

## Masters of Scale Episode Transcript – Mark Cuban

“Mark Cuban: What investors really look for”

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**REID HOFFMAN:** We're about to start our episode with Mark Cuban, quintessential entrepreneur and investor, made famous by his role on TV's *Shark Tank*. And that's where we're going to start the show – by hearing from one of the entrepreneurs brave enough to put themselves at the mercy of Mark and the other sharks.

**NOEL DURITY:** It's like you are about to go out on the floor to play your first NBA game. The lights are dark, you get your cue to come out, lights turn on. Your heart starts to race. You start to walk out, the big doors open. You see the five sharks there. Your brain is telling you it's real. Your foot hits the pavement, hits the wood. You sit there for about five to ten seconds. You can't say nothing. Camera goes past you.

And you know when your cue is, you better bring it. It's time for you to like jump. In that five to 10 seconds, you have this energy that you are suppressing and these thoughts that are going through your head. When they say action, just everything goes blank, and you have to perform.

**HOFFMAN:** That's Noel Durity, inventor of the Twist It Up hair comb for Afrocentric hair. Noel is taking us back to his experience on the TV show *Shark Tank*, which sees founders attempt to win financing by pitching to the sharks.

**DURITY:** You get into this zone of like, the rim becomes so big and you make every single shot. It's like, "Oh, I said a few words. I said a few more, it's been two minutes. All of a sudden I found my groove. I'm in a rhythm. Oh, the pitch was done. The Q&A's my bread and butter. It's the fourth quarter. Let's go." You just start running.

**HOFFMAN:** Noel was in the zone. You know: THE zone. Where your sense of time goes a bit wonky. But your mindset is diamond sharp.

**DURITY:** I was in there a lot longer than I thought. I thought we would only be in there for about 10-20 minutes, but we were in there for about an hour. But it went by fast.

I was hoping that they would ask me a bunch of questions, as many questions as possible, because I knew that my product was a niche. So the more they asked is the more that I knew I had their attention.

**HOFFMAN:** It was not just the shark's attention that Noel won. He walked out of there with a joint investment from Mark Cuban and Daymond John of \$225,000 for 25% equity. But they weren't just investing in his product; they were investing in him. And that paid out in 2020.

**DURITY:** My manufacturer is shut down because of COVID. It shut down for two and a half weeks. It's completely shut down. I convinced them to give me the keys, and I go in there at night, and I run parts by myself because at the end of the day, it's my business.

Win or fall, I have to make sure that it succeeds. That's the kind of work ethic or the hustle that Mark loves because he just knows I'm going to find a way. In 2020, the company grew 40% during a recession. Why? Because I'm going to find a way. I don't know. I could just tell you, maybe it's based on my parents, how they raised me, based on just me being an immigrant and knowing that I have to work harder than everyone else, but nothing was ever given to me.

**HOFFMAN:** If and when you land investment, you've got to think like Noel. And you still need the same hunger, speed, and humility. Because these qualities are the hallmarks of a successful entrepreneur. And they are exactly the qualities investors look for.

That's why I believe you need to act like a founder – with hunger, speed, and humility – but also have the mindset of an investor.

### [THEME MUSIC]

**HOFFMAN:** I'm Reid Hoffman, co-founder of LinkedIn, partner at Greylock, and your host. And I believe you need to act like a founder – with hunger, speed and humility – but also have the mindset of an investor.

For many first-time founders, there's a fascination surrounding investment. Investors seem like a different species – perhaps even like predators – who hold the power of life and death over startups.

There's a mystique surrounding the process of winning investment – the financials, the term sheets, the equity you're prepared to give up.

And of course, there's the dreaded pitch, something many first-time founders obsess over.

But all these things should be low down your list of concerns, even if you have your first investor meeting tomorrow. Because they're very low down the list of what investors themselves really care about. So what do investors look for in their founders?

I can't generalize for ALL investors. But there are three things that I think are vital considerations for every investor: hunger, speed, and humility.

I wanted to talk to Mark Cuban about this because as an entrepreneur, he embodied all of these qualities. And when choosing which companies – and which founders – to invest in, these qualities are at the top of his mind.

Mark helped pioneer many of the internet technologies we see as fundamental. He helped make audio and video streaming a reality in the '90s with Broadcast.com, which Yahoo acquired for \$5.7 billion. And he has gone on to become one of the most successful investors in the world.

Mark is, of course, also one of the sharks on the hit TV show *Shark Tank*, which gives millions of viewers a window into the world of investing.

By looking at his journey – and the insights he's gathered along the way – we'll get a unique perspective on the investor's mindset, one that should be helpful to every founder. Even the vast majority who will never find themselves courting investment.

And we'll also hear from founders of some of the companies that Mark has invested in, how securing funding impacted them, and what they've learned from the experience.

Mark started out with the prototypical founder's first job: delivering newspapers. However, rather than spending his entire summer tossing dog-eared copies of the local paper onto the doorsteps of his neighborhood in Pittsburgh, Mark crammed his entire childhood paper delivery career into just 24 hours.

**MARK CUBAN:** When I was 12, I asked my dad for a pair of basketball shoes, he looked at me, and he goes, "Those shoes in your feet, they work really well. When you have a job, you can buy whatever you want." And so I had this orientation always to try and to find new hustles if you will. And so when I was about 16, the Pittsburgh Post-Gazette and the Pittsburgh Press went on strike, and so there was no newspaper and this is the mid '70s.

Newspapers were a vital part of how we consumed information back then, and with some of my friends, I was like: "We need to drive to Cleveland, and leave at six o'clock in the evening, go up there, find out when all the new papers were being printed. Buy as many as we can, fill up the car, put them on top of our laps, fill up the trunk, and go back to Pittsburgh and make it back in time to sell them in the morning for rush hour."

**HOFFMAN:** Pittsburgh to Cleveland is already a 260-mile round trip. But it wasn't as simple as going there and back again. Mark and his pals had to track down the newspapers when they got there.

**CUBAN:** And that's exactly what we did. We literally would find Cleveland Plain Dealer trucks and follow them wherever they were going and bought like a whole truck's worth to fill out the car, drove back with our friends. I dropped them off at different street corners in downtown Pittsburgh and our net effect of cost was about 10 cents a paper, and we sold them for about 50 cents a paper. And we made money and I learned a lesson.

**HOFFMAN:** Yeah, indeed. And did you do that day after day while the strike was happening or just once?

**CUBAN:** We were rich at that point. We all made \$25 a piece, and it was just too exhausting, and my parents, when they realized that we had been up almost 24 hours when it was all said and done, my parents shut it down, yeah.

**HOFFMAN:** In the mid '70s, 25 bucks could get a kid a decent pair of basketball shoes, with change to spare. And this is an early and clear example of Mark showing the hunger and speed that investors look for. There was nothing special about the product or the idea here, it was all about the gusto of Mark's execution.

This was an early instance of a pattern Mark would repeat again and again throughout his youth – with hustles that included selling garbage bags, organizing disco lessons, and holding huge college campus parties.

The common thread linking all of them was Mark's lack of money.

**CUBAN:** When you're broke and you have to come up with something, you've got nothing to lose, and I think that's the other thing to remember. You've got to solve a financial problem. You recognize that if you don't solve the problem, you're stuck. And so if you try and you fail you're back where you started, you haven't lost anything so why not try it, right?

**HOFFMAN:** Yep.

**CUBAN:** And I don't think people realize that sometimes the best time to start a business is when you're broke, right?

**HOFFMAN:** Yes.

**CUBAN:** You got nothing to lose. And if you're looking to be an entrepreneur, you don't want to take on a lot of debt and you know, the car, and the house, or the expense of this or that, that living like a student puts you in the best position to be an entrepreneur.

**HOFFMAN:** To be very clear: I don't want to push the romanticized, and flawed, image of the financially struggling entrepreneur.

There are millions of people in desperately tough economic situations, who find themselves there for many complex reasons – reasons that preclude them from risking everything on starting a company.

And of course, entrepreneurship simply isn't for the vast majority of people. And that's fine too.

The key takeaway here is that investors are on the lookout for founders who are willing to embrace failure. Because that is often a signifier that they also embrace learning. That they can iterate on their idea, or even pivot totally away from it. And founders who are prepared to put it all on the line are likely to embrace failure the most of all.

Another thing that will light up an investor is a founder who has the humility to actively seek mentorship; again, it is a sign that they have a learning mindset.

But for Mark, it wasn't a shining example of entrepreneurial excellence that served as his mentor. It was quite the opposite – the boss at a Dallas-based software sales company where Mark worked in the early '80s.

**CUBAN:** My job was to sell off-the-shelf software and to learn the software and come up with business applications to help people do it. And part of my responsibility was to sweep the floor, wipe down the windows and open up the store at 9:30 every morning.

And one day I had a chance to close a deal that would give me a \$1,500 commission.

**HOFFMAN:** So Mark went to his boss with a proposition: He'd close the deal early the next morning, and arrive slightly late at work. A slam dunk \$15k sale for the company at the risk of a slightly dusty floor.

**CUBAN:** And I called up, and I said, "Look, I have a chance to close this \$15,000 sale which would earn me a \$1,500 commission and earn the store a lot of money too." And I'm like, "So I've got somebody to cover to open up the store and do all that." He goes, "No."

**HOFFMAN:** Asking for permission hadn't worked for Mark, so he decided to go ahead and instead ask for forgiveness.

**CUBAN:** I made the executive decision thinking if I go pick up the check, when I come back, all would be good, right? Cash cures all.

**HOFFMAN:** Mark closed that sale, and bounded back to the office with the good news. Because asking for forgiveness is even easier when it comes with a check for 15k, right?

**CUBAN:** He fired me, fired me.

**HOFFMAN:** And here's how that rigidly by-the-book boss became Mark's most valued mentor. Or, more accurately, anti-mentor. Mark may have learned more by being fired than if he'd been promoted.

**CUBAN:** I learned so much from that because as you start to think back through things, you run them through the head, the conversations I would have with him weren't about

software or this application or that application. And he would never go on sales calls ever, or even make sales calls for that matter, he wanted to be the CEO, right?

He wanted to be the owner, like that's the big deal. He was so much more worried about looking good than doing well. It was crazy.

And if it's your business, and you're the CEO, you're the founder, or one of them, if you don't love your product or service so much that you know that it's a good thing when you call somebody, or email somebody, or talk to somebody about it, you're in the wrong business, and it's just not going to work.

**HOFFMAN:** That boss clearly lacked hunger, speed, and humility.

That boss's ego and self-involvement was hugely damaging in so many ways, and these traits in a founder send alarm bells ringing in any investor's head. It's a clear sign that the founder lacks humility.

But that's not to say that ego in itself is a bad thing. Most founders believe THEY are the ones to bring their vision into reality. And this can be very healthy.

The question a smart investor will ask themselves is: Does that ego serve the mission? Will the ego detract from achieving the goals of the company, or help drive towards them?

What blind spots does that ego create?

If the ego is focused on appearing successful, then that will probably mean the founder is risk averse. They won't want a failure to deprive them of their position or harm their reputation.

Of course, this ego-talk cuts both ways.

An investor with the wrong kind of ego will make your company about themselves. They'll think once their money's in, it's their play, and that the founder works for them. They will, in short, lack humility.

I have been known to tell founders to consider shutting their business down rather than take money from this kind of investor. Better to fail now than to do so in three years in a cloud of acrimonious smoke.

Of course, this is only in extreme cases.

Investor ego can be managed – you just have to assess whether the capital you'll be getting is worth the time and stress this might involve. And I often advise founders to offset that investor's influence with a board member or another investor.

But back to Mark. After his run-in with his anti-mentor, Mark decided he needed a new boss. One that thrived on the excitement of the sale, the hustle of making a new business work, and the elation of scaling a company through audacious leaps. That new boss was, of course, named Mark Cuban.

So in 1983, Mark founded his own company, Microsolutions, that helped businesses buy and set up software systems.

Mark had the hunger, speed, and the right kind of humility. But he had no capital. And no customers.

**CUBAN:** I went to a company who was one of my prospects, and I said, "Look, I just got fired, and I know you want this \$500 piece of software. If you advance me the \$500, then I can pay \$250 to buy the software, and if it doesn't work, for whatever reason, I'll walk your dog, I'll wash your car, I'll sweep your floor. I don't care."

**HOFFMAN:** That software did work, avoiding a sharp career move that could've turned into canine daycare.

And Mark had found a way to launch MicroSolutions at speed – by convincing his early customers to pay up front. It was a gamble, but his success let him establish the credentials of MicroSolutions rapidly – setting it up to scale swiftly. It's exactly the kind of thinking that would pique the interest of any potential investor.

Mark's client base grew. And so did his need for computer parts to build systems for his clients. So he was always on the lookout for deals on hardware. And willing to act quickly to secure them.

**CUBAN:** I noticed this company PCs Limited out of Austin. And what they did that was brilliant. Up until then the price performance curve of digital products were going down, but companies always just tried to retain that margin, they didn't pass it on.

**HOFFMAN:** But Mark noticed PCs Limited was taking out full page ads every week that passed the savings on to the consumers. Each week, the prices PCs Limited sold at were lower, bucking the trend of the market and getting the jump on their competitors. The deals were so good that he decided to drive down to Austin and buy direct from the company's founder, a young man named Michael.

**CUBAN:** The first most memorable thing about it was I had this beat up car, and part of the car fell out, fell off while I was driving, part of the bumper fell off, it was crazy. And then I got to Michael, and I got the stuff, he was in this little, little tiny office. Afterwards I bought all my stuff, drove back with my messed up car, made some money off of that, and I sent him a letter, as people did back then. I said, "Dude, look, you've got this thing down on lockdown. You're going far."

**HOFFMAN:** That supplier would soon decide his own family name had a better ring to it than "PCs Limited". So he renamed his company: Dell.

**CUBAN:** He was 23, and I was 25 and I had that letter for the longest time and lost it, my letter to Michael Dell saying, "You're going to do pretty well at this thing." And so we stayed friends ever since.

**HOFFMAN:** As well as building his skills as an entrepreneur, Mark was clearly developing his sense for a good investment, which is as much (if not more) about the person than the business idea. And this is important to remember – products and ideas come and go, some fly and some fall, but you, the founder, are the constant. And you are the real selling point to investors.

Microsolutions was a success, reaching revenue of \$30 million. In 1990 Mark sold it to CompuServe, netting \$2 million. Mark spent the next four years growing his capital with a string of savvy investments in tech stocks.

Then, a conversation with an old college friend, Todd Wagner, pulled Mark back into entrepreneurship.

**CUBAN:** And at one lunch, this was in late 1994, he was like, "This new internet thing, right? There's got to be a way that we can listen to Indiana Basketball using all this new internet stuff." And this is when you had a 56k modem, you had to download TCP/IP software, Netscape wasn't out yet, if at all it was still Mozilla, right. And so I'm like, "Let me work on that, let me figure it out."

**HOFFMAN:** The way he figured it out was by using a piece of technology whose days were numbered.

**CUBAN:** I took a eight hour VCR and went to a local radio station, and we hooked up this VCR to their audio board, and we recorded on these eight hour VCR tapes then I would take them back to my second bedroom and encode them. That was the start of audio on the internet.

**HOFFMAN:** That's right. Video may have killed the radio star. But it also gave rise to its own demise: streaming. Mark was like some mad scientist splicing together technologies from the early internet to invent something people barely dreamed possible, but something we take for granted today.

And Mark didn't wait for the technology to be ready – he just did it. It was another example of Mark's insistence on immediate action that let him speed out ahead of everyone else.

Their company became Broadcast.com.

In 1999, at the peak of the dotcom boom, Yahoo acquired Broadcast.com in a \$5.7 billion deal.

Mark spent some of his money from the deal on the Dallas Mavericks basketball team. And he founded another ahead-of-its time company – HDnet – that focused on high definition video streaming. He also set up Landmark Theatres, 2929 Productions, and Magnolia Pictures.

He had made the move from serial entrepreneur to business person and investor. His next move would see him become a household name.

### [AD BREAK]

**HOFFMAN:** We're back. It's 2011 and Mark Cuban has just received a call asking him to appear on a new show called *Shark Tank*. The show was in its second season, and ratings were mediocre. The producers thought Mark would be just the kind of superstar investor who would draw more viewers. Mark said yes, but at first didn't take it too seriously.

**CUBAN:** And I thought, I'm going to do my three episodes, but I'm just going to raise hell. Right, I'm just going to go on there and buy everything, I don't care what it is, but I'm just going to just buy everything. And so that's what I did.

And I bought some of the worst companies I've ever invested in, but it didn't matter, right, because it was fun.

**HOFFMAN:** But then two things happened. The ratings started to take off. And Mark realized the show had depth, reach, and impact that he'd originally overlooked.

**CUBAN:** What I came to realize very quickly wasn't so much from an investor perspective, it was the people who were emailing me and calling me and stopping me, it was the same theme all the time. "My whole family watches this show together, and I have a 10 year old, or 11 year old, or a 14 year old that now just started this business or that business or are excited about starting a business."

And to me that was stunning, I hadn't even considered that, I was just doing it for the fun of it.

**HOFFMAN:** That's right. Mark, an investor, hadn't thought that much about the view from the other side of the table.

And hearing him say this got me talking to my producers about the difference between the mindset of the investor versus the mindset of the entrepreneur.

**HOFFMAN:** An investor goes into entrepreneurship and says, "Hey, how hard is it?" It's like, "Well, actually, in fact, there's tons and tons of detail, getting your hands in the clay versus just, 'Hey, I'm a good strategist. I understand what the value of a business is.'"

Look, no, no, no, no. How do you bring a set of people together to row together and then to grow the team together and everything else? That's very different, the entrepreneurship and investment side.

Then likewise, the entrepreneur goes in to an investor and says, "Oh, I made this, so I'm now successful." It's like, "No, no, no, but it's not you making it. It's them making it. It's picking them." That's one of the reasons why part of the way that I train investors is, look, we at Graylock try to be as deep partners as possible to hold ourselves to the highest standard of the entrepreneur who goes, "Yes, they were deeply helpful to me along this journey." That being said, the investment criteria that I apply is would I give this person the money and walk away and say, five years from now, "How did it go?" Because it's about the entrepreneur's journey, not yours, not, "I as an entrepreneur can make this successful." It's, "Can this person make this successful? And I'll try to help as much as I can."

Entrepreneur, investor – the roles are very substantially different, and one success pattern can mislead you from the other one.

**HOFFMAN:** Mark quickly began to see the value of *Shark Tank* not just as a tool for communicating with the founders of today, but for inspiring the founders and investors of tomorrow.

**CUBAN:** By that third year, we were one or two all the time for shows watched by families together, it was incredible. And so once I understood that, then doing the show became a no brainer and that's why I continue to do it to this day. It's not because I get access to these great deals, even though some are good, some are bad, but just the idea that kids are watching, or parents are telling me, you know, "now my kids understand what I do when I explain that I'm in this industry or that industry." And so that's really rewarding and that's exciting for me.

**HOFFMAN:** *Shark Tank* connects with people on a fundamental, human level. Whether the deals are closed or not is only part of the drama. The real draw is seeing the people behind these ideas, putting themselves and their creations on the line. It's a window into the very heart of being a founder. And it's a place where entrepreneurial qualities of hunger, speed and humility are on full display.

**HOFFMAN:** One of the things I think is awesome about what you guys are doing in *Shark Tank* is that it's really important as part of the entrepreneurial journey to understand the investors' mindset, because most of these companies require some kind of relationship with investors. And part of the *Shark Tank* is to say, "Look, this isn't just I've got an idea, you also have to figure out go to market, you have to figure out investment, you got to figure out..."

**CUBAN:** Yeah, that's one of the most compelling things that we tell people, right? Because particularly the Silicon Valley ethos is come up with that idea, get an investor. That's not how the real world works.

**HOFFMAN:** Yes. Yes.

**CUBAN:** You know, it's: have an idea, do some of your homework on it, come up with a prototype or an MVP and see if you can find a customer. Because for 99% of companies that start up, you're not going to get an investor, and you live close to the people who are going to be your customers to help your business get started, particularly if it's a service-oriented business. And so *Shark Tank* really conveys that message, and we try to reiterate it over and over and over again.

**HOFFMAN:** I asked Mark to talk about some of his favorite investments. Unsurprisingly, all the founders he named display those three key qualities that made Mark so successful as an entrepreneur: hunger, speed, and humility.

**CUBAN:** I invested in a company called Simple Sugars, Lani Lazzari who was 11 years old when she came up with the concept and just started selling locally. And then by the time she was 19, she found a local grocery store which gave her some sales, which gave her the confidence to come on *Shark Tank*. And here was Lani not even 21 on the show, the show airs, and I get a call from her, and what I do is I typically get weekly or bi-weekly emails, and I always want bad news first. You always have access to me, you can email me any question, but I expect good news, right?

I invested because I expect you to do good things so I want to know the bad news so I can help you. And so I get a call and she's like Mark, and I'm thinking something's really wrong. She goes, "I have a million dollars in the bank, what the hell am I supposed to do?" I mean, it's just like the craziest thing ever, but that's an example of someone who was just starting small in a suburb of Pittsburgh where I grew up and just worked locally.

**HOFFMAN:** Here's Lani on the *Shark Tank* experience.

**LANI LAZZARI:** First of all, I think that one of the big things for me was I tried to be very honest with myself going into the pitch about what my weaknesses were. I tried to be very aware of all of the things that they were going to try to get me on. Some of the things that I thought were going to be a big deal to them really ended up not being a big deal at all. Overall, I went in with a business where I knew that whatever shark gave me a deal was really going to kind of have to buy into the story and have some faith in my ability to continue to grow the company. Because from the financial side, we had only done about \$80,000 in sales. We had some debt.

So it wasn't the strongest just on paper from a financial standpoint investment opportunity. So I really just kind of needed someone to basically believe in me and agree

to support me. I was really pleasantly surprised to be able to partner with Mark. I just think it shows that they definitely are investing in a person, not just in a business. And I think that that's something that you wouldn't necessarily expect in that context, especially from someone who's a billionaire who you've never met before.

At the same time though, it was a little bit scary when I accepted the offer because I was this 18-year-old girl giving away 33% of my company to this billionaire. And there was part of me that was kind of terrified that he was going to come in and it wasn't going to be my business anymore. It was going to be like Mark Cuban or Mark Cuban and his team telling me what to do. And I wasn't going to really have the control that I wanted to have over my business.

And I'm really, really pleased to say that that's not at all what happened. We have a fantastic relationship. Mark has been an amazing partner. I've learned a ton from him and he is always there when I need advice on something, but at the same time he is there for support. That's something that I really appreciate. It's just been a really amazing experience all around to be able to partner with Mark.

**HOFFMAN:** Another of Mark's favorite investments is in Noel Durity, the founder of the Twist It Up comb, who we heard from at the start of this episode.

**CUBAN:** And he was broke, I mean, he was dead-ass broke, and he started selling to people in his neighborhood first to get proof of concept and get people to understand it. And built that up and built that up, then started getting some retailers and some wholesale business, but the whole thing that really was inspiring to me is that you don't have to live in a rich neighborhood, you can find things that solve problems for people you know and then turn that around.

And now Noel has paid me back five, six times over already and he's asking me where he should invest his profits.

**HOFFMAN:** Before appearing on *Shark Tank*, Noel spent as much time researching his potential investors as he spent polishing his pitch.

**DURITY:** As far as the personalities of the sharks, that's the one thing I probably spent most of my time doing. Outside of not really rehearsing that much, most of my time was watching a bunch of *Shark Tank* episodes and understanding the personality profiles of each shark. Because ideally, you are trying to entice their personalities, to make them invest in you. So at the end of the day, out of the seven, eight sharks, that could have been on the chairs out of the five, I knew that I wanted Mark or I wanted Daymond, because those are the two people that I felt that would actually invest in me.

I knew Mark, even if he didn't understand the product, he may invest in me, because he likes to invest in the entrepreneur. He likes to invest in the grit, the hustle.

**HOFFMAN:** Mark also has an open door policy for the founders he's invested in. He's there to give them advice, but he is clear they are the ones who call the shots. However, not all investors take this hands off approach, and this is something you'll have to weigh when you think about taking investment.

**CUBAN:** Raising money is not an accomplishment, it's an obligation. It's more about getting someplace where you can solve a problem and do something unique and special, and once you get to that point, yeah, a little bit of investment because the less you take the more you own.

**HOFFMAN:** Yep. The way I describe entrepreneurship is you jump off a cliff, assemble an airplane on the way down and then financing is a thermal draft. It isn't success, it just makes the ground a little further away and comes with an obligation.

**CUBAN:** Exactly right. Yeah, I like that. A thermal draft, it makes the fall a little bit longer, but it doesn't keep you from hitting rock bottom.

**HOFFMAN:** Raising money is not an accomplishment, it's an obligation. This is where the humility of the entrepreneur comes into play. Mark's phrase is something you should keep coming back to, especially if you are thinking of seeking investment in your company.

Investment is a thermal updraft, but with strings attached – strings that can pull you crashing down, as well as soaring high, if you don't understand them properly.

An investor gets a seat at your table. They effectively become your financial co-founder. And they now have a deep set of interests in your company that will often align with yours.

The best way to make sure that you, and your investors interests align? Empathy.

**BRAD SCHULTZ:** When working with investors, I think one thing that might get overlooked, and we had to learn this, is just having empathy for what it's like to be an investor.

**HOFFMAN:** That's Brad Schultz of Future Proof, owners of BeatBox Beverages. Brad, along with his co-founders, were contestants on *Shark Tank* that Mark invested in. And having empathy is important, as it means you will have the humility to learn.

**CUBAN:** Each person comes to investing with their own set of why they're investing and what this investment means to them. This could be something purely emotional, a lifestyle that they want to live. Truly understanding the person that you're sitting across from asking for money and being able to articulate how this investment will help them achieve their goals is just as important as asking for it. I think learning that and learning what is important for the person you are asking to invest is very important.

**HOFFMAN:** And the most important thing to do before a deal is on the table is to make a clear-eyed honest assessment of yourself.

**CUBAN:** I always tell people you got to be brutally honest, you've got to kick your own ass. You've got to know how a competitor can destroy you because once you understand what can destroy your business, you know what you need. And once you know what you need, then you can start evaluating potential investors. And part two to that is you have to do your homework, right? I'm not going to be the same type of investor as Kevin O'Leary, or Reid Hoffman, or anybody for that matter, right? We're all different and have different areas of skill and where we're good and where we're bad.

Then once you know what you need, then you've got to know can this person potentially, do they have that skill set? Can they deliver it? And can you work with them? Some entrepreneurs, you know, "give me your money and go away," and some investors are, "here's my money call me when you need me and hopefully it'll be because things are well." And others like myself are, we have this whole organization to help you. My job is to help you, are you the type of entrepreneur that is willing to accept help.

You need to know about yourself and you need to be honest with yourself. Once you have answers to those questions, then you can start taking those steps to do what's best for your business.

**HOFFMAN:** All too frequently, founders choose investors based on who seems to be the most excited, or who is paying the highest price.

But what you should be focused on is which investor, which network, which partnership maximizes your chances of success 10 years out?

And to assess these factors, you really need to understand your potential investors as much as you can.

One way to do this is to listen to investors talking with each other. To give you an immediate example, I want to turn over the rest of this episode to part of my conversation with Mark.

**CUBAN:** People always ask: How can I start a business? Should I start a business? And my first response is if you have to ask, you're not ready. Because entrepreneurship builds from a sense of confidence not a sense of uncertainty, right? That you can solve a problem, that you have something unique, whether it's the technology or whatever. And once you have that sense of confidence that you've got something unique, that's when it's time to say, "Okay I'm not going to quit my job, but I love this so much. I'll do it at night and on weekends."

And if you have that commitment to do at night, on weekends, to give something up so that if you have a job, you're saving something, you're not splurging on something, you're actually saving your own money to build that prototype or offer that service on night or weekends, that's how you start building that base to know that you can be an entrepreneur. If you're not willing to do even that, you're not an entrepreneur. Because there's always a measure of sacrifice involved no matter where you are, I don't care if it's you or I starting a business, there's something we were doing that we gotta stop doing in order to be able to do this.

**HOFFMAN:** By the way, one of the funny things is, you probably know one of the biases in Silicon Valley is to invest in people who started coding before they were 12. My actual belief in that, especially when you get to the whole world and not just Silicon Valley technology businesses, is you actually want to invest in people who started entrepreneurship early. They understand that straight hustling just like you.

**CUBAN:** Yep. I agree, right? Because there's a cause and effect, right? No business has ever succeeded without sales. And some of the biggest mistakes in investments I've made is the kids were smart, the people were smart, but they had no sense of customers, and accomplishment, and selling, and achieving customer goals, and putting yourself in the customer's shoes.

If you're selling magazines door to door, you know that better than anybody, right? If you were one of those kids selling candy to help pay for your football or basketball team, you know that better than the kid who took up coding and wrote their first game, but never tried to sell it.

There's no business in the history of businesses that there hasn't been blood, sweat, and tears, and you've had to earn what you've accomplished, right?

**HOFFMAN:** Yep. And actually that rhymes and has a very similar feel to a piece of advice I give people, is start your entrepreneurial journey early because you can learn and iterate from, and by the way, earlier it's easier to take risks, right? Because you go, "Hey, look..." Some of us myself, I was lucky, I could move back in with my dad if I ran out of all my savings and say, "Okay, look, I'll restart, I'll get a job," but it's easier when you're younger.

**CUBAN:** You got nothing to lose and on top of that your time is very much fungible, right? You've got so much more time, you know that time you spent playing this game, or that game, or messing around with this or that, you can find time to start even the smallest of businesses, whether you're selling shoelaces or trinkets, or whatever it may be, you can figure these things out. You know, teach yourself coding, just basic stuff to come up with solutions. It's just you've got all the time in the world and there's no better time than when you're a teenager.

What I tell people is it doesn't matter how many times you fail, you only have to be right one time. Just one time, then you're going to be called an overnight success, be called lucky, but you're going to be laughing all the way to the bank or whatever it is that you... however you define success because it's not always money, right? And so that's what I learned early on. And again, when you don't have anything to lose, and that's the other thing like you were talking about Reid.

You know, when you're young and you start these businesses, you will fail or you will get bored with them, and you'll learn that: "Okay, I failed on this as a kid, I failed on that as a kid and I kept on coming back, right. And then I did a little bit better with this one and that one," and so you recognize that failure is just an issue of time more than an anvil that's holding you down.

**HOFFMAN:** Yep. Many people hear the dictum in Silicon Valley fail fast, but they don't realize that it's: fail fast to learn in order to succeed, is like the complete...

**CUBAN:** It's fail smart regardless of how much time right?

**HOFFMAN:** Yes.

**CUBAN:** You know, again particularly in Silicon Valley, people, they're onto their next thing without having a full understanding. And one of the things, I try to spend more time reading about failed companies than successful companies. You get the idea, you look it up, right, and you get that feeling in your stomach and you think, "Oh, wow I looked it up on Google, nobody's ever done it." Well, nobody tells you that all those failed companies, they don't keep their websites alive, right? And those websites are not indexed when you go and look something up, right?

There's not a thing at the bottom of Google that says, "Okay, this was one of the 20 similar companies that failed." And so having an understanding of not just what successful companies have done, but those companies within your industry, within your purview, whatever it is you're looking at, you've got to make an effort to find out those companies as well. I mean with LinkedIn and all the things, there were a lot of comers and goers that set a lot of expectations, and you watched them fall by the wayside, and you had to have learned a ton from them.

**HOFFMAN:** Simply having hunger, speed, and humility is no guarantee that your startup will avoid an eternity of obscurity in that imaginary graveyard of failed companies. But embodying those qualities will help maximize your odds of success. And they'll also make you stand out in the sights of potential investors.

If you want to hear more of the full conversation I had with Mark Cuban, then check out the new Masters of Scale app, where subscribers get exclusive access to full guest interviews, our Mindsets of Scale course, and many other membership benefits.

I'm Reid Hoffman. Thank you for listening.