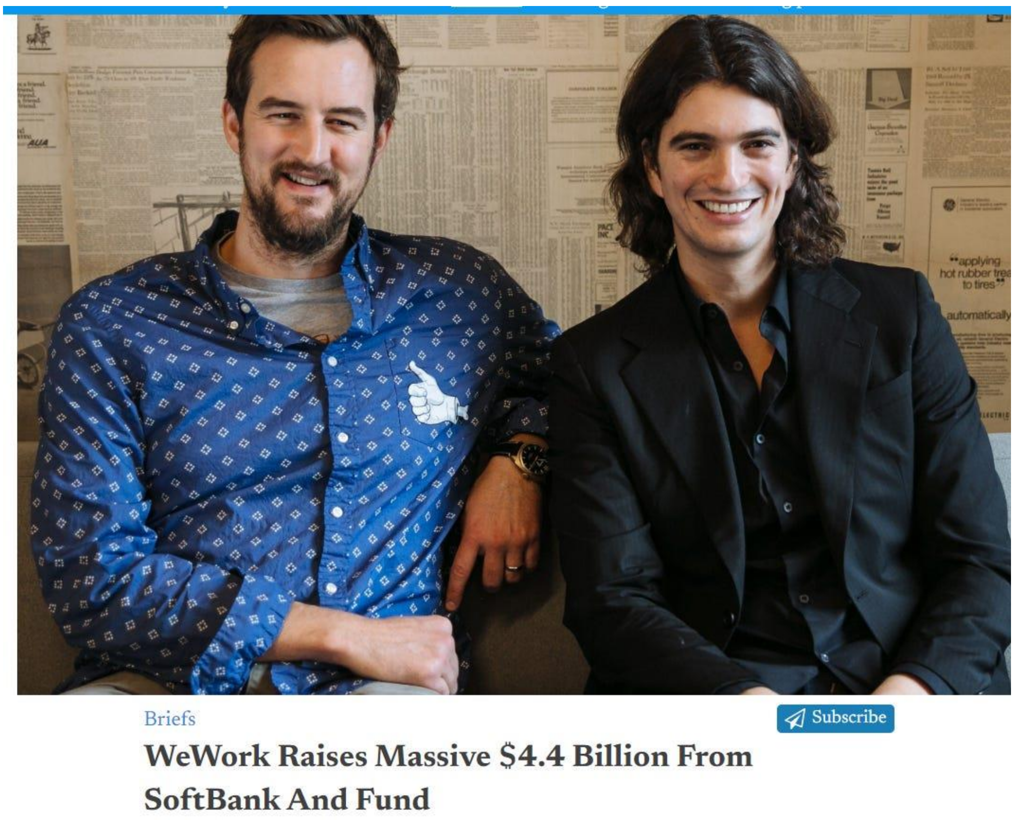
Raising capital isn't something only mythical entrepreneurs can do

by Guillermo Flor



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Product Market Fit

Weekly growth actionable tips for startup founders by Guillermo Flor

Many founders looking to fundraise for the first time get the impression that raising capital is something only some entrepreneurs can do, that there is a secret sauce that they need and don't have and that it's more about luck than actually a process and a skill to build. It happens something similar to sales, people think you either can sell because you have the magic skill or you can't, while in reality is more about learning a process and building and improving some skills.

Everyone can do it, better or worse but anyone can fundraise or sell, if the product is at least decent.

These are some of the things you must understand to be effective raising capital. Some of the points might be pretty basic but if you already know them it won't hurt to refresh them!

1. Super basic: VCs have an investment thesis, know it

Venture capital funds have a mandate from their LPs (Limited Partners) to invest in a particular industry, stage, technology, etc. For example, some VCs will invest in preseed Saas B2B startups while other will invest in Series A Marketplace startups. **Before talking with any VC**

you must know what their investment thesis is and make sure your company has a fit with it.

The other thing you must be aware is the ticket size that the VC normally makes. If their ticket for example is from 500k-1M and you are raising 300K it makes no sense you talk with them.

2. Super basic II: VCs have an investment process, ask about it

Most VCs will scout with Analysts, get the associates to talk to the entrepreneurs and prepare the investment memo, have some principal/partner to validate the opportunity /review the memo and then the Investment Committee will make the decision to invest. **The investment process works like a sales funnel, so your purpose as an entrepreneur is to move forward in each one of the steps of the funnel until closing**.

Each step will require something different, so focus, prepare and give what needed at each step.

VENTURE SELECTION PROCESS

Stage	Sourcing	Deal Screen	Partners Review	Due Diligence	Investment Committee	Deploy
Sample Yield	-	15-19%	55-58%	10-15%	50-60%	70-80%
Deals	3K	~550	~320	~40	~20-24	**~16-20** (**<1%**)

3. Not so basic: the point the fund is in its investment period will help you know it's ability to invest and follow on

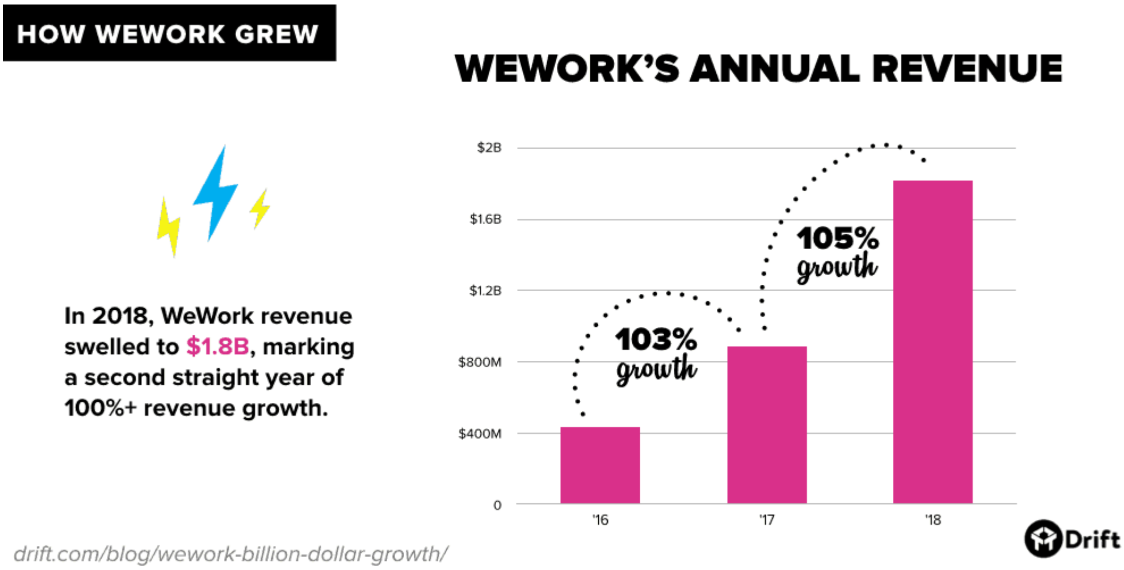
Funds usually invest in a series of companies during the first 5 years and divest in the next 5 years. If you are talking to a fund that's already in the last years of the investment phase then it'll be harder for them to invest in you sometimes and they'll push for a faster exit on their side.

4. Associates and analysts don't make the investment decisions but do influence the investment committee. Make their job easy

Associates have to pitch the deals/opportunities to the principal/partners. Many times they will need to analyze your financials and create presentations about your KPIs, product, team, strategy, etc. The more you work on this the better their presentation will be and the easier their job will be as well. You see, associates are channeling tens of companies weekly, so if working on your company adds more workload to them, it's likely they pass. For example, if a fund invests in euros, don't send you financials in your local currency, because you'll make it harder for the associate to analyze your numbers.

5. Valuations and growth (and growth forecast) go together

Venture capital investors want a return on their investment. Their thought process to make an investment is the following: if this company is now worth x and I invest y, if in 4 years the company is worth 10x I'll be able to make 10y. So, in order for the company to be worth 10x in the future the current valuation has to be low enough and the company has to be growing at a particular rate. It's that simple. So whenever you are going to discuss your valuation know that it's all about growth and the potential return for the investor.



6. Investors know each other really well and collaborate all the time, although they also compete with each other.

This is a double edge sword because it means two things. If on investor likes you, you can talk with other investors and tell them you are talking with the investor that likes you. When they reach out to them that might create some sense of aura around you and improve your chances of raising. However it may also cause the opposite effect. If you talk with many investors and don't close any, it might create a negative aura around you and red flag you.

7. Timing and luck do play a huge role, understand there are things you cannot control

Venture Capital funds have to invest the money of the Limited Partners and create a portfolio that then they have to exit of. As we talked in point, VCs have to build a portfolio by investing the amount of their fund in a series of companies. Most of the times the VCs will have a clear idea of how many companies they want to invest in.

For example if they raised 30M and are investing in series A they might want to create a portfolio of around 30 companies. The fund usually has an investment period and a divestment period (5+5 years). What that means is that they'll have to invest a particular amount of companies yearly to invest the whole fund. The way this affects entrepreneurs can be good or bad. If a fund hasn't been investing and you approach them by the end of the year and there's clear fit, they might rush to invest in you pushed by wanting to comply with their portfolio creation objectives. At the same time, if a fund has passed on many following investment opportunities, they might invest in the next one because of a feeling of need to be investing. This can happen even if the opportunity isn't as good as previous ones!

On the other hand, this can be detrimental to the entrepreneur as well. If a VC has invested in the amount of companies it has planned for the year, it's likely they don't have the rush to invest in another one until the next year.

8. Never forget you are selling a product, which is your company

When you talk to investors you are not selling your product as you do daily to your clients, rather the product you are selling is your company. Focus on it! Investor's want to know about the company not just the product!

9. There are thousands of venture capital funds, raising is a numbers game

Raising capital is like selling, the more potential investors you talk with the more likelihood you have to raise money! Go find them all!!

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