An Interview with Jim Jonassen

Jim Jonassen, Founder, Jim Jonassen and Associates Venture Search, speaks with Growthink University's Dave Lavinsky

Dave Lavinsky: Hello everyone. Dave Lavinsky here from Growthink and today I'm really excited to be doing an interview with Jim Jonassen. Jim is the founder of Jim Jonassen and Associates Venture Search, which is an executive search and placement firm that focuses on placing talent and technology at media companies on the West coast.

Importantly, not only has Jim personally led over five hundred searches in his career, he's also successfully worn the entrepreneur shoes several times. He has founded and built two successful software companies, raised venture capital for them, and led one through acquisition and IPO, and the other to ongoing profitability.

So based on his impressive track record I thought Jim would be the perfect person today to speak about building a team to both raise capital and grow a successful company. Jim, thanks again for taking the time to speak with me today.

Jim Jonassen: My pleasure, David.

Dave Lavinsky: Excellent. I was hoping we could start by you telling us a little bit about when you raised capital for your own companies and how your management team played a part in doing that.

Jim Jonassen: Sure. I've founded seven companies. Six of them were bootstrapped and profitable, so our lead investors were Visa and MasterCard.

The other one was a venture-backed company and this was 1998. We were an enterprise software company that I had started in the late '80s. We spun this company out of it and we had to go and raise money so we went up to Sand Hill Road and started doing the tours there.

My cofounder said, "*Hey, we need to get kind of a jungle guide.*" We got a finder involved. This was a woman who could make introductions to some of the top firms. She ended up getting us in the door but did very little else. That was a little bit of a dead end but it got us through those first six meetings where I learned how to pitch and we learned how to navigate the process.

Ultimately we got a lead term sheet. I think the key thing there was we brought on a board member who was a made guy, who had done this before. He began then firing up his role. We got a lead investor.

From there we went and raised immediately half a million in angel money to extend us through the time we would need to get a co-lead or our syndicate kind of built. We're lucky we did that because we raised the angel money in one week and two weeks later the stock market melted down.

We were doing a great business partnering with PeopleSoft. They lost like 40% of their market cap that day. We had to reset the term sheet. We went from a 14 pre [money valuation] to an 8 pre, or an 8 or 9 pre. Then it took us right to the edge of our angel money and our factor receivables. But we rounded out our Series A at $5 million. That was quite a run.

As far as the team being part of it, what I learned was that the team isn't just your management team – it's your board and advisors as well that are instrumental in that. I also learned that because we didn't have "been there and done that," tried-and-true, battle tested entrepreneurs as part of it – that really went against us. I had the wrong vice president of engineering. That came through in some of the investor meetings.

Getting people around your pitch and your company and your venture that you're going out to get funded that have "been there and done it" is invaluable. That scar tissue and that domain expertise is really important to prospective investors. They want people that have been there and done it before.

Dave Lavinsky: Excellent. That's great advice. If you're an entrepreneur you really want, once again, that last thing you said – people with the war scars that have been there and done that.

If you're an entrepreneur that wants to recruit and assemble a management team of people that have more experience as you said – unlike your VP of engineering who may have been the wrong person – how do you go about that? What is some advice you have for entrepreneurs to recruit and assemble their management team?

Jim Jonassen: It's always a chicken and egg. Oh, you want to recruit a management team, do you have capital? Oh, you want to raise capital, do you have a management team? I think that the thing about a team is, again, you've got to look at the team as an extended team. It includes your advisors, your board and your senior management team. You've got to work in parallel to get all three.

Think of what agents in Hollywood call "attaching someone to the deal." You can get someone who says, "*I really like what you're doing. Make me an advisor. I'll quit my day job when you get the money*." That's huge. Now that person is on the slide with you. That person is coming in one day a week. To get that, so they get to "try before they buy" but they get to lean in and you get to use some of the cache of them being attached to the deal.

Maybe they then help you to get an industry advisor or a funding advisor or a domain subject matter expert that's an advisor. Now you create some heft there. You've got some more logos and resumes around that side of it. And then you try to get a really great board member to be your chairman, your non-executive or executive chairman, who's going to kind of bolster your board but also make you look stronger as a CEO because you've now got someone there.

All this stuff you've got to do it in parallel. It's not a serial process... You're out there pitching and you've got to convince people to believe the dream. You want to get them attached in some way on a path toward converting them to being an investor, a board member, an employee. But you've got tot start somewhere.

The other thing that I would say is partner with somebody in my business [executive search]. Go to the best retain search firm or high-end contingency search firm you can and just say, "*Listen. We're going to go out there and we're going to kill it. We're going to get our funding. We're going to build a world-class team. The one thing I don't have now is cash to pay you. Let me throw you some options or warrants. We want to partner with you to help us to bring the best and brightest here, attach advisors and board members, in addition to employees. Come on in and share the risk with us.*"

Then you get all the search work going forward. We've done that with a number of pre-funded companies, helped them to get their funding, putting human capital in as well as attaching them to angel and venture investors. Don't be afraid to pick up the phone. You don't ask you don't get.

Just because they've got a fee schedule that's way above your budget, get together with them, buy them a beer and convince them that yours is the deal they should take some risk on, with all that inventory of talent they've got sitting in the database.

Dave Lavinsky: That's great advice. You mentioned using options and warrants as a financial mechanism when you can't pay to retain a search firm, and obviously you can't pay the executives what they're currently making.

What type of share in terms of equity should the entrepreneur be willing to give up when they're really just the man with the plan, the guy with the idea and the business plan to bring on some of these people? Are there any set formulas or standards on equity that should be given to the early executives that come on?

Jim Jonassen: That's a great question. The first thing that I would say is just like I said. You go and find a head owner to partner with. You need to make yourself real. You do that by finding the proper entity. Usually it's a C Corporation with a real option pool, with a stock option agreement.

What I would say is go find yourself a commercial bank. Go find yourself a law firm and go find yourself an auditor or small accounting firm that will attach themselves to you, defer some of those big retainers or fees until you get funding. But now they can set up a simple option program, so that you're not just saying "*Yeah I'll give you some phantom stock*" or "*You'll get a piece of the pie*" or "*I'll give you a point*."

That's bologna. You want to be able to say, "*This is the option agreement. I'm giving you one hundred thousand shares which represents one percent of the fully diluted outstanding*." Now they're saying, "*Wow I've got an option agreement. I've got a non-disclosure. These guys are real. They're legit*." Make yourself legit.

From the standpoint of an employee, there's a venture capital matrix that's well fleshed out, that says at this level of risk, pre-Series A, a VP of engineering gets 4%. A vice president of sales gets 3%. With Series A that goes down to 1%. With Series B, the CFO gets a point and a half.

There's a well developed matrix that I won't go into here. But you can pretty much say, "*Market is this and that's what I'm going to offer you*." Market is 1%, 2%, 3%. Here it is. It's a four year vest. It's a one year clip. It's all the standard stuff that any VC or venture savvy individual is going to be able to understand and respect.

The other side of it – for board members and advisors – it's insane how just the notion of them getting some stock is much more important than the amount. The

example we always used was the magic number twenty thousand. We're going to give you Mr. Lucky Advisor, twenty thousand stock options. There were 20 million shares outstanding or 10 million shares outstanding so it was meaningless from the standpoint of the percentage of the pie that it was. But for them it was twenty thousand. I'm one of the guys here. It was a very cheap way to get big brains and domain expertise and some scar tissue around you.

They might fight back. I had one board member who I ended up giving three percent of the company. Guess what? That guy got our lead investor and got one of our two syndicate partners in there. It was a huge chunk of stock to my cofounders. It was the best thing we ever did.

Dave Lavinsky: Agreed. That makes a ton of sense. Basically what you're saying, based on the stage that you're at, you need to do some research because there are some standards regarding equity to give up.

Jim Jonassen: Absolutely.

Dave Lavinsky: When you were running your businesses and you raised capital, was it challenging for you as an entrepreneur to give up all these pieces of equity, or were you able to realize the bigger picture?

Jim Jonassen: Initially it's kind of daunting. Mostly what I would say is you might get it but your cofounders might be saying, "*Hey. I don't want to dilute. We shouldn't be giving that away*."

Ultimately here's what you find out. What you find out is 80% of the people you're going to bring in at the early stage won't scale. They get you from here to there. They don't go all the way. So guess what? Three quarters of that stock that you gave out to them comes back into the treasury because they've vested a year. Maybe they leave. They've got to exercise their options within ninety days. A lot of them don't buy any of it. It's all back into the treasury.

The reality is don't be afraid of that. If people scale, great. They've added so much value that you want them to vest and you want to juice them up with more stock options. But you shouldn't be intimidated by that at all because again a lot of it is going to come back to you.

There are two things I always remind CEOs. You're an at-will employee with a twelve month cliff, meaning you don't have a contract. You can't sue me for your stock, etc. If for any reason either of us wants to go away there is no indentured servitude here. You walk away.

And guess what? If it's before the first year, all that stock is coming back to you. Really what you've got at risk is one fourth of the grant that this person is going to get because you're going to know well before a year whether or not they're going to scale and they're going to be value-add to the group.

Dave Lavinsky: Got it. Now you mentioned the word scale a couple of times. When you talk about people that don't scale, you're talking about at the early stage of the company there's a different skill set involved to take the company from zero to X and then from X to Y. Is that what you're referring to?

Jim Jonassen: Yeah typically when you're starting a company, if you think of an organization chart, I think of it as hats. How many hats do you have to wear? Well, there's probably like twelve hats that need to be worn, but there's only three guys wearing them. So you're going to have some people that are wearing four hats. Another is wearing two hats. Another is wearing three hats. Another is wearing five hats.

Then there comes a time when you say now you're spending so much time with this one hat, you just do that and we're going to find somebody else to do these other two hats. Some people don't want to let go. Other people you find out that they're really a good generalist at four things but they're not great at one thing.

You hit these decision points and you've got to make a move as the chief executive officer who's acting in the best interest of the shareholders. You've got to use the bullet. You've got to say, "*Hey you know what? You've vested a quarter. We'll vest you forward another two quarters of your stock. But we've got to bring in a kick ass sales guy. We've got to bring in a seasoned finance guy because we're now at a place where we've got six customers or two investors*" – or whatever it is.

That's what I mean when I say scaling. What you find out is some people scale. They both will let go of things that should be let go of, and they'll become experts in things you want them to focus on and others don't. The ones that don't, I say they either scale or they end up just being wood on the fire and you end up burning through them. It's not a bad thing. People learn about themselves in these startups because it's 24/7. It's a hard grind, especially in a market like this where not only do you have to raise money but you've got to get the cash flow.

Dave Lavinsky: What about from a recruiting perspective at these different stages of the company life cycle? When you're hiring at the very beginning you're talking about people that can wear several hats versus at some point you get to where you really need experts, you need functional discipline. What are some tips that you may have for hiring at different stages to make sure you have the right people at the right time?

Jim Jonassen: That's a good question. I think you've got to use your board and your advisors and you've got to constantly look as the shepherd of this company and the steward of the value of the company.

You've got to step outside yourself and say, "*Are we delivering the best value to shareholders with this individual here?*" Then you've got to make those decisions. The hardest lesson to learn is to err on the side of making a change

much, much sooner. You can't rehabilitate people. People in the main don't change.

Regardless of promises and all the acrimony that comes around having to make a change, you've just got to do it. It's the hardest thing as a CEO but you've got to use the bullet early. Then as you're recruiting at different levels, what I would always say is aim high. I want to get someone who isn't just good for the $1 million to $5 million. I want someone who can take us to $20 million. I recruited a CFO when we were $3 million in revenue who was out of the top guys' treasury at the Walt Disney Company because he wanted to take a risk and we convinced him and our board convinced him that we were a great risk.

I thought it was way too early to bring in a CFO. The day he got there I got 40% of my day back. You always want to say "*I can do it cheaper, I can be leaner,*" etc. But you've got to figure out in these decisions what's the best use of your own time and how could I better be delivering. I was a selling CEO, so I was able to be on point doing more deals, recruiting better sales guys, doing business development deals, because somebody else was making the internal train run on time and dealing with all that stuff.

Dave Lavinsky: Got it. I guess the big point of what you're saying is that the founding management team is most likely going to look very, very different from the team that's running the company if it succeeds at various points.

Jim Jonassen: Definitely. Only in rare circumstances do those teams scale and stay together and not get distracted and still believe in the vision that was there in the early days. Yeah, you're going to have different generals for different wars.

Dave Lavinsky: What about corporate types? I think you mentioned your CFO that you brought in basically had a corporate background. What are some of the concerns or pitfalls of taking the corporate person and putting them in the entrepreneurial world?

Jim Jonassen: Because I was a headhunter and I'd done ten thousand interviews before that, I could see that in John he had the soul of an entrepreneur. I could see that he had the heart of an entrepreneur. I could see that he had the ambition of an entrepreneur. He was just locked in this big company for a long time and he was dying to do what we were doing.

But you've really got to be able to suss that out. Through your recruiting partner, through your board members, you've got to really size them up. Because if they haven't seen the startup movie before I'd say proceed with great trepidation and the assumption or the default that they will not get it.

They will crash and burn and hit the wall because you don't have a big brand. You don't have big resources and you don't have this kind of net that you're always working with. Everyday is we bet the company and we live and die by the results. The rare case comes where you get that individual who just has the heart of the entrepreneur and is dying to do it. The desire and something to prove is there. So you take a risk.

But, you've got to be able to kind of look into their soul and see that. Everybody is going to sell you. You're in kind of a mating dance. Boom, I'm the most entrepreneurial guy. You've got to check references. You've got to go back channels. You've got to ask people who worked for them. Were they political? Did they know how to make decisions? Did they know how to delegate quickly? Did they make mistakes quickly and know how to course correct? Were they resourceful?

Those are the signs of a great entrepreneur. They can be great entrepreneurs in corporate environments but you've really got to check them out.

Dave Lavinsky: Got it. What does the recruiting or search firm do versus what does the entrepreneur do? What is the role of both parties?

Jim Jonassen: In a search or in general?

Dave Lavinsky: In a search. So let's say I'm the entrepreneur. I go to you. Right now we have three people. We're starting to grow the company. We say, hey listen. We're very good at what we do. We're growing. We have some revenue.

We really need a seasoned CFO to come on board. Ideally, that CFO has some contacts in the venture capital space, can help us raise the capital, can run point for that. What do you do as the recruiter, as the executive search firm, and what do we do? What are your responsibilities and what are our responsibilities, such as setting up interviews, conducting interviews, etc.? Who does what?

Jim Jonassen: So there's a continuum if you can visualize a continuum. On one end is a retained search firm. In the middle of the continuum is a contingency placement recruiting firm, and on the far end is LinkedIn and job boards. This is the kind of workload.

With a retained search firm, you're basically outsourcing the entire process one hundred percent. They're going to partner with you and they're going to be a tougher customer than you are, from the standpoint of running a process that says these are the best three candidates on the planet to do this. Then going into the selection mode, the due diligence process, the negotiation leading, all of that.

That's a retained search firm. That's what they do. You want to use a retained search in a very critical role and something where you really are saying we're betting the company – if we have the wrong guy in here for a year, we're doomed. With high stakes that's where you want to err more toward that side.

In the middle I've got mostly, say, engineering or product management, etc. Now I'm outsourcing part of the process. What they're doing is they're sourcing and

sending me resumes. Basically they're selling me used people. I've still got to do most of my own due diligence and most of my own interviewing and most of my own screening and selection process, whereas the retained search firm did eighty percent of that at the other end on the retained side.

You go all the way down to the other end and this is the DIY kit. This is the do it yourself. I'm going to create a job description by scraping job boards. I'm going to massage it so it looks like my own. I'm then going to do a bunch of posting. I'm going to send out e-mails. I'm going to send out a LinkedIn blast.

And then I'm going to have to go through the resumes. I'm going to have to screen, qualify, pitch and sell – which is the most work that we do is selling the story so there you've got 100% of the work still on your back. You've gotten some help from some electronic sources to get some kind of candidate flow or talent flow in there, but you're taking on the rest of the job.

Dave Lavinsky: You mentioned selling the story. Can you talk through that a little bit?

Jim Jonassen: At the end of the day we're salesmen. What we're going to do is meet you as a company. A lot of times you don't even have collateral put together. You don't have a business plan together. Often times you do but you don't really have a message where you can say let me tell you about my client.

My client is the premier provider of x, y and z. Here's why they differ from their three competitors. This is why they've been able to garner the financial backing of some of the top … Here's some of the team that's already in place. The missing piece of the puzzle is we're looking for a killer boom.

So we've now painted a picture that just says right board, right team, right market, right product, right solution, right validation, right customers. All we need is the missing CFO. All we need is the marketing guy that can take us to the

next level. We have a pretty good chance, north of 75% that we're going to get a phone cal back or get an e-mail back and somebody is going to say, "*Sounds pretty cool. Tell me more.*"

Now we've got to go into a lot of detailed Q&A almost like you would be with a venture capitalist to pitch that business. I want to know about the competition. I want to know about the burn rate. I want to know about the funding. I want to know about the team. I want to know about the legacy. I want to know about the customer. We've got to really front all of that. These days it's harder to pitch quality talent than it is investors, or it's equally as difficult.

Dave Lavinsky: Got it. Now once you sell the story to the potential management team member and you've gone through the process, a retained search firm, let's say has gone through the process of finding, screening, pitching, selling, and you've narrowed it down to the three best possible candidates.

Now I'm assuming you send those candidates to the client, to the entrepreneurial management team, and they have to interview those three to figure out which ones they determine to be the best.

What are your tips for what are they looking for? Is it more so fit that they're looking for, versus quality, because you've already determined quality? Maybe some of the tips that you would give to your clients in terms of interviewing these executives to determine which one they should select.

Jim Jonassen: First of all we don't run a process where it's a waterfall methodology, so by the time a finalist has been called a finalist they've interviewed with multiple people in the company. They've done formal interviews, informal interviews. They've gone out and had a beer with the hiring authority, that kind of thing. We're running a process in parallel. We're keeping them excited. We're putting them through parts of a process. Part of it is part of the process.

The other part of it is we're buying a little bit of time because we want to get other candidates through the process. All of this kind of culminates down at the bottom of the funnel, hopefully in two or three finalists. But by the time they get there they've had a lot of meetings.

Then we say the search is over. Now we're moving into selection mode. When you move from search into selection now you've really got to go into heavy due diligence. As I said before, no one is going to give you a bad reference. They're going to give you the references that are all glowing.

We've got to now vector back and find out who worked for them, who worked with them, who did they work for? And get the real story on these individuals. We've done preliminary reference checks. Now we want to go in deep and find out is this the guy?

From the standpoint of the clients and their final diligence, what we always say is, it's like a marriage. You've been going through a process where everybody has been in this mating period. Everybody is selling each other and everybody is schmoozing each other.

Now you have to get the person in a social situation. Have a meal, go to a ball game, play a round of golf – whatever it is – where you can see them in an environment where they've let their guard down.

Did they yell at the bus boy? Were they polite? Did they have table manners? Can they articulate a thought? Are they well read or well rounded?

You also get the opportunity to do what I coach the clients to do, which is to step out of yourself while you're having the dialogue, and look at the person and say, "*Do I want to spend seven hours in an airport lounge when we're snowed in in Detroit with this individual or would I rather slit my wrists*?"

Those are really important things, compatibility. Just like eHarmony or something. You've got to say, "*We're going to go through a long battle together and we've got to be compatible.*"

Don't lie to yourself. Listen to your gut and those kinds of things. Listen to your people. You want to have anybody who's coming in for a critical position, even though they're not the hiring authority, you want to get other eyeballs on it. There's going to be that one person who says, "*I think he's really selfish. He never said team. It was all I, I, I,*" or "*Oh wow, he's an ego maniac,"* or "*The person had no table manners."* Whatever it is, you don't know where that's going to be revealed.

Two things happen there. One, you might find out things that you say are showstoppers. Those put a candidate out of the process. More than likely, though, what you're going to find from references and due diligence and these kinds of meetings and that stepping out of yourself – you're going to find that issues come up that you're going to deal face to face with the candidate. "*Listen through the process we've come up with the feeling that you're not a team player. We have to talk about this and we've got to get through it and we've got to figure it out or it's not going to wor*k."

There might be a reception or whatever, but you deal with the problem head on. Things come up where this person was political or this person was divisive or this person jumped to decisions too soon. You think of it as you get the owner's manual with the candidate. Well read it and listen to it and come face to face.

You set the tone and you say, "*If that happens or if we find patterns with the stuff that haven't changed and you haven't matured then these are going to be problems.*" You're laying down that law where this person is going to say, "*I've got to leave that behind me. I've been warned.*" You set the tone right there.

Dave Lavinsky: This is amazing advice. A lot of this, I'm looking at it and saying, we have to start with a large candidate pool if we're really going to weed down, and get to the point where you guys weed down based on good fit and you screen them. You qualify them. You make sure that they're references check and that they're good in a social situation.

Is it a real excuse or just a cop-out if I'm the entrepreneur and I say, "*That makes sense if you're in Los Angeles or a big city but I'm out in the middle of nowhere – I have to just take what I can get.*" Is that a cop-out or is that a legitimate excuse if you're in a less populated geography?

Jim Jonassen: It's a good question. I started an enterprise software company in Hermosa Beach, California in 1997. The first VC pitch that I did, the guy was like, "*How many software companies are there in Hermosa Beach?*"

He was right. It was really hard to find the kind of talent that we needed there. But I would say you've got to calibrate the beta, the risk of being able to recruit, being able to raise money based on these things.

You know what? If you're in the wrong place or the talent pool isn't there that's going to support it, I would do some serious research into can I get people to relocate to this area? Can I get people out of college that I can grow and can I get the kind of mentoring management that can grow green talent? That's what we did.

We had great managers that could kind of grow young employees and we grew to a hundred employees.

But it's a real issue. It's a lot easier to start a company in Silicon Valley than in southern California and easier there than in Phoenix and easier in Phoenix than in Dog Breath. All that is part of what you're taking on.

I would just tell you that it is so hard out there right now that if you're in the wrong place and you're not in a place that you can recruit to and you don't have a funnel, go think about doing something else. Or think about doing what you're doing someplace else because the market is global. The competition for talent, capital and business is all global. These things matter.

Dave Lavinsky: Got it. What about when you find that candidate that you just love? You say this is definitely the perfect candidate. I'm assuming a lot of times that perfect candidate, there's a competitive opportunity there. They also, since they're so good, they have a lot of other opportunities.

You mentioned selling to them. Any ideas or tips on selling to that unbelievable candidate when you obviously don't have the financial ability to pay higher salaries. I guess you're pitching equity. Any ideas or thoughts on how to pitch that great candidate to join you versus keep their existing job or join another company?

Jim Jonassen: Two things. One is you don't wait until the bottom of the ninth to get in there. You qualify that out early in the process and you make certain that when we get to the altar you realize you're going to take a haircut on current cash compensation because you're betting on the stock.

Later on in the process you qualify them again. Hey man listen, I love you. You're my guy. But again, how have you figured out with your family the shortfall in the monthly cash for the first year? Have you talked to your wife? And you know what? Blow the deal up. Don't waste your time or the candidate's time if they just can't do it.

The guy who's going to come from Disney or someplace else who's making $300,000 maybe will come work for you for a buck and a quarter. Ask the tough questions early and weed that stuff out.

This is where having a head hunter that's going to do that helps – the head hunter is not going to let you waste your time. They're not going to let you fall in love with a candidate that there's no way they can take a relocation or there's no way they can take a haircut, or there's no way they really understand what the stock's worth.

The other thing you're not going to have is when you're looking at that candidate and you know he's talking to three other players. He's not going to tell you that he's got two things going to offer from really cool companies. He's hedging. He wants to keep all his opportunities moving down a funnel so that ultimately the decision is his.

Me as the headhunter, I'm going to weasel that out of him. I'm going to know where he's interviewing. Or if not exactly, I'm going to what kind of company and what the cash offer he thinks is going to be over there, so that we're going to be able to negative sell against it and we're going to be able to coach our client on how to overcome those objections.

But here again, I'm going to say, "*You know what? You should take that other offer. Let's just stop the process right now,*" and you take the deal away and you make them come back. You know what? If they're not coming back, you would have wasted another three weeks wooing a candidate.

We just went through a situation where the candidate was looking at our deal. He said, "*I'm expecting an offer from Ning*." Coolest company on the planet. Mark Andreesson, the whole thing. They've got a hundred million bucks in the bank. I'm going, "*Dude take the offer. Do you really have the offer?*" He says, "*Well I don't have the offer yet but I'm expecting it.*" Well listen we're going to go light and breezy with putting you in front of our client. Put a kill on that Ning deal before we talk seriously about our deal.

We just blew it up. The client was like, "*No this is my guy!*" It was a French company and they really fell in love with him and they wanted him. We said, "*Don't waste your time. You're not Ning. I'm sorry but you're not.*"

Dave Lavinsky: Got it. That's a great point. Is there anything inappropriate to ask the applicant or the employee prospect during the process?

Jim Jonassen: Yeah. There's plenty. If you're the employer there's plenty that's inappropriate. There's a litany of things that you cannot ask. As a headhunter you're not the employer. There's a much smaller list of things you can't ask, but we can get around them in different ways.

You can't discriminate on age. You can't discriminate on sex. You can't discriminate on location. You can't discriminate on a ton of things. That's where if HR is doing your interviewing, how much real screening are you getting?

Here again, referencing and back channels and talking to people that know the individual, you can ask side door questions there that will lead you to the answers, that will get you close to what you want to find out, without having to break the law.

Dave Lavinsky: Got it. The classic VC question of what's the most important thing in assessing a venture and looking at the market are product, technology and management team.

From your perspective how important is the management team – particularly if the market is competitive or the technology is sort of a me-too market – can the right management team excel?

Jim Jonassen: Most of the stuff that I do is early stage, so that's how I would frame it. Later stage maybe your IP [intellectual property] is going to be a winner

or your distribution channel is going to be a winner. But I've rarely seen a Series A or a C company or even a Series B company that really had it figured out.

The business plan and the executive summary and the [slide presentation] deck that they served up – when you fast forward two years it looks nothing like that. You've got to have a team that's going to figure that out, that's going to make those mistakes, make those course corrections. Change that business model early rather than late.

Everything's got to be there. It all matters: market opportunity, technology risk, competitive risk, and financing risk. All those things matter. But ultimately, I think the smartest VCs that I've known said we bet on teams. We bet on teams that are going to figure it out. We bet on teams that know how to work together, are aggressive, that are incredibly passionate where failure is not an option, that's what we bet on.

Dave Lavinsky: Got it. That does point back to what you were saying about "fit," and sitting and waiting for seven hours for the plane. If you're going to have a management team that's going to have to adapt a lot over two years, you want to make sure they're people that you're going to get along with and that you're not going to have these deadlock meetings where you cannot change the company or you're in a lot of trouble, I guess.

Jim Jonassen: You're absolutely right. You've got to be in the trench together. You've got to be shoulder to shoulder.

Dave Lavinsky: Excellent. Jim, I have one final very broad question for you. What else, what other advice can you give to entrepreneurs and business owners about building their management team so that they succeed – and, any possibly pitfalls to avoid?

Jim Jonassen: The most important thing you're going to do in your company is making the choices of who's your partner, who's your cofounder, who's the first revenue guy, who's that product guy. I say guy but I mean guy or gal.

It amazes me how people spend more time deciding on their next car purchase than who they're going to hire for a critical role. There's nothing more important, so whether you use LinkedIn and you're doing all the work yourself, or you hire your struggles at the super high end of retained search, do the work. Do the frickin work. Pick up the phone.

Make the uncomfortable calls to people that know people that know people that know people that are going to tell you about this individual. If you do the work, the yield at the end of the day will be really important.

Every search that we do, every retained search that we do, we provide a one year [clause], unless there was a layoff in the company, if that person doesn't work out for any reason we've got to redo the search and replace that person. Over the last three hundred and something searches that I've done we've only had to redo four searches.

That means as we go into this we're saying, "*You might like the guy but we don't like the guy*." Because if we think there's risk that they're going to fall out in the first year, we're going to lay down across the railroad tracks and say, "*Don't do it. Here's why… This is what the people said about him. Here's where he didn't perform. This is where he wasn't successful.*"

You've got to do the work and it's a lot of work. Don't underestimate the amount of work that it's going to be. And you know what? Hey, sometimes you get lucky. But most of the time we see these people that are like, "*I called the guys that I knew and I'm going to put the band back together. I'm going to get a bunch of B players and maybe one A player. But the A player is going to know that the rest of the people are B players.*"

How long are they going to be around? Aim high. Do the work. Get the resources out there to get the best team you can. If you do that, the money will come, the talent will come, the board members will come, and the customers will come.

Dave Lavinsky: Excellent. Jim, this was extremely valuable. I think everyone that listens to this call is going to get a ton from it. I really appreciate your time in doing this.

I do want to mention your company and your website again. I think I mentioned the website before. It's Jim Jonassen and Associates Venture Search, LLC. The website is just www.VentureSearchLLC.com . When I post this interview I'll also include a link to the site. Jim once again, thank you so much for your time.

Jim Jonassen: My pleasure.