seedstars

INVESTMENT READINESS CHECKLIST

How prepared are you to get investors' attention?

Before we get down to how investment ready you are, let's take a look at the short quiz below.

01

Investment readiness is...

- ▢ a. A place you reach naturally along the way (like a Starbucks)
- ▢ b. Bloody unpredictable, hit or miss, luck-based (like gambling)
- ▢ c. Something you must prepare for consciously (like an exam)

02

To get investment ready I...

- ▢ a. I'm just saying 'yes' to investors' demands and then figuring it out.
- ▢ b. I am bombarding every investor I know with emails. Someone will be fooled!
- ▢ c. Created a roadmap, strategy and checklist to get there.

Wondering if you answered it correctly? Here are correct responses, though we are pretty sure that you nailed it:

01. c.

It's something you have to work hard on. Yes, we know, you already work hard on your business, but that on it's own is not enough. You might have a beautiful business, but if you can't show the beauty of it to investors, they will never invest.

02. c.

You need to always have a plan and a strategy in mind.

For example:
Do you go after the best fit investor first or last? It's best to start with "low priority" investors first to test your pitch/proposal and then work up. You learn from experience, so don't burn the best contact first!

Ready?
Let's check!

One of the most difficult challenges all entrepreneurs face is how to get ready for investment. It's often not clear what investors expect at each funding stage and where is the best to spend time and effort to increase the chances of receiving funding.

As part of the **Seedstars Investment Readiness Program**, we have defined over 300 factors that can increase a startup's chances of receiving investment across 7 categories:

Team, Talent, Advisors

Product & Market

Technology & Operations

Revenue & Growth

Financial & Performance Management

Legal & Admin

Fundraising

As a result of this research, we prepared **the 18 key questions** that will help you define how investment ready you are and prepare yourself for the first investment round.

01

Is your founding team of the right size?

The founding team has a major influence on most investment decisions. It will often be the first (and if rejected, the last!) thing an investor analyses. It is considered optimum to have **2 or 3 founders.** If you have only 1, it is often rejected automatically (despite some data showing it is possible to be successful as a solo founder).

Investors will want to meet the whole founding team and would need to be equally impressed by all the founders. You must also show that the founding team would be able to work well through tough situations.

Image source

Did you know that...

- The second largest reason why startups fail (29% of cases) is due to running out of funding and personal money. CBInsights
- About 1% of startups evolve into a unicorn startup like Uber, Airbnb, Slack, Stripe, and Docker. CBInsights
- Equipment costs for startups can range anywhere from $10,000 to $125,000. Fundera
- On average, it takes six months to hire someone for a startup. Forbes
- The average age of tech startup founders is 39. Ewing Marion Kauffman Foundation
- Founders of a previously successful business have a 30% chance of success with their next venture. Skill vs. Luck in Entrepreneurship and VC
- The time of year you pitch, the detailedness of your data, and the value of your pitch deck are a few of the strongest factors affecting the amount of funding a business receives. Forbes
- Only 2 in 5 startups are profitable, and other startups will either break even (1 in 3) or continue to lose money (1 in 3). Small Business Trends

02

Is founding team complementary?

As it was mentioned earlier, Investors will want to **meet the whole founding team** and need to be equally impressed by each founder. The founding team needs to work well through tough situations. If you don't get on or if you don't like the people you're working with, change it now. If you aren't strong collectively, then it's very likely that you won't get anywhere together.

With a complimentary founding team, your startup can be more than the sum of its parts.

Good reads to learn more on forming your star team:

- The Founder Dating Playbook – Here's the Process I Used to Find My Co-Founder.
- Looking for Love in All The Wrong Places – How to Find a Co-founder
- How To Build Your Startup's Founding Team

03

Are you working on your Emotional Intelligence?

The CEO will receive extra scrutiny from potential investors and their expectations will be high. Various **soft skills** and other subjective factors such as **"emotional intelligence"** will play a key role in the investment decision.

Investors will consider things such as:

- Self-awareness (knowing own strengths/weaknesses)
- Coachability, asking questions, taking feedback and learnings
- Staying cool under pressure
- Passion that is contagious and motivates people to follow
- Persistence with willingness to adapt and pivot
- The right mix of ambition, ego and teamplayer skills

10 Traits of a Great Manager, According to Google's Internal Research

Read the article

04

Can you prove the market need?

Startups are based on hypothetical scenarios. The most challenging refers to predicting and understanding the market. You need to prove your hypothesis is right.

You can demonstrate the market needs by:

• **Talking to potential customers**. But be careful. Don't just listen to what you want to hear. Hear what the customers actually have to say in spite of your assumptions.

• **Check for the best practices**. What do your biggest competitors do? Make sure localisation issues are considered.

• Is there **more demand** than you initially expected? This is a great sign that you may have found a product/market fit.

Before the Startup with Paul Graham

Watch the video

05

Do you know your positioning vs competitors?

Know exactly where you will **position your startup** and how it will compete. In general, there are f**our ways you can position yourself** vs the competitors and, based on history, some have a better chance of success than others. See the table below:

Positioning vs competitors	Chances you'll succeed?	Examples
Better marketing and communication	Low It's not enough on its own.	GoPro: Share price now ±$6 vs listing at $35. They have incredible marketing but the product is not really any better than all the knock-offs.
Better performance (e.g. speed, availability, features etc)	Low Unless the performance is really game changing, and not enough on it's own.	Being slightly better is not enough. You need a real step change that is defensible to win on this positioning alone.
Much cheaper and low-end	High	Examples of companies competing successfully on price are easy to find, e.g. McDonalds, EasyJet, basically all SAAS or cloud services vs previous on-premises offers.
Niche or new market	High	Think RightMove vs Craigslist . RightMove focused on servicing properties only which competitors had all types of classifieds. It is now a $5B company.

06

Do you know your barriers to entry?

Whenever you decide to launch your product or service to a market, you need to be well-aware of what might be your challenges and know how you are planning to overcome them.

Strong barriers to entry

Scale/Volume- do more volume to lower costs (e.g. Amazon);

Network effects, a strong value added through two-sided marketplace (e.g. Linkedin);

Complexity of technology, operations (e.g. pharma);

Regulation, licences can bar new entrants (e.g. bank license restrictions);

Partnerships, especially distribution licenses and can be hard to compete against (e.g. Telco distribution of microinsurance - Bima/MicroEnsure).

Once you've prepared a plan on how you're going to deal with the possible barriers to enter a market for your startup, your startup is more likely to receive a positive reaction by investors.

07

Do you know your market size?

Predicting the market size is not an easy task. Affected by sensitive drivers or hypotheses, the calculations could be questionable. However, you and your investors need to know what you are getting into.

The key indicators are:

01

Total Available Market

is the total market demand for a product or service. This metric helps prioritize business opportunities by serving as a quick metric of the basic potential of a given opportunity.

02

Serviceable Addressable Market

is the size of population matching your customer description. The ideal value should be more than $100M. Focus on this measure.

03

Serviceable Obtainable Market

is the portion of Serviceable Addressable Market that you can capture.

08

Do you have an in-house tech team?

Investors want to see that **the core tech parts are built, owned and understood by the company.** Outsourcing for an MVP before getting a CTO on board is fine. But in the long-term, you will need to **have tech in-house.**

Moreover, set up various **channels for customer feedback** and proactivity look for it. Your tech team, not only the CTO, should **receive customer feedback weekly.** Based on that, build your tech product focusing on your user-experience and usability with a visually appealing look.

Good reads to help you build and manage your in-house tech team:

- How Startups Build Their Tech Teams Without Spending a Fortune
- How should you structure your engineering team?
- How we're building a world-class engineering team to create cutting-edge products (by Hotjar)
- From C++ to the C-Suite: How Software Engineering Made Me A Better Executive

09

Is your solution scalable?

Your product must be built with **quality and scale in mind.** For that, you should be using version control to track changes, doing unit tests and code reviews for quality control. Also, you should have a contingency plan for disasters and make sure you don't lose client data.

In order to grow, your product needs to be built on **a platform that can scale.**

The most common problems for a scalable platform are:

The Response Time

the time taken to process request and return response

Capacity Planning

figuring out the required infrastructure

Architecture Bottlenecks such as:

- A centralised component in the application architecture which can not be scaled out and adds an upper limit

- A latency component is a slow component that puts lower limit on response time

10

What are your acquisition channels?

Poor marketing is the #7 reason startups fail. Marketing is just the "top of funnel" element of awareness and acquisition, but it is the starting point for the startup's growth and indispensability.

Some acquisition channels scale, some don't. Generally, you start with things that don't scale well. Try both inbound (longer setup, but longer payback) and outbound (instant).

	Phase 1: Channels that don't Scale	Phase 2: Channels that Scale
Outbound	- *Reaching out to your own friends/ family/ network - Unconventional Public Relations - Offline Events (Trade Shows, Conferences, your own events) - *Crowdfunding	- Search Engine Marketing (SEM) - Social and Display Ads - Offline advertising (TV, radio, sponsorship) - Business Development (partnerships, JVs, licensing, distribution) - Affiliate Programs - *Cold emailing - *Telephone marketing - *Foot Soldiers
Inbound	- Targeting Blogs - Speaking Engagements - Public Relations (PR) - *Forum & Discussion sites - Community building	- Search Engine Optimization (SEO) - Content Marketing - Engineering as Marketing - Existing Platforms (APP stores, browser stores, integrations) - Email Marketing - Viral Marketing

Also, you need to decide if you should be spending on acquisition (and growth).

3 rules to follow

Searching for Product/Market Fit: **conserve cash.**

Searching for a Repeatable & Scalable Sales Model: **spend experimentally.**

Scaling the business: **spend aggressively.**

Good reads about marketing for startups:

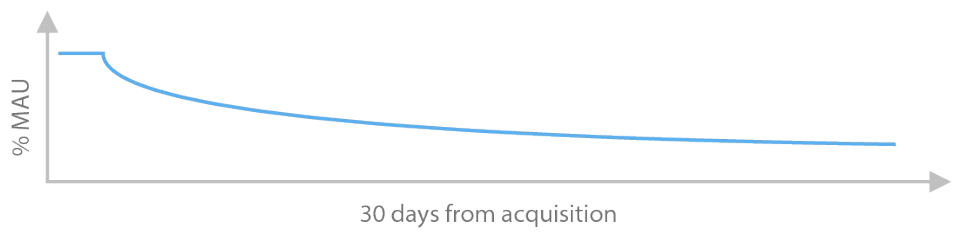
- 4 B2B Tech Marketing Trends You Need To Know
- So You Think You're Ready to Hire a Marketer? Read This First.
- The Top Comms Mistakes Startups Make — And How To Avoid Them
- The Ultimate Guide to Startup Marketing

11

Have you found your product/market fit?

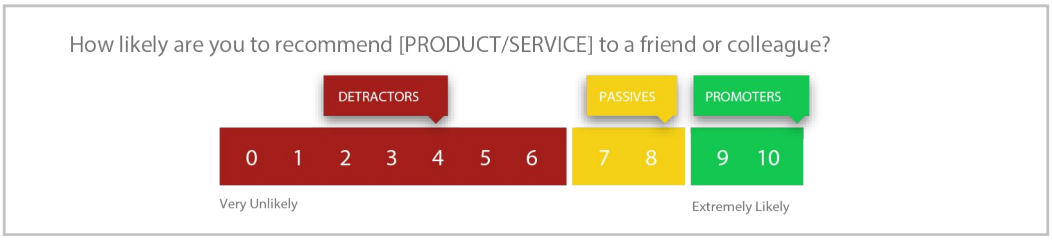
There are various methods to help you determine if you have product/market fit.

It's related to **the #1 reason startups fail: "No market need".** If your customers don't get value from your startup's product or service, why would they hang around? So, does your retention flatten out? If so, you may be retaining enough users for a viable business.



Surveys

Ask for your users' feedback. If they are happy and would recommend you to others you may be on the right track. Use **the NPS score** to measure "promoters" and "detractors".



Situation analysis

Are customers buying as fast as you can make it? Media/reporters are calling you? Can hire fast enough? Money is piling up?

OR

Is it forced? Are sales cycles long/deals never close?

ClassPass' Founder on How Marketplace Startups Can Achieve Product/Market Fit

Read the article

How to find and maintain product/market fit

Read the article

12

Do you measure your unit economics?

Knowing your unit economics will be critical when you are in front of sophisticated investors, but there are also metrics that will help you run a better business.

To measure your unit economics, **there are some formulas that help you:**

Customer Acquisition Cost (CAC): ($) Total sales and marketing expenses / (#) new customers acquired
Churn: [(#) Total customers churned this time period / (#) Total customers at the start of this time period] x 100 = (%) Customer Churn Rate

Lifetime value (LTV)

For SaaS companies
($) Average monthly revenue per customer x (# months) customer lifetime x Gross Margin (%)
($) Average monthly revenue per customer x (1 /monthly churn) X Gross Margin (%)

For Ecommerce companies
($) Average Order Value x (#) Repeat Sales x (# months) Average
Retention Time x Gross Margin (%)

For Mobile Apps
(note that adding the referral value is optional)
($) Average revenue per user x (1/monthly churn) + ($) Referral value x Gross Margin (%) = ($)

LTV to CAC Ratio Calculation: ($) LTV / ($) CAC

The most important aspect is that if your LTV to CAC ratio is at least 3, otherwise your ratio is too low. You should always aim for it to be higher than 3.

13

How do you track your KPIs?

If you can’t measure it, you can’t manage it! It’s also a huge win with investors to be able to show them historical data, trends, etc, rather than just one or two numbers on a slide deck.

Start somewhere (even just recording your **One Metric That Matters**) and make your decisions based on data. Manual data entry never lasts long (time-consuming, prone to errors, etc...), so invest early to automate analytics and data collection.

Adora Cheung - How to Set KPIs and Goals

Watch the video

How do you manage cash flow?

Many B2B Business suffer from cash flow problems and get stuck in a vicious cycle of delayed payments.

Our key advice on this topic is to pay attention to:

Runway (cash in bank/current monthly expenses): remember that fundraising takes 6-12 months in most cases. If possible, have some cash reserves for unexpected shocks (tech, market, natural).

Accounts Receivable Management: if payments are done by bank transfer, you need to be on top of them (automate reminders, call, WhatsApp, incentivise). Consider invoice discounting if you have significant receivables to manage.

Remember that **running out of cash is the #2 reason startups fail.** Sometimes it's justified (i.e. no market need), other times it's simply bad cash management.

15

Do you take a proper care of your legal structure?

In the long-term, the company's legal structure will be used to make your business more efficient (for purposes like sales, taxes, hiring etc).

In the short-term, to facilitate investment, the structure should just be clean, simple and "regular". Do not let the structure block investors. Go with the usual entity type and jurisdiction for your country or region. Also, organise your data room from day 1. It's just good housekeeping!

Most common and basic data room items include:

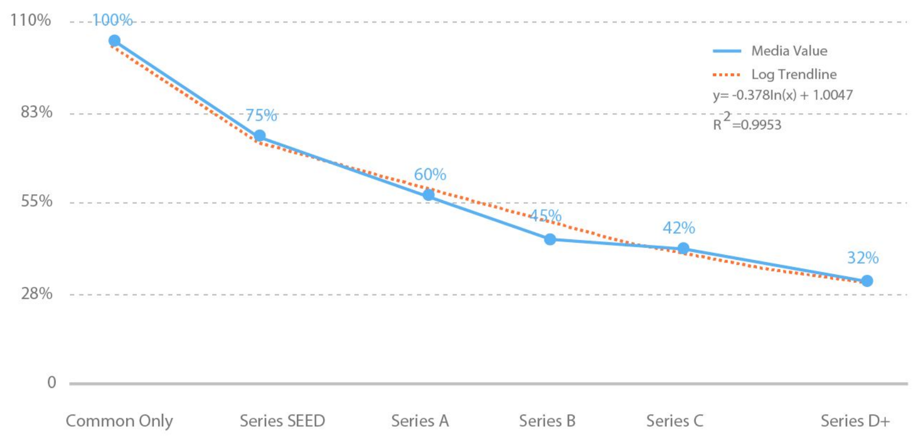
- Certificate or articles of incorporation
- Trademark(s) and intellectual property agreements
- Cap Table
- Investment Agreements for all shareholders and note holders
- Balance sheet or income statement since inception
- Bank account statements and export since inception
- Tax returns since inception

What equity are you planning to give away?

Don't give away too much equity early on. Losing 50% of equity before your seed round is not advisable. You need to keep your cap table clean by tracking the terms, dates, amount and the dilution.

Check out our cap table template.

Employee ownership trendline by stage



Source: https://www.capshare.com/blog/4-key-insights-from-5000-cap-tables/

This analysis shows the average dilution of employee ownership per round. If you give too much early on, you will end up with nothing.

Plus, it may seem very unattractive for your future potential investors.

17

What is your fundraising strategy?

Investing is full of uncertainty. Your funding needs and round should be communicated with certainty or it won't close.

So, you need to develop a fundraising strategy based on **How much** (Terms), **Why** (For a clear milestone and use of funds) and **Who** (Types of investors and your pipeline of potential leads).

Terms

- How much & currency
- Type (Grant, Convertible Debt/Note, Equity, Debt Financing)
- Valuation/Cap/Discount

Why are you raising

- Funding should be for a clear milestone you aim to achieve
- Usage of funding should be clearly budgeted/known

Lead investor

- A lead investor does the hard work so other investors can follow
- Without a lead, closing a round can be challenging at early stage (angel/seed) and impossible at a later stage (series A onwards)

Lead Investor targets

- Like sales, fundraising has a certain conversion/success rate
- Build and manage your investor pipeline
- Target the right profiles depending on the round

18

How does your pitch deck look and feel like?

“*Just send me your deck*” - the infamous words some investors will say to you. Make it worthwhile for them to open it. Also, have the pitch deck ready beforehand, so you can send it quickly. They will “judge a book by its cover”. To have a high-quality pitch deck, don’t reinvent the wheel! Use tried and tested formats and have the material (i.e. data room) ready to back up the deck.

Here is a table with the expected content in a pitch deck:

	Seedstars 1min pitch	Seedstars 5min pitch	500 Startups	Guy Kawasaki	Sequoia Capital
# of Slides	1	11	12	9	11
Problem	✓	✓	✓	✓	✓
Solution	✓	✓	✓	✓	✓
Market validation / Why not?					✓
Product			✓		✓
Market Size	✓	✓	✓		✓
Business Model		✓	✓	✓	✓
Underlying Magic (Unfair Advantage)	✓	✓	✓	✓	
Marketing Plan/ Distribution		✓	✓		
Traction / Milestones	✓	✓	✓	✓	
Competition		✓	✓	✓	✓
Competitive Advantage		✓	✓		
Team		✓	✓	✓	✓
Board / Advisors					✓
Press / User Testimonials					
Fundraising (Ask)		✓	✓	✓	✓
Financials / Use of funds				✓	✓

Let's go now through **each key slide** one-by-one to see what should be there:

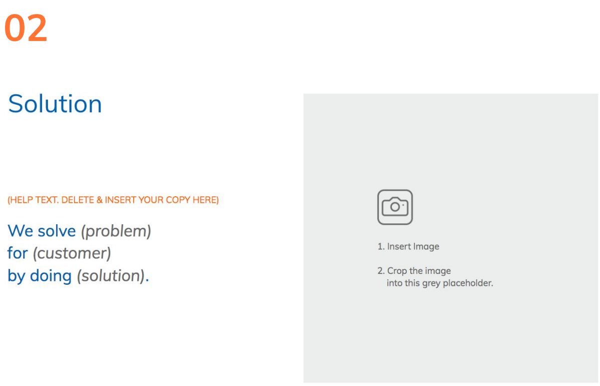
- What problem are you solving?
- Why is it an important problem to solve?
- How great is the pain?

✓ *Tell a story*
✓ *Draw from personal experience*
✓ *Generate empathy/emotions with your listeners*
✓ *Keep it visual*

Ø *Don't make it complicated*
Ø *Don't overload it with numbers*

- How does your solution fix the problem?
- What are the key features?

✓ Show some images
Ø Don't get too technical (Know your audience)

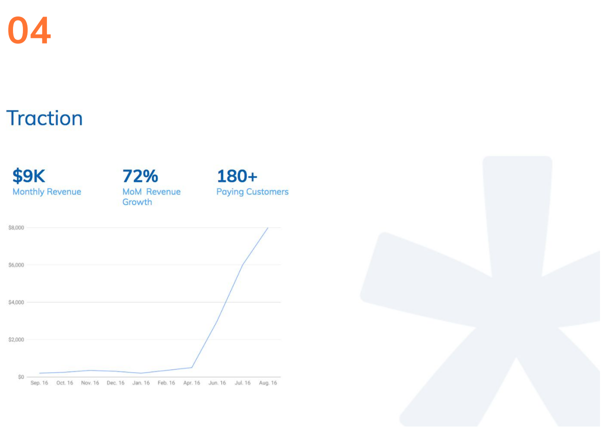


- How big is your market - TAM/SAM/SOM?
- What sources/assumptions did you use?
- Top down or bottom up assumptions?

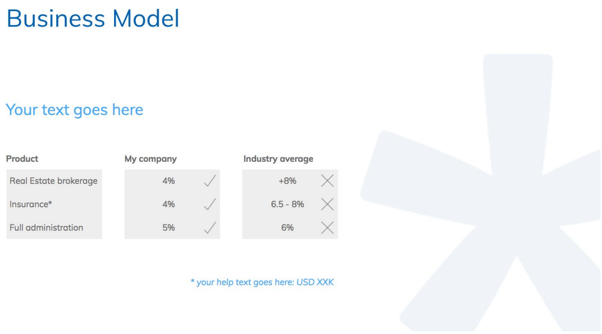
✓ Demonstrate it's a worthy market to address
Ø Don't use unresearched/unrealistic numbers

- What have you achieved so far?
- What are your key metrics (volume, users, etc)?
- What is your monthly revenue/expenses?
- What are you growth rates?

✓ Show hard numbers
✓ Show clearly what's achieved vs. projected
✓ Show milestones if no traction
Ø Don't exaggerate or confuse



05



- How do you make money?
- What is the revenue model (subscription, on demand, freemium, commission, etc)?
- CAC
- LTV

✓ Explain the primary source of revenue in detail
Ø Don't show multiple sources with vague ideas - it shows them that you have no clear idea

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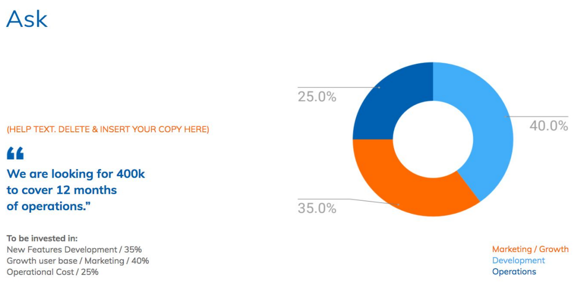
06



- How much do you need?
- What are the funds for?
- How long will your runway be?
- What terms (valuation, cap, etc)?
- Who has already committed funds?

✓ Know your numbers
✓ Be realistic (have comparables)
✓ Ask for things that aren't just money
Ø Don't just ask for the sake of asking

Need a pitch deck template?
You can download it below

Available in pptx and keynote

Download

Pitch it smart

Startup pitching is both an art and a science. Mastering it and understanding how to get investors' attention can make or break an entrepreneur. Planning, preparing, and tailoring your startup pitch to find new investors is key to turning your idea into reality.

Charlie Graham-Brown, Seedstars CIO recommends you to:

Be confident, not arrogant and ambitious, not unrealistic. Founders need to strike a balance here. Usually the emerging market entrepreneurs come across as confident, but either not ambitious enough or unrealistic. To get the returns investors are looking for, ambition is required. And to achieve the ambition, you need to show a realistic path of how you will get there.

Use WHEN, not IF. For the entrepreneurs lacking confidence, this is a telltale sign. If you don't have confidence in yourself, how can you expect investors to get onboard?

Do your homework. You need to think of an investor as a partner and knowing something about them is the first step to that. Find out what else the investor can bring to the table other than money and be sure to discuss it with them.

Raise the challenges yourself. An investor will figure the challenges out soon enough, so you may as well surface them early on to show that you're prioritising them. This is also a good way of getting the conversation a bit deeper.

Practice. Pitching to investors and having all the numbers and answers in mind is hard work. Before you start meeting investors, practice with teammates or mentors who can put you through an artificial grilling.

Conclusions

These tips give you some guidance on how to get ready for investment. One last advice: in fundraising, it takes time to get everything ready. Prepare really well before contacting an investor.

We can support you in this mission with our two programs: Investment Readiness Program and Growth Program. We scout for the best tech startups to mentor and connect them to investors, while also investing in them ourselves. We walk the talk. Join the program and see how your startup can improve its performance and get ready to secure investment.

Get investment faster by knowing where to spend your time and energy when preparing for your first investment round.

Learn how to create a fundraising strategy and how to pitch what investors are looking for.

Benchmark globally by learning the best practices. Challenge our global team of experts with your questions!

Get introduced to investors from around the globe specialised in tech startups.

Seedstars Growth Program

Call for application submissions ends on 14 June

Seedstars Growth Program is a virtual post-acceleration program focused on growth for startups from emerging markets.

The training runs for 12 weeks with weekly one-on-one mentoring sessions and webinars with subject experts on 12 modules focused on Growth and Series A fundraising.

If your startup has profitable unit economics, makes more than $10k per month in revenue, has raised less than $500k and requires further support in scaling up and raising Series A and beyond, then sign up for the Growth Program now.

Apply

More resources to get investment ready

Fundraising Strategy for an Early-Stage Startup from A to Z.

Startup Survival Guide.

Being a Better Leader: 5 Skills Founders Have to Learn to Survive Their First Year.

What Pitches Make Startups the Finalist of the Seedstars World Competition?

Growing Your Tech Startup with Limited Funding.

How to Successfully Pitch Your Startup Idea to Investors at an Event?

"The Goal Is to 'Cure' a Slightly Sick Investment Fund Sector," Bas Godska (Investor's view).

"To Become a Successful Angel Investor, I Believe the Trick Is Not to Be Independent", - Joseph de Leon (Investor's view).

Check more resources

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