9 Lessons Learned While Raising Venture Capital

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AppFolio CEO, Brian Donahoo, and Chief Strategist, Klaus Schauser, raised 30 million dollars in venture capital funding in 2008 and 2009. We sat down with them to ask what lessons they learned during the fundraising process that could help other startups. Use this white paper to gain valuable insight into the 9 lessons that Klaus and Brian learned, crucial to any company looking to raise venture capital.

1. Make Sure VC Funding Is Right For You.

Many entrepreneurs think the key to growing their company is to obtain venture capital funding. In reality, many companies would fare better by finding other resources or bootstrapping it. The type of funding that is right for a company depends on several things- the financial resources of the founder, the level of control the founder wishes to maintain over the company, and their ultimate goals for the business.

VC funding comes with strings attached, it is not free money. Most VCs will want to have influence over the way the business is run, and you will need to be prepared to relinquish some control. This works very well for businesses who want to grow quickly and are open to outside influence to do so, but may not be ideal for a founder whose goal is to turn their business into their life's work. Think long and hard about your options and if VC funding is right for you.

Did You Know?

11% of private US companies are venture-backed?

Fundraising happens in stages. First, you'll spend all of your own money. Next, you'll move on to money from friends, family, and fools. At this point, a company won't usually have a business model. Then, you'll move on to money from angel investors, and finally, venture capitalists. Angel investors and VCs invest in proven companies – you must be prepared to demonstrate your company's potential. Do your research up front- the more you know, the more potential you'll be able to demonstrate.

Caution – If you decide raising VC funds is right for you, work to minimize the disruption it will have on your business. Fundraising takes 3-6 months and can easily become a full-time job, which takes away from your business's focus and productivity during that time.

2. Know Your Investors.

For optimal results, you should always know your investors. The best strategy is to pitch to an investor you've already worked with or you know through other channels. If you want an introduction to an investor, make sure to get a warm one from someone whom they know and trust. This will ensure that you begin your relationship with mutual trust and respect. Ideally, you want to work with investors who have had congenial relationships with others in the past.

To Avoid

A cold email will rarely lead to a meeting with an investor. Yes, sometimes "online dating" does work with investors, but those instances are few and far between.

No Connections? Don't fret There are ways to meet investors and build relationships.

1) Take entrepreneurship classes at a local university, most professors are well connected with investors and can get you introduced.

2) Go to local events for entrepreneurs and startups. Networking can take you a long way.

3. Strategically Choose The VCs You Want To Have On Your Team.

All venture capitalists are not created equal—and you will be working with your investors for a long time to come. Klaus calls this a "time-bound marriage." For the next 8 to 10 years, you and your VCs will be working closely together. If the partnership works out – wonderful! If it doesn't work out and ends in a "divorce," the aftermath is negative for everyone involved. In an investment "marriage," just like in a marriage, you give up some control. You gain a lot from the partnership, but there is a lot of sacrifice, too. Make sure you know which investors you work well with. Do your homework up front as to which investors you like and can get along with. Not everybody will be in the position to be picky (beggars can't be choosers), but if you have the ability to choose, make sure you choose wisely.

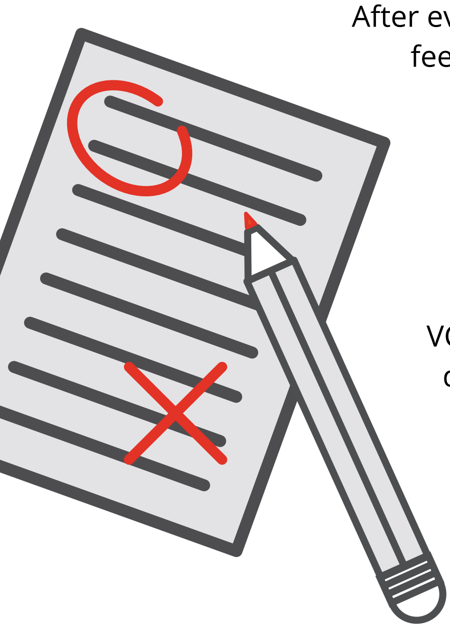
4. Keep The Pitch Simple—Solve A Real Problem for Customers.

What is Market Validation?

Market validation is a series of interviews of potential customers in your target market. These interviews are used to test a product concept against a potential target market.

It's all too easy to overburden pitch presentations with market trends and analyst reports and forecasts. Don't let these outshine the clear customer problem that you are solving with your business. Understanding customer and market pain and how you are going to solve it is the most powerful information that you can share with potential investors.Use market validation to prove to your investors that you have already sold the conceptual product to your target market- and that they bought it. This is a crucial step in successful entrepreneurship and its results can be used as leverage for financing.

5. Edit Your Fundraising Pitch Along The Way.



After every VC pitch (and you are likely to have more than one), think about the feedback that you received and how to improve your "pitch" for the next meeting. What's better than to get pitch advice from the very people you are trying to sell your ideas to?

6. Paint the Picture For a Home Run.

VCs are only looking for home run businesses that could become billion dollar companies or go public. AppFolio and ExpertCity (acquired by Citrix in 2003) fit this vision perfectly—but not every company will. You must paint a compelling picture of a successful company and it must be done in a simple, straightforward manner. Know your target market and its size. Research your potential for growth and partnerships. Understand your competitors and how you are different. Share what you learned during your market validation that shows how you are solving a real customer problem. Clearly outline your company's potential for not only a home run, but for a grand slam. Bottom line: If you are unable to convince VCs of your company's ability for growth, you won't be considered for funding.

7. Take Steps To Be Professional And Prepared— From Day One.

You know how the saying goes, "you never get a second chance to make a first impression," and this couldn't be more true than when approaching VCs for funding. Take extra steps to ensure that you are presenting your company in a professional manner. This extends far beyond your pitch presentation- it extends to how you treat customers, your company's presence on social channels, and how your business is organized and run.

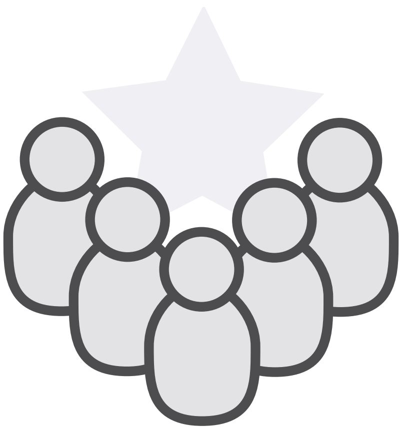
Tip:

Dropbox, Email, Google Drive, and other common collaboration tools are not secure enough for sharing sensitive business documents. Make sure you understand the security features of the solution you choose.

When being considered for funding you will have to go through the due diligence process. Do not wait until potential investors ask for documents to get them together. Have your business documentation organized in advance. Time kills deals. Klaus and Brian knew this when seeking funding for AppFolio, which is how SecureDocs Virtual Data Room was born. Using a virtual data room is a secure and user-friendly way to share confidential information with VCs, and is a fundraising best practice. Preparing your documents in an organized and professional manner is a way to show potential investors that you are serious, and if all information has been kept up-to-date, it also prevents tying up company resources to prepare for investors. Be forward thinking- start organizing your documents in a data room from the outset.

8. Don't Underestimate The Emphasis You Give To Your Team.

VCs don't only invest in ideas, they invest in teams. All great ideas change radically from inception to maturity. This change requires a smart and dedicated team that can pivot quickly based on market demand and changes. Use examples of what each team member has accomplished in past ventures to provide confidence in your team and its ability to execute.



9. Do Not Give Up.

Fundraising takes a strong skin and you have to be prepared for a lot of rejection without losing enthusiasm. Like any sales process you will hear “No” many more times than you will hear “Yes.” Don’t let this deter you. Persistence is key.

About SecureDocs Virtual Data Room

SecureDocs is a highly-secure, flexible virtual data room used to store and share corporate documents with internal and external parties during fund raising, M&A, joint ventures, licencing deals, and other critical legal, real estate, or accounting events. With unlimited users and documents for $200/month and no hidden-fees, SecureDocs is priced and packaged for ongoing use. Helping businesses remain ready for any opportunity.

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