There's a lot written about what you should do when you raise money, but there hasn't been as much written about the common mistakes founders make. Here is a list of mistakes I often see: • O ver-optimiz ing the p rocess A lot of founders try to get way too fancy with tricks that they think will help them raise money. It's actually quite simple; if you have a good company, you will probably be able to raise money. You're better off working to make you company better than working on fundraising jiu jitsu. The process is simple: Get intros to investors you want to talk to and reach out to them, in parallel, not in series - this is important, see (3). Explain to them why your company is likely to make them a lot of money. This usually includes the company's mission, the product, current traction, future vision, the market, the competition, why you're going to win, what the long-term competitive advantage will be, how you're going to make money, and the team. Set up a competitive environment. You'll (unsurprisingly) get the best terms when multiple investors compete with one another for space in your round. This is the one rule of "the game" that is really important--I'll talk about it more later on. Some founders try things like carefully timing news articles, casually mentioning to one investor that they'll be having dinner with another investor, claiming their schedule is really packed except for one specific hour, and other tricks - but if you just build a good company, you generally won't need to. Many little things simply don't matter very much--for example, the "signal" sent when an early investor chooses not to participate in a later round. If the company is doing well stuff like this is easily overlooked, and if the company's not doing it will struggle to raise money anyway. Unless you do it perfectly, game-playing will hurt you with most good investors. And you should be trustworthy and honest no matter what. Investors won't back you if they can't trust you. • O ver-optimiz ing the t erms Startups are usually a pass-fail course -- either you succeed or you don't. If you fail, maybe you get acqui-hired, but that's happening less frequently and is usually little better than just getting a job at the acquiring company instead. The important thing is to get good investors, clean terms, and not spend too much time fundraising. The biggest problem comes from chasing high valuations. Contrary to what many people think, at YC we encourage companies to seek out reasonable valuations. Valuations are something quantitative for founders to measure themselves on, and there are lots of investors willing to pay high prices, so they don't always listen. But I'll say it again: trying to get really high valuations is a mistake. If you're clearly in a position of leverage, it's fine to push for a high valuation, but don't jerk investors around. Just say what you want and don't get into a lot of back and forth or term complexity. Also remember that very high valuations often push out good investors. And don't forget the prime directive of fundraising strategy: set things up so that you never do a down round. The badness of a down round is difficult to overstate; in fact, the threat of that is the best reason not to take a super high price when you're offered one. If you raise at such a price, everything has to go perfectly in order for your next round to be an up one. • Failing to create a c ompetitive e nvironment Ok, here is the one part of the game I really believe is critical. You generally need to set up a competitive environment to get a good outcome in fundraising (or, for that matter, any big deal). The hard part is getting the first offer. Once you have this, you have the leverage -- if other investors don't act fast, you have an offer you can take, and they risk missing a potentially great opportunity (and maybe looking stupid to their partners, etc etc.) Until then, they can procrastinate and wait as long as they want. It's remarkable how long it can take the first offer to come in, and how quickly the next ten can materialize. So sometimes you have the hack the process a little bit to get this first offer. The best way is to find someone who loves what you're doing and is willing to act. Although it's ok to use that offer to get others, you should be nice to anyone willing to act first by prioritizing their offer, finding a way to get them into the round even if someone else leads it, etc. There are a lot of other tactics for this that I should write a separate post on at some point. Beware, though, that saying things like "our round is closing really fast" when you have no offers usually backfires. Investors talk and will call your bluff. When you have a good competitive environment the leverage shifts to you - you will be astonished at how much things change. Firms that previously couldn't meet you for three weeks will suddenly be able to schedule full partner meetings on a Sunday. And when multiple bidders really want to invest, a lot of the "non-negotiable" terms like 20% ownership and board seats go away. • C oming a cross as a rrogant, a ntagonistic, d isrespectful, e tc. Somehow, a myth got started that investors like this and nerdy founders sometimes put on an affectation. Don't do it. Be respectful (which includes things like not asking investors to make a decision after a first meeting unless you really are about to close your round). Remember that investors are people too. They want to feel loved. The first time I raised money, I was hesitant to tell the investors I really liked that I really liked them because I thought I was giving up leverage. But it turns out telling the investors you really like that you especially want to work with them makes them more positively inclined to you, not less. • Not he aring n o Investors don’t want to kill option value; founders are optimistic people. This leads to investors saying a very nice version of "no" and founders hearing "with just a few more conversations, I may get to a yes." Anything other than a term sheet is a "no", and all the reasons don’t matter. Move on and talk to other investors. • Not h aving a l ead i nvestor A lot of founders put together party rounds comprised of dozens of investors and congratulate themselves that no single investor has much power over them. But in practice investors have little power over companies that are doing well anyway, and what they actually have is no investor that is super invested in their success. It turns out it’s really valuable to have one investor that you meet with every month and report progress to. This forcing function creates an operational cadence in the company that is a big net positive. It’s remarkable to me how much more frequently the party round companies go off into the weeds. • P itching p oorly A lot of founders get caught up in trying to follow a perfect template, and drone on and on about their competitors, the market evolution, etc. They’re bored and it shows. The way to pitch well is to focus on the parts of the business that truly excite you. That will shine through, and it will get the investors excited. Conveying your passion for the business is almost as important as what you say, and it’s almost impossible to fake. Even if you’re an introvert, it will usually come through to a sophisticated investor. So start with the parts you’re really excited about. Investors want to hear a good story, and that includes things like how you decided to work on this idea, why it matters, how you met your cofounders, etc. So don’t leave those parts out of the pitch. Also, remember that smart investors are looking for the really big hits. So don’t do obviously dumb things like talk about potential acquirers in a seed round pitch - that will suggest you’re not trying to build a really big company. • Not reference-checking major investors Great investors can add a huge amount of value; bad investors can make your life miserable. Before signing up to work with someone for the better part of a decade, spend an hour calling founders they have worked with to get a sense of what’s in store for you. • Lacking a c lear v ision If you don’t seem to have any strong feelings or conviction, and you agree with every suggestion the investor makes about your business, you’ll risk coming across as lacking a clear vision. You should always listen to what someone smart has to say, but you should be firm on the things you really believe. Founders with a clear vision can usually explain what they’re doing and why it matters in just a handful of words. Clear vision also usually entails at least one big new idea. Even if it’s a familiar problem, there should be something important the investor hasn’t heard before. It’s ok to have some big unknowns, of course. You’re not expected to have all the answers, but you should have clear theses to start with. • Not k nowing key metrics There are two questions I really look at in early stage investments: Does the team know what to do? Can the team do it? The first question is addressed by the bullet point above. The second is addressed by showing that the team cares about operational quality. I’ve found that teams that execute well always know their numbers (or current status if in R+D mode) cold, and that it’s one of the best predictors of execution quality. It’s surprising how many companies pitch investors without knowing this information.