www.blossomcap.com /2018/08/what-you-need-to-raise-a-series-a-and-why-it-isnt-100k-mrr/

What you need to raise a Series A (and why it isn't 100k MRR) | Blossom Capital

9-11 minutes

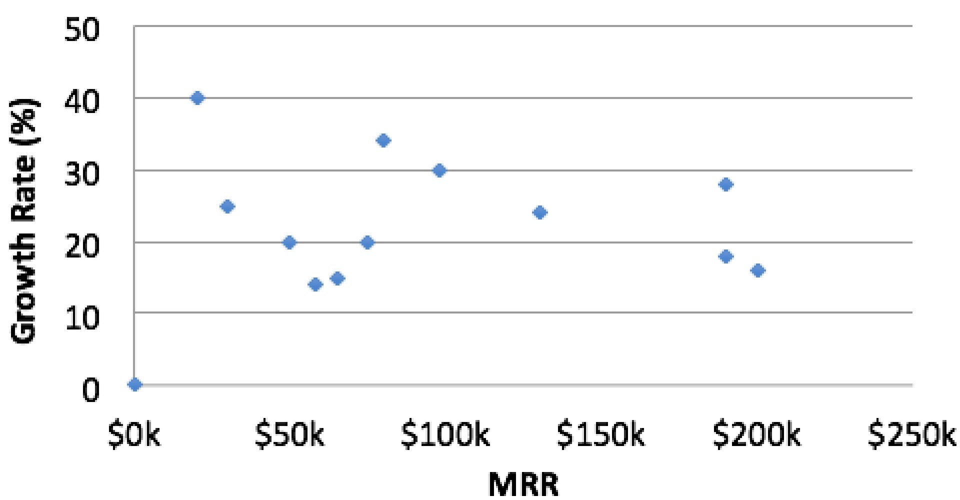
This article is based on my talk at SaaStr Europe on Series As for SaaS companies.

What MRR do we need to hit to be Series A ready?

It's the inevitable question seed founders ask of Series A investors, but within the question itself are three myths:

- That there's any *one* metric or KPI that deems a team ready for Series A
- That if there was, that it's an MRR threshold
- That when it comes to investors, one size fits all.

We constantly see the mantra that 100k MRR at 15% m-on-m growth is the threshold for where Series A investors look to invest; while this might be true on average, it hides the subtle truth that the variation is so broad that the average is far from a reasonable indicator.



In the last two years alone in Europe, over a hundred SaaS businesses have raised a Series A — a significant percentage of these companies were both well below and well above $100k MRR, with monthly growth rates varying from 0% to >50%.

So what is it that Series A investors are looking for?

Product & Market

The first things we ask is — *is this a big category and will this product become the category leader?*

At Blossom we look to invest in companies that have the potential to become the category defining winners in their space.

Most markets favour the leader; from CPG to tech. There's a huge reward for being the market leader, the second and third players are often left to fight for the niches.

This is especially true in enterprise SaaS where buyers will normally do a full review of vendors or even conduct RFPs. The brand value of being the market leader automatically makes you the default choice; every deal will be yours to lose.

> When I met Typeform prior to their series A, for many it was just another tool in the survey space where SurveyMonkey and GoogleForms already dominated. However, what they missed was the **value** that Typeform was creating as a result of the beautiful design which effortlessly mimicked human interaction, resulting in far higher completion rates than existing players. Typeform's completion rate was 55% vs other tools ~20%.
>
> The product meaningfully differentiated on an axis the existing players had disregarded as unimportant and shown it to matter.
>
> Additionally many investors at the time passed because they wondered about the size of the survey market. But spending time with the Typeform founders it was evident their ambition was far greater than surveys. They wanted to transform the way data is entered and captured online. That's the multi-billion dollar product vision.
>
> They were playing to not only win the category but to reshape it.

To be a category leader, the product has to be truly disruptive. These are products that will transform existing, or even create new, industries because they offer more value (whether that's defined as speed, convenience, ease, transparency, intelligence or functionality) to their end users than any current offering in the market.

To do that, the product also has to be, by virtue, unique.

That's often evident in what customers think about the product. And that's not just NPS. It's how often users engage with the product (daily — fantastic, weekly — ok, monthly — not so good). How they share it — do they love it so much they share with others in the organisation or even outside?

> By the time of Robinhood's Series A, they had waitlist of almost 1M users without spending a dime on marketing — strong indication that users wanted their product.

Today, virtually any technology or product can be replicated or copied if enough engineering resource or capital is spent, but we tend to find, if a team is building something disruptive, they're often miles ahead in their thinking and roadmap versus the competition.

This is evident in how the founders describe their vision of the market: 1, 2, and 5 years out. The sheer pace of innovation from these teams is often visible in how rapidly the team is shipping features and in their design process.

Scalability

If the category is big enough, we then want to know how fast the company can get there.

As we've already covered, no product is ever truly unique in the long term, so there's always inherent first mover advantage. Especially because of the natural stickiness of some of these companies.

What's far more interesting than $100k MRR is the journey to get there — how long did it take, who are the customers, and how long to the next $100k.

SaaS companies grow revenue by adding new customers and upselling existing customers at greater ACV than those they lose from churn. To believe that a company will continue on a certain monthly growth rate, or even exceed it, we are thinking about each of these things in turn. But not necessarily from existing data.

There are ways to quantify this without waiting for proof in the numbers.

New customers — how are many potential customers are there and how quickly can they be added in a cost-effective manner? Will existing customers help to add new customers by word-of-mouth or collaborative features. If you consider how quickly tools like Dropbox, Docusign or Slack grew — the driving factor was users sharing the tools with each other.

Upsell — this can be through adding more seats or adding new products for which you can charge extra. It's much easier to predict seat additions. Zendesk scaled with their customers which meant they could target both large and small customers and stay with those small ones as they grew rather than being switched out for a new tool. We're often hesitant of tools that solely target SMEs because if you get replaced by your best customers just when you get to meaningful ACV, that's a lot of new customers you have to add very quickly to replace that lost revenue.

Churn — if we've determined that the product could be a category leader and users love it, churn is unlikely to be because of frustration or dislike of the tool. So mostly we think about defensibility. SaaS companies that act as a system of record or data repository fare much better than simple workflow tools that can be trivially swapped out.

Economics

In reality even with 6–12 months of data, the unit economics of your early customers are unlikely to be reflective of the long term economics. While your early metrics need to be favourable the future is what your investors will be considering.

Early adopters will often have been acquired through founder hustle or organic means. The acquisition costs of a scalable channel and lifetime value are essentially unknown for practical purposes at this stage.

However as with scalability, there's much we infer from your product and your target customer. SaaS economics are well understood and based on three pillars: ACV (annual contract value), churn and acquisition cost.

Often market benchmarking can be a better guideline than direct metrics — the sales and marketing model you use as you grow will be guided by your ACV and the nature of your customers.

Among the best of class SaaS startups they almost all have a meaningful volume of organic acquisition through one way or another, whether that's from thought leadership, content strategy or virality. Even if that's not in the revenue numbers at the early stages, we often see the basis for this in the early team and product.

In contrast, when we're evaluating tools for SMEs we know from experience that customer acquisition is expensive, churn is high and ACVs are low, so our natural questions for startups targeting SMEs is whether they've seriously considered and formed a strategy for how they'll succeed against the inherently challenging economics as they scale.

Team

As with any start-up, the single most important part of our analysis is getting to know the founders and team; ultimately these are the people we're backing and who will be the ones building the product and business.

> The investor should never be the smartest one in the room.

If founders are building products that are going to transform their industries over the next decade they need to know much more about the nuances of their market than their investors do. That doesn't mean we can't share our own expertise or be helpful along the way but we want to find those people who live and breathe their product 24/7.

By time of a Series A round we expect founders to have hired at least a few more people into the company. Likely product, design and engineering; possibly one or two into sales or marketing.

We want to see that the team can hire exceptional people. That not only can they identify A players and sell their mission, but also that they are ambitious and assured enough to hire people better than themselves. The best founders are acutely aware of their own weaknesses and hire to fill those gaps.

Finally we look for a high-velocity culture driven by the mission of the company. A well-aligned team that works together as more than the sum of the individuals, where there's a natural urgency to ship and grow — and to succeed.

If you're approaching Series A stage and think you align well with what we look for we'd love to hear from you. You can reach us at hello@blossomcap.com or through a mutual introduction (Blossom on Linkedin).

You can follow me on Twitter @ophelia_brown and the Blossom team at @blossomcap