Stanford eCorner

Don't Raise Too Much Capital

Mark Suster, *Serial Entrepreneur*

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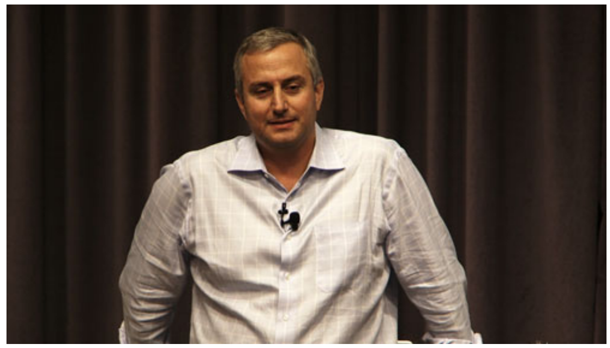
Too much money can be a bad thing for a growing business, says Mark Suster, serial entrepreneur. With large sums comes great expectations, and investors will expect quick movement and fast returns. Additionally, large investments can inhibit options when it comes to making a preferred exit decision.



Transcript

Raising capital, I always tell people that you obviously need to raise capital but be careful about raising too much. You start by raising a small amount enough to really get going. Why do I say this? There are people who build an interesting idea. It gets competitive. They have talents. They have a PhD from Stanford and they can raise $5 million from the get-go. Let's say they raise it at an $8 million and pre and they diluted more than they should. In a business, there are two problems with raising too much capital too quickly and I made both of them, I made both mistakes. Number one is the expectations of you are that you're going to do something big and you got to go fast, and I say it's like adding rocket fuel before you really know where the rocket is pointing. It's very destructive to a company.

You will feel pressured to spend it and you'll feel pressured to go fast. The second thing is you take all your options off the table. Whatever you're building isn't working, wouldn't you like to have some option to safely park something, meaning a sale that's not huge but at least preserves what you've built, preserves the customers, preserves some of the jobs from the people you took out of their other companies and maybe creates a little bit of wealth for yourself? You give up that option if you raise too much too quickly.