CSE 190: Funding and fundraising (Kaw 7)

Read this: http://paulgraham.com/startupfunding.html,
http://venturebeat.com/2009/07/08/startup-fundraising-101

1. Lifecycle of a company:
Milestones:
i) idea, ii) prototype/demo, iii) early adopters, iv) entering market- building sales team, v) capturing market share - growth, vi) expanding (in markets or products)
Funding stages:
a) Friends and family <$200K, b) angel $300-1.5M, c) series A: $2-5M, d) series B: $5-15M

2. Starting the fundraising process, you need to determine (requiring an AOP!):
- when you need money (takes 5-8 months by the time you start)
- how much money you need (more is not always better, though usually it is)
- what will you do with it
- where you be by the end of this cycle

Funding should be seen as the fuel to take you to the next milestone.
Fundraising is a full-time job and it can impede other development.
If you fundraise from VCs, start full speed: it's a small circle usually, and they talk.

3. Types of funding sources with different requirements and challenges:
friends and fools, angel investors, venture capital, bank loans, partnerships (customer/investor)

4. Get introductions and create a network:
It is all about who you know first. Then it is first impressions. Then it is company value.
Creating a "Keiretsu": lawyers, friends, fellow entrepreneurs, college friends, ex coworkers

5. Do your homework before, during and after meeting them:
before: find profile of ideal investor, **during:** be prepared: **after:** evaluate them
A bad investor can be worse than no investor.
Good investors should bring: visibility, knowledge, and connections.
Understand your investors: motivations, personal preferences, mode of operation.

6. Engaging with investors:
1) be respectful, 2) be honest and up front, 3) nurture the relationship

7. Top reasons startups fails to raise funding (assuming a good idea):
a) You are uncoachable (http://quickbase.intuit.com/blog/9-ways-to-tell-if-someone-is-uncoachable)
b) There are skeletons in the closet and you are "dishonest/inaccurate"
Unconventional: capital structure & stocks, IP, management team, fear of lawsuits
c) You fail to engage, and cultivate the relationship

8. Closing the deal: you need a lawyer or someone who knows
Types of investments: Money for equity, convertible note
Dilution: Pre money valuation of a company: $PRE [Equity of investor: INV/(PRE+INV)]
Equity is not all:
1) Money: Preferred stocks and preferential return clauses
2) Control: board members, operational agreement, special clauses

Issue shares, never "talk" percentage of ownership (1000 shares of X. not 1% of X)

9. Managing investors after closing the deal: it is a marriage.