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From Idea to IPO (And The Long Road Between): An Honest Look at Outside Investment

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Popular culture rewards two parts of the founder's journey. Podcast interviews and print stories endlessly quiz successful entrepreneurs who have achieved a big exit on their 'big idea.' And the public never tires of hearing about how the insight found them on the way to their old desk job, or that inspiration struck in the middle of unloading the dishwasher; it's one of our favorite American Dream images.

Similarly, our news outlets and interviewers do a great job of getting the play-by-play of the company's exit; how the team found sufficient success to open their doors to the public. From there, stock prices and public valuations make up the rest of the story. 'It makes sense to focus our public conversations on those two poles of the founder's experience,' says Zain Jaffer, CEO of Zain Ventures and host of PropTechVC. Jaffer is a lifelong entrepreneur and an active mentor in the tech and real estate space. 'Those are some of the most exciting and economy-changing moments in our shared business world. But the real story takes place between those two poles, at a series of funding rounds that are each incredibly complex and differentiated.'

Founders who are invested in the prospect of bringing an idea to its most successful end, whether or not that means a debut in a public market, deserve a demystified understanding of the stages and strategies along the way. Below is a step by step walk through of the journey to outside investment, including best practices and lessons learned to help along the way.

With a Little Help from My Friends (And Family)

This is a stage rarely talked about, but the impact that a friends and family 'round' of investing can have on a very early-stage idea is hard to overstate. The friends and family stage is the first time an idea is opened up to the outside world—even if it's just to the founder's close circle of supporters and relatives. And just like any funding round, successful engagement with personal investors requires thoughtful preparation.

At this stage, much of the support might come from a belief in the founder rather than a comprehensive understanding of the idea itself. Still, offering a formal agreement is a good idea for everyone involved. Founders can ask for a specific amount and link it to a specific milestone. They can prepare the necessary paperwork to log the transaction, cement any equity promised in black-and-white text, and keep a record of what they've promised in return. Small peer-to-peer networks like Kickstarter or GoFundMe can help to formalize the process, even if the targeted pool of investors is kept very small. Taking a formal approach to friends and family lending is by far the best way to keep things simple, professional, and mutually beneficial.

Seed

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For most companies, the seed round is where the media buzz begins. This is the stage where investors, often angel investors, front the crucial funding that will take a startup from idea to operations. Often the idea has been well-demonstrated and prototyped, and the market fit has been made evident, but the founding team is still a significant pool of capital away from being able to engage employees, invest in the system, and run the kind of company they need to bring their idea to market. Seed funding investments range from as low as $10,000 to about as high as $2 million, and they provide the much-needed runway to get founders to the next stage.

'Think of a delicate seed growing in good soil,' says Jaffer. 'That's what it feels like to offer a still-forming idea up to investors.' Trust is the name of the game at this stage; interacting the angel investors in a trusted network, and keeping most cards close to the chest, will help founders find the mentorship and close investor relationships they need to be successful in the later stages.

Series (A, B, Z)

After the support of friends and family and the early belief of an angel or private investor, funding rounds begin. These rounds can go on continuously, but most commonly range from Series A through Series C or Series D. Series A is reserved for startups with real business models that are set up for real profits. Investors at this stage are interested in a significant return on investment, since most companies still have a lot of equity to offer for investors who are earlier in the process.

Advice abounds for investors who are at this stage of their company-making; a concise and interesting pitch deck, an elevator pitch for any investor who comes your way, a sales pitch period, early testimonials, and a business plan that leaves very little to the imagination. All of these strategies are helpful, but successful entrepreneurs who have real experience at this stage of fundraising offer one piece of advice above them all: ask for more than you think you need.

The number is different for every operation across every industry, but the instinct to underestimate and to cut financial corners is universal; a part of the human condition. ‘Getting in the practice of inflating the ask, even if it doesn’t feel comfortable, will be all the difference in those make-or-break moments,’ says Jaffer. ‘Extra capital allows early-stage companies to move forward in boldness and avoid making too many decisions out of scarcity-induced necessity. Think big, and then think a little bit bigger; repeat as often as needed.’

It’s important to understand that company-making lump sums don’t just fall out of thin air. The trend in the past many years has been that the number of times a company is going *back* to the market for more fundraising is *growing*. Funding rounds will be a part of every founder’s journey, whether that means a quick ask from friends of family or a Series D that never seems to end. It’s a founder’s top priority to find the funding structure that suits the company’s needs. Formalizing the ask, protecting the early idea, and exercising the muscle of increasing the ask will serve founders well along whatever funding path they take.

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