How to raise money

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Fundraising is hard

Like lifting weights, and solving a puzzle.

When should you raise funds?

Raise only when you can convince yourself, and the investors

Neither when you need it, nor you hit a deadline, like a demo day.

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If you can't convince yourself first, then change what you're doing

Stop trying to convince investors with PitchFu

Intelligent investors don't fall for PPT/Keynote/graphics acrobatics

Where should you raise from?

FFF, angels, accelerators, maybe VC

Former founders are better investors for 1st time founders

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No one knows if a startup will succeed

Investors can only judge if it's worth investing in

Therefore, investors live between 2 fears

Most startups suck vs.
Great startups grow very fast
Type 1 error >Type 2

Every startup investment is a bet against long odds

1-2 bets in 10 pay off

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Show that
you are a good bet

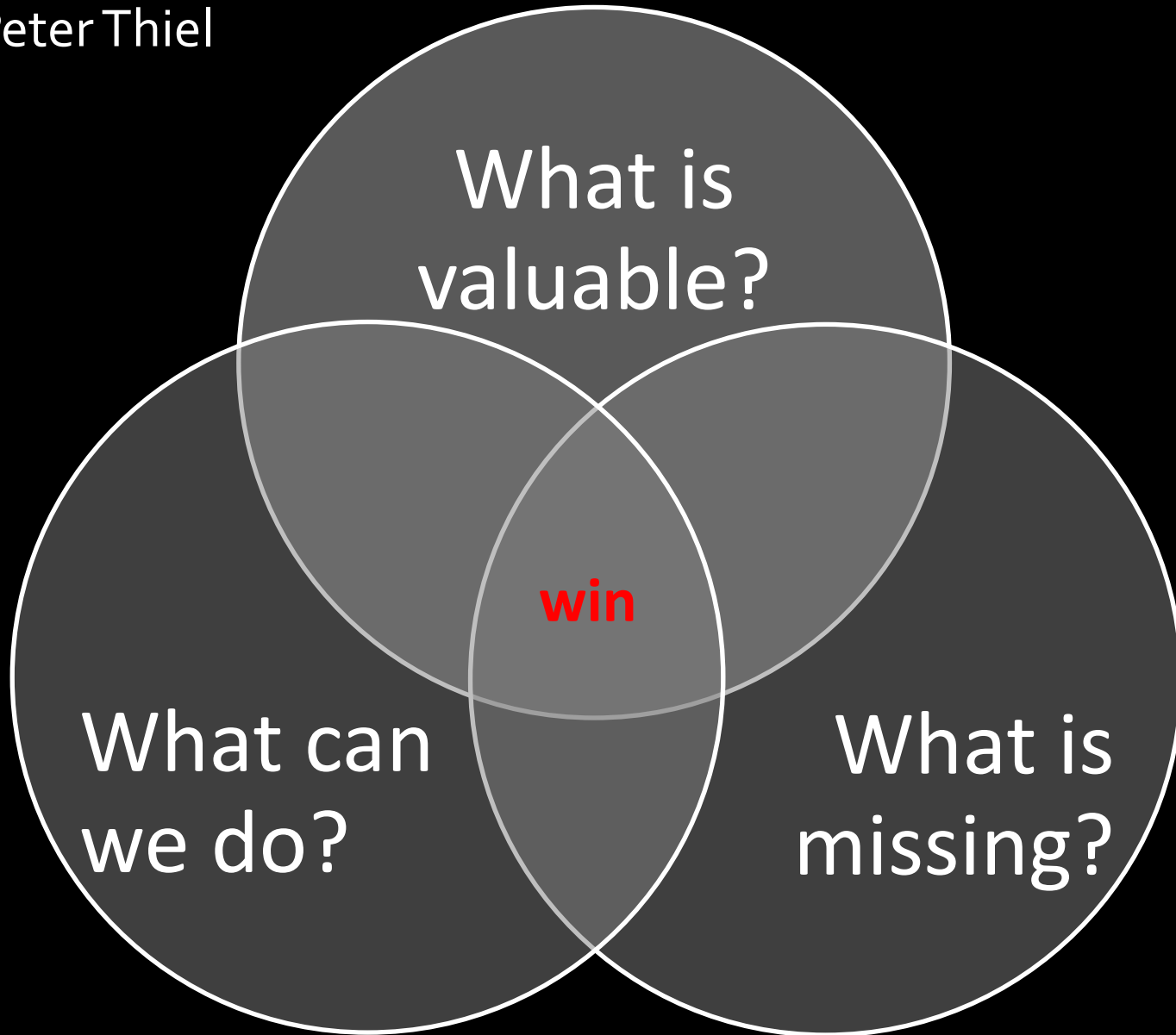Investors look for indications that stack odds in their favor

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Good bet:

1. Great market
2. Formidable founders
3. Evidence of success

Peter Thiel

What is valuable?

What can we do?

win

What is missing?

Founder → idea

Customer → problem

Investor → market

startup

team
service
execution

competition
solution
barriers

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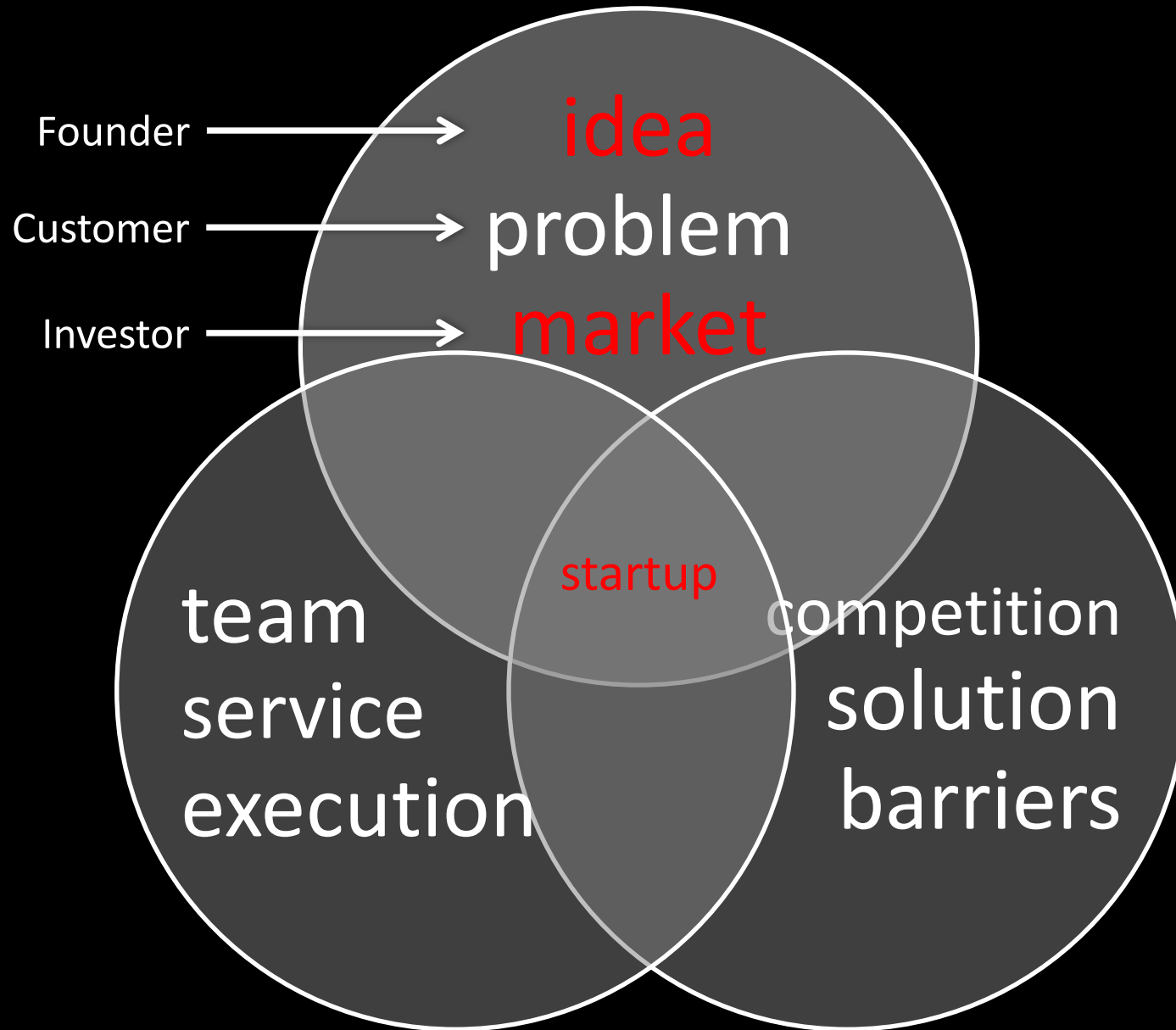
Founders think startups = ideas

Investors think markets

Markets that don't exist don't care how smart you are

Marc Andreessen

What is a market?

The moment a private want is shared by a statistically significant number of people a market is born

Eugene Schwartz

An attractive market is just the right size

Too big = too much competition
Too small = innovation small and incremental

Show your market is capturable by you

Either market grows, or
you can start small, and grow
larger with plausible steps

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To prove market can grow, present the change

Ask "why this now?"
it recently became a good idea or no one else has noticed yet

Don't get scared of crowded markets

Products are very hard either way.
Crowded market = demand exists

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A Crowded Market = Strong Demand + No Dominating Solution

Great if you can generate an overlooked hypothesis

Good bet:

1. Great market
2. Formidable founders
3. Evidence of success

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Mind the first expression

Investors decide loser/winner in first few minutes

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Formidable =
Get what they want +
Justifiably right +
Mildly threatening

Don't try to fake confidence

Investors suck at judging tech, rock at judging confidence

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Convince yourself first, then present the truth

Concisely and quantitatively

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In god we trust
All others bring data

W. Edwards Deming

Become the domain expert

Else, you can't evaluate your startup => can't convince yourself

Domain expert = answer intelligent, probing questions

Practice with a non-friend/family before you face the investor

If you don't know the answer to a question don't bluff or give up

Explain how you'd figure out the answer, think thru on the spot

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Good bet:
1. Great market
2. Formidable founders
3. Evidence of success

If you are proven, then raise for "just the idea"

Proven = 2nd startup as a founder, or impressive product/growth performance as non-founder

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Else, demonstrate demand

Investor's biggest fear = what you've built is based on your theories

Enter Pitch Deck

Pitch Deck Format

1. Problem (Situation + Complications/Changes)

2. Solution and Traction

3. TAM/SAM/SOM

4. Competition

5. Team

6. Distribution/Growth Tactics

7. Funding history + Ask

8. Contact, timing, follow up

9. Appendix

Problem

Problem = Situation + Change/Complication

If you can't pinpoint the underlying changes, why this now then?

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Solution

Investor's main question = Compelling Product

Show. Do not tell.

Don't ever say 'we're committed to product' or 'our product is superior' These messages must be implicit.

Demo the Product

Show Traction

TAM/SAM/SOM

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TAM =
Total Available Market

= an annual upper bound on total possible demand on your product

TAM is a vague measure

Consider Google:

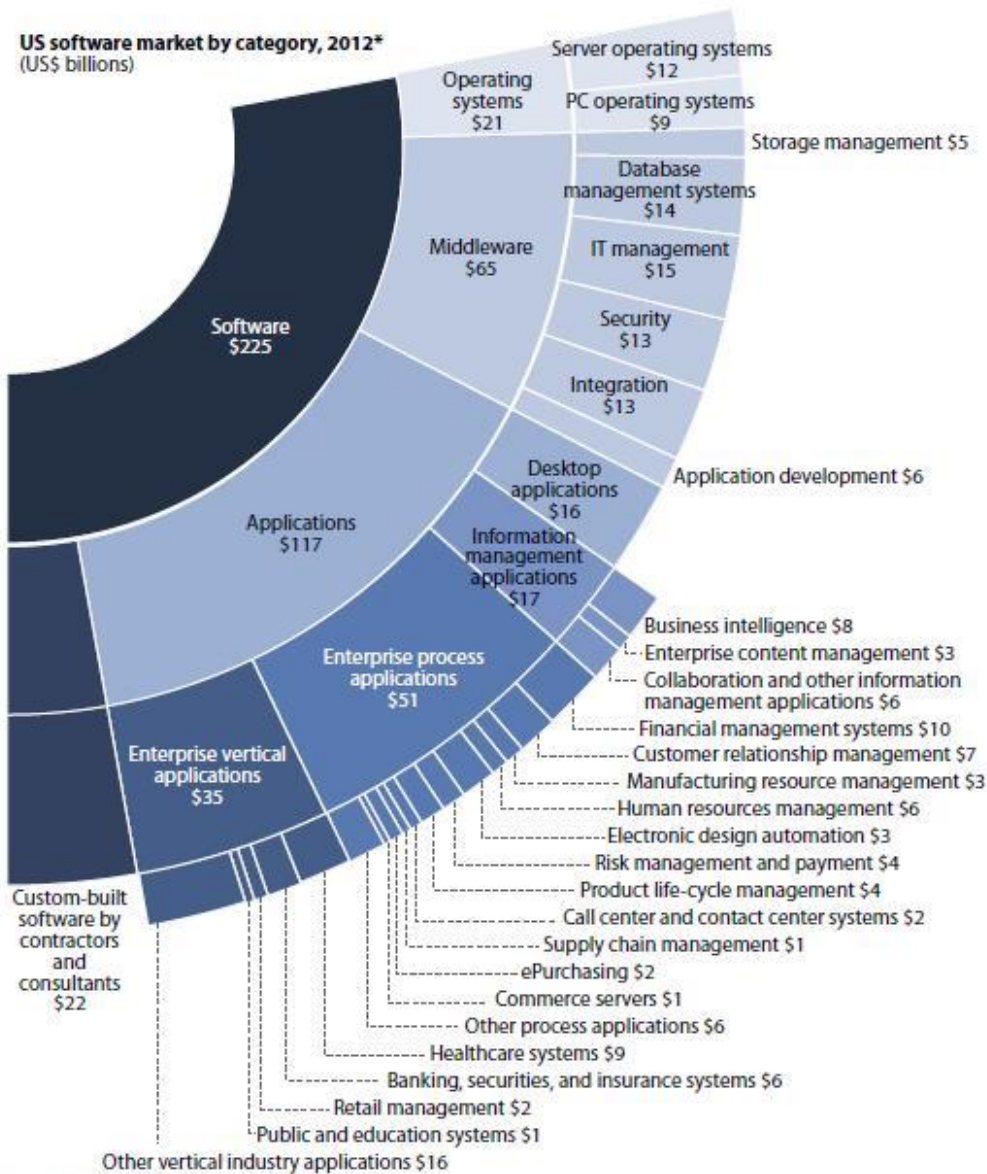|	
US search advertising	$16B
US online advertising	$31B
US advertising	$144B
US computer tech	$964B

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Calculate TAM top-down starting with industry spending and estimated proportions

X industry is worth $Y
Market represents 20%

TAM = $Y/5

Use TAM estimated by well-established industry researchers

US software market by category, 2012*
(US$ billions)

Software $225

Operating systems $21
- Server operating systems $12
- PC operating systems $9

Middleware $65
- Storage management $5
- Database management systems $14
- IT management $15
- Security $13
- Integration $13
- Application development $6

Applications $117

Desktop applications $16

Information management applications $17
- Business intelligence $8
- Enterprise content management $3
- Collaboration and other information management applications $6

Enterprise process applications $51
- Financial management systems $10
- Customer relationship management $7
- Manufacturing resource management $3
- Human resources management $6
- Electronic design automation $3
- Risk management and payment $4
- Product life-cycle management $4
- Call center and contact center systems $2
- Supply chain management $1
- ePurchasing $2
- Commerce servers $1
- Other process applications $6

Enterprise vertical applications $35
- Healthcare systems $9
- Banking, securities, and insurance systems $6
- Retail management $2
- Public and education systems $1
- Other vertical industry applications $16

Custom-built software by contractors and consultants $22

*Forrester forecast

61056

Source: Forrester Research, Inc.

Forrester Research Technology Market Outlook 2012

Calculate TAM bottom up with demographic and estimated spending

x people would pay
$y per year in this market

TAM = $xy

SAM =
Servicable Available Market

= a subset of TAM

= an upper bound on total possible market per your current assumptions

Calculate SAM bottom-up starting with demographic and industry numbers

Elevator Pitch=

Situation + Change + Solution + SAM

''Turkish urbanites have no time to cook. 2m now use the internet, growing at 30%. We let them order food online. Market is X billion''

SOM =
Servicable Obtainable Market

= a subset of SAM

= upper bound on your market share of SAM (aim at 1-5% within 5 years)

Optional:
Show Lifetime Customer Value (LTV)

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Hardware startups: Show Marginal Cost Curve

Economies of scale with 100/1000/100K/1M Units

Add Distribution and Growth Tactics

Competition

List All serious Competitors

Missing one that VC can name is a BAD thing.

Use SpyFu, Venture Beat, Quora, Alexa, HN alternativeto.net, Crunch Base, Angel List, Product Hunt

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Map Competitors on 2x2s charts

Add: origin, year started, funding, market share, number of employees

Team

Introduce CEO and 4 major skill owners

hacker, hustler, designer and architect

Hacker builds: writes code, builds hardware, systems, mechanisms

Not always a CS major/engineer

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Hustler gets resources:
money, deals, clients

Not always an outgoing extrovert

Designer defines taste:
UX, interaction, usability

Not always an artistic type: best designers ground sense of aesthethics in technical mastery

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Architect defines components

Software win= build modular parts that can be handled separately
lose= build joint parts that must have been handled individually

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If a skill is missing
say it upfront

Best investors help you hire

Funding & Ask

List All previous funding

Include bootstrap, FFF, competitions, government subsidies, indirect resources etc.
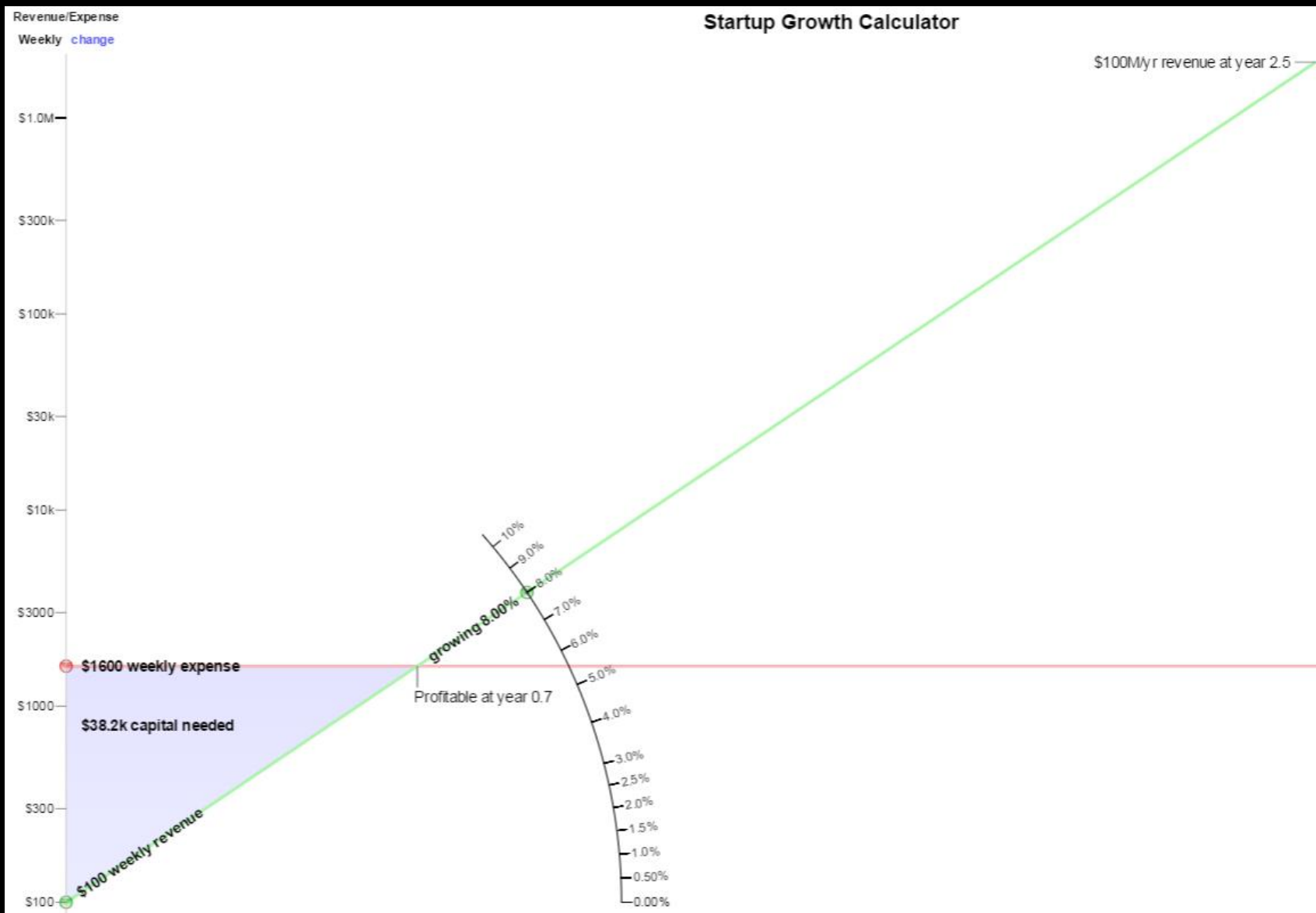
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Know Your Monthly Burn and Runway

Remaining Cash / Monthly Burn = Runway

How much should you raise?

Understand Revenue, Burn and Growth mechanics

Play around with Trevor Blackwell's calculator: growth.tlb.org

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Startup Growth Calculator

Revenue/Expense
Weekly change

$100M/yr revenue at year 2.5

$1.0M
$300k
$100k
$30k
$10k
$3000
$1600 weekly expense
$1000
$38.2k capital needed
$300
$100 weekly revenue
$100

growing 8.00%
Profitable at year 0.7

10%
9.0%
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.5%
2.0%
1.5%
1.0%
0.50%
0.00%

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Ask 50% more funds than you think you'll need

a. product takes longer to build and **b. deals take longer to close** than you expect

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Contact & Follow Up

Give One Clear Contact

Include email, mobile, linkedin, twitter

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Appendix

Put Everything else in an Appendix

Set up a dropbox folder and include the link

How will each round affect you as a founder?

Understand VC rounds and dilution

Play around with Dan Lopuch's Venture deal simulation:
http://bit.ly/1GKXrFb

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The Pitch

CEO or Hustler Founder should Pitch for Money

Schools train us to be verbose. Be concise

Don't talk when we you have nothing to say

Speak slowly, clearly and a bit louder

Imagine investors are hearing impaired. If you feel you're speaking too slowly, then it's about right

Stop being apologetic

If you're solving an important problem, then letting the investor in is a favor. If you don't believe that, change what you're doing.

It's your future
Get real about it.

Read Peter Thiel:
You are not a lottery ticket

The best way
to predict your future
is to create it

Peter Drucker

How to raise money