CHAPTER 6

DON'T RAISE MONEY FOR THE WRONG REASONS OR FROM THE WRONG PEOPLE

The best entrepreneurs . . . know how to tell an amazing story that will convince talent and investors to join in on the journey.

—Alejandro Cremades, 2016

If you want a better-than-average shot at being counted among the world's most admired, most successful entrepreneurs, you'll almost certainly need to raise money from investors (unless you're independently wealthy, or your father's last name rhymes with "rump"). Fundraising is glamorous. The press writes about you. Your friends congratulate you. Your competitors fear you. The office and the perks improve. Salaries go up. And, supposedly, everything else about your business (customer growth, recruiting, marketing) benefits, too. Plus, it can win you new friends. My wife once physically stopped me from shouting "Drinks are on me!" at a bar on St. Patrick's Day, because I'd just received a funding offer over email. Keep in mind, the money wasn't in the bank, but I was already drunk on the idea of it (and two Moscow mules).

But there are a multitude of reasons why, if you're not building a business 100 percent aligned with their model, raising money from institutional investors is a terrible, no good, very bad idea.

We raised our first round of $1.1 million in 2007 with Michelle Goldberg from Ignition Partners and Kelly Smith from Curious Office. Since then, Moz has raised two subsequent rounds totaling another $28 million. I was privileged to spend a few years on the board of another venture-backed startup, San Francisco's Minted. I was also, unfortunately, the beneficiary of months of fruitless fundraising attempts nearly every six months from 2009 to 2012. And I've spent countless hours over the years with dozens of other venture-backed CEOs and founders, hearing their stories. My exposure to the startup investment world hasn't been as deep as some, but it's been enough.

Venture capital changed Moz. It changed me. It made me a better, more focused, more ambitious entrepreneur. I learned more in my first two years as CEO of a VC-backed startup than I did in the seven prior years at a struggling family-run business with my mom.

The money we raised at Moz and the help of the partners who joined our board were remarkable gifts. I couldn't have come this far in my professional career or written this book without them. But when asked if I'd raise money again in any of my hypothetical future business endeavors, my answer has changed over the last few years, from "Yes, definitely" to "Oof . . . I really hope not."

Why? Two reasons. The odds. And the cost.

I Mean, You Don't *Technically* Sign the Deal in Blood

Founders usually think (I certainly did) that when investors put money into your company, there's alignment in the outcome. You're on the same team. Everyone's cheering for the company's success, and everyone's willing to put in hard work to make that happen.

Forgive me, but I have to take a little reality hammer and smash your founder delusion.

Look, investors aren't jerks (I mean, some of them are. Looking at you, Caldbeck. You too, KPCB.). They aren't lying when they loudly proclaim that they're 100 percent behind you and want to do everything possible to help. It's true. In the beginning. But over time, their incentives change according to your performance versus the rest of their investment portfolio. That's when misalignment occurs, and if you and your company, especially your leadership team, aren't prepared for it, reality can hit hard.

Institutional investors and angel investors alike face long odds with any individual company. That's why they place a lot of bets. A tiny number of companies will make them money, and the rest will lose money, break even, or deliver returns too small to "beat the market" (i.e., earn more than the 8–10 percent compound, year-over-year growth of the S&P 500). Realistically, the distribution for the average venture fund looks like this:

- Out of ten investments, five will fail.
- Another three will return an insignificant amount.
- The final two will combine to form the bulk of any gains.

Startup investing follows the Pareto principle: 20 percent of the investments return 80 percent of the fund.

If you go into the fundraising process, or come out of it, even successfully, thinking that you now have a partnership of equals, a partnership of aligned interests, a partnership where their success is tied to your own, you will have a shit experience. I don't want to spoil the end of the book when we're only in the middle, but trust me, it happens a lot (if you can't handle the suspense, flip to chapter 17).

Here's what I wish investors would tell founders before they put money into their company:

- "I invest in dozens to hundreds of startups. Eight out of ten don't return any money, but I don't know which ones those will be, so I have to place a lot of bets."
- "If you end up looking like one of the companies that will be that big moneymaker, I'll lavish you with attention, as will the rest of my partners. We'll make you feel important, powerful, respected—like a dear friend and close confidant, and maybe the kid I never had."
- "If things go the other way, and you look like one of the duds, expect that our attention and interest will fade; it may start to feel like meetings with you and requests from you are more of a chore than a shared mission."
- "One of our biggest tools in either preserving a growing company's prospects for success or attempting to recover a flailing startup is to replace the CEO. If things are going well, that's very unlikely. If things go poorly, especially for an extended stretch, it's much more likely."
- "If you would be happiest building a strong, stable business that's profitable, that makes you wealthy and happy, that has reasonable harmony between your work and the rest of your life, we are absolutely the wrong choice."
- "If you cannot imagine doing anything but grinding as hard as you can, with relentless focus, and demanding the same from the team around you in pursuit of becoming an incredibly rare moonshot of a billion-plus-dollar business, even though the odds suck, congratulations, our model is a match."