

The Two Missing Links

In a Typical Fund-Raise of Early-stage Startups

Sundar Sankaran, October 14, 2023

Is this you?

I have this great business idea. Immense potential. Will become a Unicorn

- Father, will you invest?
- Uncle, will you invest?
- Hey chum, will you invest... unicorn idea hai yaar?
- Mr. Investment Banker (IB), will you raise money for me?

Typical Fund Raise of an Early-stage Startup

You engage a friendly IB who does NOT charge an upfront fee

- You (Your founding team) tell(s) the story (product concept / strategy) to the IB.
- IB needs financials-
 - Current capital structure
 - Past financials, if you started before the beginning of the current financial year
 - Financial projections
- Your CA / Auditor is given a limited mandate to arrange for what the IB needs.
- IB extends the given spreadsheet into a Financial Model that would include Unit Economics, prospective Valuation and likely Capital Structure.

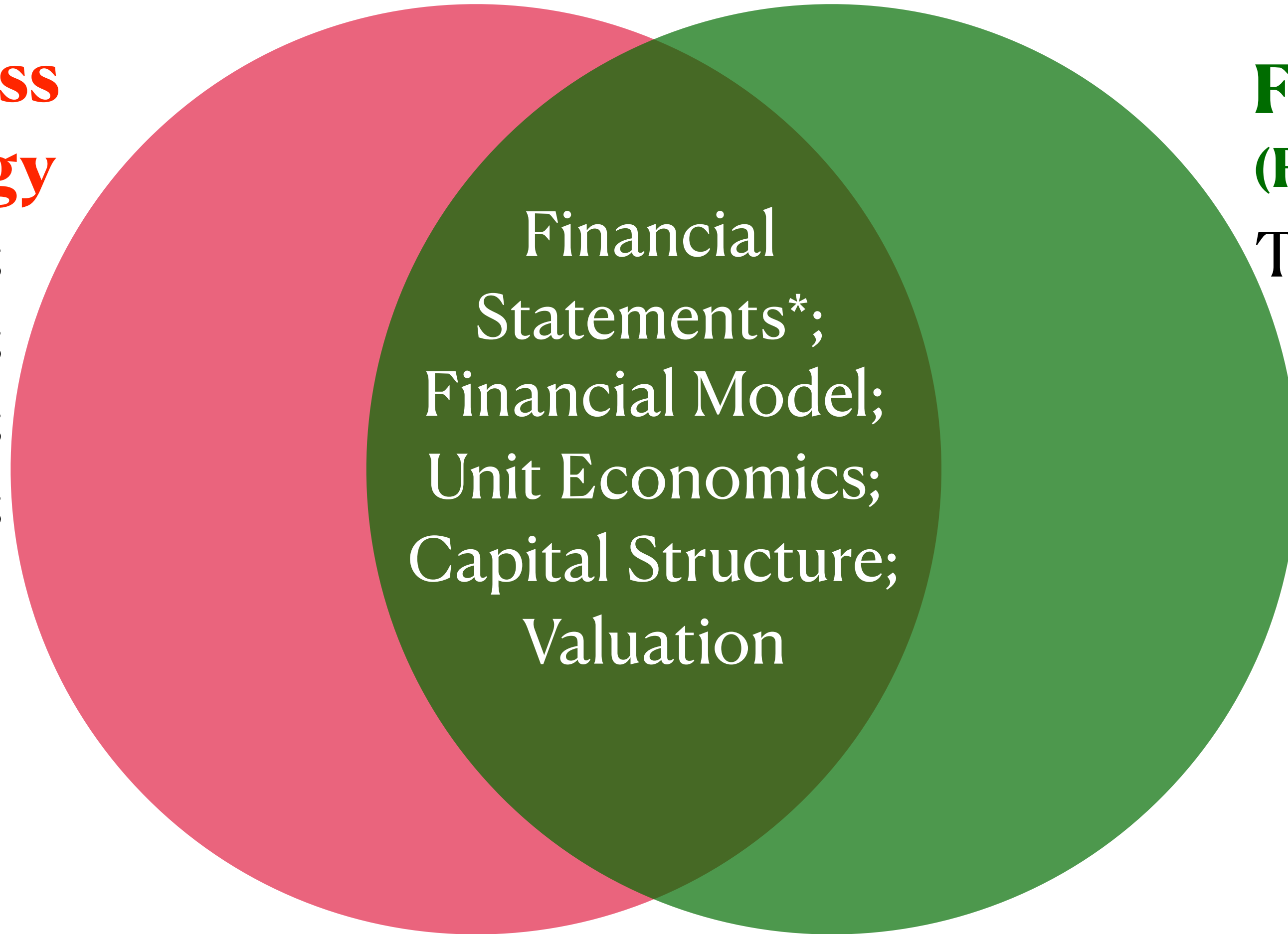
The Two Missing Links in a Typical Fund Raise of Early-stage Startups



Business Strategy

The Business;
Product-Market Fit;
Channel Choice;
Biz Model (BM);

Typical Fund Raise



Finance (Fund Raise)

The Money



* Financial Statements including Projections are provided by
an outsourced service provider e.g. CA / Auditor



Some months later

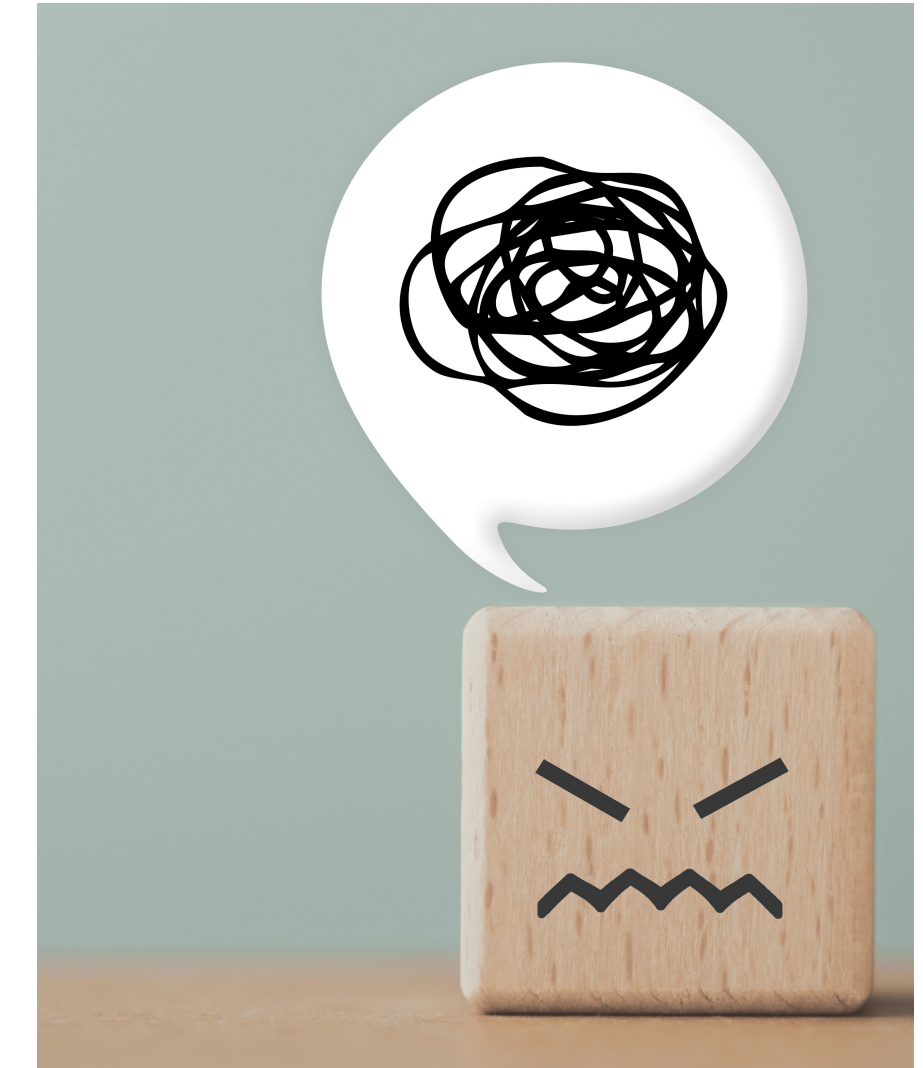
“I ran out of cash”



**My family and friends left me
high and dry**



**The investment banker is
responsible for my downfall**



**The customer does
not understand
what is
good for her**

How much did you understand your customer?

Does she value your idea?

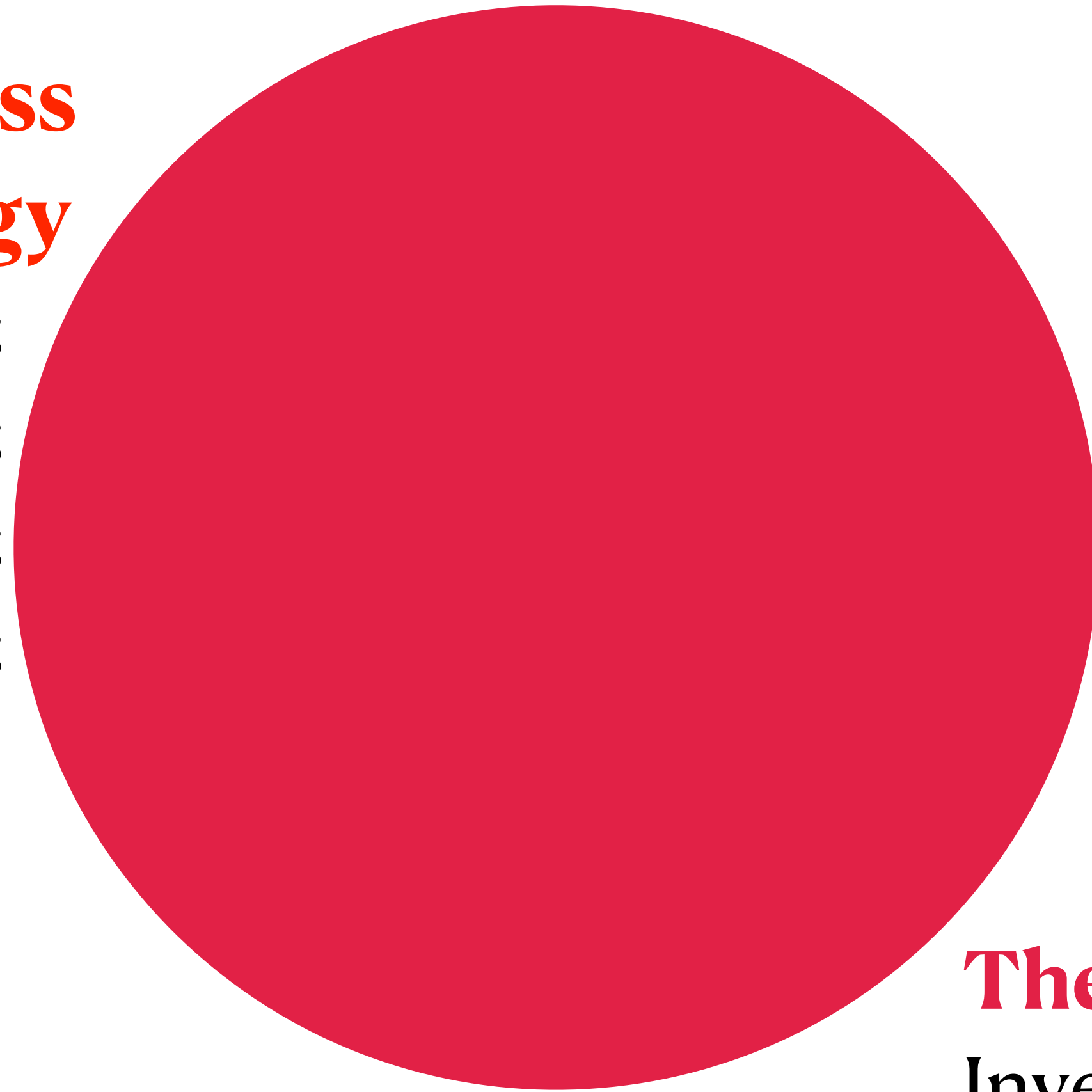
- Creative people are never short of ideas. The more creative you are, more the ideas you will generate - every day!
- You need to validate your ideas with your customer
 - Not through a structured questionnaire
 - But, with an unstructured set of questions to test your hypotheses.
- This will save you a few pivots - and the associated costs - assuming your money takes you that far.

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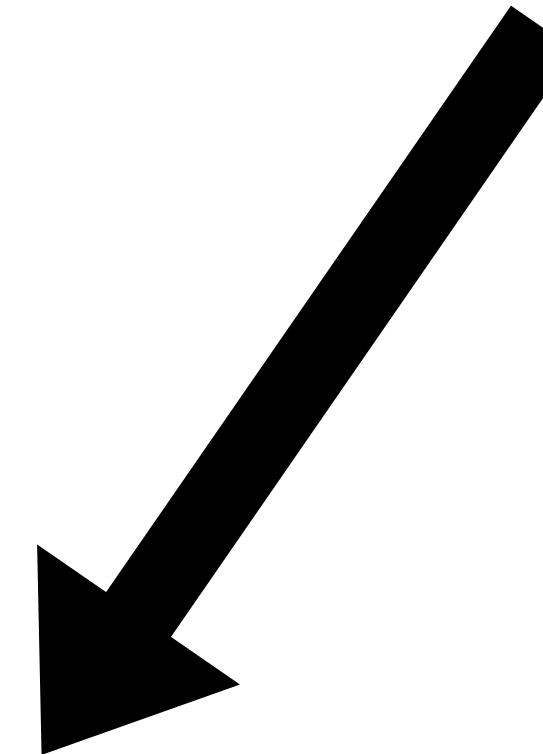


Business Strategy

The Business;
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Biz Model (BM);



Missing Link 1



The Customer Lens

Invest in understanding your customer.
It will help avoid costly mistakes that arise
when you fall in love with your idea.

The world is dynamic

Your Strategy? Your Financial (CMA) Lens?

- As founder, you may or may not be able to create a financial lens for your strategy.
- Creating such a financial lens is not the specialisation of investment bankers.
- An outsourced service provider who is given a limited mandate to “generate financials” for the investment banker will not create the financial lens.
- Professional businesses including late-stage start-ups have a dedicated team to work with dynamic financial lens for their dynamic strategy; the function is termed as some variant of “Cost and Management Accounting” in traditional companies.
- Early-stage startups cannot afford a CMA team - but they need a CMA lens. Financial models (including unit economics, valuation and capital structure) created without a CMA lens are worthless for a dynamic business operating in a dynamic environment.

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Finance (Fund Raise)

Financial Statements;
Financial Model;
Unit Economics;
Capital Structure;
Valuation;
BM Efficiency

Feedback loop for
Strategy Formulation

Missing Link 2

Finance
(The CMA Lens)

When you get your next Unicorn Idea

Don't jump into implementation

- Examine your idea through
 - The Customer Lens
 - The CMA Lens
- Contact info@advantage-india.in for any assistance.

