Money: Raise, Manage, Make

“Too much money is as demoralizing as too little, and there’s no such thing as exactly enough.”
—Mignon McLaughlin (American journalist and author, 1913–1983)

“The question isn’t who is going to let me; it’s who is going to stop me.”
—Ayn Rand (American philosopher and author, 1905–1982), from The Fountainhead

Follow the Money

Odds are good you flipped to this chapter first, right? You were hoping that you’d find my patent-pending, supersecret, highly proprietary magic formula that, when cast over angel investors and venture capitalists, causes them to swoon and shower you with millions. Sorry to disappoint.

No magic formulas here, nor killer rules for VC presentations, nor amazing acts of prestidigitation—just a solid appraisal of the cold, hard reality of what it really takes to get funded, some very good advice on the legal and financial basics of a startup, and a few recommendations about what goes into that space between your customers’ credit cards and your startup’s bank account. If you’re dreaming right now that tomorrow you’ll see your startup glowingly described in TechCrunch as the latest canny investment to the tune of $5 million from a couple of VC outfits you’ve never heard of,¹ then you’d better wake up and smell the coffee.

If I can accomplish one thing in this chapter it’s disabusing you of the mindset that funding is somehow an end in itself, that getting other people’s equity money is the pot of gold at the end of your startup rainbow. It doesn’t work that way, it has never worked that way, and thinking that way hangs a leper’s bell around your neck that you can’t hear but that every angel investor and VC can.

If, on the other hand, you want an introduction to the realities of how to fund your startup, then this chapter should get you started on the right road. Specifically I will focus on what happens after you’ve put your money and perhaps the money of family and friends into your startup.

And since we’re playing for real money here, we will also cover how you as a startup need to manage your finances, and, by the way, how actually to make money. Teaching basic accounting and bookkeeping are beyond the scope of this book, but hopefully you’ll finish this chapter with some idea of the difference between a profit/loss sheet and a balance sheet. Correctly forming your company and putting in place standard business practices isn’t the game you want to play. But unless you get this stuff right, you won’t even get to suit up.

Making money is what this entire book is about. But in this chapter, you’ll get a rundown on five vendors who are in the business of converting your customers’ money into your money: payment processors. Plus we’ll take a quick look at a company that’s found a way for you to get money from people who can’t or won’t buy your software.

Finally, we’ll talk with one of the most knowledgeable people I know about something that just about every startup uses to connect to its market and make money: Google AdWords.

**Raising the Money**

In this section we’re going to cover the basics of how, hypothetically, a first-time founder goes from “I want to build a startup” to preseed funding, angel investment, and then Series A funding in multiple tens of millions of dollars.

I need to make two things crystal clear. First, unlike a lot of the topics I talk about in this book, I myself have never raised outside funding. What I present here is a synthesis of the best information, advice, suggestions, and warnings I’ve accumulated while researching this book, not my personal experience. Second, I’m assuming we are in the same boat, that is, that this is your first startup, not your second or third, where a whole different set of rules apply.