

Trajectory Series Bootcamp – Session 4

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Agenda

- ▣ Pivoting
- ▣ Pricing
- ▣ Fundraising Fundamentals

Financial Modeling Note

Templates

- Do this after you get in the program – not highest and best use today
- Four Templates
 - Marketplace
 - Subscription
 - Transaction Fee (works for commerce)
 - Productize a service
- Templates in shared [Google Drive](#)

Financial Model Heuristics

- ▣ \$0- \$40 is likely OK
- ▣ Start with Assumptions
 - ▣ Product 1, 2
 - ▣ Services
 - ▣ Release timing
- ▣ Scale Revenue first
 - ▣ Customer count and timing
- ▣ Keep expenses in line as you grow

Pivoting

What is a Pivot?

- When a startup shifts business strategy to accommodate industry, market, or customer
- The process of direct and indirect feedback changing your business model
- Iterations vs. Pivots
 - Iterations are course corrections
 - Pivots are painful – we were in the tire business, we're now in apps
- Odeo and Slack

When & Why

- When – 90-180 days
 - Get out of your head and get in front of the customer
 - 50-100 customer interviews
 - Build an email list
- Solid effort in Customer Development and no positive signals
 - Didn't find a pain point
 - Didn't find payment
 - Some exceptions – Enterprise is hard and slow... New Media model is about growth not cash

How to Pivot

- ▣ Are you staying in the same TAM?
- ▣ Is the product wrong?
- ▣ Is the brand wrong?

- ▣ Focus on problem first, solution second!

Post Pivot



Willingness to Pay

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Pricing

Your price will be wrong!
Increase it every year and
grandfather early customers for a
period of time

Art or Science?

- ❑ Pricing is an informed decision based on data and proven revenue models
- ❑ Benchmarks
 - ❑ Comparable products
- ❑ Don't start too low
- ❑ Cost base vs Value based
 - ❑ What is the alternate for the "Job to be Done"?

Pricing needs to cover

- Cost of Building
- Cost of Delivering and support
- Cost of Selling
 - Customer Acquisition Cost
 - Marketing expense
 - Marketing team
 - Sales expense
 - Sales Team

Cost vs. Value Based

- ❑ Cost based is mark up over expense
 - ❑ Pay rate vs bill rate
 - ❑ Mark up from cost of goods
- ❑ Value based is what you can charge for it
 - ❑ Can be a range
 - ❑ Depends on product maturity

Jobs to Be Done Framework

- ❑ Clayton Christensen – HBS
 - ❑ *“When we buy a product, we essentially ‘hire’ something to get a job done. If it does the job well, when we are confronted with the same job, we hire that same product again. And if the product does a crummy job, we ‘fire’ it and look around for something else we might hire to solve the problem.”*
- ❑ What job is your customer hiring your product to do?
 - ❑ Does it replace 20% of a staff person's time
 - ❑ Does it save them money, make them money

Product Pricing

- ❑ First Product
 - ❑ Staged pricing – up or down over time
- ❑ Second Product
 - ❑ Staged pricing – up or down over time
 - ❑ Launch timeline based on product road map
- ❑ Services?
 - ❑ Could it improve you sales cycle

Tiers

Trial Level

- ❑ Low commitment
- ❑ Lower features?

Best Option

- ❑ Optimize for ICP or Segment

Top Tier

- ❑ Call for price (meh)

Terms

- ▣ Month to month
- ▣ Annual Contracts
- ▣ Multi-year contracts
- ▣ Proposals vs. clickable terms of service
- ▣ How about the data?

A/B Testing

- ▣ With your hypothesis
- ▣ Hide the current pricing page
- ▣ Drive traffic to Pricing landing pages
 - ▣ Squeeze page
 - ▣ Test pricing
- ▣ Unbounce or other tool to tack
 - ▣ Optimizes based on conversions

Promotions

- ▣ Freemium
- ▣ Time based
- ▣ Early adopter based
- ▣ Percentage discount
- ▣ Grandfather early users

* Prices subject to change

Common Errors

- ❑ Setting pricing too low
- ❑ Too opaque of a price will frustrate customer – especially if it's low
- ❑ Knowing the answer vs testing
- ❑ Positioning as “me too” just like your competitor, but less
- ❑ Same price for all customers
- ❑ “Free for Life!”

Where to Start

- ▣ Pick your primary/secondary model
- ▣ Do a competitive analysis
- ▣ Building a pricing hypothesis
- ▣ A/B Test
- ▣ Three tiers, maximum
- ▣ Price high and promo the discount based on time to close

Agenda

- ▣ How Startup Make Money – 14 Revenue Models
- ▣ Go-to-Market
- ▣ Testing Your Hypothesis

Fundraising Fundamentals

Fundraising 101

- Stage appropriate capital = what's the right money at the right time?
 - Early – Angels, early-stage VCs,
 - Later – Large venture funds
- Control shifts – Board roles, deal terms
- Dilution: every round of funding you will sell 25-35% of new shares
- Bad boards = bad enterprise value

Stage of Capital

- Friend & Family – idea stage
 - Pre-Seed – pre-product, pre-revenue
 - Seed 1, 2, + - early product, early revenue
 - Series A, B, C + - Shift to growth capital and scaling
- You set price
- They set price

Raising for What – Use of Proceeds

Early Days

- ▣ 4-6 Months
- ▣ To hit milestones
 - ▣ Product
 - ▣ Customers

First Institutional

- ▣ 18 months of runway
 - ▣ Not too short
- ▣ To hit milestones
 - ▣ Product
 - ▣ Customers

Angels

- Invest in you and your passion
- Like the market or idea
- Have made money in the sector before
- Something to talk about at a cocktail party!
- Deal type
 - Convertible note with a cap
 - Pro-rata participation (keep my % going forward)
 - Highest risk – least educated (F&F) should be best deal

Early Stage = Risk Capital

- Know your numbers, if you don't have your numbers know your hypothesis (have a position)
- Seed stage VC's are investing other people's money
 - Charter and Thesis
 - Stage, vertical market, size, geography
 - 10% (+/-) stakes plus syndicates
- VC perspective - Elusive deals need to be found
 - Revenue but Pre-product market fit
- "Return the Fund" deals that can produce >10X

Institutional Investors

Moving up the capital stack:

- ▣ Investing someone else's money
- ▣ Nano/Micro VC - <\$10M Funds
- ▣ VC
- ▣ Growth Equity
- ▣ Private Equity

Later Stage = Growth Capital

- Post product market fit
- \$10K in marketing spend = Internal rate of return (IRR) of how many days?
- MBA's calculate returns – cash on cash
- Strategics aren't valuation sensitive, but will be slow
- Bigger checks – bigger stakes

Fundraising Process

- Enterprise Sales Process – landing multiple planes at the same time
- Top of the Funnel
 - Research
 - [Crunchbase](#) (cheap) [Technation](#) UK
 - [Pitchbook](#) (expensive)
 - [AngelList](#)
 - Competitive deals (w/ Exits)

Target Investors

- Targets – build a list of targets, look for LinkedIn and/or email introductions
- They have invested in your market/stage in the past
- They have Board experience for your stage
- They can help with strategic introductions
 - Investors
 - Customers

Tools for Pitching

- ▣ Forwardable Email
- ▣ Executive Summary
- ▣ Presentation
 - ▣ 10-12 Slides
 - ▣ More is OK if you have data/traction
- ▣ Monthly Update

Executive Summary

- ▣ Two pages
 - ▣ "Don't Bury your Lead"
 - ▣ Your headlines and opening paragraph tell the story (see slide 10)
 - ▣ It's designed to get the next meeting, not to get a check
 - ▣ Stay at 10k feet and out of the weeds
 - ▣ Numbers should sync with deck and forecast!
You'll be tempted to get out of sync – be careful!

Deck

- ▣ Generally lead with problem/solution format
- ▣ However:
 - ▣ If you have traction lead with traction
 - ▣ If you're in a complex market, you may want to lead with your team
 - ▣ Have one customer story arch
- ▣ Include contact info

Forwardable Intro Email

- ▣ Great blog post from [Alex Iskold](#), Techstars NYC
- ▣ The associate needs to be able to repeat your message
- ▣ Make it easy to get the introduction
- ▣ Avoid buzzword bingo

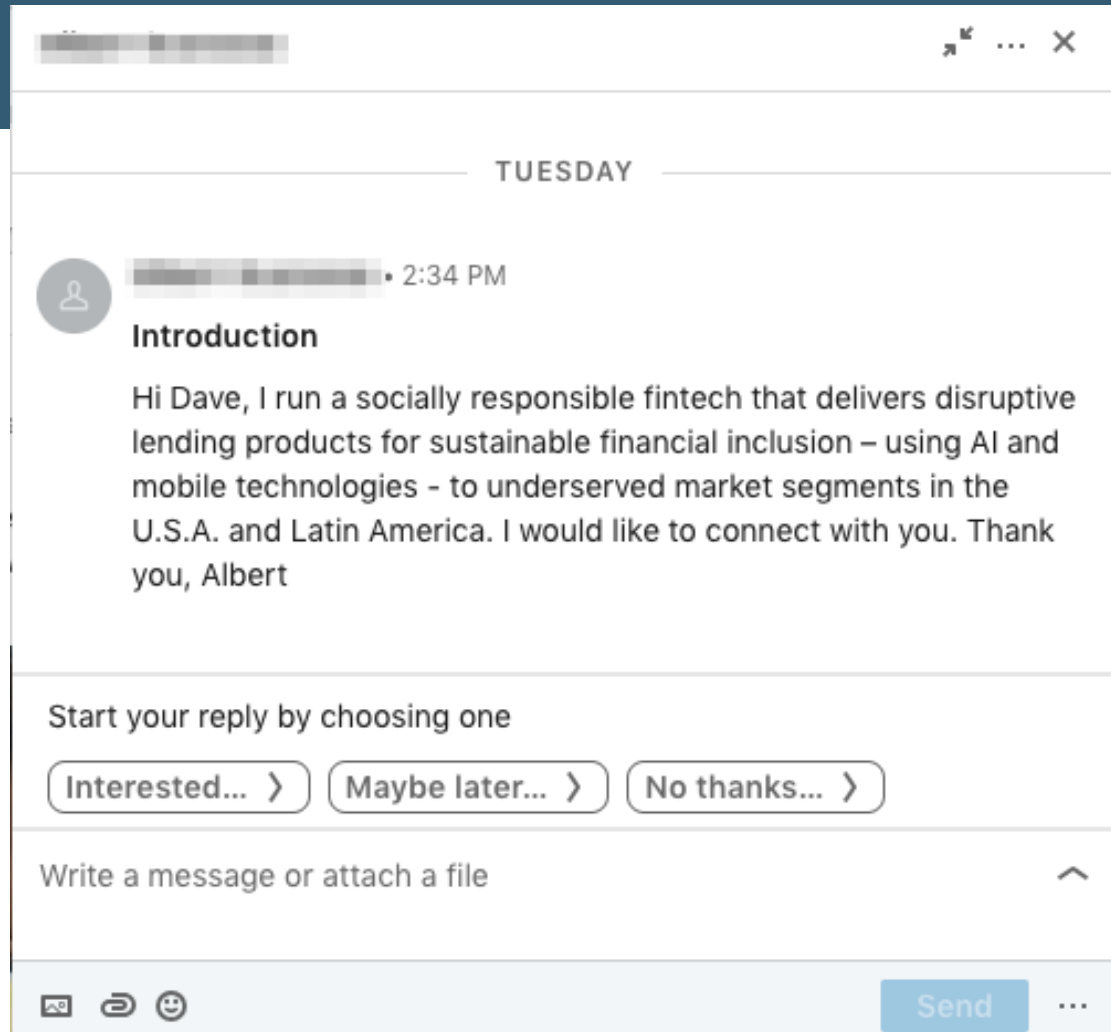
Monthly Updates

- ▣ Using MailChimp Free Account
 - ▣ Investors – Tagged
 - ▣ Customers
- ▣ 30 day intervals
 - ▣ What we thought
 - ▣ What we learned
 - ▣ What we're doing about it
 - ▣ Where we need help
- ▣ Regularly

Cold Outreach

- ▣ Look for introductions where you can get them
- ▣ Cold outreach is fine, but:
 - ▣ Research the firm and investment thesis prior to email
 - ▣ Zero email/LinkedIn responses will work if there isn't something interesting or custom to the recipient

Not



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Party Rounds and Term Sheets

- If the price of your deal is reasonable – you can create a party round w/o a lead investor.
- If you have a lead investor
 - 33-50% of the round, they set price and terms
- Term sheet sets the process
- You follow with definitive docs from your lawyer
- Legal cost are part of the round of investment

It's important the cash goes to
the company not the attorneys

Learn the Mechanics

- Avoid Lawyer to Lawyer negotiations, stay on the email strings.
- This will reduce your bills and you'll learn the mechanics
- Deal Lawyers bill in 6 Min increments, @\$1,500+ per hour

Deal Options and Mechanics

- ▣ Series Seed Convertible Debt = \$3k legal cost
 - ▣ Cheapest and fastest way to get
 - ▣ Converts when you raise a priced round
- ▣ YC Safe Note = \$5k legal cost
 - ▣ YC Docs – Simple Agreement for Future Equity.
 - ▣ When you raise a priced round
- ▣ Priced Rounds – Series Seed Doc Template
 - ▣ \$15k with templates \$40k+ w/o
 - ▣ “Redlines” = expensive

Convertible Debt

- Is a loan to the company from investors
- Loan amount
- Term – three year term
- Interest rate - ~5%
- Cap
- Discount
- Series Seed Convertible Debt = \$3k legal cost
 - Cheapest and fastest way to get
 - Converts when you raise a priced round

Safe Note

- Ycombinator (YC) Docs
- A commitment to buy stock at a future price
- Cap
- Discount
- YC Safe Note = \$5k legal cost
 - [YC Docs](#) – Simple Agreement for Future Equity.
 - When you raise a priced round

Priced Round

- The company sell shares of the company at a price per share
- Price-per-share
- % of company purchased
- Pre-Money/Post-Money Value
- Priced Rounds – [Series Seed Doc Template](#)
 - \$15k with templates
\$40k+ w/o
 - “Redlines” = expensive

Side Letters

- ▣ Apply to only lead or key investors
- ▣ You as the founder can apply to all
- ▣ Terms
 - ▣ Participation rights – pro-rata rights for the next round
 - ▣ Information rights – quarterly financials
 - ▣ Board/Observer rights – board or observer seat for board meeting

The Other Side of the Table

What's happening with the VC?

- Most filter – sector, size, stage, growth, referral source
- Then Screen at Partner Meeting – looking for consensus
- Then invite in for presentation
- So! You need to make the presentation that the most Junior team member has confidence repeating! Have a lead within the firm
- No one's writing a check from an Exec Summary or PPT!
Get the next meeting

Due Diligence Process

- Deal Memo – internal memo used to validate why they are leading the round – it will likely be shared with other investors or future investors
- Document review post
 - Data room
 - Corporate Hygiene
- Customer calls – you likely have a few customers, don't over burden them with random call.
- Meet with other investor

Your Due Diligence

- Ask to talk to their portfolio company CEOs – ask for a couple of companies they passed on investing as well
- Have a structured list of questions
 - Have they been a good investor
 - Give me an example of a time when they were helpful
 - Give me an example of a time they weren't helpful
 - Have they done the things they said they would do when they invested
- Not all money is good money

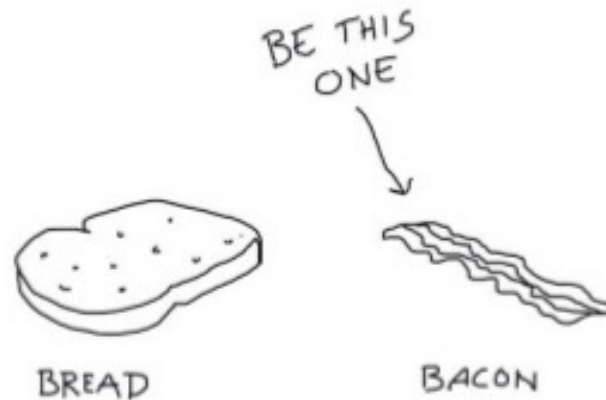
Running a Process

Fundraising Process

- Asking for advice vs cash
 - Who do you know that would like our type of deal
 - What other things would you like to see us complete before we talk again
- Deals that get closed are pulled by the investor, not pushed by you
- Find your lead investors – keep the others warm

Pitching

MINIMUM VIABLE PERSONALITY



Most important step for build product is build product.

Second most important is build personality for product.

No have personality? Product boring, no one want.

[Fake Grimlock](#)

Pitching your Idea

- Clearly communicating your idea is critical for recruiting a co-founder and capital
- Starting strong
- What questions do you want the audience to ask when you're through?
 - Can I invest
 - Can I help
 - WTF?

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Tactics for dealing with VCs

- You want to create momentum or a sense of momentum
- Create a reason to close – not a reason to wait!
 - Good news next month is a reason to wait
 - New features shipping next month is a reason to wait
 - Booked revenue is a reason to close = increased valuation
- Not all VCs are arrogant assholes (but many are)
 - Pattern matching – break the mold!

Valuation & Dilution

Valuation

- Earliest stage valuation is based on
 - Market size
 - Team
 - Product
 - Early traction
- Later stages are based on data
- All influenced by current market condition (don't be tone deaf)

Dilution

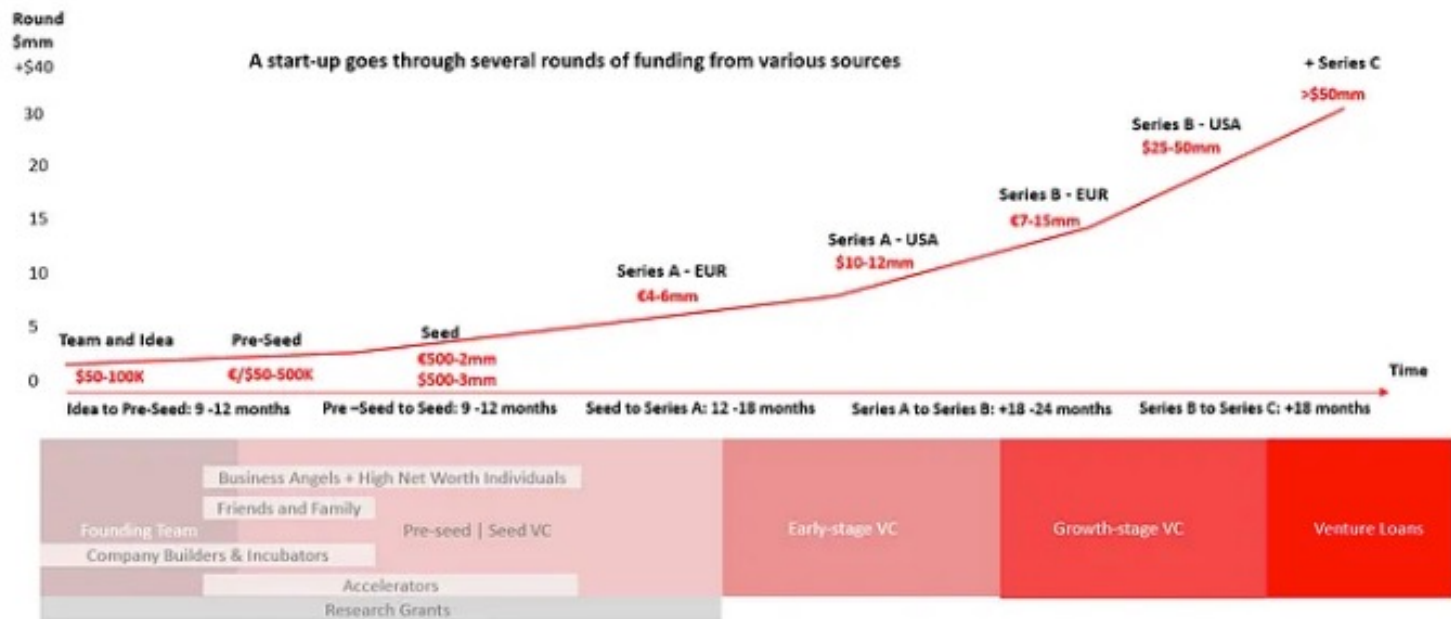
- Each round of funding you will sell 20-35% of new equity
 - Seed stages tend to be tranching in Seed 1, Seed 2
 - Milestones driven, ~12 months, smaller amounts
 - Series A – 18 months, 12 to deploy, 6 to raise

ANGELCALC [What's New?](#)

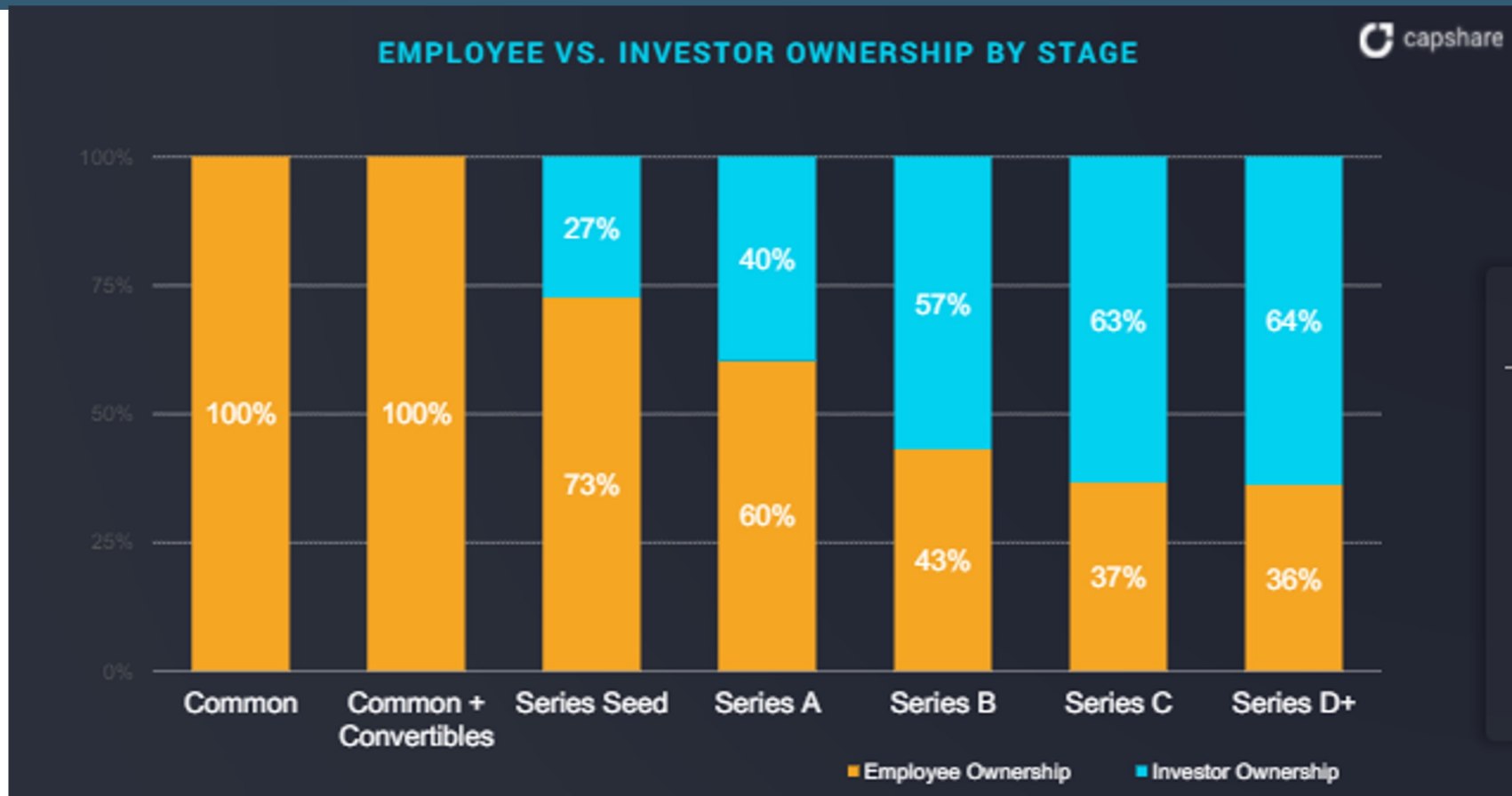
Create New Model

Model: Sample		Calc Model
Created:	N/A	Edit
Number of Converts	2	Delete
Convert Investment	\$1,100,000	
VC Investment	\$2,000,000	
Pre-money Valuation	\$8,000,000	
Pre-money FD Shares	10,000,000	
Post-Money Options Pool	10%	
Pre-Money Options still avail:	150,000	
Sharing is off		

Early-Stage Funding Cycle



Dilution over time



Mindset

Mindset

- ▣ You run the process
- ▣ Don't shrink into the background
- ▣ Ask for next steps
- ▣ Confidence – no one pitching in the valley lacks confidence
- ▣ Paradox of humility and will -[HBR](#)

Qualify The Investors

Ask them questions:

- Do they invest in this type/stage/international investment

You be you... But

US Founders

- ▣ Blend aspirations and actuals
- ▣ Tend to live in the future,
- ▣ Still over deliver

International Founders

It will be uncomfortable – get over it!

Final Do's and Don'ts

Do

- Keep your eye on the ball – don't miss your numbers
- Manage the process
- Qualify your investor
- Create optionality
- If there's an ELEPHANT room, call it out

Don'ts

- Get < 6 Month of capital
- Hide the ball on any bad news
- Be too transparent
- Let the investor miss a deadline – escrow example

Conclusions

- Broad funnel gives you the most choices
- They will be talking to other investors
- How you interact in the process will indicate the future
- What do you need in addition to capital?
 - Go to market help
 - Product help
 - Know your blind spots
- Time kills ALL deals

Session 3 Deliverables

- ▣ Pivoting –
 - ▣ What's your timeline
 - ▣ What should you accomplish in 6 months
- ▣ Build your product and company roadmap
 - ▣ Three year visual for Flat6
 - ▣ 18 Month, category milestones for your financial model
- ▣ Fundraising
 - ▣ List building
 - ▣ Monthly Update email
 - ▣ Forwardable [Email](#)

Q&A

THANKS!