PITCHING INVESTORS,
NEGOTIATING THE DEAL,
AND EVERYTHING ELSE
ENTREPRENEURS
NEED TO KNOW

THE ART OF STARTUP FUNDRAISING

ALEJANDRO CREMADES

FOREWORD BY **BARBARA CORCORAN**

WILEY

Praise for *The Art of Startup Fundraising*

"Alejandro's *The Art of Startup Fundraising* is a must read for any entrepreneur. Clear and concise, he outlines in today's startup community the steps to successfully fundraise. This is the golden era for entrepreneurs, any good idea with proof of concept can get access to money. Know your options!"

—Angelo J. Robles, Founder and CEO of Family Office Association

"One of the biggest crimes in the startup community is to watch good ideas and good teams to go unfunded because the fundraising process isn't friendly to first-time entrepreneurs. *The Art of Startup Fundraising* is Alejandro's contribution to the ecosystem that does a masterful job filling in knowledge gaps and giving entrepreneurs the best chances of raising the capital they need."

—Frank Rotman, Founding Partner at QED Investors

"*The Art of Startup Fundraising* delivers a smooth ride on the bumpy road of raising capital and starting a business. Alejandro Cremades delivers up-to-date details and a clear vision—an important guide for any entrepreneur who seeks to build and scale a business today."

—Jeanne M. Sullivan, Co-founder, StarVest Partners

"Fundraising can be an incredibly frustrating experience for startup founders because they are at a fundamental disadvantage: they know very little about the process, and investors know a lot. Luckily, Alejandro has taken the time to assemble a detailed blueprint of how it works behind the scenes that will help any founder level the playing field and navigate the process like a pro. If you are raising money for your startup, don't start without reading this book."

—Pedro Torres-Picon, Founder and Managing Director at Quotidian Ventures

"*The Art of Startup Fundraising* translates art into science. By sharing proven formulas, strategies, and case studies that work, Alejandro Cremades provides a needed service to future entrepreneurs."

—John Cohen, Managing Partner at City Light Capital

"This ought to be a reading requirement for all entrepreneurs when building a business and raising capital. This is a very well written and informative book, by a man who is a testament to dedication and creativity when confronted with the challenges of being an entrepreneur and raising capital."

—Carter Caldwell, serial entrepreneur and Principal at Cross Atlantic Capital Partners

"Alejandro is on the bleeding edge of equity crowdfunding today. When he talks about fundraising, startups listen."

—Andrew Ackerman, Managing Director at Dreamit Ventures

"Starting a company is full of ups and downs for an entrepreneur and foremost among them can be how to raise money for it. There is no magic bullet to make the process easy, but Cremades comes close in *The Art of Startup Fundraising* by at least making it intuitive and accessible."

—Weston Gaddy, Principal at Bain Capital Ventures

"Raising capital can be tough. Alejandro provides a step-by-step guidebook to all entrepreneurs that rather spend their time thinking about changing the world instead of thinking of how to raise funds."

—Tobias P. Schirmer, Managing Partner of JOIN Capital

"A superb book on fundraising. Alejandro's guidance should arm entrepreneurs with the necessary tools to close with success a meaningful round of financing."

—Ellen Weber, Executive Director at Robin Hood Ventures

"Raising money is hard. But startup founders all over the world can make it exponentially easier by educating themselves on the process of raising equity capital before they dive into it. The practical, hands-on advice from Alejandro Cremades in this book provides a solid foundation in that self-education process. Delivered in an approachable format with a key lesson to take away every few pages, *The Art of Startup Fundraising* is essential reading for entrepreneurs everywhere."

—Allen Taylor, Managing Director at Endeavor

"There are very few complete resources available to entrepreneurs today to help them navigate the world of fundraising. Alejandro Cremades does a great job of explaining and demystifying the fundraising process. *The Art of Startup Fundraising* will, without question, provide entrepreneurs with a great jump off point."

—Sid Paquette, Managing Director, OMERS Ventures

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Foreword

MY MOM ALWAYS SAID IT was *never* a good time to have a baby, and she had 10. Whenever she told my dad, "Okay, Eddie, I'm pregnant," he would run right out and buy another bed. When I started the Corcoran Group, I grew the company the way my mom did her family. We grew from 6 to 60 salespeople in our first five years, and from 60 to 1,000 salespeople over the next 20 years, because I knew the secret to growing a business fast is to never wait until you're ready.

Every great entrepreneur I know expands long before their business is ready. It's the only formula I know for aggressive growth. It forces you to think faster and move smarter because you're always overextended and you have to pay the rent. With growth, many times additional funding is required to support the operations.

I sit in a privileged seat as a shark/investor on the Emmy-winning reality show *Shark Tank*, and each season we hear hundreds of heartfelt pitches from passionate entrepreneurs who are looking for funding. We listen to pitches for everything from the ingenious to the ridiculous, and get to put our own hard-earned money behind the concepts we believe will be big winners. Once a deal is closed, the fun part begins when I get to work one-on-one with the entrepreneur with whom I'm investing. I shepherd them from dream to execution, past all the hurdles and hard times, and if we're all a little bit lucky, on to a genuine, breakout success!

However, before I put my time, my money, and my partner's money behind any entrepreneur, I want to know everything I can about them and make sure every business I choose is a real winner. Investing in startups is a very risky business. Most of them fail, some eventually prosper, but only a few make a 20-to-1 jackpot return.

First, I'm looking for an entrepreneur with street smarts. Most of the entrepreneurs I've met don't have street smarts, and too many of them have answers that are way too smooth for me to trust. I'm trying to single out the winners with good gut reactions who are also smart enough to trust those reactions. I'm looking for entrepreneurs who can size up people quickly and motivate them, and spot opportunities where others see only obstacles. This takes not the usual book smarts, but real live street smarts.

I want to invest in the risk takers. Every great entrepreneur I've succeeded with has an unusually high tolerance for uncertainty—in fact, they're turned on by risk. Too many would-be entrepreneurs have buttoned up business plans with lots of numbers, fancy projections, and reasonable deductions. Those aren't the ones for me.

I want to put my money on entrepreneurs who know how to get back up fast after they've been kicked in the gut. They get knocked down just like us, but unlike most of us they take very little time feeling sorry for themselves. I sometimes think to be a great entrepreneur you need to have a low enough IQ so once you're knocked down you're too stupid to lay low, and instead pop back up saying "Hit me again!" I don't think you can learn resilience; it's a built-in attitude.

To me, this is what can make or break a pitch. The best entrepreneurs have faced challenges and risen above them. That resilience is what I'm looking for when I hear new ideas on the show (and in life).

I need to invest in founders who know how to communicate. I've learned that a new business goes nowhere if it doesn't have a good salesman at the helm. Somebody's got to sell the new product or service and that's the job of the founder. At the end of every interview I find myself asking, "Would I buy from this guy? Is his sales pitch irresistible?" Based on the answer to that one question, I turn down 95 percent of the businesses that are presented to me.

I've learned that the number-one rule in sales is that everybody wants what everybody wants and nobody wants what nobody wants. When you tell someone they *can't* have something, they always want it more, but let that same person know there's plenty to go around and they'll always go home to think about it. If you don't have people clamoring for your venture, you've got to dream up a way to create the illusion that there is demand. This is why salesmanship is key in fundraising.

Good salesmanship is never anything more than emphasizing the positives and playing down the negatives. And if you can find a unique gimmick, you'll have a huge leg up when raising capital, and also over your competition while you are executing on your vision.

I first learned the power of using a good gimmick as a young waitress in a New Jersey diner, trying to compete with Gloria, a blond bombshell with attention-grabbing breasts. Following my mom's advice, I tied red ribbons to my blonde pigtails to look like the innocent virgin I was. My tips immediately doubled. When I started my real estate brokerage company, the Corcoran Group, I used lots of gimmicks to build my brand.

I'm always looking for someone who's a bit arrogant, as I've learned that aggressive entrepreneurs bring home the bacon. They make lousy employees, have issues with authority, and don't want to be told what to do. I like to put my money in the hands of an entrepreneur who thinks he or she knows more than me. They'll need that kind of confidence to jump over the huge obstacles that stand between them and the finish line.

What I like best about angel investing is that I get to use everything I've already learned on *Shark Tank*. How do you impress an angel? How do you win their confidence and get their investment? There are tons of new business ideas out there—good, bad, and crazy—and I've seen my fair share of them all. The difference between a good idea and one that makes money is simple: *It's gotta make sense*. The idea can either be a totally new invention lots of people will use or a much better way of doing something that's been done a hundred times before.

Another key ingredient that I look for when investing in a new company is work ethic. Before I invest in any business, I'm looking for a partner. A fancy website may get me in the door, but if you can't woo an angel, you won't woo your customers and build a huge success.

This book by Alejandro Cremades will help entrepreneurs in obtaining a clear understanding of how fundraising works and what it takes to be successful in the process in order to impress people who invest in the startup ecosystem, like myself.

Alejandro's experience as the founder of Onevest makes this book unique, as the fundraising game has been changing substantially over the past years with the implementation of new laws that were introduced with the JOBS Act. With the capital moving into the online world very quickly, this book should be a must-read for any entrepreneur who is beginning to raise capital to build their venture.

—Barbara Corcoran
Investor on ABC's *Shark Tank*
Founder of the Corcoran Group

Acknowledgments

THIS BOOK WOULD HAVE NOT BEEN possible without the patience of my wife, Tanya Prive. At the time of writing this book she was pregnant with our first daughter. Tanya is the love of my life and without her by my side I highly doubt I would have been able to make it this far. I still remember the day I called her and said I wanted to give up my legal career to change the world. She did not hesitate for even a second about jumping on board with me on this crazy journey. We have experienced many ups and downs together. She is my better half and cannot wait for what the future holds for us.

Thank you as well to my parents, Bernardo Cremades and Leticia Roman. They have been my unconditional supporters and are always there for me when I need them the most. My father has been a great inspiration to me, as he also started his own business away from home when he was young. My mother has been concerned for me during the hard times and has always picked up the phone at 1 A.M. when I needed to talk to someone.

My brother, Bernardo Cremades Jr., has been a great sounding board as well as being my best friend. He is the godfather of my daughter. In fact he was the first investor of Onevest, before we even had PowerPoint slides. When we were young he took care of me and always looked after me, making sure that I would make the right decisions at school and outside of school. When I told him that I wanted to give up my law career and start an entrepreneurial journey, he was incredibly supportive. My sister-in-law, Beatriz Larrea, has also been amazing and understanding at all times.

Furthermore, I would like to thank my father-in-law and mother-in-law, Robert Shereck and Gisele Prive, not only for their generous support but also because they have been a very valuable asset with the work that they have kindly given our team in order to transform inside and outside the way we are, the way we think, and the way we execute via the services of their company, Legacy Transformational Consulting.

I could not forget my two brothers-in-law, Evan and Zack Prive. Evan has shown me how to get out of my comfort zone by target shooting in the deserts of Nevada. Zack interned with us over the course of 2014 and was very helpful.

Carmen Posadas has given me great advice through the process of putting together this book. Her wealth of knowledge and experience as a successful author has provided a wonderful guidance in this journey. I still remember the dinner at a restaurant in Madrid in which Carmen encouraged me to move forward with writing this book, and for that I am very thankful.

Moreover, I would like to thank all the people who have been involved with Onevest since its inception, including employees, advisors, and investors. They have been always there to provide great feedback and I am very proud of everything that we have been able to build together as a team since we started this journey back in 2011.

I would like to especially thank the Onevest team and our former colleagues: Carol Lee, Carles Capell, Shahab Kaviani, Nathaniel Cotanch, May Sun, Drew Butler, Erica Duignan, Sonny Tulyaganov, Cristian Gonzalez, Jacobo Tarragon, Ben Center, Dasha Sukovatitsyn, Jeffrey Fidelman, Brooks Swinnerton, Kasia Whiteis, Israel Villanueva, Tiffany Tam, Mike Hughes, Cena Crane, Lisa

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Thank you Barry Shereck, for being a rockstar CFO and for spending countless hours and weekends figuring out "where the bacon is" from a business perspective. You have been truly a gift and a great addition to the board and the team. I will forever treasure those long weekends that we spent at your house figuring things out.

Last but not least, I would like to acknowledge Onevest's board members: Ted Vucurevich, Javier Santiso, and Benjamin Coppel; and our advisors: Sangeet Choudhary, Anyndya Ghoose, and Barbara Corcoran. They have played a critical role in making Onevest what it is today.

Thank you all. I am very privileged and lucky to have you in my life.

1

Everything Started with Onevest

WITH THE ENCOURAGEMENT OF MY PARENTS, Bernardo Cremades and Leticia Roman, I moved to the United States from Spain with my brother Bernardo on August 13, 2008, after obtaining my law degree in Spain.

My brother is without a doubt my very best friend. On that day, after picking up our luggage and getting into a taxi, we were both completely wowed as we gazed through the windows on our way to Manhattan from the airport, while the driver, Luigi, told us his life story with a thick Italian accent.

Initially, the plan was for me to earn my masters in International Business and Trade Law at Fordham Law School and then practice law as an attorney. I had a great time at Fordham, even though some of my classmates were old enough to be my parents. They all called me Junior.

Three months before my graduation from Fordham, I received a great offer from the respected law firm King & Spalding. The partner who hired me was Edward Kehoe. Our first meeting was over breakfast at the Metropolitan Club. Ed is now a good friend, and he attended my wedding.

I still remember my first day at the firm. It was like a Hollywood movie. At only 23 years old, I had my own secretary and my name on the entrance to my own office. It was completely surreal.

After three years at King & Spalding representing major corporations in high-profile, billion-dollar investment arbitration cases, I discovered my true calling. It all started when I attended my first New York Tech Meetup with my good friend Luis Jose Scull. At the time, Luis was working for a hedge fund and sourcing tech startups as investors.

One thing really surprised me as I immersed myself in the New York tech scene, and that was how difficult it was for entrepreneurs to access capital. When I researched cases like Pandora (rejected over 300 times before securing their first significant round of financing), I knew there was a big gap in the market. There was something missing and I wanted to find out what it was and fill that gap.

At the time of this discovery phase, I was dating the woman who is now my wife, Tanya Prive. Choosing her as my life partner is the best decision I have ever made. We talked about what I wanted to do to help others looking for capital, and I convinced her to invest all our savings in Onevest and launch a platform that would connect entrepreneurs with investors, and from that point on, the rest was history.

Everything started at Tanya's apartment on 27th Street and 6th Avenue in New York City. We had a little studio where we would invite at least five interns a day to join us in building the product, and they worked with a team of engineers that we had assembled in Belarus (Eastern Europe). After four months of interns claiming they were our cousins, the building management figured out that something was up and invited us to leave.

We then rented an office space, raised a seed round, and started to hire top talent. After one year of development, we were able to launch the platform to the public on November 23, 2011. A few months later, the platform was mentioned by *TIME* as one of the best crowdfunding platforms in the world. It was listed as one of the top-10 digital tools for entrepreneurs by *Forbes*, and we were named one of the hottest startups to watch by *Business Insider*. I also had the honor of being ranked number one on *Vanity Fair's* list of "30 under 30" for 2014, and I was included on the "Top 30 under 30" list in *Entrepreneur Magazine* (Spanish version).

The press attention was crazy to me, but what kept me moving was the opportunity to make a real difference. Cutting the noise is one of the hardest things that entrepreneurs have to master in order to focus on what really counts, which is the execution of business strategy.

In the early days it was not easy. We had to fight to provide financing. The JOBS Act (which we will discuss later on in this book) was still not in the picture, and the word *crowdfunding* had not yet been coined. At one point in the process we visited the White House and testified before the U.S. House of Representatives regarding the importance of financing small businesses in the United States.

Everything started to happen at the same time. To our surprise, we were suddenly riding an amazing wave, forming with the passing of the JOBS Act in April of 2012. For the first time in history startups would be allowed to advertise the fact that they were raising money; before the JOBS Act this kind of promotion was completely forbidden. (Prior to that legislation, it was labeled as general solicitation.) Previously, the search for funds was more a word-of-mouth kind of activity. If you did not know anyone in Silicon Valley, it was a real struggle to find capital.

At the end of 2013, a company called CoFoundersLab.com came to raise financing on Onevest, and lit up a light bulb in my mind. I realized that a fundraising platform like the one that Onevest was operating at that moment was really playing a small game. The bigger game was to build an ecosystem around Onevest, where we would empower entrepreneurs and investors, from formation to financing.

As a result of that realization, the conversations began with Shahab Kaviani, the cofounder of CoFoundersLab.com, and we ended up announcing an M&A transaction to bring CoFoundersLab under Onevest in July 2014.

Currently, CoFoundersLab is the largest matchmaking service for entrepreneurs. It's a way for entrepreneurs to meet their cofounders and advisors. We are partners with some of the major startup hubs in America, and we are onboarding thousands of entrepreneur registrations on a monthly basis.

Other products under the umbrella of Onevest include, most recently, 1000 Angels, which is the first digital, invitation-only network for a select group of angel investors. It is a curated community of ultra high-net-worth individuals that come together to invest in startup companies.

After seeing hundreds of businesses formed and financed through the ecosystem of Onevest, I felt it was time to share what I'd learned and help entrepreneurs on their journeys in fundraising—especially after our most recent round of financing, in which we'd increased our total amount raised to over $5 million. We self-crowdfunded our Series A in a matter of weeks and established a record. I literally did not move from my desk. The result was a huge surprise, as these types of rounds would have normally meant spending at least eight months out of the office, attending conferences and meetings to gather investor interest.

Unfortunately the company announcements of successfully closed rounds of financing that you see and hear about are not the reality. They come from only a few companies out of the many, many ventures that launch each year. Raising capital is an art. Every single ingredient needs to be perfectly balanced in the process in order to secure capital successfully. This book aims to be the guide that will help you get there in a process that, many times, can be a rollercoaster ride, full of emotions.

Fasten your seat belt and embrace the process. Be optimistic and have fun with it. Remember, you will never fail—you will either succeed or learn.

2

Raising Capital for Your Startup

BEFORE RUSHING INTO PREPARING PITCHING materials, meeting investors, and hammering out funding terms, it is critical to get your mindset, expectations, math, and strategy right.

Speeding Up the Machine

Some opportunists and entrepreneurs see the promise of funding or financing as the chance to get someone else to put money on the line to build their dream into reality, especially when it is a product or tool that can only be brought to life with major money. (Space exploration and revolutionary health-care progress are great examples of this.) But these types of fundraising missions represent big risks for investors. And if you've tried walking into a bank for a startup loan, you already know that it's going to be a challenge.

There is another way to approach raising capital for your startup. It's meant to speed up the machine, not build it. This can really present the best opportunity for both fundraisers and funders. By building the product first, entrepreneurs establish that ownership, control, and lead. They also have the opportunity to build and hone a business model that works regardless of additional funds. That's a much more powerful fundraising and negotiating position to be in. On the other side of the table investors are able to put their money to work with confidence, in a startup that has a product, and one which is proven to work. More money just helps to speed up the achievement of various milestones, and to magnify the successes and strengths.

When you are raising money from outsiders, there will be expectations to deliver certain types of milestones in a given timeline. For that reason, it not only helps to have a product on the market with some historical data when negotiating your financing terms, it also helps to avoid a significant dilution that comes with raising money as you're working to figure things out, assembling the machine.

Most startups eventually pivot to adjust to what the market is telling them. I have yet to see a bulletproof business plan, so it's important to have proof of concept and validation before taking the risk of bringing outsiders into the mix.

Take a moment to think and reclarify why you are raising capital. Consider what it will do for you, and what the opportunity offers to potential investors.

It's Not as Easy as Reading an Article on TechCrunch

If people read the weekly headlines on TechCrunch or various startup and fundraising blogs, it sounds as if anyone who can fog up a mirror can land several seven-figure-plus rounds of funding. Some people have the impression that if you throw up a crowdfunding page, you can land a million dollars to play with as you like. This is one of the biggest pitfalls facing startups today. It's not that easy—at least not for most startups. The truth is that it takes work. It takes effort, time, and an investment in thinking and taking the small actions that can create big results. Aside from the right mindset and expectations, successful fundraising takes making connections, marketing, and proving yourself and the product. It takes strategically rolling out and executing a plan. Often, that requires help.

According to data from Forbes and the SBA (Small Business Administration), venture capitalists fund only about 2 percent of the opportunities they review.[1] While not all new businesses need or seek funding, consider that there are around 600,000 new business entities that file each year. In the first quarter of 2012, only 3 percent of venture capital (VC) funds went to brand-new startups, while 97 percent went to ventures that were already running. This information is not to discourage you from your startup, or from raising capital, but rather it is meant to better prepare you for what you need to do to effectively and efficiently score the capital you want. While it's important to build the product first, whenever possible, and prove the concept, you can choose to create a starter version, or MVP (minimum viable product), or provide other proof of testing and demand. Define what makes you convinced that this venture is a go, and that it is a good opportunity for investors.

The 18- to 24-Month Plan

The savviest founders give themselves plenty of time and cushion to raise the capital they are aiming for, and 18 to 24 months is a good timeframe.

Don't worry, this doesn't mean putting everything else on pause, or slowing down your startup. In fact, continuing to clock progress in development, branding, your client base, and sales can help in the fundraising process.

Perhaps you already have a business plan, and have even started selling and building great relationships and establishing distribution channels. That's fantastic. But you will need to meld your business plan and your fundraising plan together, if they aren't already a part of the same document. Perhaps you initially thought you wouldn't

[1] http://www.forbes.com/sites/dileeprao/2013/07/22/why-99-95-of-entrepreneurs-should-stop-wasting-time-seeking-venture-capital/#48398d84296d.

need outside funding, but now you see the advantages, or you thought you could land a bank loan, but it didn't happen. Or, you are just now realizing that raising substantial amounts of capital in the best way is going to take a little longer than you think. Just take the time to recalibrate and ensure synergy as you progress.

Whatever your number is, break it down by funding rounds and by business milestones. Divide your needs into easily actionable steps that will take you where you want to go in the next 18 to 24 months.

Milestones

Notable milestones to be achieved during your startup and fundraising process include:

- Idea conceptualization
- Market research
- Business plan creation
- Testing the waters
- Finding your cofounders
- Making key hires
- Building a board
- Prototypes and beta testing
- Launch of a minimum viable product
- Expanding early adopters and users
- Gaining revenues
- Proof of demand and potential for scale
- Breakeven point

Entrepreneurs should be focused on raising the capital to make it to the next milestone and round of funding. This amount should include a cushion for overages, and a budget for marketing for more funds. Work toward each milestone and give it the proper attention, even if you have the long goal of an IPO, buyout, or putting a legacy business on autopilot.

Breaking Even

While there are many milestones in the process of launching, nurturing, and growing a startup, the breakeven point cannot be overlooked. Let's be honest—until the breakeven point is reached, all income is burned cash. (And that even applies when the numbers are in the tens of billions of dollars.) But once the breakeven point is reached, startup founders can then negotiate from a place of power, and they technically don't need another outside dollar. However, additional funding can certainly help. That money can be funneled into real growth, and maximized.

It is important to note that many of the biggest companies, and those that have attracted major investment, still haven't achieved the breakeven point. It isn't a prerequisite for raising capital. Peter Thiel tackles this issue in his book *Zero to One*. He reminds us that the real value of a company, and how savvy investors view opportunities, is the future value of cash flow. If you aren't breaking even today, when will you be? How much future cash flow can investors buy into? What discount are they getting by buying into that cash flow now?

Expectations of Investors

What are the expectations of investors? Unless startups know what investors expect and are looking for, it's hard to give the right signals, prepare, and position your company to be the recipient of funding. So what do investors really want? In asking this question, it's often easiest to first address what they don't want, which is:

- To lose money
- To be made to look foolish

Everything else, including expectations, circles back to avoiding these two pain points. Some expectations may be arrived at naturally and individually. Many others are line items that investors believe they need to check off. But they all come back to avoiding these pain points. Here is a list of the 19 items that investors want and expect:

1. A well-thought-out and researched business idea and plan
2. Organization
3. Integrity and character
4. Answers to obvious questions
5. That you know what you don't know and don't have, but you have a plan to get it
6. Market potential
7. Plans for repayment if seeking a loan
8. Plans for additional rounds of funding and/or exits
9. That you have put your heart into the project
10. That you have and will keep skin in the game
11. Feedback from others
12. Proof of demand
13. That they can get along with you
14. That you are coachable
15. Consideration of the safety of their capital and time
16. A good match
17. Passion for your product or service
18. Passion for connecting with and working with them
19. An opportunity that will take them closer to their goals

While pitching and engaging in other fundraising efforts (and even in the activities leading up to those efforts), entrepreneurs must keep in mind that they are not selling their product. They are selling an investment in their company. This shouldn't mean completely redesigning the venture and sacrificing the original vision simply to raise funding (although some do go through the process when it becomes apparent that it is needed).

Still, if founders work to know their investors as they do their customers, they'll find the fundraising process easier. Understand investors' fears and pain points, their checkboxes, and their goals. This doesn't just mean cold monetary goals. Go well beyond promised ROI and crude sales and cash-flow predictions. Institutional and individual investors have metrics and numbers that they are trying to hit.

What else drives investors to invest? Outdoing their competition, bragging rights, strategic navigating, the desire for security, and a drive to fulfill their potential fuels and facilitates solutions that they care about. These are constants. Then there are the factors that are more spontaneous and heat of the moment. Does a decision maker need to impress or please someone else in the chain by making an investment? Can a *Shark Tank* scenario be created that fuels competition between investors?

As much as we each believe otherwise, when we launch a venture, a startup is far from a sure thing. Without capital and connections and expertise that can influence markets' future performance, a startup is often a string of optimistically strung-together dots and assumptions. Refer to the checklists in this chapter often to give yourself an advantage.

Outperform the Competition

One of the best ways to attract capital is to outperform the competition. This will certainly help in your pitches, presentations, and discussions, all while boosting results and your negotiating strength. And it might just help you get noticed and draw attention, minimizing the work and investment involved in chasing money.

There are different measures of outperforming. Can you outperform in profit margin, sales, social media, startup battles, or growth? How about outperforming on fundraising? Peter Thiel points out that Twitter is a great example of this. While Twitter might have a lot of work to do, it has shown great growth versus a declining print news industry.

Outperforming in growth means people believe in future potential, and indicates there is a time to get in while there is still a perceived discount available. So, find your edge, and define a metric that you can outperform on.

If you are not already outperforming on one of these metrics or need to create more distance ahead of the competition, pick your strong suit and lean in. Don't unnaturally force something that will derail the venture, or sabotage your fundraising potential. Look for an edge you can hone and maximize.

So how do you gain traction or visibility in this area when you are already going all out? Eight methods are recommended.

1. Prioritize and focus attention on that area
2. Get help
3. Get up earlier
4. Compete in competitions
5. Participate in development or coding marathons
6. Attend conferences
7. Go to networking sessions
8. Join invitation-only communities of like-minded people

Marketing

The majority of startups have to market themselves to have any hope of getting funding. They have to market hard, and outmarket hundreds of thousands of competing startups and existing businesses. Do not underestimate the time and money investment required for marketing—both ongoing and fundraising-specific marketing. All marketing speaks to potential investors. It tells them a story about the value and potential of your company, and what you are really about.

Done right, your regular marketing can go a long way in helping to position your startup to attract and convert investors—especially angel investors. If initial marketing and branding is done with fundraising in mind, results can be maximized, and your budget can go further. So look for crossover potential, and review messaging with fundraising in mind.

Your initial marketing may include branding materials, websites, and other online assets, apps, rounds of testing, sponsorships, product placement, social media, in-person networking, and more.

Don't burn out on marketing. Don't burn up your marketing budget and bankrupt your startup and fundraising mission right before you see results. Plan to need to market longer than you think until you secure funding and see your cash replenished.

Don't take the excitement or early investor advantage out. Make sure messaging has seamless synergy with your pitch-deck messaging, and your presentation. Ask "Is this going to appeal to, turn on, and compel our target investors to write a check on the spot? Or will it send them running and telling their investor friends to stay away?"

Note that investors will be more interested in organic growth. This means building channels that give you traffic without having to invest capital in order to acquire users. This could mean crushing it on search engines, or a serious viral loop on your product that keeps bringing people in the door. Venture capital firms are enthusiastic about social networking effect. They go crazy when they see the entrepreneur has figured out how to crack that code.

Storytelling

Storytelling is a critical part of marketing for startups. It's a critical part of marketing, branding, building consumer loyalty, and growth for fledgling startups and the largest international corporations alike. For startups, it can be the make-or-break part of the pitch. It also has a place in the elevator pitch, pitch deck, verbal branding, visual branding, website content, and perhaps even in your tagline.

Businesses that have blossomed through storytelling include TOMS, Patagonia, and the Dollar Shave Club.[2] Every brand and venture has a story. Even if you don't realize it, you have a story, and it is what has led you to where you are today. Everyone has a unique story, and different brands leverage different parts of their stories to

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[2] www.referralcandy.com/blog/storytelling-in-marketing-11-examples/.

reach their goals. Zappos's story was all about company culture. Airbnb's has largely been about the "sharing economy" movement. Apple's is about Steve Jobs. Fast growing nonprofit Acumen has done an incredible job of incorporating masses of supporters in its story with books, interactive classes, volunteer chapters, and Google+ community groups.

Ultimately, the best entrepreneurs are not the best visionaries. The greatest entrepreneurs are incredible salespeople. They know how to tell an amazing story that will convince talent and investors to join in on the journey.

Many entrepreneurs unfortunately overlook the value and importance of storytelling, and focus on technical info, which investors and consumers simply can't relate to. It doesn't matter how great your invention or innovation is if people can't relate, and if you can't speak their language.

Even if you don't plan to purposefully use storytelling, or don't particularly like your version of your story, document it. Document everything that led up to the idea. Document every step of the journey. You have a story. If you don't tell the story, others will make up a story about you and your business or product in their minds, and it might not be the story that serves you best. By documenting your story, you can look back and pick out the best parts of it, or have an expert and friends review and highlight what they believe the strongest parts of your story are. Sometimes you are too close to your story. A professional storyteller and branding expert can objectively leverage the most powerful elements of your story for the overall mission.

Daily journaling is a common habit of highly successful entrepreneurs, and if you haven't started, this is the opportune time to begin. Journaling can help you connect the dots regarding how life has prepared you and carried you to this point, what drove you to make this leap, what is unique about your process, and what is better about your product or service. This can all facilitate deep connections with potential investors. And the story will develop over time as your venture evolves. It may begin with you or a specific customer profile, and then unfold into a story about the journey and a far wider population.

If you'd like to get better at storytelling, or are searching for ideas and pieces to your storytelling puzzle, check out author Seth Godin's books and blog, and see digital storyteller Amanda Lewan's post "Storytellers: 100 Ways to Spark Inspiration."[3]

Some of the best entrepreneurs are those who are highly articulate in telling their story and describing the problem they are resolving through their startup and the reason why they started.

I was once on a panel judging a startup competition. The startup that won was creating the Uber for psychologists. She explained how she had been inspired to start the company as a result of a mental illness in her family, and her story nearly brought the crowd to tears.

Leveraging Help

If storytelling isn't your area of expertise, don't be shy about getting some help. The same applies to business planning, a fundraising plan, creating a pitch deck, verbal and visual branding, PR, and even negotiating funding terms.

Truly wise entrepreneurs are those who are smart enough to know what they don't know, and when to leverage an expert. There are many ways to do this, and options that can fit even into the shoestring budgets of young startups. These ways include:

- Friends and family that are experienced professionals
- Trusted existing mentors
- Members of your own "mastermind group"
- Professionals and businesses offering workshops and free advice sessions
- Cofounders
- Volunteers and interns
- Freelancers

[3] www.amandalewan.com/blog/inspiration/7-storytellers-100-ways-to-spark-inspiration.

- Existing investors
- Advisors
- Former colleagues
- CoFoundersLab's network of advisors and cofounders

You might be surprised who can help if you ask. Just make sure you are getting quality advice. If you are able to leverage free help and advice, be respectful of people's time and look for ways to give back and add value.

I love the United States because it is a country where you can pick up the phone and call anyone, or send an email to anyone. This is something that does not happen in other cultures, such as Spain, where I come from. Remember, there is nothing to lose. Ask! People truly live by the pay-it-forward philosophy.

If you can't find enough volunteers locally, then freelancers and on-demand outsourced team members can be an excellent resource. In fact, you'll find that this kind of outsourcing is a common go-to for hot Silicon Valley startups and booming businesses that make the Inc. 500 list of the fastest-growing private companies.

There are now multiple platforms for finding and recruiting great outsourced help. However, Upwork (the merger of the two largest online freelancing platforms, oDesk and Elance) really stands out as a top choice. There, startups and entrepreneurs can find thousands of highly qualified and affordable professionals in all types of functions. You'll find copywriters, strategists, social media marketers, graphic designers, researchers, and data entry staff. Upwork makes it easy to post gigs, screen potential assistants, hire them, monitor progress, and handle bookkeeping, all in a highly efficient and streamlined way.

Divide and Conquer

Another option is to have one cofounder focus on the fundraising efforts, and all that falls underneath this. In some cases, startups will already have a founder specializing in finance and marketing. Some don't. Obviously, having a cofounder who is a master of this area of business, and whose efforts won't eat up working capital, can be a huge advantage.

If you don't have a cofounder with fundraising expertise, it may be worth looking for one. CoFoundersLab[4] can be an excellent resource for connecting with potential cofounders. If you are currently a one-founder startup, it is worth noting that investors normally prefer multifounder startups. Investors are likely to think that you are alone because you were not able to convince anyone else of the potential of your idea.

Just be wary of bringing on too many people and creating an even bigger issue with too much dilution, and complex and fragile ownership situations. More than four founders is dangerous due to an excess of opinions.

Whatever the situation, things can go far more smoothly if one person is in charge of the fundraising initiative. Pick someone. Let that person own it.

The Rollercoaster of Emotions

Let's be clear about one thing—no matter how great the planning, the adventure of launching a startup and raising capital is going to be an emotional journey.

No matter how professional, cool, and businesslike you are, it is going to be tough—that is, unless you don't really care about the venture that much, in which case you may as well just stop here.

If you do care, and if you are truly burning with passion to make your vision a reality, know that through the highs of launching, breaking through major milestones, and landing substantial funding, there are going to be some ups, downs, and curves to navigate. So hold on tight.

The experience doesn't have to mean taking an emotional beating if you have realistic expectations. Choose in advance

[4] https://www.cofounderslab.com/.

how you are going to deal with issues and surprises. You can get to your goal, but even the brightest and most connected can struggle to acquire funding.

Consider LawPivot, "the 99 designs for legal services." The startup was founded by Silicon Valley lawyers Nitin Gupta and Jay Mandal (Apple's leading M&A lawyer) and received over $1.6 million in seed funding, including backing from Google Ventures. The business was later bought by Rocket Lawyer, which has $20 million in annual revenues. In spite of all this, the business wasn't an overnight success.[5] Getting to success took tweaking the pitch, plenty of emails, and time.

Expect fundraising to take longer than you expect. Be ready for some unexpected feedback. Be prepared to make some pivots and adjustments, to hurry up and wait, to be disappointed and frustrated—and be sure to have patience. In the long term, it is all so worth it! If you are mentally prepared, the rollercoaster ride won't be too severe and you'll be far more likely to succeed. Most entrepreneurs give up only a few minutes too soon.

Learn to Love Rejection

Learning to embrace and savor rejection is one of the best things that entrepreneurs can do. It doesn't come naturally to most adults. For kids, it's a different story. They'll happily and energetically keep on asking for that toy until their parents cave in. Launching a startup is the time to find your ever-optimistic inner child again.

If you've ever worked in sales, you may have an advantage. Mortgage and real estate pros, for example, are trained to embrace rejection from day one. They are taught that "nine nos lead to one yes." Every no means they are getting closer to that yes, that sale, that capital.

[5] http://techcrunch.com/2013/01/14/rocket-lawyer-acquires-lawpivot-to-add-a-quora-like-qa-platform-to-online-legal-services-site/.

Sometimes this may mean 100 nos or voicemails before hitting 10 yeses back-to-back. But you've got to keep going. Learn this concept and it will serve you well in every stage of growing your business.

The mistake that many entrepreneurs make is hearing and internalizing the word "no" from a potential investor after the first few exchanges. When you hear a no in the form of *you are too early*, *not enough traction*, and so forth, this basically means that you need to keep the investor updated. If you execute and deliver on what you promised in your communications, I assure you that the investor will end up investing. Keep people in the loop of your milestones and accomplishments.

Imagine if J.K. Rowling had given up after the rejections she received for her Harry Potter manuscript. What if, instead of his business taking off when he was 65 years old, after sleeping in his car while traveling and pitching his now-famous chicken with the hopes of launching a franchise, Colonel Sanders had given up at "no"? What if Abraham Lincoln hadn't pushed on after eight election failures to change history as he did? And what if Steve Jobs hadn't been so adamant about perfection?

Rejection will happen. Learn from it. Adapt. Build up immunity to it.

Connect the Dots

> ***Believing that the dots will connect down the road will give you the confidence to follow your heart.***
>
> **—Steve Jobs**

The dots may connect. But it is the artist (entrepreneur) who must pick up the pen and make the connections, and make the hidden picture a reality. This often begins with learning to handle rejection objectively. When it comes to seeking capital a "no" doesn't always have to stay a no. Sometimes those controlling the flow of capital just aren't hearing you right. Sometimes they need you to better connect the dots for them. Other times it is simply about timing. So don't let your emotions run away with you and cause you to burn valuable bridges. Be kind. Be open to and accept all types of feedback.

It won't always be a great match. You might not understand that in the moment, but try to gauge and learn to pinpoint when a rejection is actually a positive thing (perhaps it is a "maybe" waiting to become a "yes" if you make the right moves). Sometimes investors will simply be testing you to see how you handle rejection and if you have what it takes to stick it out. Will you pass that test? Will you persevere and follow up?

Sometimes you may need to work to connect the dots over time. If contacts with angel investors, VCs, and other contacts don't directly turn into funding, then they may at least lead to great referrals, contacts, and sales. Never leave a meeting without another introduction or another referral. Your time is your most valuable resource and you need to extract as much value as possible from it.

Remember that the most precious and priceless assets you can gain as a founder are contacts and people's attention. So don't burn trust. Find ways to stay in touch, stay in their minds, build relationships, and add value. A great way to do this is via email, through social media, and by sending snail mail (and meeting in person works, too).

So what do you say? A great example is when you met an investor, but for whatever reason they didn't bite at the opportunity at that moment. Perhaps the timing was bad for their liquidity, or they just weren't convinced by you or confident about the venture (yet). In response, you could put aside that contact and talk badly about them on Twitter. Or you can preserve and nurture that lead and relationship. What if you began a steady, passive, drip "campaign" by email, instead of reacting to that first meeting?

This might start with a thank-you email. *"Thank you for your time. I'm sorry you didn't feel you could participate in [this venture opportunity] at this time. You mentioned you were more interested in health-care startups, so here are the email addresses or links to pitch decks* *for three healthcare startups that are operating out of the same coworking space. Hopefully this will add some value for you."*

Or perhaps you could write: "*Thanks for your time. Just as a thank-you, here is a $50 gift card so that you can make up the time you invested with me to take your spouse out for an artisanal coffee, or to this awesome ramen restaurant I recently discovered."*

Taking time for gestures like these should certainly earn you some respect, a place in the investor's memory, and the privilege of getting your next message opened.

Maybe 90 days later, you send a second email. This time you write: "*Since you took the time to talk to me and offer your advice, I thought I'd fill you in on our progress. We've now [finished development/have gained X amount more users/have landed seed funding from someone else]. As a second thanks, I'd love to give you or someone you know the chance to beta test our next improvement. Here's your login code. . . . "*

The third message might be: "*Great news! We are just two weeks away from hitting our next big milestone!"*

Or, "*On your advice, we brought in another cofounder that specializes in this area. Here's an updated version of our pitch deck in case you know of any other investors looking for a great opportunity right now."*

Or how about: "*Thanks again for the great advice. Our launch party is coming up next month. Here are a couple tickets as a show of appreciation. We'd love to invite you to come along and bring a guest."*

How do you think this might help you stand out, change the dynamics of the relationship, and attract opportunities for the future?

I would also like to point out that raising money is all about building relationships first—the capital comes later. Like the saying goes, "Ask for money, get advice. Ask for advice, get money twice."

The Pros and Cons of Raising Capital

Before we get any further, it is critical that you and any partners you have truly understand the pros and cons of raising capital for your startup.

The Pros of Raising Capital	The Cons of Raising Capital
More money can amplify success	Fundraising can be costly and time consuming
Leveraging power contacts and influencers	Giving up control
Speeding up results	The burden of owing others
Capital can be critical for staying afloat	Too much money destroys founders, relationships
Funds to use to improve product/service	Pressure to water down or detour from plans
Branding and visibility benefits	Can become distracted by additional demands
You can grow a lot bigger, a lot faster	You'll be pocketing less of the profits

These pros and cons are just examples. And these factors will vary depending on where you get your funding. But it's important to be aware of them: Founders must be prepared, know what their priorities are, and know what they are willing to give up and sacrifice in exchange for positive results.

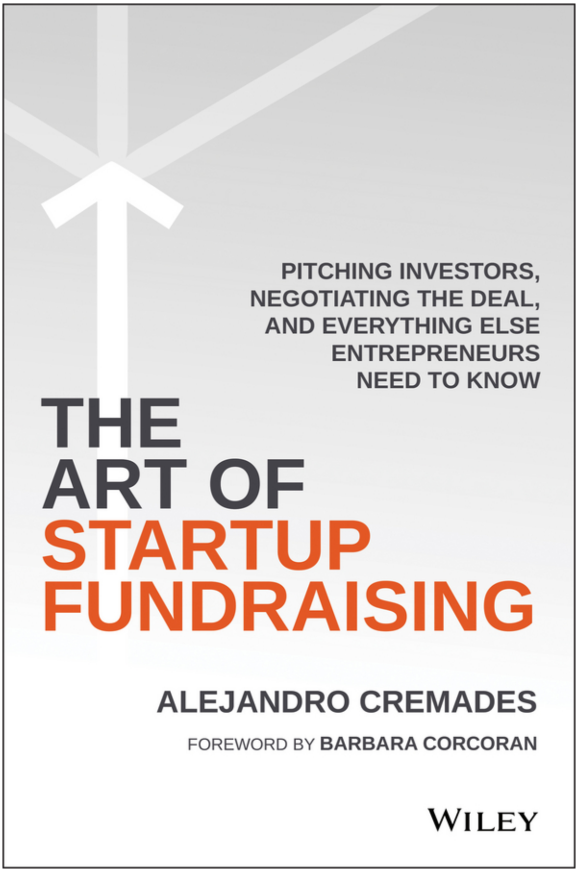
Don't Underestimate the Need for Capital

No startup founder should ever underestimate the importance of access to capital. Nothing will kill your venture and dream faster than running out of cash. When you are out of cash, you can't market, promote, or get sales. You may not be able to pay vendors and staff. The consequences can go far beyond simply crashing your startup.

This isn't an issue only for brand new businesses, either. It is often the unexpected cash flow crunch later on that sabotages very promising ventures. You can have $1 billion in revenues and still be losing money.

In 2015 the Treasury Department reported that the federal government had brought in a record almost $3 trillion in only 10 months. Yet the government was still short almost $500 billion in operating money. And we've all seen the fiascos that can occur with repeated stalemates and even shutdowns. It's the same thing that got the biggest and oldest financial firms in trouble when the credit crisis hit. The biggest banks in the world and the biggest automakers had to be bailed out. So don't fool yourself into thinking you are immune. Even as this book was being written, Elon Musk's Tesla was raising an additional $500 million to prevent a cash shortage . . . and this is during good economic times.

So even if you don't think you'll need or want cash yet, having everything lined up to raise capital, or at least having substantial lines of credit turned on, can be crucial to survival. Stay strong and stay liquid. You should be raising capital 24/7. Sometimes you'll be more active, sometimes less. In any case, plan to open your round at least six months before running out of funds.



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