First Avenue Ventures

The Structured Start-Up

WORKBOOK

MODULE 20: FORMATION, FUNDING, AND FINANCING

TOPICS COVERED:

How to approach investors and other sources of capital to explore.

LEARN WHAT MATTERS MOST

The Structured Start-Up from First Avenue Ventures
https://learn.firstavenueventures.com

"Ask not what you want to be when you grow up, ask what do you want to do every day, come what may."

— Anonymous

“Far and away the best prize that life offers is the chance to work hard at work worth doing.”

— Theodore Roosevelt

WHAT DO YOU WANT TO BE WHEN YOU GROW UP? AND HOW ARE YOU GOING TO FINANCE IT?

So, we have reached the end. Start-ups are often, and I think appropriately, compared to children. There is the ideation stage, then the educational stage, and, unfortunately, a really expensive college stage, but ultimately they become grown adults. They do not need mentors, Structured Start-Up courses, or advisors. They have boards, highly paid executives, and executive coaches. And with any organization, that is the goal and a good thing.

So the question we always ask is: what do you want to be when you grow up? What kind of business do you want to have when it’s up and running? As you started your start-up, you asked yourself those questions; as you’ve gone through this course, that answer has hopefully developed further. It is far easier to change before you get investors, employees, customers, or other stakeholders. While ‘pivoting’ seems to be fashionable, it is expensive and sometimes fatal. To use the child/adolescent analogy again, it is far cheaper to stick with a degree that’s useful to your future career as opposed to switching majors several times as an undergraduate (who is going to pay for that fifth year?).

You will also notice that we have not mentioned financing in any detail in this course. We have done this purposely, because we think that the financing question can be distracting and sometimes can become the tail wagging the dog: people shape a business to fit their capital market as opposed to shaping a business to a customer/industry market. That may work in the short term, but in the long term, it's usually not sustainable.

Ultimately, to get from point A to point B you need financing. For better or worse, venture capital is the main driver of financing for start-ups. Even for non-VC-funded companies, we often finance with convertible debt and safe instruments or use nomenclature geared toward VC financing. As you go forward, you often will use a pitch deck. While these modules do not line up precisely with a pitch-ready deck, you can hopefully use the information you gleaned from them to build your deck and your business. Of course, the key is not necessarily what is *on* the slide, but the necessary level of believability *behind* each slide.

We encourage you to look at other sources of capital as well, including:

Internally Generated Funding:
- Self-financing
- Bootstrapping
- Earnings (profit from the sale of goods/services)

Non-dilutive funding:
- Pitch contests
    - SBIR grants

Debt:
- Guaranteed debt
    - Bank debt
    - Commercial debt

Equity:

- Friends and family
  - Family office
  - Growth equity

Mezzanine (between debt and equity):

- Factoring
  - Revenue-based (also known as royalty-based) financing
  - Shared earnings

Of course, each is a topic unto itself, but now that you know what you want to be when you grow up, the hope is that the investment will more easily flow.

Go. Fight. Win.