Common pitfalls for Web3 founders

When founders come to our 1:1s and group office hours at [Alliance](), they often seek our advice on topics that are very specific to their project.

But just as often, their questions are generic enough that they are relevant for many other founders.

Let's address these frequently asked questions. They can be broadly grouped into 4 categories:

- PR/marketing
- Hiring
- Community management
- Token economics

PR/marketing

"What PR/marketing firm do you recommend?"

"Should I hire a marketing person in-house?"

"Any advice on our Twitter/podcast strategy?"

Unhealthy Obsession with Marketing

My knee-jerk reaction to most early-stage founders asking about PR/marketing is that "you are being too obsessed about marketing and not obsessed enough about your product."

If an early-stage startup failed 5 years from now, it would not be because they sucked at marketing. It would be because they did not find product-market fit.

I'm not sure where this obsession with marketing comes from. Most founders seem to think that they are excellent at product building and that they need help with marketing. In my experience it's very much the opposite. Most founders simply aren't obsessed enough with users. They don't talk to users on a regular basis. They aren't users of their own product. How could they possibly develop unique product insights if they don't do these things?

There’s a famous platitude “It is not the best product that wins. It is the best marketed product that wins.” This may be true for mature companies, but it’s extremely dangerous for startup founders to think this way. This is because most of them don’t even have a product worth marketing for!

Tactical advice on Marketing in Web3

All that being said, here are a few specific pieces of advice on PR and marketing.

- **Don’t use an external PR/marketing agency.** I now have a dozen data points from founders who have used one and shared their experience with me. There has not been a single success story. Do marketing in-house. Ask your investors to amplify your message and to connect you with the media.

- **Content marketing is by far the single most scalable way to get your name out there and to build trust with your current and future users.** Educate them on your product and industry trends you are seeing.
- Getting on major podcasts and conferences is difficult. Podcasters and conferences only want big names. One way to become a big name is by building a great product a lot of people use, which by definition is not a viable strategy for early stage founders. The other way, once again, is to write high-quality content.
- The main point of big, one-off marketing pushes such as fundraising announcements is actually not to attract potential users. **It’s to attract potential hires.** Your hiring candidates will do due diligence on you and will come across your announcement. But your users will only come and stay if you have a great solution to their problem.
- For Twitter, **build your personal brand** (not just your corporate brand). People trust personal brands more than corporate brands. Personal brands feel more approachable. Building a personal brand is not that critical to success. Lots of startups have succeeded without a celebrity CEO. But if you like being a public face, by all means do it.
- **The truly Web3-native marketing strategy is tokens.** And it's not just free token airdrops, but the mere fact of users owning your token. It's powerful beyond measure when used correctly. More on this later.

Hiring

“Where do I find Solidity/Rust engineers?”

“I need to hire more people. I’m overwhelmed. Do you have any advice?”

The Problem with Scaling Too Fast Too Early

Hiring is one of the biggest challenges for startups. But before diving into how to hire the best people, I want to point out a common mistake that first-time founders make: they scale the team too fast before any sign of product-market fit. As a result they burn money too fast without making much progress.

When your team expands, you feel good. It feeds your ego. But **team size is a vanity metric**. It’s a useless metric to optimize for. In fact, more often than not a smaller team of A players can achieve more than a team 3 times larger of B players. This is because more people leads to more interpersonal links, more communication burdens, and more difficulty to keep the team focused.

Founders have come to me multiple times and said stuff like “I hired this community/marketing/product person. But I feel like they are not creating much value, and I’m spending so much time micro-managing them.”

It’s better to not hire at all than to hire someone mediocre just for the sake of filling a role. They are actually net negatives to the organization because of the additional interpersonal links. And as a founder, many of your superpowers simply cannot be replaced by hiring someone. At least not in the early stage.

If you feel overwhelmed, **the best solution is not to hire more, but to do less**. Prioritize, focus, ignore.

When you start seeing signs that users love your product, then it's time to scale more aggressively.

How to Recruit

OK. Let’s dive into the top ways to recruit talents.

When founders ask me how to find engineers (or other talents), my first question back to them is always “have you exhausted your personal network?”

Tapping into your network is by far the most effective way to recruit talents. Nothing else comes even close. Fundamentally this is in the early days you don’t have a strong brand. So it’s very hard for people to trust you. The only people who trust you are those in your network.

Make a list of the best people you know, get on a Zoom with them, pitch your startup, and ask them if they are interested in joining. It may seem awkward to ask a friend to work with you, but you absolutely have to get out of your comfort zone and do this. If they are not interested, ask them to introduce you to three people they know and respect who might be interested.

Ask everyone on your team to do this too.

At my previous startup I asked one of my best friends to join me. I had known him for 10 years. It was extremely awkward, and it took me a month of convincing. He ended up joining me. He also convinced one of his former colleagues to join, and so on. The network multiplies.

The second best way to recruit talents is to go through your community, ie, people who know you but whom you may not know.

If you have a discord/Telegram community, ask your community if they or their friends are interested in working with you. If you have a Twitter/newsletter, post your jobs there. Ask your allies (eg, investors) to retweet. If one of your investors has a large Twitter/newsletter audience, ask them if they can help post your jobs.

In retrospect this should be obvious. You want to tap into your loyal followers instead of people who don't even know you.

Only after you've completely exhausted your personal network and your community should you consider using recruiting platforms like Alist, Triplebyte, Stackoverflow, coding schools, etc.

One final tactical piece of advice on finding blockchain engineers: **it will be far easier for you to hire experienced Web2 engineers and to train them than to find experienced Web3 engineers**. Right now, in 2022, we are seeing the highest level of interest from Web2 talents looking to break into Web3. On the other hand, Web3 engineers are too rich, too comfortable, or starting their own startup.

Community management

"How do I engage the community?"

"How do I manage FUD?"

"When should I hire a community lead?"

There's an everlasting meme in crypto that goes something like "community is the moat", "the best community wins", "we are a community-run project", and so on.

I will take the other side of this for a moment. Not necessarily because I think these statements are wrong, but because I want you to think critically about these statements that people blindly throw around. I want you to reason from first principles whether or not you should have a dedicated community manager and why you even need a Discord or a Telegram in the first place.

I will argue that **an engaged community is not what leads to a great product. An engaged community is the result of a great product**.

We've seen this over and over again. A community gets excited and actively contributes when "numba go up". The same community FUDs and fractures in a bear market. And in the long run, price is reasonably correlated with how well your product is doing.

As such, you should not try to brute-force engagement and positivity into your community. **There's a far more natural way to engage your community, which is to treat them, first and foremost, as users.**

Find volunteers to beta-test your product. Ask them for product feedback. Ask your community what pain points they are experiencing. Update them on your progress and roadmap. Educate them on how to use your product because your UX may be confusing.

This way, you will constantly engage the community while gaining valuable product insights. And the improved product will further strengthen the community over time.

The best community person I've ever come across is Kain from Synthetix (who was part of our genesis cohort). And this is exactly what he did. He would constantly talk to his Discord community about the product. He would answer questions within minutes. Another great example of this is Liu Jie from Mcdex (who is also an Alliance alumni). I see him answer product questions on Telegram at 11PM local time again and again.

Note that the common theme between these two examples is that the community person is the founder themself.

I'm not saying every founder should live in their Discord 24/7, but community management is one of those roles where the founder cannot easily be replaced. Not to mention the fact that what the founder really is doing, via community management, is user research. Which is yet another responsibility of the founder that cannot and should not be replaced.

In the early days, the founder should ideally be the de-facto community manager.

Token economics

"Is there a playbook for token design?"

“How should we incentivize users with tokens?”

“What should the vesting schedule look like?”

“How should tokens be split between community, team, and investors?”

“Is there a standard template for token warrants?”

Unhealthy Obsession with Token Economics

Before diving into token economics, I’d like to point out another common mistake that Web3 founders make: they are too obsessed with token economics.

I’m not saying tokens aren’t important. After all, tokens as a go to market strategy are one of the key value propositions of building on Web3. With token incentives, it has never been easier for networks to solve the chicken-egg problem and to bootstrap the critical mass.

But “go to market strategy” is the key word here. Again, most startups don’t even have a great product to go to the market with! **If you use tokens as a user acquisition strategy without a great product, you are essentially wasting your marketing budget.** And it’s a very expensive marketing strategy because the supply is limited and mistakes are irreversible.

Moreover, **the danger with launching token incentives too early is that you will never know whether or not you have real product-market fit**. You don’t know if users come for the product or for the monetary incentives. You will have a moment of glory as all your user metrics will go up, but it will be transient.

During DeFi summer 2020, many of the best products, such as Uniswap and Curve, found product-market fit before they even had a token. There were also a few great products that had a liquid token before product-market fit. But they did not use token incentives.

So it’s far better to try to prove product-market fit without a token.

- See if **you can make 100 users really happy without giving them token incentives**.

- If your product is based on network effects and has a cold-start problem, **consider conventional, Web2 growth hacks first**.

- If you arrive at a point where you really need tokens to bootstrap the network effect, don't use them too lavishly. Don't try to engineer a multi-year incentive program (like Satoshi did with Bitcoin, which is an exception rather than the rule). **Drop incentives sparingly and intermittently**.

- It's futile to try to engineer a sophisticated algorithmic multi-year incentive program because you will inevitably make mistakes. Heck, even Ethereum is still changing their token economics 8 years after the white paper. When theory meets practice, practice wins.

In short, **prioritize your product over your token**. (The obvious exception to the rule is if the token IS the product itself or is an integral part of the product. For instance, Maker. And to a lesser extent, Axie.) Have a rough plan for how to distribute tokens among the team, investors, community, and treasury. Have some rough ideas for what utilities you want the token to have. But don't over-engineer it until you have a product that 100 users love.

Tactical Advice on Token Economics

When you are finally ready to spend time on token design, it will seem like a daunting task. You wonder, "is there a playbook?"

The short answer is no, there is no playbook.

Tokens should absolutely be designed from first principles, according to the unique needs of your product. Every product is different, so every token should be designed differently. Remember, tokens are a go-to-market strategy, so whether or not a particular go-to-market strategy makes sense depends on the particular product.

I will point founders to leaders of their particular category. For instance, I will ask a DeFi founder to study Curve. I will ask a game developer to study Axie. But their models should not be blindly copied. Use them purely for inspiration, because their product is different from yours.

When it comes to industry standards, I can tell you, for instance, what the average token distribution between team, investors, and community looks like, and what the average vesting schedule looks like. But the average is not necessarily the optimal. **What is popular is not necessarily what is right.** For instance, I have long criticized the ridiculously short vesting time (1-2 years) many projects have implemented. It's a horrible misalignment of incentives.

Tactically,

- Begin the conversation with top exchanges for listing as early as possible. They all have different requirements and their requirements evolve a lot over time. **Their requirements often directly impact your token design.**
- On that note, while you should not be obsessed about the price of your token and where it is listed (because once again, your product is more important), getting listed on a top exchange is hugely valuable. It helps widen token distribution and improves liquidity, and as a result is basically **free and ongoing marketing**.
- This is a very popular meme, but I don't necessarily buy the idea that the community should be given a far larger allocation than investors and the team. (I don't agree with the opposite either for what it is worth.) **Tokens should be distributed to each group according to their current and future level of contribution to the network.** Most projects reserve anywhere between 20% and 60% of their tokens to the team and the investor, with 40% being maybe the average. But once again, you should reason from first principles.
- **Don't be too stingy with your early hires. Be ready to pay a lot of tokens for top talents.** I would argue that a top early employee owning up to 1/5 of what a founder owns is not too crazy. I have had multiple founders come to me and agonize about this, but you should focus on growing as big of a pie as possible rather than a couple of percentage differences in how much you own of that pie.
- **If you really want to inspire confidence and show that you are in it for the long haul, then your token vesting schedule should reflect it.** If you shorten it or give preferential treatments to yourself and/or investors, you will self-select yourself into some of the worst investors. The top investors rarely care that much about vesting, but the worst investors want to dump quickly.

One final piece of advice. If you decide to launch a token, securities laws will come into play. (Even if you are not a token project, AML, derivatives, and tax laws may be relevant for you.)

Oftentimes, if you talk to 10 different lawyers about a particular topic, you will get 15 different answers. This is because many lawyers are new to this space and don't actually know what they are doing. But also due to regulatory uncertainties, even the best lawyers may have different viewpoints as they have different levels of risk tolerance and different interpretations of the law.

Fortunately, we have an experienced internal legal team who also happen to be token experts. They cannot represent you, but they can give you valuable business advice and connect you to the best lawyers in this space who can represent you. Then your job will be to talk to a few of these and to **make the best legal decisions by triangulating their views**.

—

Find me on Twitter if you are building or looking to build a startup in Web3.

Or apply here if you are ready to join our founders community.