

Edge Analytics

Complex Sales Situations

Context

- Last Time: Cabot
 - ▶ Managing a Rep in a Big Company
- Today: Edge Analytics
 - ▶ Raising Money = Complex Sales
- Next Time: Jive Software
 - ▶ Evolution of a Sales Model



The Situation

- CEO of a pre-revenue start up
- Raising the first institutional round (A)
- One Term Sheet on the table
 - ▶ \$1.5M at \$3M pre with preference to \$35M
- Less than \$50k in the bank
- Pitching a potential new investor

The Assignment

- Pitch VentureNord
 - ▶ Decide what you're asking for
- Respond to the other VCs
 - ▶ Decide what you're going to tell them
- Give your Angels a heads up
 - ▶ Decide how you want to position things



VentureNord

Welcome, Larry Sharp

Key Considerations

- What are you selling?
 - ▶ What's the biggest challenge with what you are selling?
 - ▶ How can you mitigate that challenge?

- What do VCs buy?
 - ▶ What motivates this buyer?
 - ▶ How can you leverage this motivation?

Your Product

- Only have one thing to sell...
 - ▶ a stake in your company at this stage
- ... but you can sell it to more than one VC at a time...
 - ▶ Create a syndicate, get presence in different geographies
- ... and it sells on potential value
 - ▶ Priced on current value, but purchased on belief in value appreciation over time

Your Buyer: Venture Capitalists...

- Invest in interesting markets...
 - ▶ large, growing, underserved
- and the best teams they can find
 - ▶ proven entrepreneurs, domain experts
- Vacillate between greed and paranoia
- Are professional investors whose incentives do not always align completely with the entrepreneur's



Keep In Mind

- This is what VCs do... every day...
 - ▶ They see hundreds of funding pitches from entrepreneurs in a year
 - ▶ You raise money once every few years
- They have a person/team that does nothing but study certain markets
 - ▶ See the pitch from every player in the space
 - ▶ And talk directly to customers in that market
- They all talk to one another
 - ▶ “You get the Edge Analytics pitch yet?”
 - ▶ “Larry’s raising for his latest gig”

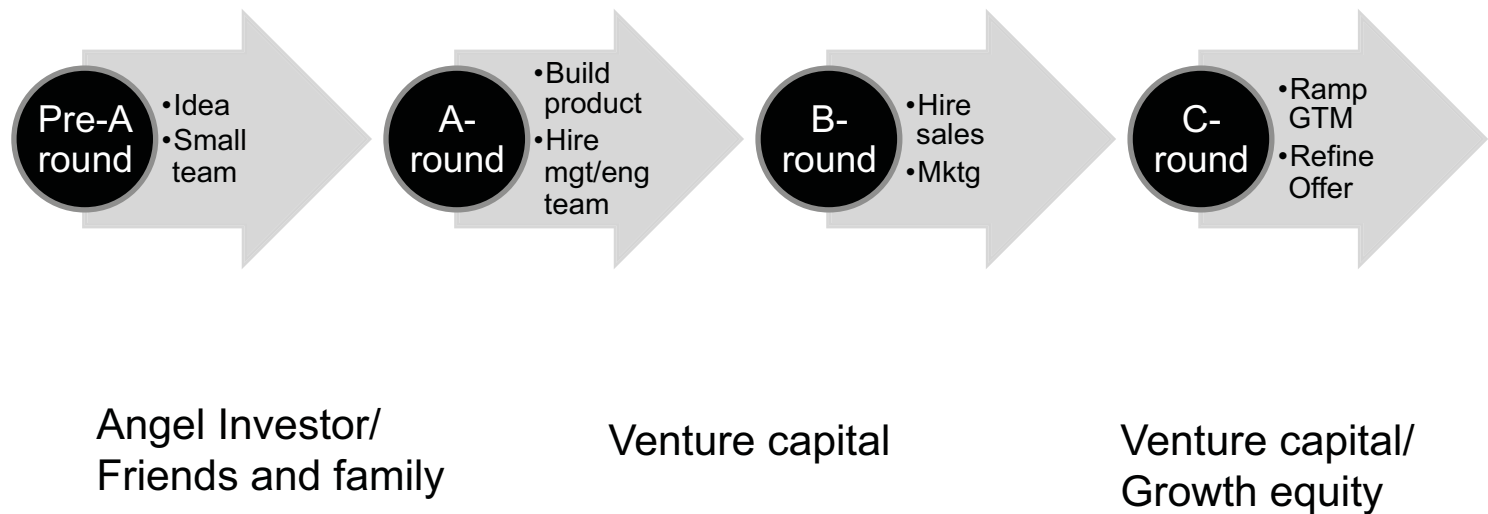
Your Sales Pitch

- Know your audience
 - ▶ Address all the questions VCs have
- Know your product
 - ▶ Demonstrate knowledge of the space
 - Explain the market opportunity
 - ▶ Convey Unique Selling Proposition or Sustainable Competitive Advantage
 - ▶ Show off your team
- Practice, practice, practice

Pitching Investors

- There is a burning problem
 - ▶ It is large and rapidly growing
- Current solutions are inadequate
 - ▶ Here's why the problem still exists
- There is a better way
 - ▶ Our approach is different
- We are uniquely able to deliver it
 - ▶ Our advantage is defensible
- We are the best way to play the space
 - ▶ Here's the proof (this varies with stage)

US Start-up lifecycle





Venture Math and Cap Tables

	Founding	Seed	A	B	Exit
Raise	\$0				
"Pre"	\$0				
\$/Share	\$0.00				
# Shares	4.5M				
Founders	100%				
Pool*					
Angels					
A Round					
B Round					
Founders	\$0				

Early Stage (“Seed” Round)

- Idea
 - ▶ Rough, but not proven at any level
- Team
 - ▶ Founders (typically technical)
- Objective
 - ▶ Build the v1 product/service (prototype)
- Funding:
 - ▶ Angel, Friends-and-family, self-funded
 - ▶ Loan that converts to equity at A-round



Venture Math and Cap Tables

	Founding	Seed	A	B	Exit
Raise	\$0	\$0.5M			
"Pre"	\$0	\$5M			
\$/Share	\$0.00	\$1.00			
# Shares	4.5M	5.0M			
Founders	100%	90%			
Pool*					
Angels		10%			
A Round					
B Round					
Founders	\$0	\$4.5M			

Early Stage (“A” Round)

- Idea
 - ▶ Proven at product/prototype level
- Team
 - ▶ Founders plus early “maker” team
- Objective
 - ▶ Prove interest with early customers
- Funding:
 - ▶ First institutional round
 - ▶ Preferred stock (“Series A”)

Venture Math and Cap Tables

	Founding	Seed	A	B	Exit
Raise	\$0	\$0.5M	\$1.5M		
"Pre"	\$0	\$5M	\$3M		
\$/Share	\$0.00	\$1.00	\$0.50		
# Shares	4.5M	5.0M	9.0M		
Founders	100%	90%	50.0%		
Pool*			11.1%		
Angels		10%	5.6%		
A Round			33.3%		
B Round					
Founders	\$0	\$4.5M	\$2.3M		

Down Round

First Revenue (“B” Round)

- Idea
 - ▶ Proven at offering and early customer level
- Team
 - ▶ Founders, Execs, First Sales/Marketing
- Objective
 - ▶ Refine the Offer and GTM Motion/Process
- Funding:
 - ▶ Second Institutional Round
 - ▶ Preferred Stock (Series B)



Venture Math and Cap Tables

	Founding	Seed	A	B	Exit
Raise	\$0	\$0.5M	\$1.5M	\$5.0M	
“Pre”	\$0	\$5M	\$3M	\$12.5M	
\$/Share	\$0.00	\$1.00	\$0.50	\$1.25	
# Shares	4.5M	5.0M	9.0M	14.0M	
Founders	100%	90%	50.0%	32.1%	
Pool*			11.1%	14.3%	
Angels		10%	5.6%	3.6%	
A Round			33.3%	21.4%	
B Round				28.6%	
Founders	\$0	\$4.5M	\$2.3M	\$5.6M	



Ramp (“C” Round)

- Idea
 - ▶ Offer Proven, GTM Understood
- Team
 - ▶ Founders, Full Exec Team, Ramping Sales
- Objective
 - ▶ Scale Revenue, Build Offer Advantage
- Funding:
 - ▶ Third Institutional Round
 - ▶ Preferred Stock (Series C)



Venture Math and Cap Tables

	Founding	Seed	A	B	Exit
Raise	\$0	\$0.5M	\$1.5M	\$5.0M	
“Pre”	\$0	\$5M	\$3M	\$12.5M	\$50M
\$/Share	\$0.00	\$1.00	\$0.50	\$1.25	\$3.57
# Shares	4.5M	5.0M	9.0M	14.0M	14.0M
Founders	100%	90%	50.0%	32.1%	
Pool*			11.1%	14.3%	
Angels		10%	5.6%	3.6%	
A Round			33.3%	21.4%	
B Round				28.6%	
Founders	\$0	\$4.5M	\$2.3M	\$5.6M	\$16.05M



The objective is the term sheet

- Assemble a great team
- Target a hot space
- Make as much progress as you can
- Tell a great story
- Create a sense of scarcity

- Get the first term sheet, create an auction, drive to terms you want

- Avoid 'deal fatigue'
- Avoid a game of fetch

Summary

- Raising Money is a Complex Sale
 - ▶ The “product” is intangible
 - Its value is a future variable
 - ▶ The buyer is intelligent and experienced
 - ▶ There are multiple stakeholders
 - ▶ The process is emotional and draining
- Pitching VCs is Pretty Formulaic
 - ▶ Problem, Current Approach, Better Way, Unique Capability, Best Way to Play Space
- Key is to Make the Sale When the “Product” is Ready (Timing Need with Achievement)

Backup Slides

Liquidation Preference

AKA “Double Dipping”

		Sell @	Sell w/LP @	Difference
Common	Ownership	\$30	\$30	in Return
Founders	50%	\$15.0	\$10.0	-33%
Pool	11%	\$3.3	\$2.2	-33%
Angels	7%	\$2.0	\$1.3	-33%
Preferred				
Series A	33%	\$10.0	\$16.7	
<i>Times Money</i>		<i>6.7</i>	<i>11.1</i>	<i>67%</i>



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