family. Inspired by both of his grandfathers, who he says were incredible entrepreneurs, Lawee founded a number of successful startups, including Toronto-based Mosaic Venture Partners and gaming company Xfire, which he sold to Viacom.

Originally from Canada, Lawee relocated to California to join Google in 2005. He began as their chief marketing officer before becoming VP of corporate development.

After eight years at the company, he was given the opportunity to found an internal venture: CapitalG, the independent growth fund of Google parent company Alphabet, which has funded companies such as CrowdStrike, UiPath, Databricks, Credit Karma, Lyft, Duolingo, and Airbnb.

"Google," writes Lawee in his CapitalG bio, "was a chance to experience growth at a different scale. The opportunity to lead the

marketing of so many products and services globally was too good an opportunity to pass up."

Through CapitalG, Lawee is looking to grow companies that have already seen large financial gains. They're less interested in seed funding and more interested in turning multimillion-dollar companies into multibillion-dollar companies.

"If you've created 10 million of anything—\$10 million of revenue, 10 million users—you've done something pretty extraordinary. You've found product-market fit," he says.

But there are other factors CapitalG is looking for when they invest in a company, signs that a company has the potential to be worth billions. Lawee shared with us just what those factors are, what trends he's seeing now in company growth, and the lessons he learned from his time at Google and CapitalG.

SUCCESS STORY



HOW DOES CAPITALG INVEST?

CapitalG looks for companies that have already grown, but haven't reached their full potential.

"We're looking for companies that are still in the steep part of their growth curve, and they're going to be there for a few years." he says. "So, if a company's at, you know, 20, 30 million annual revenue, you'd hope that they'd be at 100 in the following year, and then 300 in the following year, and then 600."

That's why, Lawee says, they're always looking three rounds out to see if they will be investing in a growth company.

But they're not looking at a particular market or business model. In fact, many of the companies they've backed were in verticals that had never even existed before.

"The market may not be so obvious at the beginning. Like in the case of Airbnb, you're like, oh, how big a market is there for sleeping on someone's couch? But then it actually becomes something much bigger."

They approach investment opportunities with the understanding that each situation is unique. They also take a hard look at the management team. They want

to get to know the founders and the C-Suite well before they decide to invest.

"You're evaluating, what's the ability of this team to attract other people? And, you know, would I put my brother or sister-in-law in this company? Because that's what you're going to be doing as an investor, you're going to be going and selling this business to everybody."

To cover all this ground, CapitalG reaches out to entrepreneurs before they even need to raise funds.

"So, two years before they need to fundraise, let's start building relationships to understand [their] story."

By the time they need to begin raising funds, it's too late to introduce themselves as an investor. "They're not going to pick up the phone and start seeing who's out there," he says. "They're going to do business with someone they have a relationship with. And so, we need to be that company. And so that's why we're so forward leaning."

TRAITS OF SUCCESSFUL FOUNDERS

In all the thousands of companies Lawee and CapitalG research each year, there are some recurring themes in their leadership,

core traits that all successful founders seem to share. Here are the big ones for Lawee.

Serial Entrepreneurship

When CapitalG is looking at new investments, Lawee says, they see a lot of repeat entrepreneurs.

"A lot of times they understand a problem well, have customer relationships, can pull together a team quickly, and have credibility with investors. [They] know how to sell. There are a lot of skills that are kind of more transferable."

Audacity

A lot of the successful companies they see are headed by people who just have the courage to keep going. They spent their formative years in an environment that fostered and encouraged ambition and big thinking.

Mentorship

Many of the entrepreneurs Lawee comes across have found themselves a mentor, as well.

"Seeking out mentors is definitely something that I've found all of our entrepreneurs are pretty good at. People gravitate to them, but it's a two-way street. These people always have a lot of people supporting them."

ADVICE FOR ENTREPRENEURS

If you're looking for the funding to move your company to the next level, Lawee has some words of wisdom, tips you should keep in mind when you're trying to raise capital.

Don't Pitch Your Company. Tell Your Story.

When a company comes to them, CapitalG isn't looking for a pitch. Instead, you have to be able to tell your story as a company.

"It's one of the skill sets, and that's just as true when you're raising a seed round as when you're going public. You need to be able to tell your story. And one of the skills that we look for in entrepreneurs is the charisma to raise capital."

Don't Get Discouraged

Lawee cautions entrepreneurs that the investment landscape is very competitive now.

He and his group look at thousands of companies a year. If, for example, he looks at 100 companies, 20 of those will generate good returns, but he's only investing in one of them.

"You just cannot get discouraged. And you just have to go into the meeting trying

to understand that that person has had 15 meetings that day. And maybe they've done their homework."

Know Your Audience

It's the entrepreneur's job to help the investor understand their business.

"It takes as much an understanding of your pitch as it does understanding [your] audience. Some people are very theoretical and big-picture thinkers. Other people, until they understand the operating strategy or the financial metrics, they can't place things. And so, you need to understand the language of your investor."

Consider Staying Private Longer

In the last decade or so, Lawee has seen a lot of businesses, such as Facebook, choose to remain private rather than go public as soon as they can.

For Lawee, going public as a new business gives the founder less flexibility to make mistakes. On the other hand, a privately held company can get a solid core business running first before going public.

"And so, there has been a trend toward staying private longer, which has been good in terms of creating a market for our type of financing."

ADVICE FOR NEW STARTUPS

CapitalG doesn't invest in brand new companies. But Lawee does have experience starting a business from scratch. If you're just getting off the ground, Lawee has some advice for you, as well.

Take Advantage of Disruption

While it may seem like callous advice, there are opportunities in situations such as the current global pandemic not only to grow a business, but to help people while doing it.

Lawee points out that as people stay home, fintech and health tech have seen explosive growth. So have educational and entertainment apps, such as one company they invest in, Duolingo.

"Now, there's obviously companies in our portfolio that have been on the other side of that, and so, it is a mixed bag out there. But in general, I feel like there are many opportunities now, really more than there's been in a couple of years."

Stop Thinking Small

Lawee says one of the big problems he sees with companies, particularly consumer companies, is that they start out small. And while that seems pretty intuitive, particularly if you're bootstrapping the venture to begin with, Lawee looks at companies like Google. When they introduce a new product or venture, they think about how it will scale globally from the beginning.

At Google, products would launch in several countries right off the bat. He says that when it comes to product strategy, "You need to think about it in terms of, well, how will this product work across the world? And it just trends you toward a different orientation."

He points to products like Android, Google Maps, and Google Docs that have all been rolled out on a global scale.

"Now, it took a lot of extra work to build international compatibility into all of those products right out of the gate, but then you get the benefits of that when you're trying to scale. You don't have to re-architect your code."

Don't Compromise on Hiring

The same principle holds true for hiring, as well. Instead of thinking about hiring on an as-needed basis, Lawee looks at ways to ensure he's getting the right kind of people for a high-growth environment, and asks himself and his team whether the hiring practices they have in place will work when the company is 100, 1,000 or even 10,000 times as big.

One way that Google does that is by having managers present hiring packets on every candidate they're considering to their supervisors. The idea being that they have to defend every candidate they're considering, a practice started by Larry Page himself.

"And it was a way to ensure that people in a high-growth environment didn't do the natural thing of like, I need someone desperately, and I'm going to kind of make a compromise."

Overall, Lawee and his team are looking for well-established businesses with strong growth in a thriving market. Instead of giving a new idea a jumping-off point, they're looking for a company that already has the momentum to move to the billion-dollar mark and just needs that extra financial boost from a partner who can help guide them there.

To do that, founders should think big from the start, pull together a solid team, and be able to tell the story of their business.



Author: Laurie Mega is a writer, editor and SEO consultant in the Boston area. A bit of a Renaissance woman, she writes about tech, women-owned small businesses, real estate, parenting, restaurant management, women's health, and content marketing. You can find her work at lauriemega.contently.com.

SUCCESS STORY