In this section, we're going to talk about how to raise money. We're going to go through some of the high-level thoughts around it, as well as some very specific aspects of finding a lead VC, and how to work to drive forward and close the investment.

Clint: How much does attitude matter in raising venture capital?

Brad: Attitude matters a lot. The process of raising venture capital is always hard, always challenging, it always takes longer than you think, and it's always got more ups and downs than you'd expect.

When you go into the process at the beginning, you need to have this attitude that you're going to be successful. I like to quote Yoda in these moments, and say "Do or do not. There is no try." You're not trying to raise a round of financing, you're going to raise a round of financing, and you really need to comport yourself at the beginning and commit to this process that could be unpredictable, could be hairy, could be really messy, but is one that you can get done.

Clint: Okay, I've got my good attitude; how much money do I raise? How do I figure that out?

Brad: I like to say that the amount of money you should raise is the least amount of money you need to get to the next milestone. The neat thing about that is you get to define both of those. You get to define what that next milestone in your business is. When I talk about milestone, I mean major milestone. The next level at which you believe you've created a more valuable business.

You can define the amount of money that you need to get there. But you should think about that not in the context of the maximum amount you need to get there, but instead think about it as the minimum amount you need to get there. That may not be the amount that you end up raising, but it's the amount that frames what you need to do to have a successful fundraise.

Also, the idea of going out to raise a range of money is illogical. If you come to me as a venture capitalist and say "I'm trying to raise $3- to $5 million," I immediately choose the number, 3 or 5, which is in my best interest, rather than what's in your best interest. So instead, figure out what that number is, and use a specific number in your fundraising process.

If you're a very young company at the very early stages, and you're raising a sea ground, you're raising a half million or a million dollars might be more than enough to get you to that next level of business. If you're a later-stage company and you're about to go public as your next opportunity and you're valuation is very high, raising a much larger round of financing, even if you don't necessarily need to spend that money in the short-term, can be the right answer.

There's no magic number that you back into with a spreadsheet or with all kinds of analysis based on future value of the company; it's really very much framing it from the standpoint of where you are and where you want to get to be.

Clint: Let's say I've got my numbers, what other kinds of homework do I need to do? What other kinds of fundraising materials do I need to put together to be set up for this process?

Brad: It used to be the case that you needed to put together a lot of documents around a fundraise. Everybody has probably heard of business plan, the idea of writing a 30-, 40-, 50-, 100-page document in great detail explaining your business and your market and your product and where you're going, even before you started the company.

That notion of a business plan, separate from the planning process, is an artifact of history. My view is that business plans today are relatively useless. Again, the planning process is useful, but the physical plan itself—the instantiation—is not that useful. Instead, think about having a couple of documents that are your material that you can give you a prospective investor.

The first is an executive summary; a three- to five-page document describing clearly what you're doing, why it matters, and where the business is going to go. The next is maybe a 10- to 20-page

PowerPoint presentation that helps you show what your business is going to do.

Think about the executive summary as the "tell" part of it; it's something that someone can read and respond to. The PowerPoint presentation is something you can use to get up in front of a group of people and actually walk them through and "show" what you're going to do with the business.

Clint: How important is being able to show you a demonstration or a product in all this?

Brad: Today, the ability for an entrepreneur of any sort to prototype their product is much more significant and easier and lower-cost than it used to be. It used to be that even to get a Proof of Concept app required some capital and some effort. Today, it's literally a laptop and a little bit of work to get something up that shows what you're doing.

The notion of minimal viable product and the idea of lean startup have become very popular in the last few years and they're very powerful ways to think about getting something up and running. As an investor, I love to play with early products from people that I'm looking to invest in. I love to get my hands on what they're actually doing, to be an early user, not so much to see how the product works, but to see how they react to my feedback, to see what the engagement dynamics with the entrepreneur is.

Think about the relationships with the investors; one that you're building over time and the prototype is intended not only to wow them with this amazing thing you've created, but to give you a way to engage and interact them on a continual basis.

Clint: On content and what goes in here, suppose I've got a problem in my business. I have a major customer and I lost him, or my co-founder left. Should that show up in any of this stuff, or should that be later down the road in due diligence?

Brad: There are two really important principles in the context of any communication with an investor. The first is transparency. You want to be open with your prospective investor about what's going on, about what you're doing, about what you're thinking about. You want to be transparent about your strengths and weaknesses early on. Help guide them to the understanding of where you're at, rather than force them to peel away and dig into it.

The second is never ever lie about anything. The problem if you lie is that the single time you lie is the last time you get a chance to have the interaction. Most investors, when they run into that, will immediately decide that they don't want to work with you anymore.

There's a difference, also, between your assertion about where you're trying to go and your aspiration and exaggeration. It's one thing to say "We aspire to have millions of users." It's another thing to say "We have millions of users," and then when someone actually looks at what you've got, you've got seven users. Don't stretch the truth in the context of an exaggeration, but there's nothing wrong with being aspirational about talking where you're going and where your vision for things are.

Clint: How do the reality and aspiration come together in a financial plan? What are you looking for in a financial plan?

Brad: At the early stages, there is one absolute truth about your financial plan; it's wrong. There is one side of your financial plan that you can control, which is the expense side. If you can't control the expense side of your financial plan as you're building your business, you're not doing a particularly good job of managing your early stage business.

The revenue side of your financial plan is total fantasy. The idea that you have any predictive ability for your three or your four or your five of your business when you're just starting out is nonsense. As an early stage investor, I don't care about your financial plan from an absolute number perspective. But I care about two things. One is, I care about whether or not you understand how the economics of your business actually works. I really care about it from an abstract level. Can you talk about what your product is? Can you talk about who pays for it and what they pay for it? Can you talk about what the gross margin dynamics of it will be? Can you talk about your expense structure in some rational way, both in the short term for the financing I'm doing, as well as over a longer period of time.

The second thing I'm looking for is that the business that you envision is a business that can be a big business. If you've got a business where your aspiration is to grow the business a very small percent every year—so get up to a million-dollar business and then grow it 10 or 20% a year even if you make a profit—that's not a venture-backable business.

If you have this idea that you can raise $1 million and build a business that's doing $100 million in revenue and $20 million in profit in year three, I think you're delusional. I'm trying to get this sense from you, from your financial plan, as to whether or not you thought it through and you've got a good sense of what it's going to be.

Student: How do I know whether or not I should raise money versus bootstrap it myself?

Brad: Bootstrapping is a really powerful way to build a business and to make progress. My view is that if you can bootstrap your business, you should. You should defer raising capital as long as you can. Make as much progress as you can, and again, with the least amount of money.

There's a meme that goes around where people think about they're successful because they raised money. In fact, that has nothing to do with success. You were successful at raising money, but your business is just at the very start of its journey.

If you can self-fund your company, if you can make progress without raising any money, when you go to raise money, you'll have made more progress and as a result, you'll probably justify a higher valuation. You'll be able to get better terms.

And, oh; if you never need to raise money, that’s awesome because then you get to keep the whole business.