

URL: <https://ecorner.stanford.edu/clips/fundraising-for-engineers/>

Cruz Foam co-founder and CEO John Felts shares his experience learning how to raise capital with a background in engineering. He encourages CEOs to learn to tell their company's story at every opportunity, build a strong support network to stay driven, and do whatever it takes to stay alive until things start to click.

Transcript

- Going out and raising money is a daunting 00:00:07,020 effort when you're an engineer.. You don't have any idea what it means.. I had to teach myself from the ground up, what cap tables are, what valuations are, stage, convertible notes, equity, the whole range, I had no idea before I started this business.. And the amount of accelerated learning that you do is incredible.. I would honestly say the last five years starting this company and running this business has, I've learned hand over fist more than I did at both my degrees and my former job.. And it's just because you have to go full in and if you don't, you're not gonna succeed.. And that's same with fundraising money.. At the beginning, you get a little bit of capital in different ways.. Some can be pitch events, some can be grants if you can apply for them.. Usually it's a little bit early if you're just starting to get a grant..

We went and raised a little bit of capital from friends and family so we're able to raise, I think, it was 80K from friends and family.. What allowed us to just get out of the school, which I'll recommend, I think Stanford, maybe is a little bit more palatable, but get out of the school, because it gives you the ability to get your own IP.. You can start really developing a technology on your terms in a little bit more ways, but that's another story.. I think once you get that initial capital through friends, grants, pitching, it's really about how you start telling the story and telling it in a way that really resonates with the market, but obviously, angels at, probably, the early stage it's gonna be and then eventually, VCs and venture capital.. And for me being the CEO, I think, what's the key is it's really on you.. You really have to have the perseverance and really, the drive and that vision has to be so laser-focused in telling that story and really bringing that to the forefront in the conversations you have and if it's not, then it's never gonna succeed.. If you don't have that sheer perseverance and will, you're gonna want to quit, it's true.. And when I tried to go raise our first round, let's call it, I came out of an accelerator and this was, I think it was late 2018.. They were like, "Go raise \$2 million," and I was like, "Great, let's go it." And I was in Santa Cruz, I was driving to San Francisco, I would say, three to four times a week, spending all day, I probably did over 150 investor venture fund interviews.. I ended up raising \$225,000..

And the amount of nos I heard, the amount of basically blown-off meetings I had is incredibly disheartening and it's incredibly challenging.. But I think what really propelled me was the support that we had and it was the early network and people I was able to connect with.. One was clearly my co-founder, Marco.. We had some good team members.. I believe I had connected with Toby by then.. He was one of the first people we're able to connect with in Santa Cruz and thank God.. And it's really, those are the people when you can rely on and get real advice, just human connection on a real level that can really help you keep that drive real, really keep it fresh and going, because sometimes it's really important to revisit the mission, why it started, why you're doing what you're doing and something I don't tell a lot of people, but it's something that's important is the first two years I was delivering pizzas at night, because, literally, I'm not paying myself.. The humility and looking back at that is just crazy, 'cause I also had a daughter near the same time period, and you think, "I can't do this.. I have to stop." But when you have everybody around you propelling you and pushing you forward, that's what's needed.. Otherwise, if you're alone, it's gonna be so incredibly difficult..

And I think with that vision, that drive, it really allowed me to really apply myself and really put myself out there in high

risk, uncomfortable scenarios.. And in doing that, one of the things that really changed was this moment in time where I was able to connect, build my network enough, and guess what, got connected to an incredible ocean technology system, an ecosystem around entrepreneurial, investing, funding and it took me three and a half years to get to that point and it was a gargantuan struggle up into that point.. There's probably two or three times where we had less than \$1000 in the bank and I didn't know what I was gonna do.. We had a pitch competition the next week and we had to win.. Marco, actually, did that one and thank you, Marco, because we literally had no cash and that was \$20,000 that let us go for another three months.. And that's really what it takes.. And I'm sure so many entrepreneurs and so many startups will have that a very, very similar story.. And you get to a point where things start really making sense.. You start having conversations with the right people.. You start really having this moment where you don't feel like you're talking to a wall..

You're not talking to a venture capital that's just interested in what you're doing and you get to a point where you can identify that pretty quickly.. And I'm at a point now where raising capital is by no means easy, but it's definitely, you learn who's serious, how they're really gonna engage in a way that's not only gonna add value to them, but value to you, and then really position your story in a way that paints that picture of execution in a way that only you, your team, your product and the market is so timed and ready for this that you're the ones to do it.. That happens over a long period and I think one of the best things to sum it up when I found to tell the story along that trajectory is that three prongs that I touched on before, it's product, team and market.. And this is my own personal experience, but I've found at the beginning, your product is, probably, could be an idea for all intents and purposes at that point.. Your team is more or less just you, and the market, you probably don't even know what your market is.. I mean, we tried to do surfboards.. We didn't know what a market was at the beginning.. So at the beginning for me, the most important thing is team.. They have to buy into you.. They have to buy into you..

You are the person that's gonna change this industry, your passion, your vision, your drive is unlike anybody else who's trying to tackle this problem.. That's the first key.. If you can do that, you'll get some raised, you'll raise early capital.. After that, you need to paint the picture of the market.. You better know what your market is, the whole landscape, how it's shifting, how your technology is the right fit, the timing, everything that defines the market and that product market fit around the technology you're building.. And then the point that we're at right now is product.. I think once you get to the, a, your product better be kickass, it better be going into the market, it better be ready to scale and really start getting some real commercial opportunities behind it, and that's when you have this complete picture, team, market, product that allows you to really go and run with the startup...