Argona PARTNERS

Startup Guide

Strategically Approaching Investing

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A Startup's Guide: Strategically Approaching Fundraising

The most common topic I cover with entrepreneurs is fundraising. This makes sense, it takes capital to grow a business. If your company runs out of money, you go under. An all-too-common mistake that many startup companies make is failing to approach fundraising strategically.

I've heard the good, the bad, the ridiculous and, most often, the unprepared. But startup fundraising isn't simple, and there's not a one-size fits all approach to winning over investors.

The COVID-19 pandemic influenced the process of startup funding just as every other sector of our lives. In the early stages of the pandemic, valuations likely dropped a bit; meaning that investors were extra careful about their cash to ensure they had enough money to help the existing portfolio if needed. Now, with startups raising record amounts of capital and billions of investor dollars flooding the ecosystem ($156.2B in 2020), it's a good time to design a strong startup funding strategy.

In this Guide, I am going to cover:

- The advantages of raising funds
- Setting realistic goals
- Identifying the "right" investors
- Creating an outreach process
- Having the right documentation
- Making the "right" ask
- Developing the right team
- KPIs vs. Vanity metrics
- Startup valuations
- Risks and how to mitigate them
- Ensuring cash meets milestones
- TOP mistakes startups make in fundraising

Before we jump in, there is one key to keep in mind. Regardless of your startup concept and your goals, one thing remains the same – you need to carefully work on your fundraising strategy and understand all of the nuances prior to beginning your campaign. How you plan on going about raising funds and developing a fundraising plan of action, responds to these questions:

- Why are your raising capital?
- Who are your raising the capital from?
- What will the capital be used for?
- How much capital will you raise? (Now and in the future)
- When are your raising capital? (Now and in the future)
- How long do you anticipate raising capital to take?
- When should you start raising capital?
- How will you go about raising the funds? (Process)

These questions are important to have figured out before you start reaching out to and pitching investors! With those in mind, here are my insights on how to approach fundraising strategically and successfully. This Guide is designed to help you avoid common pitfalls and focus on expediting your opportunities for growth potential.

Understand the Advantages of Funding

Although it is commendable to bootstrap your business, it's not necessarily the right strategy for every startup. Realistically, while you may be able to eventually succeed going this route, you risk a competitor coming out of nowhere and beating you to market. The traditionally slower forms of financing could mean a missed opportunity for your startup.

Investors can be a great thing for your business. You can tap resources beyond just money. When you raise capital for your startup, you get more than just financial backing. That outlay of cash can come with extensive resources, business expertise and instant growth in your network. As an entrepreneur, you may not be able to reach such an extensive base of resources due to limited exposure. These connections can provide further opportunities for your startup, including talent acquisition, potential customers and more.

You receive assistance with risk and strategic direction. Every startup can benefit from a connection to seasoned and experienced investors who understand risk, strategy, and tough decisions. With their investment and return on the line, investors are often more than happy to step up and serve as advisors.

Set Realistic Goals

Take the time to understand what you need the money for. What are you going to accomplish with the money you raise? What are the milestones it will help you hit (e.g., speed to market, grabbing market share, exploit and market opportunity?) And don't forget that investors don't fund capital shortages, they fund opportunities.

Setting clear, specific, achievable, measurable, and time-bound goals is invaluable to creating an effective fundraising strategy.

On top of these, your goals must be concise. Investors need to be incentivized to make a decision, otherwise their deliberation might go on forever as they pay attention to more time-sensitive deals and continue collecting more information about your company. Remember, fundraising typically takes six months.

Raising funds for your business requires extreme mental preparation. It is especially important that you are realistic and set expectations within what is objectively possible. You must also be prepared for rejection, and to take these as growth opportunities to improve your pitch, rather than a loss or a defeat. The right investors will see the potential of your venture, so don't despair.

Identify the "Right" Investors Before Reaching Out

Investor research is imperative in your fundraising strategy as not all investors are the same. This may sound obvious, but too often I receive cold emails with full pitch decks and executive summaries. By narrowing and testing your fundraise focus, you can better determine your investor archetype and increase your opportunities for success. It's all about matchmaking – look for someone that suits you.

Your research should be based on two principles: targeting the right investors and ensuring your research is unbiased. You should know if this is the type of investor who is interested in companies like yours, and if they have experience in your area of development. Cold contacting every potential investor lead you come across will often diminish your company's persona in the investor realm.

The first thing to know is which type of investor you are targeting. Your specific needs and business plan will dictate the type of investor and investment type that best suits your raise. Look at their past and present investments. What size company do they typically invest in? Do they have any interest in startups at all?

If possible, talk to other entrepreneurs who have received capital from these investors to find out what it is like to work with them.

Before meeting with any investor, you should understand who you need to approach. Find out more about their strengths and weaknesses, and ways they can add value to your company in addition to their investment. Make sure your investors are the right fit in terms of your stage, sector and ticket size.

Three other quick tips:

- Don’t talk to investors who are wrong for your company. For example, if you are seeking Seed funding but see that the investor only focuses on later stages (from round B and above), then it makes no sense to target these investors during your campaign.
- Your archetype should include investors who are used to investing in projects like yours, or in companies that are in the phase you are in. If they do not know the area, you will have to spend a lot of time explaining the details. That time you can invest in something more beneficial for you.
- Don’t talk to investors who have a vested interested in your competitors or are also looking at investing in your competition or companies similar to yours. It doesn’t make any sense for you to talk to the people who have funded your competition. You want a backer who is invested in YOU and the long-term success of your business. Do your research. Avoid conflicts of interest.

Make a Process Out of Your Outreach Plan

Fundraising should be approached and managed as a process. Once you have your fundraising strategy, it is important to use it as a guideline for your fundraising activities. Your strategy should clearly outline how you are going to reach out to every investor – through what channel, when and how.

Automate some of the processes if you can such as using a CRM, but at a minimum use a spreadsheet to identify all your potential investors and the information about them. Create a system that will contain all of the information you need on each investor and where you are with them in the process (emails, meeting notes, reminders, etc.)

Have all of the necessary documentation that investors are looking for ready at all times (KPIs, cap table, term sheets, financial model, contracts). Not only does this make it easier for you, but the investors as well.

Create Clear, Concise, Compelling Documentation

You should not begin engaging in any serious type of investor conversation until you have the right collateral ready to go. An effective approach to initially take with investors is to ask for feedback. You can easily initiate conversations by having any type of investor review your collateral and provide feedback. In this case, investors are more inclined to reply in the first place.

When it comes to collateral and documentation, you should at least have:

- An Investor Pitch Deck - creative but not overly designed or too lengthy. This is different from a sales deck.
- A Pro Forma, and Cap Table - a 3–5-year financial projection is necessary. This should not be overly complicated and include a summaries page. You will also need a Cap Table, but this should by no means be sent to

investors until serious conversations are taking place. You will need to demonstrate you understand the ownership structure and valuation of your company before an investor will consider.

- An Executive Summary - most investors won't ask to see a business plan right away. A good executive summary includes the important details from your business plan. They want to know:
- Problem and Solution
- Current Traction
- Market Opportunity, Sustainability and Scalability
- Competition and Barriers to Entry
- Risks
- Founding Team
- Financial Assessment + Funding Allocation
- Terms and Valuation

Make the Right Ask

Once you've gotten the opportunity to present an ask to an investor, it's important to make sure you're asking for a reasonable amount. Your goal isn't to gather as much funding as possible at every stage. Make sure that the funding is enough to reach the next fundable milestone.

If you are raising Seed capital, find out what metric are for Series A, and make sure the Seed money you are raising (and your financial projections) allow you to reach that milestone with enough room to make some mistakes along the way. Ultimately, your success depends on what you do with the money you have, and not how much money you have.

Do some hard thinking on how long it will take you to reach that the next milestone you've targeted. Then add a viable cushion for the time it will take to meet with investors to get to the next round raised.

A common mistake that entrepreneurs make is to focus too heavily on avoiding dilution by raising less money, as well as the failure to build enough cushion for the unexpected. Often, it may take you longer than you expect to develop your product or service, or for sales to take longer to ramp than hoped. Raising more cash to provide a cushion can be a smart way to decrease overall dilution, as it will allow you to optimize a subsequent round.

Develop the Right Founding team

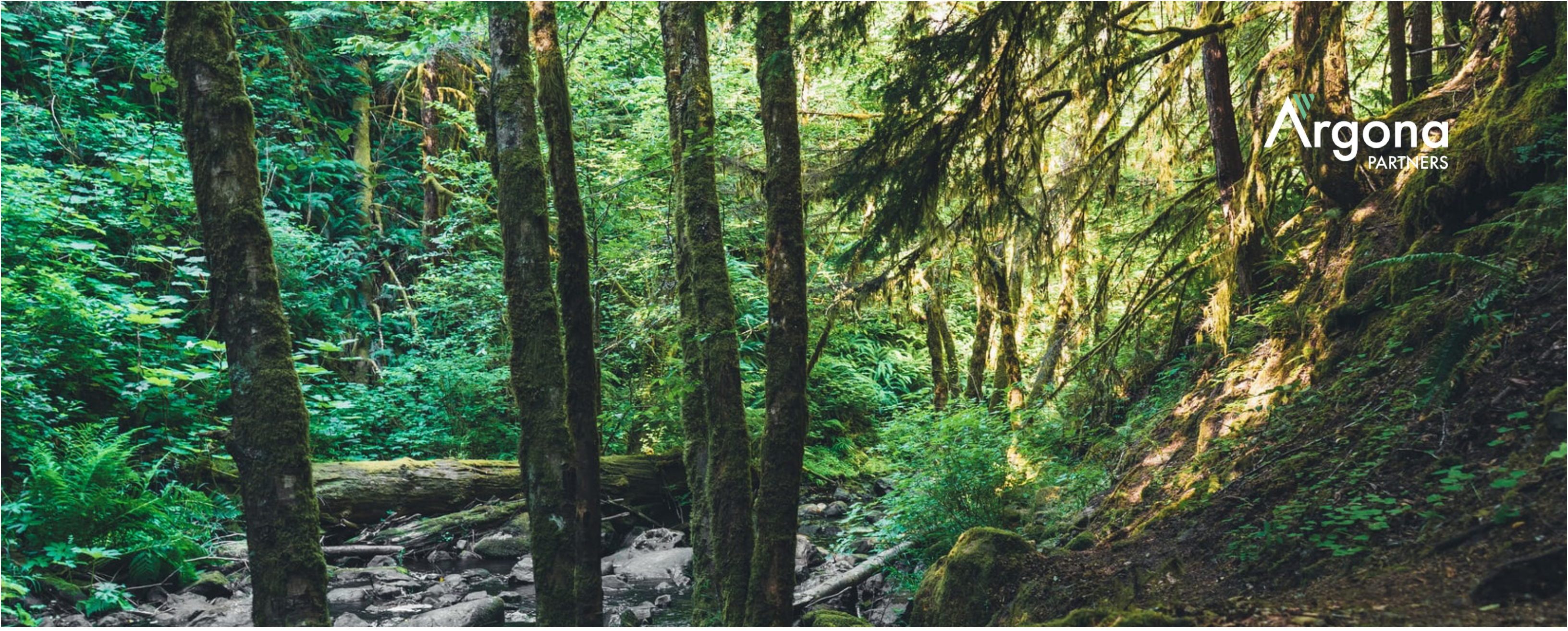
This is something you've also most likely heard many times but cannot be avoided. It takes a miracle to get investment dollars out of them if they're not impressed with the team. The people behind the startup are going to define its future, and they will be the ones making the decisions that push the company one way or the other. Thus, the inability to compose the right team will be seen as a huge risk.

Investors want to see a strong leadership team in place before they give you their money. Having a proven case of your team's success is crucial, and faking the right team is not sustainable, and will often lead to false start failures.

There's no written rule that applies to every single startup, but investors have often said that a combination of the following is a good start:

- Technical and business-oriented co-founders
- Even if you're not technical, you can typically find a passionate, enthusiastic technical co-founder who can add significant strength to your team.
- A team the complements each other
- Previous experience in the industry they are facing
- Co-founders trying to solve a problem they previously had

At the end of the day, investors want to invest in founders who have the drive, experience, and passion to create a profitable, but sustainable business. They are not just investing in your idea or concept; they're investing in you and your management teams' ability to successfully execute your business plan.



Focus on your KPI's and Avoid Vanity Metrics

Investors will be looking to make sure you understand not only the important Key Performance Indicators (KPIs), which will need to be measurable evidence based on company traction, but also your awareness of Vanity Metrics, or irrelevant noise. You will have to prove your company's trajectory and viability to scale through quantifiable metrics.

Banking on emotional investments is a huge risk, and not sustainable. By understanding not only your business' KPI's and Vanity Metrics, but also your industry and competitors, you automatically put yourself in the best position to showcase your unique offer. Preparing for these questions is absolutely crucial - and answering honestly is necessary. If you don't know, don't misrepresent yourself. That's much worse. Instead, kindly offer to review the proper information before providing an answer.

Know How Startups are Valued

Startup valuations are based on a calculation of risk and reward. Valuations increase as the level of risk goes down. In practice, the risk is not reduced linearly over time but, instead, changes in big increments when particular milestones are reached.

Author

Jeremy’s experience and interests lie in Structural Management, and Consumer Behavior. He serves as CEO of Argona Partners and oversees the success of all Argona Partners projects, client relations, and its subsidiaries. This includes operations and executive strategy advisement across multiple industries, including Artificial Intelligence and Green Tech.

Jeremy operates as an Executive Advisor for multiple businesses as well, with specific oversight in investor relations, brand development, team oversight and financial operations. Jeremy has previous experience working for over six years at Apple, including management, sales, inventory management, technical troubleshooting, and leadership. He also has experience in data manipulation, management, and report building as a business analyst, in which he built a Data Team and Tech Stack from the ideation stage.