indinero™

The Startup Founder's Guide to Fundraising

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Foreword

There comes a time between points A and B of building a business when money makes the difference. Whether that point is an initial seed raise to jump start an idea or a series A round to grow to the next level, timing differs depending on your business. No matter what, every entrepreneur will tell you that securing investors is no walk in the park.

If fundraising a business were easy, everyone would be an entrepreneur.

Fundraising is not for the faint of heart. It is an adventure and a major time investment. Eileen Carey, Founder and CEO of Glassbreakers, recently shared on Medium that although she'd studied finance and entrepreneurship while getting her MBA.

> **"Nothing in a classroom could have ever prepared me for the art and science of fundraising."[2]**

Which is why this resource is not the do's and don'ts you might find in a textbook. Instead, this eBook aims to arm today's entrepreneurs with experience and anecdotal guidance from our network of startup founders mixed with advice from your compliance-focused allies (accountants, tax experts, and lawyers).

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Part I. Fundraising Basics

So much of fundraising is unpredictable. Here are a few things you can be sure about along the road.

Chapter 1

Assemble Your Business Basics

Getting noticed by accelerators, VCs, and other investors starts with a having a credible company foundation. Investors want to partner with companies that are functional and stable. Here are a few tips on what you'll need to get started.

Incorporate Your Business

Venture capitalists, accelerators, and incubators typically prefer to invest in C corporations, which provide a predictable legal structure and allow investors to issue equity or preferred shares of stock. Extra credit: incorporate in Delaware. Delaware laws are particularly friendly to corporations and their investors (no corporate income tax!).

Set up a Capitalization Table

A capitalization table, or cap table, is like a map of a business's DNA. At a high level, the cap table is a spreadsheet businesses use to track who owns what percentage of a company. A well-organized cap table is an integral part of investor negotiations. Investors will want to see the existing capital structure of the company and where they will fit in, while the founders (that's you) will use it to forecast how new investments will dilute ownership percentages and the value of each share.

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Put Together Your Term Sheet

Once you have a cap table, your term sheet is a non-binding agreement that sets the basic terms and conditions for investments. This dictates the investment type, interest rates, and agreed-upon company valuation.

Get Organized — Financially

When you ask someone for money, be prepared to talk about the money you already have. Show financiers that you mean business by making sure you have the financial reports and accounting policies that accelerators, VCs, and other investors expect based on your growth stage. We'll cover what kinds of reports you should have on hand and how to use them later on in this section.

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Chapter 2

Different Stages of Fundraising

If you've never gone after equity financing, it can be hard to know what to expect. What are the differences between each round? What does each one entail? Here we've listed the primary types of funding rounds and the financial expectations associated with each one.

Follow along, so you know how to prepare:

Family and Friends Round

Just as it sounds, the friends and family round is when you reach out to your personal network for smaller investments in your company, generally under $500,000. These folks won't require you report much about your finances — in fact, they may be close enough to have a good idea already.

Angel Investment

Once you demonstrate sales potential and understand your market, it's time to look for equity capital. Because businesses are usually still developing at this round, angel investors invest in many early stage companies simultaneously. If a company does well, investors can reinvest in a future round. This round has few, if any, financial reporting requirements but you will need a rock-solid business model.

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Seed Round

A seed round is the first big round of funding a startup seeks from outside investors. Depending on the type of company, this round generally yields around under $2 million or less. Investors in a seed round want their portfolio companies to grow as quickly as possible and spend investor money only on the absolute necessities. Aside from tax-compliance, your financial reporting requirements can differ from investor to investor but are usually pretty minimal.

Series Seed

A series seed is a "bridge" round of financing larger than an average seed round but not quite on par with a "Series A." Financial reporting requirements are the same as a seed round.

Series A

Series A rounds can include a mix of old and new investors. Investments from this round are typically at the $5 million mark and above. The higher return is partially due to the fact that most startup founders begin pitching to the name brand venture capitalists in their industry at this point. Series A is where things get a bit more serious. At this stage, investors expect to see GAAP (Generally Accepted Accounting Principles) financials at their board meetings.

Series B+

Additional rounds like Series B and beyond offer bigger investments around $10 million or more. This is where larger, more established funding institutions normally jump into the game. If they haven't already, most companies will move their accounting functions in-house at this point and hire a CFO or COO to oversee the financial reporting and other funding-related operations. There is almost always a strict GAAP reporting requirement.

An Alternative Route: Venture Debt/Debt Financing

While this resource focuses on fundraising, it's important to note that some startups may prefer other funding routes. Opening a line of credit at a credit union or bank is one way of accessing large amounts of capital without giving up a stake in the business to a board of investors. Financial institutions always required GAAP financials as a means of managing risk.

The trade off for venture debt? Higher interest rates.

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Part II. From the Founder's Perspective

Let their lessons-learned be the fuel to fire you up for investor meetings, presentations, and networking.

Chapter 3

Suren Sultania

Co-founder & COO at Headout

From Headout's start as three friends with a passion for seeing the world, to the worldwide team of 80 it is today, Suren has been responsible for keeping things moving and bringing direction and coordination to their team.

Suren's background as a strategy consultant makes him the go-to man for thinking of creative solutions to complex problems. His keen analytical mindset coupled with an underlying urge to solve technically challenging problems left Suren with a self-fulfilling desire to be an entrepreneur.

Suren shares what he learned from bootstrapping a business from his savings before diving headfirst into the universe of startup accelerators and investor meetings.

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Three Things Every Investor Wants

Every investor you meet will have his or her own criteria — each as unique as the startup they are evaluating. But once you boil it down, there are three essential elements they'll look at with every company they see. Here's Sureen's advice:

1. *"First and foremost,* ***investors care most about the team itself****. They want to know what skills the team has in relation to their business, and, more importantly, how committed and determined are they towards the business. That is extremely important because we all know that the startup journey is a hard one, and it's very easy to give up when things get tough. Investors are smart enough to pick up on whether or not that sort of determination and perseverance is there."*

2. *"They also need to get* ***some context for the long-term potential*** *of your business. The way you do that is to be well-versed in your industry, clearly articulate your vision for the role you see your company playing in that ecosystem but also to look at where the business is at that moment and tie that vision back to the present. If you can do that and benchmark your progress with your competitors, that will give outsiders a very good sense of what's possible in the future."*

3. *"From there they'll want to know* ***how quickly the business is developing****. And by that, I'm not just talking about how fast sales or revenues are growing, but at what rate is the team able to take their learnings and translate that into improvements."*

As fast-paced as a startup can seem, each company can only move at the rate its founders can identify barriers to growth and learn ways to overcome them. Investors always find it encouraging when founders demonstrate agility in the face of adversity.

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Don’t cover up any of your shortcomings or mistakes

It’s tempting to give in to the self-doubt that can come with making a mistake or miscalculation. Instead of letting it get the best of you, use those experiences to reevaluate your work and find a strategy that fits you best.

> *“There is no one right way to build a company, or bring in customers, run operations, fundraise, etc. There is your way, and there are other people’s ways. To figure out what suits you best, you must be very cognizant of your strengths and even more so of your weaknesses, and play to what you can do better than most, not what you can’t.”*

Instead of downplaying your blunders, wear them proudly as a badge of honor. Not only will investors appreciate the transparency, but they’ll be better equipped to identify how they can help you succeed. And ultimately, accountability for your snafus is the best way to show others you are learning from them.

> *“Whether something is a mistake or not depends entirely on whether you learn from that experience. If you do, then it’s not a mistake, it’s a learning opportunity. If you don’t, then it remains a mistake forever.”*

Deciding to join an accelerator

Once you uncover your gaps, you can evaluate which funding options will offset your vulnerabilities. Incubators and accelerators are a popular choice for many entrepreneurs because they provide a set amount of financing and access to various tools that will help a startup succeed. Typically, those tools range from amenities and facilities (even science and medical labs) to discounts on services that help you run a business.

One major selling point for the big-name accelerators is access to the experienced VCs that back them. Suren and his team chose to join an accelerator as a chance to connect with seasoned startup veterans who could round out their team:

> *“We went to 500 Startups for two principal reasons: First, we were at a point where we needed funding to continue to grow the team and our operations. Number two, we realized as first-time founder that we didn’t know how you scale a company. As a program, 500S specializes in growth. Helping a young company like ours scale and grow is the exact thing they do better than most.”*

Indinero partners with many incubators and accelerators across the U.S. to offer free consultations as well as bookkeeping and tax services at a discounted rate.

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Take time to revel in the adventure

Most founders will tell you that fundraising may seem to consume your entire life. But that doesn't necessarily mean it's all stressful suspense and tension headaches. It's during those late nights that you solidify life-long friendships.

> *"I didn't expect to enjoy the challenges as much as we did. What sort of caught me by surprise — a pleasant surprise — was the solidarity that developed between the three of us. In spite of everything that we went through, the ups and the downs were easier for all of us because could rely on and lean on each other. We never would have done this alone, and [Varun and Vikram] have been very good co-founders, better than I could've ever hoped for."*

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Headout's Story: Your City On-Demand

Suren and his co-founders, Varun Khona and Vikram Jit Singh, were Headout's first customers. The trio's shared mission to make traveling more fun and spontaneous stems from the roadblocks they encountered when traveling together throughout Europe. They aim to give today's tech-savvy travelers the destination information they want and deserve at their fingertips.

Headout is a mobile app that will change the way you visit cities. As a tourist, you want to discover cool experiences and activities going on in whatever city you're visiting, not just see the sights you'd find on a postcard. Headout brings the best tours, activities, and attractions to a mobile device giving users the freedom to be spontaneous and have a unique, memorable experience.

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Chapter 4

Kevin Busque

Founder & CEO at Guideline

Kevin Busque may be the founder & CEO of emerging startup Guideline, but this isn't his first rodeo. After getting his start as a corporate systems engineer, Kevin became a CIO for early stage healthcare startups in the Boston area followed by his best-known role as co-founder and VP of Technology at TaskRabbit.

It was during his time at TaskRabbit that he did what all good entrepreneurs do: he recognized an issue within the workplace — retirement planning — and realized it wasn't a unique pain point (major market potential), and set out to build Guideline to address it head-on.

In the summer of 2015, Busque announced via TechCrunch that Guideline had raised $2 million in seed funding[2] — and that was before he even had a customer facing product! Here he shares what he's learned from building two startups from the ground up.

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Don’t shy away from tough conversations, seek them out

Unlike many founders, Kevin didn’t go into the fundraising journey blind. After observing his wife, the founder and CTO of TaskRabbit, Kevin started out with a lot of preconceived notions about who he wanted to work with when building Guideline. But, it turned out that the conversations he missed based on those expectations are what he regrets the most.

> *“I actually had a great time fundraising, and I really enjoyed the process. But if I could go back, instead of going first to all the people that I knew I wanted to work with, I may have met with more folks that I didn’t have a relationship with or know personally. Because these are the folks who will bring up questions that will test you so you can hone your skills. You want to do that early on, so you’re prepared before meeting the people you already know you want to impress.”*

When fundraising for B2B, remember many investors have run businesses, so they get it

Showing that you understand your buyer is one thing, but when the investor you’re pitching could also be a potential customer, nailing your target market is crucial. This poses a significant opportunity for those who are building B2B (business-to-business) solutions, as most of the VC money comes from people who have gotten where they are by running successful businesses. It takes a little research, but if you can show you’re solving a problem that a potential investor has experienced at his or her previous company, it shouldn’t be too hard a sell from there.

> *“The interesting thing about investors is they typically come from two different buckets of life experiences. Many VCs are operational, they’ve run companies and experienced firsthand the same thing I experienced with TaskRabbit, how painful it is for a small business to offer great retirement benefits. If I got in front of a VC that had operational experience, had run a successful company, and was currently investing, it was a no-brainer.”*

The ones that are tricky are the VCs that don’t have operational experience, who haven’t felt the pain of setting up a benefit first hand. But what they do understand is how low our fund expense ratio is, for example. The technology that enables our cost savings is not trivial.

So it became clear to me that my pitch had to revolve around these two target business owners — those who are operational and those who are not. Once I knew that I could do the research ahead of time and make sure I related the pitch to the pain points they had.”

“A lot of VCs have run companies, so they experienced firsthand the same thing I experienced with TaskRabbit...”

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When choosing an investor, ask yourself: Who do I want around when things aren't so rosy?

As you can probably tell from Kevin's advice and track record, he ended up in a position to choose from a pool of investors. But he didn't go with the biggest, flashiest name or the ones who sounded the best on paper. Instead, he listened to his gut feelings and looked for those who would be able to empathize with what the future might hold for Guideline's journey:

> *"What we're doing at Guideline is building trust, specifically for the younger generation. They don't trust banks or brokers, so we're not a broker. It was imperative to have a partner that understood that. That's why we went with Propel in our Series A. They were not as well known as some of the other players that wanted to be in the round, but I felt like they understood me, what I wanted to build, and the pace that I wanted to go."*

> *Ryan Gilbert [a partner at Propel] had operational experience as well in the financial industry. The company that he ran definitely had ups and downs which make for great experience as an entrepreneur and gives them clearer view of what I might have to go through on a daily basis if things weren't always rosy. So that was really important, and why I selected them."*

"The company that he ran definitely had ups and downs which make for great experience as an entrepreneur"

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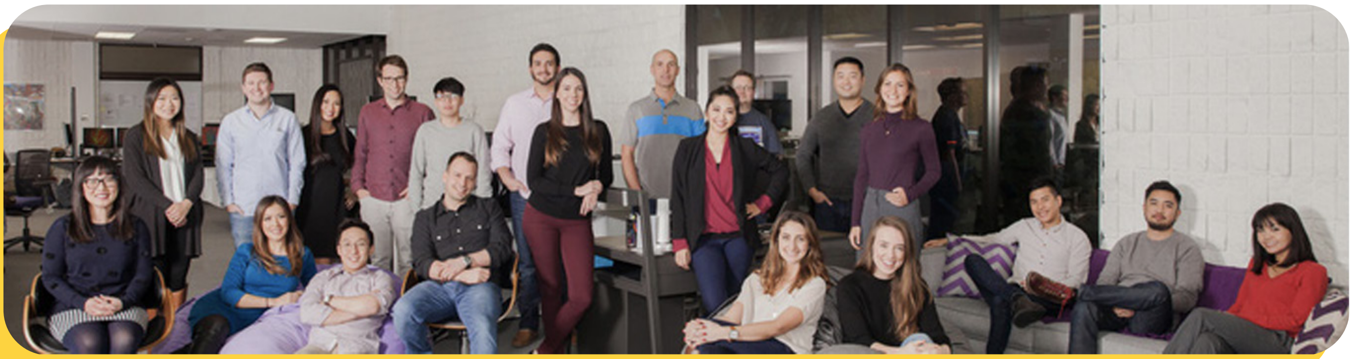
Guideline's Story

Kevin Busque decided to start Guideline after seeing a generational divide in attitudes toward retirement savings at TaskRabbit. While the manager, director, and executive employees wanted to learn more about benefits, the younger employees on the front lines with customers and taskers didn't think they had the means to even try — even if data suggests that they are very interested in building a nest egg.

Guideline is here to make planning for retirement accessible for younger generations who are eager to save through a beautiful and easy to understand user experience. Their platform is designed to make it easy for employers to set up and even easier for employees to enroll and save.

Learn more about Guideline's all-inclusive and easy to navigate 401(k) plan at www.Guideline.com and read Kevin's comprehensive article, "How I'm Fixing Your 401(k)"[3] and their most recent $7million Series A success announcement via PR web.



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Chapter 5

Will Dinkel

Co-Founder & CEO at Nova.ai

Will Dinkel is the co-founder & CEO of Nova, an intelligent sales workflow platform that brings personalization to sales at scale using artificial intelligence. He met his co-founder & CTO, Bryan Pirtle, at Cal Poly San Luis Obispo. After graduating and prior to starting Nova, Will and Bryan worked on a few small projects together and went their separate ways to complete their masters' degrees at Harvard Business School and MIT (respectively). They reconnected and decided to tap into how powerful personalization could be for data-driven sales teams and how hard it was to develop and scale.

Will shares everything from curbing fundraising emotions, framing the anatomy of your pitch, and understanding the unwritten rules of networking online with investors.

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Don't let financial fears dictate your ambition

There are risks associated with starting your own company. Especially when you're giving up a lifestyle you're already accustomed to — time, income, even downsizing your home, car, etc. In that regard, the very first "investor" you need to win over is yourself.

On one hand, fear of failure acts as a filter to weed out the faint of heart. But, as Will points out, the panicked anticipation of the risk isn't usually based on rational thought but an emotional response to uncertainty.

"Turning down that cushy big company salary is never easy. The first few months of anything new — especially without a salary — can be scary. Over time, you get better at compartmentalizing the risk and thinking logically rather than emotionally about it."

The sales experts weigh in: Selling to customers vs. selling to investors

When it comes to planning a sales or investor pitch, the essentials are very similar:

> *"I've had people come to me and tell me they've used Nova when talking to investors and I get it. If you look at what sales is, it's about building a rapport and providing targeted value. You build rapport; you tease the value you'll provide (i.e., your pitch), and you give a call to action. In that regard, pitching to investors and selling to customers are very similar activities."*

But while pitching to investors is theoretically the same as selling, the supply has a bit more leverage than the demand to an investor.

> *"Almost any time you're selling something to a potential customer, they know you want them to buy, because who doesn't want more customers or at least more demand? But [when it comes to fundraising a business] there's always some cap on the number of investors you can have or the amount of equity in your company you want to sell away. That's where the social dynamics come into play, and that can be another book in and of itself."*

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Reach for the stars and find some great mentors!

> *"There's a lot of wisdom that ends up being "hard-earned" when you're going it alone. This takes a lot of time, which is your most precious resource as an entrepreneur. When you find someone who already has that experience, they can help accelerate that learning, and that is invaluable."*

> *"And don't get intimidated. Even if 50 say no, that 51st might be the only person who can help show you the steps to take your company to the next level. A great mentor can really help you a lot. Go look around online, look for people who have done similar types of companies or who have knowledge in your industry.*

"Be ambitious, go after amazing advisors. Even if 50 say no, that 51st advisor might be the one who can help show you the steps to take your company to the next level."

Beware of LinkedIn social climbers

You might think funding rounds are a good time to build a vast social network — the more connections you make, the fewer degrees of separation there are between you and the perfect angel investor, right? Well, connecting on LinkedIn with those who don't invest in your company can actually come back to bite you.

"When we finished YC and were having a lot of investor conversations, everyone I talked to would reach out to me and say 'oh, such and such investor came to ask me about you.' I came to find that these new investors were all reaching out to other investors I was connected with on LinkedIn because we had mutual connections."

"As a founder, you want to control the narrative — first and foremost because you're always improving the narrative. Investors really like to connect on LinkedIn with people— perhaps it makes them seem important or well-networked. If someone is not truly your friend, then don't connect with them, because if you do, they might end up giving a poor man's version of your pitch to another investor several months later."

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Nova's Story

Nova's platform uses artificial intelligence to help sales representatives relate to prospects on a personal level. Sales reps want their emails to feel catered to the recipient, but high quotas make it hard to send an individual email to everyone on their call sheet. Using Nova, a rep can instantly personalize their emails for each contact, use instant analytics to optimize before pressing send, and receive key audience insights over time.

Learn more about how Nova is helping sales teams at www.Nova.ai and read their latest coverage in TechCrunch.[4]

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Chapter 6

Justin DiPietro

Co-Founder & COO at SaleMove

After getting his start consulting with Fortune 500 companies, Justin DiPietro decided to follow in his family's footsteps and start a company of his own. Along with his co-founders, Justin set out on a mission to change the way we communicate online. Today he is the COO of SaleMove, a platform that enables organizations to interact with their online visitors through video, audio, chat, and CoBrowsing mechanisms, in the same way they would in-person.

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When it comes to raising money, Justin shares his ideal type of relationship to have with investors

Although Justin came from a family of entrepreneurs, he did not decide to seek investments from family and friends. According to Justin,

"I would rather not take friends and family money. It would add a massive amount of personal awkwardness and stress. Plus I think it's doable without it given the incubator environment. If you can, try to avoid it."

Instead, SaleMove went the incubator route where they learned how to navigate the world of investors and venture capital. Although close connections may be quicker to invest because of a long-standing relationship, SaleMove chose the tougher route of building new relationships. This process was challenging as first-time entrepreneurs, but it paid off. SaleMove found sophisticated seed investors that provided other value (experience, introductions, etc.) in addition to cash.

"VCs invest in lines, not dots"

Based on advice Justin received early on, the co-founders understood that, on a fundamental level, investors are focused on longevity and progress over time:

> *"In terms of working with investors, one piece of advice that's stuck with me is that investors and venture capitalists invest in lines, not in dots. Your company could be fantastic, your idea could be amazing, but if an investor just meets you once, they're probably not going to invest in you. That's because they don't invest in dots on a chart. They look for lines that connect dots over time (preferably sloping steeply up and to the right).*
>
> *Most investors will want to have met you months back and viewed your progression. They want to see you move; to go from Point A to Point B; they want to build a relationship over time. When you have conversations with these types of investors, it becomes easier to see that the ones who want to invest in a dot are probably not as experienced or successful."*

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Looking back, Justin is thankful he made it a point to be diligent from the beginning

> *"If someone's going to give you millions of dollars, they're going to look at everything — literally, everything. From the very start, the SaleMove team has always dotted our I's and crossed our T's, documenting everything. This attention to detail can get expensive — legal fees add up — but when it comes down to fundraising and doing different activities, having everything perfectly documented, filed, and ready to present makes a world of difference.*
>
> *I definitely sleep sounder at night knowing I don't have to worry about an interested investor finding liabilities in our documentation."*

Entrepreneurs by blood, executives by experience

Justin also attributes much of his and SaleMove's success breaking into the business to business (B2B) world to his corporate work experience:

> *"Because of my family roots, I always knew I wanted to start and own a business. But I also knew that there were things I had to learn versus relying on innate ability. Coming out of college, I didn't have the corporate enterprise experience to navigate business politics and truly understand big company dynamics.*
>
> *Today, we're an enterprise company, and we sell to enterprise businesses. Looking back, there's no way I would have understood how to handle some of these conversations unless I literally worked with dozens of enterprise companies as a consultant. Understanding their internal affairs gave me a ton of insight into what was appropriate across so many different functions of operating a business and working with other businesses as well."*

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SaleMove's Story

SaleMove's mission is to meet and exceed the in-person experience online. "Basically, any interaction you can have in person, we want to replicate that experience on a website or mobile browser." To accomplish this, the company combines a variety of tools, such as analytics, co-browsing, and video chat, to enable companies to provide real-time, high-touch experiences without the need for downloads or extra plugins.

Learn more about SaleMove and see how their technology can improve your customer experience at www.SaleMove.com and read Justin's latest TechCrunch article, The human role in a bot-dominated future.[5]

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Chapter 7

Quick Was to Tell if a Potential Investor is Right for Your Business

What makes a good investor?

And how should you go about finding someone who possesses the right qualities? If you were to ask anyone on the street for an answer to these questions, you'd probably hear the old expression: "follow the money." In theory, it makes sense: Isn't that what investment is all about? Not really — at least not for you, the business owner on the other side of the deal. While profit is a core component of an effective investment strategy, it is only one of many outcomes.

As Palo Alto Software founder and business writer, Tim Berry, insists, "pick an investor like you'd pick a spouse"[6]. Just as there are obvious drawbacks to marrying for money, choosing an investor based on the size of their resources alone can be a short-sighted mistake your organization can't afford to make.

With that in mind, here's what you should consider as you search for the right individuals or groups when seeking investment:

Is the investor legitimate?

While fake investors are rare, they pose a serious threat to your business and intellectual property. You probably don't want to share confidential details like your financial status and client list with just anyone.

Before meeting with a potential investor, conduct some research on your target. Consider how long they've been in operation, how they present themselves, and how easy it is to access information about them, as well as what companies they've supported and how those companies have fared.

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Does the investor "get" your business plan?

When pitching your business to an investor, pay close attention to the other party's reactions. Worthwhile investors are great listeners: they will nod along, ask questions, and repeat what you've said back to you. They'll show enthusiasm and keen judgment at the same time.

Bad investors, by contrast, come to the table with nothing but preconceived notions about you and your organization; they'll steamroll your pitch with their own ideas or show little interest in anything other than your financial projections. They may rashly commit to saying "yes" or seem entirely unmovable. Look for a yellow light rather than a pure green or red.

Do you understand what the investor wants?

How forthcoming is the investor about their objectives? There's a fine line between discretion and circumspection. Even if your target isn't hiding anything per se, ambiguity regarding their goals could signal a lack of understanding, deep uncertainty, or reluctance to take charge.

Does the investor have a sound exit strategy?

Good investors seem like prognosticators not because they know what will happen in a certain market, but because they want to plan for any outcome. When contemplating the best and worst case scenarios following investment, assess what your contact intends to do through a multifaceted lens:

- How far in advance are they forecasting?
- Is the forecast realistic?
- Between going public, a buyout, and a merger or acquisition, what options are beyond consideration?
- What factors are non-negotiable?

Talking through exit strategies at the outset will help you and your investor gauge expectations and thus work together more effectively.

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Is the investor consistent, and professional?

Consider the target's professionalism: Are they organized and timely, or do they disappear for weeks at a time? An investor may have the best intentions, but if they're too busy or disorderly to engage fully with your business, they aren't worth the effort.

Avoid any behavioral tendency that could cause or exacerbate miscommunication. Volatility means unpredictability, and unchecked emotions could lead to a financial disaster or legal conflict down the road.

Is the investor up-to-date on your industry?

Experience is important, but it's not everything. Your investor may have founded a wildly successful company a few years ago, but have they kept up-to-date on the current market? Your investor should be as knowledgeable as you — and hopefully more so — about trends and developments in your industry. An insightful investor can fully appreciate why you're looking for the amount of capital you're seeking rather than second-guess your motives.

Does the investor demonstrate a willingness to admit and learn from mistakes?

Finally, seek out an investor who can admit they're only human. When speaking about their backgrounds, portfolios, strategies, and philosophies, successful investors frame their histories as continual learning experiences. Just like a good entrepreneur, they take pride in their mistakes, as each one constitutes a valuable lesson.

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Chapter 8

Drama-Free Negotiation

Tactics for Steering High-Value Business Deals in the Right Direction

It's easy to get swept up in the exciting, intense, and emotional aspects of high-stakes discussions. Often we lose sight of the simple formula at the core of all negotiations:

You want something, they want something else, but both parties share at least one goal.

In other words, conflict is a prerequisite, but not a necessary outcome. Let's dig into what makes the negotiation process work when establishing a relationship with a potential investor:

1. Know Thyself

Before entering into any business dialogue, come to terms with yourself and your objectives. You'll need not only to define what success looks like but also acknowledge and hone your unique communication style and play to your strengths.

2. Know Thy Opponent

When it comes to a disagreement, even the most amicable parties are still going head to head. The same thing can be said about negotiating with a potential investor. Find out everything you can about the specific individual(s) with whom you intend to negotiate. What are their resources? How much experience do they have? What are they hoping to accomplish, and why? Empathy is everything.

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3. Know the Market

Understand the context surrounding your negotiations. Which forces hold the power in your industry: consumers, manufacturers, vendors, service providers? A volatile market can give you leverage, or it could cause you to negotiate under stress.

4. Have the Right Players on Your Team

It helps to have the right people on your side. Attorneys, consultants, accountants, and other specialized professionals can provide invaluable perspectives before, during, and after any negotiation. You better believe seasoned investors have these allies on their side, so be sure you're ready to match up.

5. Decide Whether You Want to Initiate, but Don't Hesitate

Common wisdom says you should never move first. That's not always true.

A decisive statement in your preliminary discussions, such as your minimum asking price, could put the other party at ease and move things forward. On the other hand, there's a chance you may benefit from the tension created by waiting. No matter what, don't change your mind and reverse your strategy early on — it only causes confusion and weakens your position.

6. Emphasize Value for Both Sides

Think about what the other party wants out of the arrangement, and do everything you can to show them you're on their side and working toward a common goal. This isn't the same as showing your hand. Rather, it's about demonstrating that you're attentive to their needs and open to compromise.

7. Reduce Risk

Negotiation happens much faster if you can remove any and all doubt. Tell the other side what you're willing to do if you're unable to fulfill the terms of the transaction, and ask them to do the same. Solicit their questions and keep your responses prompt and transparent.

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8. Show Up Prepared

In the same vein, get in front of any hesitation by coming equipped with sales data, customer lists, valuation numbers, financial projections — anything that indicates your business is worth the time and effort. It doesn't hurt to have a proposal in your (figurative) back pocket. Documentation shows the other side you're serious and ready to deal.

9. Take Your Time

If you and a potential investor reach a roadblock, don't push too hard on the other party. Naturally, you'll want access to cash ASAP, but be patient. Sometimes, that moment of pause can be a sign that it's time to back off and reevaluate what's working.

10. Trust Your Instincts

Take a page out of Kevin Busque's chapter. Remember that you always have the authority to say, "yes," "no," or "I'm not sure." If a deal doesn't feel right, end it. And if it does feel right — and if you've spent enough time researching, deliberating, and negotiating — close it.

11. Avoid the Oversell

While it pays to prepare, don't give the other side more than what they need. That doesn't mean hiding information, but rather knowing when to stop talking. There's no surefire way to convince someone to accept your terms, but pressing too hard almost always works against you.

Part III. From the Financiers's Perspective

Want to set your startup apart in the eyes of investors? Master the art of thinking like a VC.

Chapter 9

Venture Capitalists Share Their Top Fundraising Tips

Venture capitalists (VCs) work with startups and entrepreneurs every day to launch businesses. There's no perfect blueprint to building a startup, but experienced investors can provide wisdom for entrepreneurs seeking funding.

As indinero's co–founder & CEO Jessica Mah says, "if you haven't done something yourself before, always find and listen to someone who has — there's no better way to find your next mentor."

In this chapter you'll get an insider look at what three notable VCs think about when investing in businesses and entrepreneurs. It covers everything from where to focus your energy, how to set realistic expectations, and what you can do to avoid the dangers of predatory investors.

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You’ve only got one chance to share your vision, so tell a riveting story

Chris Sacca – Lowercase Capital

On a live podcast with JibJab Studios, Jefferson Graham from USA Today spoke with Chris Sacca about startup investments. During the interview, Chris says, “Storytelling is at the cornerstone of everything we do: raising money, hiring, press.” Silvia Li Sam attended the session and summarized his advice:[7]

> **Sell yourself, sell your product to the press, sell your vision to investors, employees, and most importantly, to your customers. Coming from a lawyer dad and a comedian brother, Chris knows how to tell a story; it’s in his blood. Storytelling is at the cornerstone of everything we do: raising money, hiring, press.**

Telling any story — especially the story of your company — in a way that leaves a lasting impression takes time and fine-tuning. Draft and refine your product pitch and vision before you get in front of investors.

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Timing matters. Be realistic about how much money you'll need at each growth phase to hit your goals

Josh Kopelman – First Round Capital

Josh has been an active entrepreneur and investor in online businesses since the inception of the internet and has provided a wealth of advice over the years. VentureApp shared advice solicited from a number of VCs including this from Kopelman:

> **Have a very clear plan and budget for your seed round. Understand the milestones you need to hit for an A round and make sure you have more than enough runway to get there.**

Do your due diligence before meeting with investors to learn from other businesses in the same industry. Find out what worked for them and what didn't work at growth milestones.

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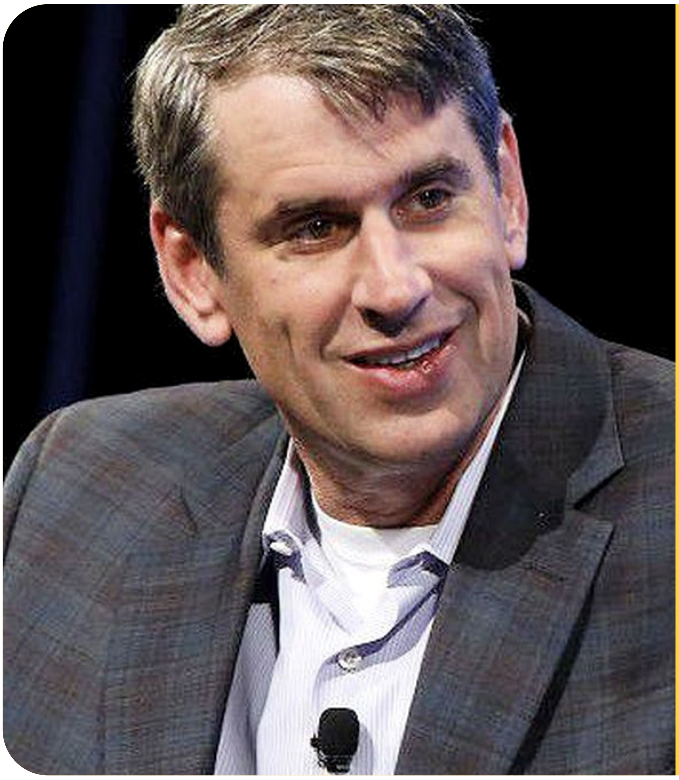
Terms and conditions apply. Look out for predatory investors that use startup failure to their advantage

Bill Gurley – Benchmark Capital

Bill Gurley is an influential venture capitalist at Benchmark Capital who invested in Uber, OpenTable, and Zillow. He recently posted a 5,700-word essay on his blog warning startups to beware of nefarious fundraising terms.



These terms can cleverly fool the inexperienced operator because they are able to 'meet the ask' with respect to cover valuation, and the accepting founder does not realize the carnage that will come down the road," Gurley writes. "Taking a terms-laden deal is like starting the clock on a time bomb. Your only option is to hit the IPO window as fast as possible. Otherwise, the terms will eat you alive.[8]

If you're raising an incremental round, consider the terms associated and how it might impact your company's future.

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Chapter 10

How Investors Use Financial Reports to Assess Risk

When meeting with investors, it's important they are on board with your product or idea. If they can see you're also passionate about getting into the financial details, then it will really set you apart as an investment opportunity. Your propensity to drive an ROI-focused business will be tested as they dig into different financial ratios. Here are a couple of figures worth focusing on and what they'll tell investors about your business:

Lead with asset to liabilities ratio analysis

Investors will compare your long term liabilities to the business's equity. You should be able to access and present this information from both columns in your balance sheet. From here you can also show investors how wise you are at allocating your resources and spending with a plan for return. Use your balance sheet once again to determine your Return on Assets (the higher, the better here):

Return on Assets = Net Income/Average Total Assets

Now, determining a desired outcome for your return on assets can be tricky and somewhat arbitrary for early stage startups. Basically, if you're a growing tech company, this number may seem low. Don't be discouraged, just be aware that questions may arise and use that knowledge to prepare to justify your spending.

Investors and venture capitalists want to have as much financial knowledge about your company as possible when evaluating the opportunity. After all, they are most interested in their profitability, how they can diminish their risks, and the ultimate return of your business as an investment.

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Use your burn rate and cash runway to explain your fundraising timeline

Burn rate refers to the change in the amount of cash a company has over a specific period of time (typically a month). For example, if a company spends $10,000 a month, its burn rate would be $10,000. This goes hand in hand with your cash runway, which is the amount of time your company can survive on its current cash stores at its current average monthly burn rate. If you have $100,000 in the bank and a $10,000 monthly burn rate, your cash runway is ten months.

Cash Runway = Available Cash / Burn Rate

When it comes to seeking investment, entrepreneurs use their burn rate to understand how much time a new round of funding will buy. Burn rate can be calculated with or without income factored into the equation. Factoring for income helps business owners understand the long-term viability of their spending habits, while excluding income helps determine a worst-case scenario calculation that tells business owners how long they can survive if all their income streams were suddenly cut off. Having this figure in the back of your mind can help you frame your growth plan and justify the amounts you're going after — good to have when you're in the hot seat.

Set Your Startup Apart:

According to Chris Myers, 90 percent of small businesses are unable to produce dependable financial statements when prompted. Whether that surprises you or not, it does present a pretty enticing way to differentiate yourself from other startups out there competing for venture capital.

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Chapter 11

Decoding Investor Questions — What They Really Mean and How You Can Respond

From startup funds to venture capital firms and influential household names, investors are a diverse group of innovators and changemakers. They do, however, have one thing in common: They're inquisitive.

Investors always have questions, but what do they really want to know? Get behind the subtext of each common question and the best way to answer. See below for a list of investor questions, what they mean, and how to respond.

What's your story?

Translation: Why should an investor care about your company?

This basic line of reasoning should inform every fundraising decision you make, starting with the first sentences you use to introduce yourself and your startup. Effective investment seekers understand the rules of storytelling: compelling characters, high stakes, and a clear beginning, middle, and end. Remember that people are more memorable than ideas, so focus on the details and put your founders and customers at the forefront.

How are you improving your customers' lives?

Translation: Beyond initial market buzz and popular sentiment around your brand, can you explain the ways your company makes a difference to your customers or community at large?

This question speaks to your company's traction among consumers, and ultimately the depth and scope of your vision. Investors need to know that you are a) familiar with and understand the audience you're selling to, b) putting your customers' needs first, and c) committed to solving a problem rather than cashing in on an opportunity.

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Why does your company need funding, and why now?

Translation: Why are you turning to outside investors rather than taking out a loan or bootstrapping? Do you need money to harness momentum and seize an opening or merely to stay afloat?

This is your chance to demonstrate that you understand an investor's perspective and have thought long and hard about what someone has to gain from helping fund your company. Timing is critical as well. Assess what, if anything, a potential investor has to lose from not backing your company right now.

Who else out there is doing this, and how are you doing it better?

Translation: Who are your competitors, peers, collaborators, and role models? What are you bringing to the table that they don't — and ideally, can't — already provide?

Take a close look at your product and service offerings, your technological capabilities, and the extraordinary talent on your team. These are your differentiating factors; hone them and incorporate them into the core of your story and value proposition.

What am I paying for?

Translation: What do you plan to give an investor in exchange for their check?

It sounds like a simple question, but the "right" answers vary wildly. Some investors are looking for startups they can steer to profitability and want to become stakeholders and decision makers. Others would rather take a hands-off approach and just put their money behind companies they think will make it big.

Some may be interested in buying or licensing your intellectual property. Again, think about how all these different types would evaluate your company, and lead your conversation with whatever pieces would represent the highest value to them. Don't forget to do your research!

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How would you put my investment to use?

Translation: Do you have a thoughtful plan for how to use this money?

Are you seeking capital so you can hire new employees, conduct research and development, expand your offices, boost your sales or marketing budget, or for another purpose entirely? If your objectives appear ambiguous or out of concert with your business strategy, investors will have a hard time taking you seriously.

This also involves mapping out goals for these deliverables. What results will they achieve and how quickly can you get there with this investment?

How soon will I see returns?

Translation: Can you connect this investment to revenue generation?

Investors expect to earn a return on investment (ROI), but they also understand that some investments take longer to pan out than others. The magnitude of that ROI is key here. A longer wait for a bigger payoff may speak to them, but other investors could be the opposite — for a short-term loan with quicker returns for maybe fewer margins.

This is why it's important for you to be absolutely realistic here. Don't overpromise investors and underdeliver on the return timeline or size. They'll see through that. Instead, come prepared to these meetings with projections for your company's financial future, along with a record of past performance.

Where do you plan to take the company in a year? In five years?

Translation: How aggressive are you? Does your dream resonate with me? Are we aligned in what we value?

This classic question tells someone scores about your business and personality. Your response indicates the extent to which you've thought about the future, as well as how realistic your ambitions are. Whenever possible, identify milestones and present numbers. You need to tell an investor you not only know what you want to do but that you've designed a game plan to achieve it.

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Why am I the right person to invest in your company?

Translation: Did you do your homework on who I am?...

This is a great time to stroke the ego. What makes the investor you're speaking to the perfect partner for your company? What drew you to this person or group in the first place?

Maybe the investor in question isn't your first (or even fiftieth) choice, but they should feel like your presentation was tailor-made for them. Do your due diligence, know what sets your target apart, and help them connect the dots.

You can answer the majority of these questions with a little DIY revenue modeling. Download and complete this free spreadsheet template to generate financial projections that tell your startup's financial story and impress investors.

Conclusion

At the end of the day, investors want to be part of success stories. A huge part of earning that trust comes from setting the initial tone with an honest, transparent impression of your business. The journey to finding your perfect investor or board of investors can feel long and tiresome, but the beauty is that after that mutual vetting runs its course you will know you found the right fit. If you stay focused on the priorities that mean the most to you and your investors the pieces should naturally fall into place.

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About indinero

Indinero handles your most intimidating tasks — accounting and taxes. By combining cloud-based accounting software with a full team of bookkeepers, accountants, and CPAs, indinero helps business owners understand their company's financial health, review key metrics, and avoid compliance issues. Tax experts work with accountants under one roof to prepare and file your taxes and maximize your tax savings.

Whether strategizing with you as a co-navigator or merely taking some responsibilities off your plate, having an ally in your business's accounting, finance, and compliance will empower you to lead to the best of your ability.

Indinero has given thousands of startups the financial tools to navigate each funding stage

"With indinero, we feel very confident when we walk into investor meetings, and the question about finances comes up, we're locked, loaded, and ready with the right information."

— Courtney Caldwell
Co-founder & COO at Shearshare

Talk to an Expert

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