How to Raise a Seed Round in B2B

Financing / 7 min read

This is a guest post by Tim Chaves.

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Whether you're a solopreneur or a team of founders, odds are, you'll need funding if you want to grow quickly.

Fundraising is foreign territory to a lot of B2B companies—and inexperience can lead to regret. On the other hand, having a war chest is almost always a competitive advantage, so given the right terms, it can very often be worth the risk.

While fundraising is rarely neat and tidy, there are some steps that can help you raise a seed round with a bit more confidence.

Know if You're Ready

If you want to have success raising a seed round, you'll need to be ready first. *So how do you know if you are?*

First, you have more than an idea. I often see idea-driven founders trying to line up meetings with investors. Usually, this doesn't work. Investors want proof (at the very least, hope) that your business is going to succeed. Research product-market fit by selling something, even if it's not ready for the big stage. Gain some traction. Build an exceptional founding team. **Investors need to believe that you are the only people who can capture this market potential**.

Second, get some skin in the game. In some cases, you may need to tap into your own savings, but be cautious about being too aggressive with your own funds. Find novel ways to show that you're all in, without betting the farm, especially if you have others relying on you. In my case, I built the first version of what's now ZipBooks on the side while in grad school, and that was enough to get investor interest.

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Third, practice telling your story. Start at the beginning, think back on the dream that birthed your company. Your origin story gives you purpose and drive—it's part of your unique selling point. Make sure that you can convey this clearly to investors: what problem are you solving? And why now? Practice your pitch with family, friends, even low level investors. Once you've got the kinks ironed out, you're ready for the big leagues.

As a bonus, you'll know you're ready if you've devised a way to be profitable—even without funding. This is a great sign to investors (and yourself) because it's a promise that you'll succeed no matter what—raising money will only help you do it faster.

Plan Your Attack

Once you've built up your idea and your story, plan out your fundraising strategy.

Paul Graham famously advised founders to talk to investors in parallel. While arranging fundraising meetings may not be time-intensive, the process of fundraising is thought-intensive, pulling your attention away from your work. Fundraising all at once helps you to focus and get it done quickly, so you can get back to what matters.

Plus, once you've got that first term sheet, others that have been dancing around your deal will suddenly switch into high gear (happens every time).

You should also create multiple growth plans dependent on the amount of funding you receive. Run lots of scenarios within a range of funding, then present the plans that best fit each investor. Planning for multiple scenarios will show that you're prepared to build your business, no matter how fundraising turns out.

Set your fundraising goals strategically—actually do the math. Usually, startups raise in rounds to get to their next milestone (typically 12-18 months later). Calculate monthly operation costs and multiply by 18—voila! You've got a reasonable fundraising goal.

Need to Reach Product-Market Fit in B2B?

How to Find Early Adopters For Your Product – The Complete Guide

How to Get B2B Customer Interviews with Cold Emails

How to Find your Prospects' Most Painful Problems

21 Lessons Entrepreneurs Need to Learn to Make Their Business Successful

Must-Reads for B2B Innovators

Why The Lean Startup Techniques Don't Work in B2B

B2B Customer Discovery Interview Questions – The Master List

16 Tips for Better Customer Interviews in B2B

The Lean B2B Canvas – A Free Tool to Iterate Value Propositions

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It’s important to note, however, that many economists are predicting a downturn some time in the next few years. I would also consider “overraising” and planning for a day when fundraising isn’t as easy as it is now, as you may be forced to figure out how to be profitable before you’re able to raise another round.

Get Introductions

When looking for seed investors, you’ll typically deal with **1.** high-net-worth individuals (angels) and **2.** Venture Capital firms (VCs) that invest institutionally.

B2Bs raising a seed round often start with angel investors in order to get the money flowing, then move onto VCs. You’ll probably find that VCs are less willing to invest in the seed round. VC’s do much more due diligence before funding a company, and at the idea stage, there’s usually too little information for them to be confident making an investment. But if they do invest, expect some serious cash (around $500K-$5M).

You’ll deal with angels and VCs very differently, but **they’ve got two things in common**:

- They want to invest in things that **already** have fundraising momentum
- They want to make a huge splash and get a real return, not fund a lifestyle business

This is why you don’t want to start fundraising before you’re ready. If you’ve got a tiny space or a flimsy team, you’re going to make a bad impression on investors. Introductions can be hard to get (warm introductions are best—from a founder of a company they’ve funded), so don’t waste them.

Quick note on debt raising: it’s rare for B2B, but not impossible. Odds are, you’ll be equity fundraising. But you can also seek out non-dilutive capital like grants and solicitations.

Follow Promising Investors

After you've had an introduction, immediately set a meeting and follow your most promising leads.

If you've been fundraising in parallel, hopefully you're juggling a good number of investors. This is great! You should meet with as many investors as you can, but set your sights on the investors that are most likely to close—and who would be the best partners if they did.

B2B solutions can be very sought after, so find partners who stand to gain a lot. Know your audience and research firms with similar investments. Then, listen to the investor when you meet, get him or her to talk more than you. This kind of connection makes it more likely you'll end up with a "yes."

There will, of course, be some No's. Don't take offense by this, but part on good terms. If investors spent enough time with you, they probably came close to saying yes—you may have more luck in the next round.

And don't be fooled by the No's in disguise. Investors may try to wait around or lead you on. If they won't clarify next steps or give a solid commitment, they're just not that into you.

Close the Deal

The key to landing investors is to close quickly and keep moving forward. Get money in the bank and then get back to work improving your product and traction.

When you've heard a verbal yes, confirm it in writing. Y Combinator calls this the "Handshake Protocol": You and Investor verbally say yes; then within 48 hours, You and Investor confirm in writing (text or email is fine).

Once this is done, you'll get a term sheet with specifics and sign it (a term sheet lays out the basic structure of the deal, but is non-binding). Then, after some more diligence, final docs will be created by lawyers (who will charge way too much—you're paying, by the way). This process usually takes at least a few weeks. Once they're truly final, you'll sign the papers and the investors will wire the money.

B2Bs can be risky, and even a day's delay could cause an investor to change their mind. Once you've got the deal, get the money—always taking definite offers over potential offers.

The First Check is the Hardest

To hit the ground running, you just need to convince one investor. After that, it becomes increasingly easy to get more.

Don't make the process complicated, and don't let investors complicate things either. Simplify your pitch—stick to the essentials (the problem, the product, your team, your vision). Keep negotiations, documents and valuation straightforward in the seed round. Be confident and direct, but never arrogant—and always hold yourself to the highest ethical standards.

Once you've closed the deal, be smart with your resources. Continue to bootstrap where you can and don't burn through your funds.

Fundraising is not the key to success, it's only a means to an end. Get it over with and get back to building your company.

More on How to Raise a Seed Round in B2B

- 12+ VC Funds and Accelerators B2B SaaS Entrepreneurs Should Know
- 58 VC Firms and SaaS Angel Investors to Fund Your B2B Startup
- 14 Ways B2B Entrepreneurs Can Extend their Startup Runway to Go the Distance