The playbook to raise capital for your startup

June 23, 2021 6 min read

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First of all, we have to start by understanding how a *Venture Capital* mutual fund works. VCs are capital vehicles that seek to place their resources in companies with high potential and accelerated growth – better known as startups – and usually seek returns of at least 10X on the capital they inject over a time horizon of around 5 years or more. In fact, because of how they are structured, like any other investment fund, they have specific timeframes to follow in order to "divest" their capital and distribute the possible returns among their investors (known as LP, limited partners, as they are non-operating partners and can be both institutional investors, for example, an Afore, and private investors with their assets).

Those who operate these funds are the GPs – *general partners* – and they are the ones who make the decisions about the future of the fund at all times. Usually each fund has an investment thesis and they define where they want to focus their capital, it may be the stage in which they prefer to enter a company (*seed* , *growth* , etc.), the size of the round and the size of the ticket, if they like to lead the rounds or follow the terms of some other fund, if they prefer one industry or others and the geographies where the projects in which they

invest may be operating, among many other considerations.

These funds receive dozens of projects a day and have a team of analysts that filters them to select the ones they consider most attractive. They usually have investment committees, where they present an investment memo for each company, which meet with certain recurrence (once a month or quarter) and where they can, or not, ask the entrepreneur to present their company to the committee members. The members of the committee regularly include some third parties who are specialists in certain industries, technologies or products and who serve as guides to the GPs to carry out the vote on whether to invest or not in a company.

When an investment was eventually approved in committee, a term sheet is presented to the entrepreneur, which is a type of proposal on the terms of the investment. If the entrepreneur agrees with the terms, a *due diligence* process begins to finally formalize the investment once it is concluded. This process can be very different from bottom to bottom, it is usually more intensive in later stages of a company and the aspects where the analysis is concentrated can vary from finances, technology, equipment, product and so on. A *due diligence* can take from one to six months.

A due diligence can take from one to six months / Image: Depositphotos.com

In this context, now I would like to share my recommendations:

1. Try to narrow down the list of potential funds to which they are aligned in your investment thesis. In this way, you will more efficiently approach those who might really be interested in your product. It will be of little use to introduce you to a fund focused on investment in Asia if your company is located in Latin America.

2. Don’t be demotivated when you receive a no , rather think about what you are going to have to present to dozens, if not hundreds, of potential investors before receiving a yes and then try to collect those *NOs* as trophies that bring you closer to yourself. objective.

3. Conclude meetings or calls with concrete steps to follow. It could be sending more documentation or coordinating a new call to review something. Try to keep up and not let the process cool down, you have to keep control of the pace of the conversations.

4. Identify if potentially the fund you are talking to is a potential *lead investor* , if not keep it on a separate list so that when you get your lead investor and have the terms of the round you invite that secondary list to participate.

5. In the talks you have with the funds, generate a mood of “ *scarcity* ”, that is, make investors feel that this is an opportunity in a million and that it is an opportunity that they have within reach today, but tomorrow it could be very late to enter. It is very important to move fast and you have to try to get a term sheet as fast as possible. That will speed up your process, as soon as you have it, everything will be downloaded.

6. Organize all the information and documentation in a data room so that it is accessible and close at hand. It transmits professionalism and organization of you as an entrepreneur and of your company in general.

7. Do not trust yourself and do not claim victory until the money is not in your account. It has happened on more than one occasion that investments in the process fall, even in the final stages, professionalism is key.

Without a doubt, we are going through an extraordinary moment in Latin America with the entry of investors such as **Softbank with the fund of 5 trillion dollars and the announcement of**

several new unicorns in the region and in Mexico such as GBM, Kazak and Clip. New multi-million dollar investments are announced every week and we are breaking all existing VC funding records in Mexico. This is a unique situation to mobilize with contacts, not stop making noise, continue to grow and show that your company or product is a game changer in the region.

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