TechCXO® eBook

Raising Capital

$0 to $10 Million

TechCXO®

experience › acceleration

Accessing capital from third parties can be mysterious to many technology companies. Our goal is to remove the mystery with a step-by-step guide to raising money for your business from bootstrapping to $10 million+.

4–5

From $0 - $500k There are six reasons why bootstrapping your first round of investment is recommended by us. Most importantly, you will be demonstrating disciplines and processes that will greatly aid you as you pursue the big money.•

6–7

$500k - $2 million Typically, in this stage an entrepreneur is seeking $500,000 - $2 million, and - as a general rule -- the entrepreneur or company should not surrender more than 25% of their ownership.•

8–13

$2 million - $10 million+ The stage separates the girls from the women and the boys from the men. This tough trial is, after all, appropriately difficult as you're asking for $2 million to $10 million from investors. You will also be offering up to (but not in excess of) 30% of your company.•

Institutional investors won't put money into an LLC -- you must be a C Corp.

Concept Company

$0 - $500k/

Before you go on a hunt for dollars, here are some fundamentals to get right immediately.

1. **Nice, Simple Structure** - Be sure that from a legal entity structure you are set up as simply as possible. You want to attract investors based on your ideas and operational abilities; they can get spooked if you have an unusual legal structure or equity split. For example, maybe you've gone to a handful of friends and family and raised $100,000. That's not a problem. However, if you have 25 investors at $2000 a piece, the red flags start to go up. Also, if you have employees, have you implemented a bona fide stock option plan or are there just handshake agreements? An LLC structure is typically best. Remember: institutional investors won't put money into an LLC - you must be a C Corp. However, it's an easy, $1k procedure to change an LLC to into a company. Simplify your structure and ownership as much as possible.

2. **Narrow Market Focus** - Most start-ups try to do too many things and wind up failing. It is especially important to maintain focus with limited capital. Pick your best opportunity and go deep into it. Once you're a leader in that area, then you can expand. If you're trying to build seven different tech applications at once, you're headed for failure. Also, exploit a good market, don't build a new one. Better to have a good technology application in a receptive market than a great piece of technology looking to find a market.

3. **Think "Medicine" before "Candy"** - Part of your narrow focus

There are four fundamentals that you should pursue before chasing the big bucks.

Angel investors and early stage VCs used to dip deeper into start-ups. However, most want to see $1 million in revenue these days. There are still some adventuresome types but more likely than not, bootstrapping will be your best - and perhaps, only - option at the concept company stage. Attack it with vigor.

should be to solve a fundamental problem not addressed well in your market. Perhaps there's an underserved or overlooked customer segment. Maybe there are painful inefficiencies no one can seem to solve. Much better to have a product that solves a problem than something that is really cool and sexy.

4. **Constantly seek "IP"** - If you don't have a lot of customers or revenue, you can still be a draw with Intellectual Property. Think in terms of IP protection for whatever you are building. Remember, too: it is much harder to defend a proprietary process than a proprietary product. You're IP may be intriguing enough to attract investors, even without a substantive customer base if you're addressing a specific pain in an established industry.

Raising Less than $500k

We like raising money, and there are many ancillary benefits beyond the obvious access to new cash. Whether it's a strategic lender, private equity firm or venture capital, you will be getting both confirmation of your growth plans and new ways to take your company to the next level. With all that said, however, we typically recommend that up to the $500,000 level, owners try to raise the money on their own. Here are some recommendations for boot-strappers:

- Raising venture money should not be a first option - Organic growth is always best. As you move toward market validation of your product or service - as well as later funding rounds - gaining traction in niches, winning new customers and creating commercial viability will be big considerations in attracting investors. However, if your scenario dictates that time to market and technology obsolescence are incredibly pressing issues, you may have to find capital quickly. Those instances are rare, though. Show you can gain some traction on your own.

- Investors want to see owner skin in the game -- Angels, VCs, banks and private equity firms will want to see owners have equity in their own company. Equity can be straight cash, money from friends and family or even "sweat equity" in the form of quitting a full-time job to pursue their dream. In short, they want to see commitment. Remember: friends and family is fine but keep it simple. A handful of friends and family contributing money is straightforward; however, a bunch of small contributors might spook institutional players. For example, 25 people contributing $5,000 a piece spells trouble.

- Work in Concentric Circles - Seek money from your personal professional network first and then work in concentric circles of contacts to expand your reach. Approach your prospecting the same way LinkedIn builds connections.