HOW TO PREPARE FOR A FUNDRAISE WITH TEN CAPITAL
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PART I: Preparing the Business
3 Ways to Know Your Market

One of the basic criteria in funding startups is knowledge of the target market and customer. Size of market, growth rates, and segmentation are components the entrepreneur should know well. Let's look at three ways to know your market better:

Web
The first place to look is on the web. First, identify which industry(s) you’re in. From there, you can find out several facts and details about your target market size. All it takes is a little bit of research.

Trade Associations and Conferences
Know what trade associations and conferences are related to your market. Typically, the director of the association has the key market information you’re seeking and will make that available to you in an email or phone call since it is their job is to nurture the growth of their industry section by informing others.

Attend a Conference
Attend a trade conference. You’ll learn more from those on the exhibit hall floor than you can from articles or other means. It’s worth spending a day the show to get the details.

Advice on Reports
Finally, avoid market research reports. They are costly and most of these are merely a compilation from a direct mail campaign. While they can be helpful, they certainly aren’t worth the money.
The Business Model

After you validate the market, the next step in the process of starting a company is to identify the business model. The business model answers the question of how you make money. The following summaries the nine business models types:

**Brokerage Model**
bringing buyers/sellers together

**Advertising Model**
promoting products/services to an audience

**Infomediary Model**
gathering information about an audience and monetizing it

**Merchant Model**
selling goods/service either wholesale or retail

**Manufacturer (Direct) Model**
selling goods/services directly to the user without an intermediary

**Affiliate Model**
providing purchase opportunities wherever people may be

**Community Model**
selling ancillary products/services in a community

**Subscription Model**
charging for ongoing use of a product/service

**Utility Model**
charging based on how much of a product/service is used

It’s common to use two or more of these models in the same business. The business doesn’t have to generate a great deal of revenue, but it needs to have a clearly defined business model that is scalable.
The Purpose of 3 Businesses

In business, there’s the product you market, the product you sell, and the product that makes money.

In today’s industry you need 3 products:

The Product You Market
This is your brand, your mantra and the leading product that everyone wants/needs.

The Product that Produces Money
This is an amenity business that pays the bills here and now.

The Product You Build to Sell as a Business
This is typically a SaaS business model that provides regular revenue.

It can be difficult to build a SaaS business when the only thing you are constructing/selling is the SaaS product. If you add more products to the service, it is easier to make the business grow.
Creating a Content-Based Marketing Campaign

To gain attention in today’s business world you need something pertinent, informative, and interesting to say. The days of banner ads no longer exist. Content-based marketing will help you establish your name in the industry. Here are five steps to creating a content-based marketing campaign:

1. **Know your audience**
   
   Know their interests, what they care about, their problems and issues.

2. **Create a Mantra/Message**
   
   Condense your central message down to a few words.

3. **Create a list of topics**
   
   These topics will address what you discovered in step 1. Focus on what your audience wants to read and know about.

4. **Write about those topics in your blog**
   
   You need to write consistently over time to establish a presence in the market.

5. **Reformat the content for other purposes**
   
   Take the show on the road with presentations, articles, etc.

As you build out your content, you’ll also find your niche and your target audience will become more clearly defined.
The Executive Summary

The executive summary of your business plan should contain the highlights of your plan. Also, consider this: most investors won’t read past this section unless you have something truly compelling.

Your summary should come last after you've completed all of the market projections and financial analysis.

When you’re ready to write the summary, you should include the following items in one page:

1. **A Problem the Company Solves**—It must be a large problem in the marketplace creating a great opportunity for you to sell.

2. **Product/Service Offered**—A description of your product or service that solves this problem outlined above.

3. **Competitive Advantage/Analysis**—Even if another company does not have a direct product that competes with yours, you’re always competing for dollars that are allotted elsewhere.

4. **Target Market**—Address how large you think the market is. This section should also contain your strategy to establish entry into that market as well.

5. **Business Model**—Know how you are going to make money. Investors are funding capital efficient deals only, so have a solid business model with profit potential.

6. **Sales Model**—Describe the channel, the sales funnel, and the metrics for selling your product or service into the market.
7. **Intellectual Property**—Include trade secrets, patents, and copyrights, that you own and are of value.

8. **Management Team**—The team that you’ve built should show completeness and experience.

9. **Revenue/Costs/ EBITDA Projections for 5 Years**—Show the high-level revenue potential over 5 years

10. **Funds Sought and Use of Funds**—Demonstrate how the dollars invested in your company will translate into business results.

11. **Exit**—Show potential acquirers and comparables to your company.

Overall, the executive summary should be interesting; tell your story and highlight the values you’ve built into your company. Make use of pictures, graphs, charts and keep word count to a minimum.
Intellectual Property

Most entrepreneurs know it’s important to protect their idea and many have heard about patents. However, in addition to patents, there are other forms of protection that come under the name of Intellectual Property.

They are:

**Trade Secrets:**
Information about your product/service that is not publicly known.

**Trade Patents:**
Protection based on legal means through the US patent office.

**Copyrights:**
A set of exclusive rights granted to the author or creator of original work.

**Trademarks:**
A distinctive sign or indicator used by an individual, business organization, or other legal entity to identify that the products or services.

A robust intellectual property strategy for your business includes all of the above.

For software businesses, many startups talk about their patents, but most angels know that patent protection is weak in the software world because there are ways to work around a patent if another company wants to duplicate the idea. A better measure is to calculate the cost of duplicating the software including design, coding, build out, and most importantly data set to build out the product.
Understanding Patents

In some cases, patents along with copyrights, trademarks, and trade secrets are crucial to securing funding.

One begins by filing a provisional patent and the cost for this is fairly low. Later a full patent can be filed when more funding is secured.

A competent patent attorney plays a key role in helping perform a patent search and many patent attorneys will defer payment until funding is secured.

Since software tends to be more of an execution play, patents may not be as important. The time it takes to litigate a patent can run from 2 to 3 years if not longer and among startups, there’s often little money or assets to be seized. So, it’s often easy for competitors to work around patents to achieve the same goal.
Non-Disclosure Agreements

Sometimes entrepreneurs want to talk about their deal and before giving away any details they request an NDA to be signed (Non-Disclosure Agreement) which requires the signer not divulge the particulars of the subject matter to anyone for a certain period of time (usually 2 to 5 years). To an angel investor, this is a red flag.

This tells investors that deal is not protected and most likely is not protectable.

A better approach is to have a one-pager ready to share with investors who show interest after a brief discussion. The one-pager should state what the business does but doesn’t necessarily go into details about how the IP works. If the discussion reaches the due diligence phase and the investor wants to see what makes the deal distinctive, then it’s reasonable for the entrepreneur to ask the investor to sign an NDA.

It’s difficult to generate interest among the investors when you can’t tell them the basic concept if the deal. The entrepreneur should be able to inform the investor about what the product or service does at a high level and what performance advantages it has over other methods.

A rule for signing NDAs is that investors should know exactly what is being protected. Signing an NDA without knowing this could mean the investor is signing away his ability to invest in any deal that is related to the entrepreneur’s target market or application.

To carry out the conversation, entrepreneurs should be able to speak about non-confidential matters. Once the conversation progresses, the first subject to discuss after receiving the one-pager is how can one protect the idea – patents, copyrights, trademarks, trade secrets, etc.
PART II: Preparing for Investors
Angel Investors

Angels are high net-worth individuals that seek to make a return on an investment. Generally, they are motivated to do a little good, make a little money, and have a little fun and to invest in startups they must meet the Accredited Investor requirement set out by the SEC.

Typically, they are not professional investors but have substantial business experience which comes from running their own business successfully. Often, they are ex-CEO and VPs of large companies.

Additionally, they potentially bring their network of experienced and successful people, and they often have a standing in the community - so if they lend their support to your start-up, it should help you in raising more funding and attracting support.

Assess the needs of your startup and look for angel investors who can bring more than just funding to your start-up. Even if they don’t invest, you may find some angel investors are good candidates to join your board of advisors. Angel investors typically know other angels that can be referred to your deal, so be sure to network as much as possible.
Finding Angels

Since the term angel investor is rather broadly defined, we’re going to talk mostly about the accredited investor and the professional investor that has experience putting money into companies.

Here are some tips for starting your search:

Start close to home
Family and friends may qualify as accredited investors.

Use your Rolodex
Acquaintances and fellow employees may count as potential investors.

Angel Capital Association
This is the largest trade organization for angel networks and lists the groups that are members of their association.

Informal angel groups
These are generally led by individuals with experience in angel investor and offer pitch sessions.

Pitch sessions and funding forums
The mentors and coaches in these groups are angel investors or know those who are.

Business plan competitions
These competitions draw mentors and judges who are angel investors.

Your attorney and accountant
Often your attorney knows potential investors.

Social Networks
LinkedIn is a potentially strong source for finding investors.
Web-based

Several web-based sites exist to connect you with investors.
Meeting the Investor

Without key documents in hand to validate the business, there is no reason to pursue investors beyond initial contact. If the investors are interested, they will move into due diligence and will want to see all the documents related to the business including patent filings, contracts, and financial statements.

As a company moves into fundraising mode, I recommend the entrepreneur compile key documents into one place so there’s no delay in the follow-up process by gathering documents. And if you say you have a contract, you better have something that in writing to show it.

Here are some of the key documents you should have lined up to ensure you are ready to meet the investor:

1. Letters of intent
2. Contracts
3. Employer identification numbers
4. Articles of incorporation
5. Patent filings
6. Financial statements
7. References
Investor Questions You Should Know How to Answer

Before you approach investors, you should know enough about your startup to answer these five questions:

1. **What is your value proposition?** This shows what your company provides and why people want it.

2. **Will customers pay for the solution?** Investors want to know if customers will pay for what you are selling.

3. **Who is on the team?** Investors like to know that the team is competent enough to reach the goal.

4. **Why is now the right time?** Show the investor why the timing is perfect and point out why it hasn’t been done before.

5. **What is your exit?** This is one of the hardest questions to answer, but investors want to know how they will get their money back.

Additionally, always meet with investors well before you go out to raise funding so that you can better understand the investors’ criteria and build a relationship; this will make these questions easier to answer. Many investors want to see how well the entrepreneur executes on their plan so it’s best to take the investor on the journey with you. By the time you go out to raise funding, you should have 20 to 30 investors who you are keeping up to date on your progress.
PART III:
Preparing to Pitch
The Go-To-Market Strategy

In your pitch presentation and business plan, it’s important to describe your sales and marketing strategy; or in other words, your go-to-market strategy.

In particular, what is your channel to the customer?

Are you selling direct, indirect, through Original Equipment Manufacturers (OEMs) or channel partners?

Are you franchising or granting licenses?

Entrepreneurs should also explain why this model was chosen over others and demonstrate how leads are generated and converted into buying customers.
Competition and Competitive Advantage

It’s important to avoid saying that you don’t have any competition as it’s almost certain that you’ll lose credibility instantly with investors by stating this. Generally, entrepreneurs that say they have no competition are trying to convey a broad opportunity to exploit a market. The problem is that it has the opposite effect. There’s always another company competing for the same dollar. Even worse, if the investor finds out about a competitor from someone other than the entrepreneur then it makes the entrepreneur look even more unprepared.

When researched carefully, the competitive analysis in your business plan should demonstrate to potential investors that you understand the strengths and weaknesses of your business. It also gives them a better picture of the market opportunity.

When doing research on the competition for your plan or pitch presentation, you should focus on answering the following questions:

1. Who is out there competing for the same dollars that you’re going after?

2. Are they directly or indirectly selling products, services, or substitutes that compete?

3. What are their strengths and weaknesses in the market?

4. How are they currently positioned in the market?

5. What segments of the market do they operating in?

6. What is their go-to-market strategy and how does that differ from yours?
7. What threats do they pose that may impact your business?

In other words, perform a SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats) on each one of your competitors and compare them to your company.

Afterward, when you present your findings in the business plan make sure you:

1. List the key competitors with their strengths/weaknesses in comparison with your own.

2. Show specific competitive advantages of your solution.

3. Use numbers to make a comparison.
Defining the Target Market

To truly gain investor attention, your target market must be sizable. In other words, there needs to be a lot of customers with a problem that is ready to pay for your solution.

I usually break the “target market” category into three pieces:

Available          Serviceable          Beachhead

The **Available Market** is typically anyone who could potentially purchase the company’s product or service. Look for numbers in the billions to truly be compelling.

The **Serviceable Market** is the sub-segment that would most likely be a strong candidate to purchase the company’s product or service. This number is usually in the millions of dollars.

And finally, there’s the **Beachhead Market**, which is the first set of customers the company will pursue. The company should list beachhead customers that are in the pipeline which shows market validation.

Conveying these three items in your pitch presentation will show an investor that the market cap is sizable, that there are many companies willing to buy your product, and you have a solid go-to-market strategy.
Focus on the Core Product or Service

Entrepreneurs are always excited about their marketplace solutions and want to talk about it to anyone that will listen. That enthusiasm is critical to start a business because that passion is the only thing that will truly carry them through the process.

On the other hand, that enthusiasm sometimes causes entrepreneurs to lose focus on what they are conveying as part of their product offerings.

For example, you might have secondary services or byproducts that are part of the plan. However, cluttering the business plan with numerous potential options for the company will appear fragmented to an investor.

Instead, focus on the core product or service. An investor looks for purpose and clarity in startups. This also solves the problem for entrepreneurs who are concerned about protecting their intellectual property. You don't have to describe everything behind their product. Simply focus on the benefits of the product or service offers.
PART IV:
Preparing the Fundraise
Best Practices for Seeking Funding

We work with entrepreneurs every day who are going through the fundraising process. Over time, we’ve found some entrepreneurs employing practices that make the process go more smoothly. For those who seek funding here are some best practices to consider in your fundraising efforts:

Develop a relationship with investors early on.
Start developing relationships before you need funding. If you wait six months and then start looking, then you’re behind. In meeting with an investor, the entrepreneur can state that he’s not ready for investment but then lay out the plans for developing the business. By building a relationship now and keeping the investor informed of your progress, the entrepreneur will be in a better position when it comes time to raise the funding.

Ready the executive summary, slide deck, and business plan with financials.
Make sure the executive summary (one-page only), slide deck, and business plan are developed and ready to go. As the entrepreneur meets prospective investors use the appropriate docs for each meeting.

Publish a periodical email newsletter for interested investors.
In the fundraising process, some entrepreneurs send out email updates to highlight the progress of the company. Some come as often as weekly to show progress in sales, product plans, and other milestones. This shows the company’s ability to execute.

Find a lead angel to develop a terms sheet and start off the funding round.
By finding a lead angel and creating a terms sheet, the entrepreneur removes the biggest barrier to fundraising – the negotiation process. There are numerous
angel investors who find the initial negotiation and due diligence process too time-consuming. By eliminating this hurdle, the entrepreneur opens up the deal to a larger number of investors.

**Make the deal terms “investor friendly.”**

Of course, every deal must be negotiated. The harder the terms for the investor to accept the longer the time it will take to negotiate. By making the terms “investor friendly” through reasonable pre-money valuations, preferences, and other terms, the faster the process goes.

**Push all due diligence docs to a password-protected website so interested angels can perform due diligence more easily.**

The due diligence phase can be sped up by having all the key docs already available. Some entrepreneurs put everything on a protected website and then give out the password to interested investors. This knocks down the hurdle of trying to send 600 MB worth of documents through the email system.

**Continue the quarterly email newsletter after funding so investors stay with you.**

It’s important to keep investors up to date even after the funds are raised since investors can help in other ways. Some investors bring a Rolodex of contacts while others bring experience and coaching. By keeping them informed of your progress and challenges, they may be able to help. This practice is also useful for when it comes time for follow-on fundraising.
The Golden Rules of Fundraising Success

Here are the basic rules of fundraising that all startups should keep in mind:

1. **Know your investors**
   It’s important to know what kind of investor you are looking for and what that investor wants to see in your deal.

2. **Educate your investors**
   After you pitch to the investor it’s important to educate the investor through updates about your deal. It’s often the case the investor is unfamiliar with your application or space.

3. **Build trust**
   Demonstrate that you can be trusted by showing examples of how you’ve performed in the past.

4. **Respect your investors**
   Show respect to the investor and don’t take their time and advice for granted. When investors see their feedback and advice is not followed up on, they turn their attention elsewhere.

5. **Focus on current supporters**
   Make sure you keep your current investor and investor prospects updated on your startup. If you don’t articulate progress in your deal, the investor will most likely not know.
The Habits of Successful Fundraisers

Some entrepreneurs are great at raising funding. They know what to say to investors and they do the all right things. Here are the habits of successful fundraisers:

1. **Set goals**
   
   Know what you want from the overall raise and break it down into stages.

2. **Stick to budgets**
   
   Setup a time budget for raising funding and then stick to it.

3. **Consider the calendar**
   
   Starting a raise in the middle of summer or just before Thanksgiving is going to be difficult. Plan the launch of your fundraise with the investor’s schedule in mind.

4. **Know the target audience**
   
   Understand the target investor and what they are looking for.

5. **Spend time preparing documents**
   
   Make sure your documents—executive summary, pitch deck, and financial projections are ready to go so when an investor expresses interest you can provide the documents.

6. **Practice the pitch**
   
   Successful fundraisers know their pitch and have it well honed.
7. **Create a plan and then work the plan**

Have a list of prospective investors and continually work investors through the process.

8. **Focus on metrics**

Keep track of the numbers in the campaign. Know how many prospects you have and how many you need to achieve your goal.

9. **Ask investors for feedback**

Be open to feedback from investors and others on the pitch and campaign.

10. **Demonstrate appreciation**

Show appreciation to those who help you in your fundraise.

Fundraising is a skill just like most other aspects of running a business. These skills can be learned and honed.
Your Timeline to Raise Funding

Here’s a rough outline of what you should be ready for when developing your plan:

Month 1: Check readiness
Assess your readiness for raising funding, and be honest. Ideally, you have a product and have sold some units. You should also have built a core team. Communicate with your current team and investors you have already spoken to about raising funding. Don’t forget to check with your attorney about the legal aspects, either. You may have to consider modifying your legal entity to allow for outside investment.

Month 2: Prepare the company
Planning your fundraising strategy includes assembling your key documents which include, the executive summary, slide deck, financials, and due diligence documentation. Take steps to fill out your board of advisors and build a set of email updates for monthly transmission to the potential investors.

Month 3 to 5: Prepare the investors
Identify potential investors to put them on your investor prospect list. Start with 10 investors you already know and have made contact with then add 10 new investors per month to your list. Set up meetings to introduce investors to your deal and tell them that you will start raising money in a few months. Ask permission to keep the investor on the list for updates you will be sending out. Start sending monthly updates on your company’s progress using personalized emails – not “broadcast” emails. Customize the mailings to build a personal relationship. Demonstrate how you are actually achieving milestones.

Month 6 to 9: Pitch the investors
Follow up on each potential investor and pitch the deal. Identify the lead Investor and close the first round with investor-friendly terms. Offer an incentive to the lead investor for the additional risk they are taking by going first.
Month 10 to 11: Close the investors
Invite other investors to follow on. Keep the relationship with all investor prospects; some may join in a future round.

Month 12: Finish the round
You’re not done at this point. Continue sending updates to investors and the investors on your prospect list on a quarterly basis to prepare for the next round of funding.
The Amount of Funding You Should Pursue

Before pursuing investment, one needs to consider how much to raise and how it’s going to be used. When you go to pitch investors, it should be clear from your financials as to exactly how you’ve come up with these funding requirements and how you plan to put that money to work.

Of course, it’s still an educated guess, but having these items researched and detailed in your business plan (and pitch presentation) will build more credibility with the potential investor.

Figuring out how much you need to raise starts by asking the following:

*How much do you need for equipment, inventory, and contract services (such as legal costs, marketing, sales, and more)?*

This financial model is a **MUST** before setting the fundraising amount.

We often recommend raising as little money as possible before you have customer sales because the valuation (how much the investor considers your company worth) is going to be quite low. Any money you raise in the beginning will cost a more significant portion of equity in your company than follow on investments down the road. In other words, the greater the risk, the greater the equity the investor is going to require.

It’s also better to raise a lower amount (say $250K) to get the product up and running and sold to a few customers. You always raise a larger round of funding later, but at that point, it should be a much better valuation for the entrepreneur; with the product and customer risks mitigated you don’t have to give away as much equity.

Also, for every $1M you are trying to raise you’ll spend one year raising it and **NOT** doing much of anything else on your business. Raising only $250K will reduce the amount of time spent fund raising allowing you to work on your product, marketing, sales, and team building.
Raise Funding at Every Stage of the Business

Crowdfunding can be used to raise funding throughout the life of a business. When the idea of a new business strikes you and there’s nothing built yet, then you should run a donation campaign and ask family and friends to donate $10K collectively. Make sure they understand that no one is getting paid back. The value of this step is that it establishes a network to support your business. The money can be used for some initial costs such as filing patents, building websites, and starting work on a prototype.

The next step is to use a Rewards/Prepay campaign to pre-sell 50 units of your product. It can be anything. The key here is that you start to build your customer network. If you can’t presell 50 units, then you have a product problem that needs to be solved before you go any further. The funding you raise should be enough to build the first version of your product.

With a successful rewards campaign behind you, you now move towards turning those customers into investor using the Texas Intrastate crowdfunding campaign. The Texas Intrastate law gives anyone the ability to invest in your business. Again, the funding helps, but building your network is an important point. If all 50 of your Prepay customers invested in your business, you now have fifty brand ambassadors supporting your business; this is not trivial support by any means.

With support from your customers, and now investors in your business, you approach angel investors and start to raise funding to grow the business. Angels invest $250 to $2M to grow a working operation. When you arrive at the angel investor’s door, they are expecting you to have a product at some stage of usage and some revenue. The previous steps give you the ability to do that.

If you need more funding, then you can go back and raise revenue-based funding. The investors at this stage take a piece of the revenue as payment rather than an equity stake.
If you find yourself having trouble raising funding, it may mean that you skipped some key steps. You should go back and fill in the gaps of building your support network and your customer base before proceeding.
About TEN Capital

TEN Capital Group provides funding as a service to companies anywhere raising venture capital. Its network of over 5000 accredited investors represents venture capital, angels, family offices, and high networth individuals.

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