# Stanford eCorner

## Advice on Raising Venture Money

**Dan Springer, *Responsys***

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**Video URL:** http://ecorner.stanford.edu/videos/1939/Advice-on-Raising-Venture-Money

Dan Springer, CEO of Responsys, offers advice on how to raise venture money. Springer suggests that raising money depends on three factors: 1) What you have to offer, 2) The state of the venture market, and 3) An entrepreneurs long term goals. Springer argues that it is challenging for an entrepreneur with little experience or just an idea, as opposed to a business, to raise money and advises that entrepreneurs might be well served to raise money when they have a stronger value proposition. In addition, Springer also recognizes that the state of the venture market also affects the ability of an entrepreneur to raise capital. Finally, Springer proposes that entrepreneurs consider the value of the long term relationship with venture investors when bargaining on venture deals and highlights the benefits of leaving enough room in a venture deal to ensure investors get a good return.


**Transcript**

I think what you're going to find out, that it depends on the situation. And the situation really is driven by three macro buckets. One is what you have to offer, how special it is, how dear, how much everyone wants it, how much sort of demand there is for the business that you're trying to build. Two is effectively the market. You know, what's the current situation in the marketplace? That dramatically changes, sort of, that balance. And then three is what your goals are, what you're trying to build in terms of a long-term relationship. And I think if you start off and you say, "I'm in a situation where I'm trying to raise money and it's very difficult to raise. I've got an idea, but I don't have a business," and people are looking at you and saying, "Well, you're a really smart person, but you don't have a track record. You never demonstrated you could do this before." It's a challenging time to raise money, and I think the tips I would give you is, you know, set a very wide net and to make sure you get a lot of that back because it's going to be a challenge to get that done. I'd also tell you that's not my preferred method.

I wouldn't recommend to people trying to raise money very, very early in a venture because the whole nature of that balance is very hard to do. If you don't have a history with folks, if you don't have the track record to prove your ability to be successful in that business, it's hard to raise venture money, you know. And then you can end up going to less quality firms with less quality deals. I don't find a lot people that say, "The best thing I ever did was raise money very, very early." But you meet a lot of people on the other side that talk about the mistakes they made trying to raise money before they were ready. So I would put a lot of focus on, you know, understanding what power you have, what economic and market power you have for your idea. Two is the marketplace. I mean, there are times where it's just very difficult to raise money. And there's times like now where it's very easy to raise money and maybe some of those earlier ideas, if you have a certain risk tradeoff, where you're saying, "I'd rather be a little more secure. I don't want to put my own capital or put too much sweat equity into something." This is a pretty good market to... a decent idea and a nice smile and a lot of people are raising money.

And then the third piece really comes down to that: What are you trying to achieve? And if you're trying to build a very long-term relationship, you think you were building a real company and that your investors are going to be involved for a long time, I, as in a lot of negotiations, am not so much focused on trying to get the 'best deal' so much, but trying to get the deal that sets me up to have a great success. And some people say, "Well, if your investors get a really big return, you gave up too much." And I think while you could argue that you gave up too much if they got a great return, I think that's the wrong way to think about it. I think in this situation, it's much better to say, "I want them to be fabulously happy." Particularly, assuming you're all in school at some level today, or you wouldn't be allowed into the room. You're pretty early in your career. And I think what you want to do is notch some great winds and have a great reputation if you're going to be doing early-stage companies that your investors were excited and satisfied because you're planning on doing it a second time, you know, and a third time. Now, if you're saying, "My dream is start a company, make a bunch of money, cash out and buy an island near Tahiti," and so the point isn't about starting early entrepreneurial companies and making them successful. It's about getting a bunch of money: A}, you're going to get the advice you hear from a lot of people like me. You probably won't be successful. Not that many people get that sort of success when the motivation they're bringing is just flipping a company and making money. But, two, I think you're going to find that people see that and it's going to be very difficult to be successful in getting going that way.

But if that is your motivation and that's the shot you're taking, then you should probably ignore this advice and say, "How do I get the best possible deal I can? This a one-shot transaction and, you know, I'm done." Keeping in mind that if you're not successful and you didn't get to buy that island near Tahiti and now you need to go back and you decide you want to do something similar, you're going to be in much tougher situation than if you approached it differently. So this is one of those places where I think you find, by the time you get about 10 years out of school, the realization that your reputation in the businesses that you work in are really your greatest asset. And so putting a lot of focus on building that long term is important.