Stanford eCorner

How Much Money to Raise?

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Michael Cline and Jason Green, Founding Partners at Accretive Technology Partners and Emergence Capital respectively, argue that when raising money, entrepreneurs should raise enough money to get past essential proof points in the business. Furthermore, Green emphasizes that entrepreneurs should be focused on raising enough money to flush out the key risks in the business.

Transcript

In general, what I'd like to see is a single - and that runs so counter to a lot to the industry so forgive me if I'm out of step - but in general I consider them as kind of big adventures.. I do think that there is a crispness to essentially raising enough capital to essentially move you past the proof point on sustainability and scalability.. So you might want to dribble it in, do a little bit at a time, but just to keep everybody focused on the substance of it which is the execution.. Personally, I gravitate to really getting yourselves to the point where you've eliminated the risks around "does it really work? Is it going to be sustainable? Can you scale it?," and you are literally just into more traditional forms of financing to make it big.. The counter sometimes is now you ought to needle that in and I think sometimes the venture firms want to manage risk by dribbling it in.. I'm not sure I have anything intelligent to say on that other than I would always suggest financing it to a major inflection point, a major proof point along that spectrum so that when you come back to raise money, you never find yourself in the situation where you want it to get to A, you raised a bunch of money to get to A but you haven't gotten there yet.. That's a hard conversation to have with someone about.... okay, inevitably there's potholes, inevitably you miss, inevitably you get delayed and we are all too optimistic when we look at how hard something's going to be.. If you said you were going to get to A and you miss, that can be painful when you come back for more money.. So, that's the only comments I would have..

Jason, Dave, Tom, any other thoughts you want to raise? I would just reinforce that.. The first concept we always talk about is thinking big.. But the second corollary to that is underpromise and overdeliver.. In my mind as an entrepreneur, you should be raising enough money to make sure that you can underpromise and overdeliver and achieve those objectives.. In general, investors want to flush out the biggest risks in your business as soon as possible with the least amount of money.. That's the mentality that we're thinking about because once you flush those risks out, it becomes more of an execution game.. There's a lot of capital out there available for an execution game once it's proven.. The other thing I'd say when you're thinking about raising money, and this is more tactical than strategic, but you got to be thinking about who you're talking to as well.. Frankly, people with small funds want to raise or want to invest small amounts of money and people with large funds want to invest large amounts of money.. So, you also should be thinking about your audience in context of that because what might be a good answer for one investor may not be a good answer for another investor..

That's not trying to advise you to raise dramatically more money than you think you need because I don't think that generally is a good discipline.. But you should also be making sure you're taking your audience into account.. If you need to throw a few more risk factors into flushing those additional two or three risks out because you can raise 10 million dollars versus 5 million dollars, because you're talking to somebody who's willing to write and sign those checks, I think you ought to be thoughtful about who you're talking to and making sure it fits a couple of those key risk metrics in your business...