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The Handbook for Series B & C Fundraising

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Introduction

Introduction
The State of Series B and C fundraising in today's market

After one of the longest bull markets in history over the past decade, global tech markets came to a crashing halt in 2022. As a result, the fundraising perspective for many high growth companies has materially worsened across public and private markets. This latest market correction marks the third major tech downturn in the Internet era, following the Dot-com Bubble in the early 2000s and the Great Financial Crisis in 2008–09.

This handbook aims to provide founders and finance operators with the context required to navigate this challenging fundraising market landscape

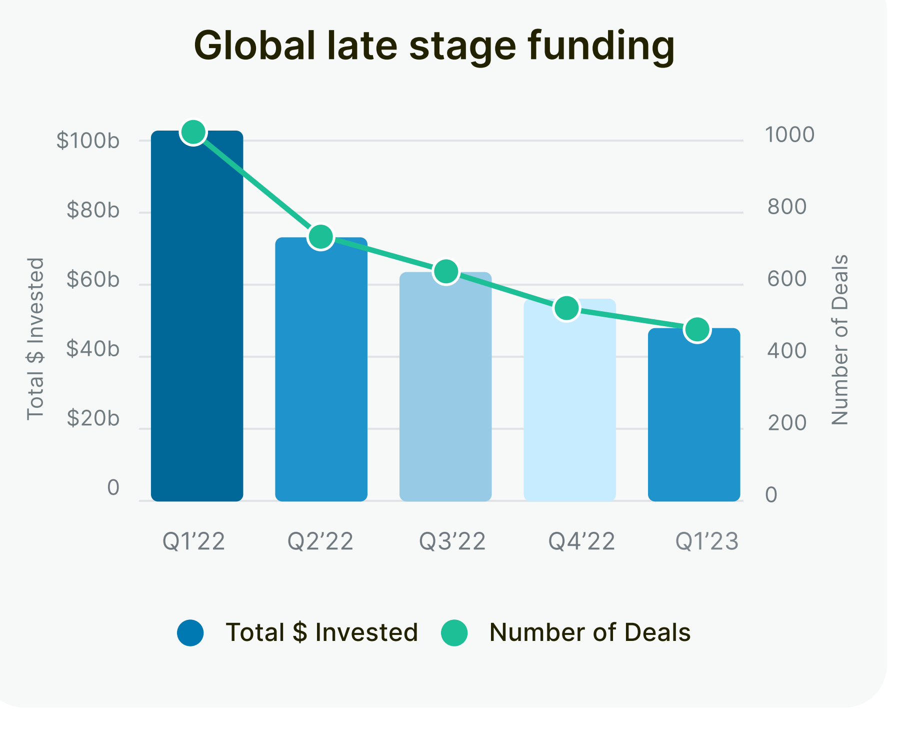
Looking back, the last 12 months provided a reckoning moment for global tech markets, conditioned by a mix of rising interest rates, rapid inflation and geopolitical tensions, that culminated in growing recession concerns.

This dynamic caused the market capitalization of public high growth companies to shrink by as much as **~80% in some cases** and subsequently clearly spilled over into private markets.

As a consequence, the fundraising climate for venture-backed late stage companies became increasingly difficult as many investors opted for a more cautious posture when it came to deploying capital.

This effect became especially visible in Q3 2022, when accumulated late stage funding rounds collapsed by **~43% QoQ according to Crunchbase**.

This downward trend, was only upheld by two major equity rounds in Q1 2023, when the mega investments in OpenAI and Stripe helped put accumulated late stage funding at a total of USD43bn.



Introduction
What has materially changed between 2022 and 2023

In light of the above, growth-stage companies have been impacted more adversely than early-stage companies. With many late stage companies being re-evaluated, which, in most instances today, leads to a markdown in valuations.

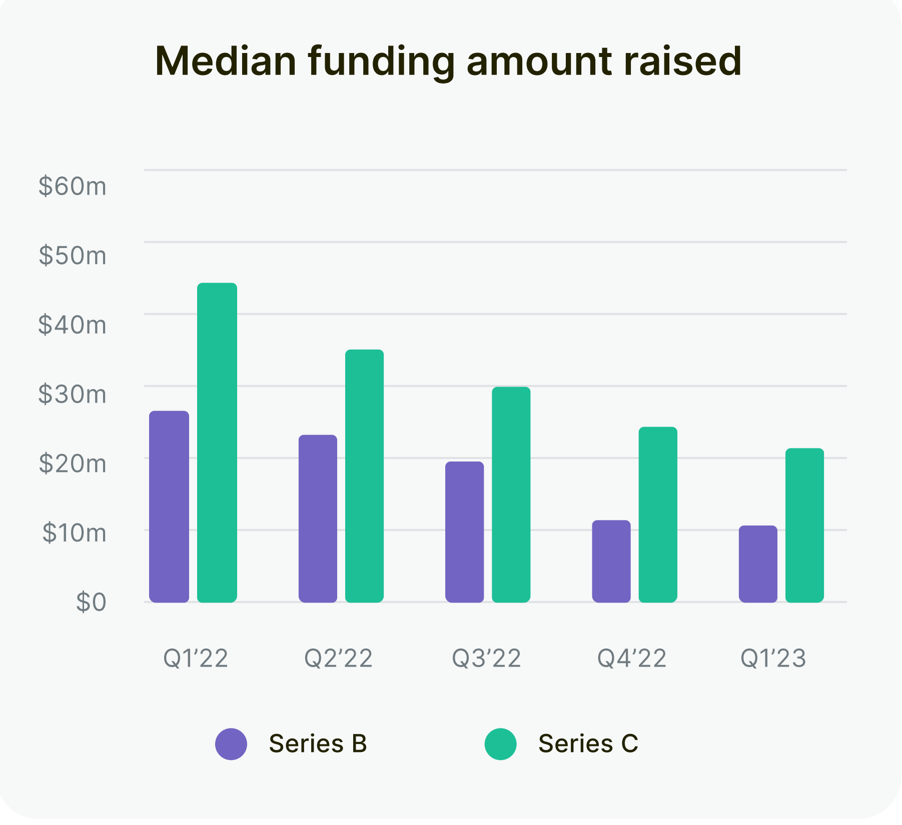
In this climate, investors have become more discerning and are increasingly requiring terms that provide downside protection and minimum return thresholds, such as liquidation preferences beyond 1x, valuation ratchets, or participating rights.

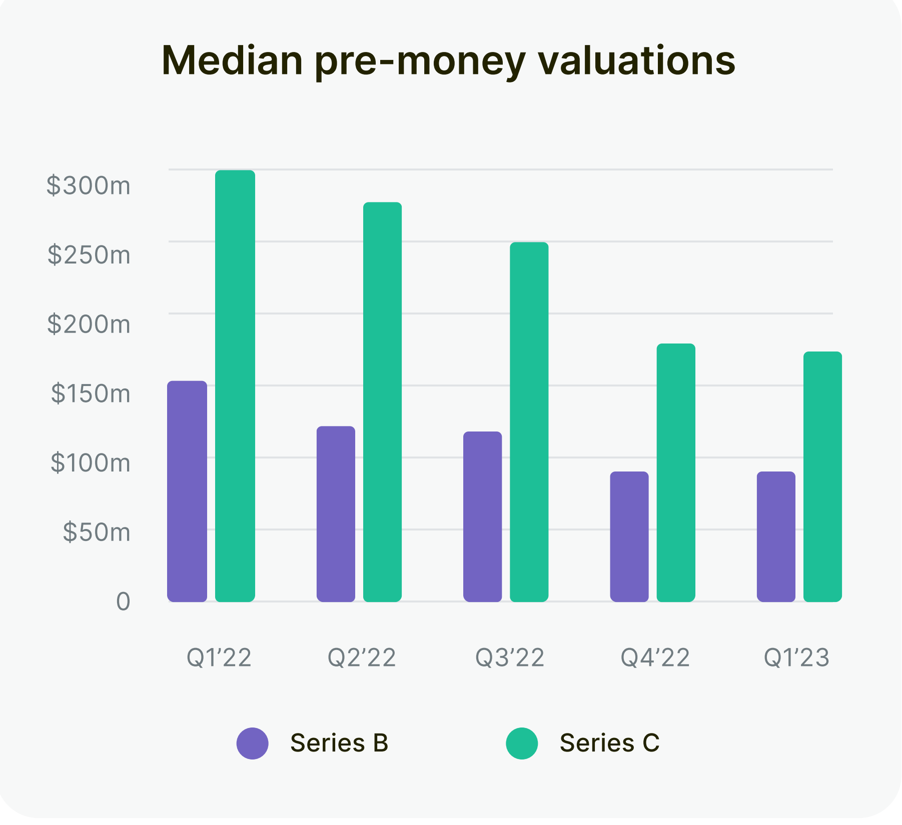
In this context, discussions on structure are becoming more commonplace, with investors and founders focusing on instruments such as preferred equity in favor of common equity, particularly in growth rounds.

The most striking characteristic in this current market is investor focus on seeing a viable path to profitability and solid unit economics in companies

Strategically speaking, as traditional sources of funding are becoming more expensive, companies should focus more on raising their next round of funding strategically, rather than the high frequency capital raising and maximising growth strategy from the 2021 era. This implies, ensuring operational execution, prioritizing profitability, healthy burn rate, and building relationships with investors who share your long-term vision.

To succeed in this capital-constrained environment, next to the standard way of structured fundraises, it is smart to be prepared and consider the opportunity of a preemptive fundraise when it presents itself. This might mean, taking in money at less attractive terms than previously, in favor of more security and deeper cash reserves in light of a continued contraction of the market.





Introduction
The key components for successful fundraising

In today's market environment, preparation is key to successful fundraising. Companies seeking Series B and C funding must be well-prepared and have a thorough understanding of all the details of their business model, financials, and growth potential.

Investors are asking more questions and taking longer time for more detailed due diligence. They are looking for companies with a clear vision and a strong track record of execution, and they want to see a thoughtful plan for growth that is both ambitious, efficient and achievable. This means that you need to present a clear thesis on the market and competition, as well as their strengths and weaknesses.

Regardless of current market dynamics, successful fundraising always requires a combination of strategy, preparation, and execution. However, in light of the above, companies looking to raise a Series B and C funding round should focus on the following points to help ensure success:

Pitch

The objective needs to be crafting a compelling pitch that clearly articulates your value proposition and growth potential amidst the challenging macro environment. Your pitch should be concise, persuasive, and backed by metrics that tell the story of how your company is mission-critical.

Market

Investors are still looking for companies that are addressing real-world problems and have a strong understanding of their target market and customers. Make sure to articulate this market opportunity, demonstrate your deep understanding of your customers' needs, and show how your product or service addresses those needs.

Financials

Investors want to see a clear and realistic financial plan that includes revenue and expense projections, cash flow forecasts, and a clear plan for scaling the business. Companies seeking funding must be able to demonstrate a path to profitability and a plan for managing cash flow.

Team

Companies should emphasize strong teams with a track record of execution and a clear vision for the future. This is also the best opportunity to shine light on the strong hires you made and how this enables you to take the company to the next level.

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Defining Series B and C fundraising

Defining Series B and C fundraising

What distinguishes Series B & C from earlier rounds

As opposed to earlier funding rounds, Series B and C fundraises are not about taking risks or experimenting with product iterations and different go-to-market motions. Instead, the focus is on optimizing and scaling what already works.

The aim of Series B and C funding is to rapidly expand a company's reach and maximize its potential for growth, while minimizing potential risks or disruptions to the business.

One of the key distinguishing features of growth equity rounds is the overall check size committed by investors. While earlier rounds may involve relatively small amounts of funding, growth equity rounds typically involve much larger investments, often in the tens or hundreds of millions of dollars. This reflects the fact that the company is expected to have a proven track record of success and is now looking to accelerate its growth.

Another important factor that distinguishes growth equity rounds is the type of investors involved.

While earlier rounds may be dominated by angel investors and early-stage venture capital firms, Series B and C rounds often involve growth equity firms and crossover funds, in addition to multi-stage venture capital firms.

These investors are typically looking for more mature companies that have already demonstrated a strong ability to generate revenue and are seeking to invest in a company's long-term growth potential.

Achieving major milestones such as rapidly growing revenues and ACVs or achieving profitability in certain geographies or on a unit economics basis can be a strong indicator that your company is on the right track and has a solid foundation for continued growth. Also, having a clear plan for how to use additional funds to further accelerate that growth while getting closer to profitability can be a powerful motivator for investors.

In comparison to early stage rounds, you should begin the fundraising process even earlier, at least nine, better twelve months before your company's cash reserves run out. This should give you sufficient time to find the right investors and negotiate more favorable terms, as well as provide a buffer in case of unexpected delays to a) start to pursue the M&A route in parallel if the fundraise looks to be unsuccessful b) take measures to try to become profitable.

There are two key factors that typically drive fundraising for later stage companies: achieving significant milestones since the last round, and having a clear plan on how to use the funding to continue scaling.

Defining Series B and C fundraising
What are investors looking for in a Series B and C investment

As companies mature and progress through different rounds of funding, the return expectations of growth capital investors tend to decrease accordingly.

In the earlier stages, such as **seed or Series A rounds**, investors are often willing to accept a higher level of risk in exchange for the potential for a **>10-20x return on their investment.**

However, as companies move into **Series B and C** rounds, investors typically have more information about the company's progress and are able to evaluate its economic potential more accurately. This means that they may calculate with a more modest base case return on their investment, typically in the region of **4–5x (~25–30% IRR)**, next to the still remaining potential to hit an outlier with higher upside

At this point, especially at Series C, key areas of the business should have been de-risked to a larger degree. This includes, for instance, product development and customers' willingness to pay for that product.

Hence, at later stages, investors may be more interested in ensuring that the company is able to generate steady, sustainable growth rather than relying on high-risk, high-reward strategies.

While a strong top-line growth has been sufficient to raise big Series B and C rounds in the past, in today's current market environment, investors will want to see a clear path to profitability in the foreseeable future.

Ideally, a company with good unit economics should be able to scale its operations without sacrificing profitability. This could involve ramping up the sales organization or expanding into new markets, while maintaining a healthy profit margin. Other factors that contribute to healthy unit economics include high customer lifetime value, low customer acquisition costs, and efficient use of resources. Overall, good unit economics are a key indicator of a company's ability to generate sustainable revenue and achieve long-term success.

Long-term, investors will also be looking for indications of a high operating leverage, meaning that your company can scale its revenues without incurring a proportional increase in operating expenses (OpEx). Subsequently, as revenue grows, your company's operating income grows, leading to greater profitability and potential for expansion. Typically, software businesses are particularly prone to a high operating leverage, as variable costs are usually low, while gross margins tend to be high.

We will dive into the key metrics and ratios, as well as how to calculate them, over the ensuing chapter. Typically, investors will be analyzing a range of these indicators to form a holistic opinion on the investment target.

Healthy unit economics are a key indicator to determine whether a business has a clear path towards profitability.

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The metrics investors are looking for

The metrics investors are looking for
Growth vs profitability benchmarks

This chapter evaluates and contextualizes the most relevant financial metrics as well as storylines for Series B and C companies in this current market environment.

As described in the introductory remarks, 2022 marked a paradigm shift for many tech companies, where "growth at all costs" became significantly less important and instead a new focus on profitability took hold. While top-line metrics are still very important when evaluating start-ups and scale-ups, the focus of investors has significantly shifted to metrics further down the P&L.

Top-line Growth (YoY ARR growth)

Formula	Benchmark		
ƒ EoP ARR / prior year EoP ARR	Great 3.0x	Good 2.0x-3.0x	Subpar <2.0x

** Top quartile performance corresponds to sample of companies with USD10M - 30M in ARR*

Top-line revenue growth is the most fundamental growth metric as it simply compares the lagging 12 months performance of the business. Needless to say, this metric deserves a lot more nuanced observations (e.g. distribution of growth etc.) but nevertheless serves as the major indicator of overall company performance for high growth firms.

Net Dollar Retention Rate (NDR)

Formula	Benchmark		
ƒ (BoP ARR + expansion ARR - gross churn ARR) / BoP ARR	Great >130%	Good 100–130%	Subpar <100%

**Performance corresponds to companies with USD10M - 30M in ARR*

Net dollar retention is a metric that is core to every SaaS investor's and operator's toolkit because recurring revenues sit at the heart of every SaaS business. Hence, why investors closely monitor the performance of this metric, and even more so because valuations are closely correlated with the degree of recurring revenues. In turn, lower retention impairs your customer lifetime values and puts more pressure on sales organizations to outgrow customer churn.

The shift founders are having to make in order to prioritize efficient growth means startups have become more focused on the preservation of their cash reserves in anticipation of the challenging fundraising markets. This ultimately triggers a conservative cost policy (e.g. reducing CaC) at the expense of costly growth measures (e.g. increasing ARR). During times of low interest rates and remarkably high multiples, there was a strong incentive for many companies to add every possible dollar of top line growth, even if this was only achievable through excessive spend on marketing. The reason for this was that the incremental increase in valuation outweighed the marginal costs of fueling that unprofitable growth.

The metrics investors are looking for
Growth vs profitability benchmarks

Net Magic Number

Formula	Benchmark		
⨍ (current Q ARR - prior Q ARR) / prior Q S&M Spend	Great >1.5x	Good 1.0-1.5x	Subpar <1.0x

** Performance corresponds to companies with USD10M - 30M in ARR*

Regardless of the fact that **Net Magic Number** heavily depends on the typical sales cycle of each specific industry, it is still regarded as a solid approximation of your company's ability to acquire customers efficiently.

A magic number above 1.0 basically implies that you, at minimum, earn back your customer acquisition costs within one year. Meaning, ceteris paribus, your company should be earning money on that customer going forward. However, it is important to highlight that by calculating the magic number, you do not differentiate whether revenue comes from new business or existing customers. Hence, you cannot infer whether your growth is fueled by existing customers that spend more with you or whether you are successful in attracting new customer spend. Also, it should be noted that the net magic number is often higher for companies with a bottom up sales than a top-down sales approach, which is referred to above.

Rule of 40 (esp. relevant for Series C+)

Formula	Benchmark		
⨍ YoY ARR growth + FCF margin	Great >80%	Good 40-80%	Subpar <40%

** Performance corresponds to companies with USD10M - 30M in ARR*

To showcase the interplay between growth and profitability, you can use a metric called the **Rule of 40.** Many growth investors use this ratio to evaluate the tradeoff between growth (measured by new ARR added per quarter) and profitability on a free cash flow basis (approximated by the free cash flow margin).

Generally speaking, the Rule of 40 is expected to decline as companies become larger and top-line growth decelerates. However, top performing firms continue to exceed 40% irrespective of their scale.

When it comes to profitability on an operating basis, it is important to highlight that most successful companies typically exhibit a clear evolution towards better profitability over time. The pace of this development is a function of its marginal profit share of every dollar of revenue generated. Meaning, when looking at the path to profitability for a later stage company, a closer look at how operating margins evolve over time is important. Typically, this involves an analysis of all three major categories of operating expenses of a tech company (sales & marketing, R&D and general & admin).
A useful indicator of this ratio is the incremental profit margin of a business, which depicts the marginal increase in operating profit that is created with every additional dollar in revenues.

The metrics investors are looking for
Growth vs profitability benchmarks

Incremental Profit Margin

Formula	Benchmark		
ƒ (EoP operating profit - BoP operating profit) / (EoP net revenues - BoP net revenues)	Great >40%	Good 10–40%	Subpar <10%

** Performance corresponds to companies with USD10M - 30M in ARR*

The **incremental profit margin** is a metric that indicates the rate at which revenues are being converted into operating profit. An incremental profit margin equal to or greater than 40% is considered top-notch, while a share of roughly 20% or above is indicative of a good performance. Conversely, a trend of 10% or lower warrants a detailed analysis of the cost structure of your business.

One can also argue that S&M expenses can be viewed as an investment in future growth for business models and products with strong revenue expansion. Hence, it makes sense to evaluate operating profits excluding sales and marketing expenses to get a better view on the operating leverage of a business.

This relationship is best approximated by the pre-S&M profit margin, which focuses on the fixed cost components of a company's P&L.

Pre Sales and Marketing Operating Margin

Formula	Benchmark		
ƒ (EoP operating profit + EoP S&M expense) / EoP net revenues	Great >40%	Good 15–40%	Subpar <15%

** Performance corresponds to companies with USD10M - 30M in ARR*

A **pre-sales & marketing operating margin** of 20% or above is indicative of a sound financial condition for a company, as it suggests sufficient funds are available to allocate towards S&M related expenses. Even more so, a pre-S&M margin of 40% or higher is regarded as best in class. But similar to the incremental profit margin analysis, it is most crucial to observe the pre-S&M profit margin's trend over time rather than just the absolute value to ensure a healthy growth trajectory.

The metrics investors are looking for
Capital efficiency benchmarks

In addition to showing strong fundamental profitability metrics and a healthy growth trajectory, you also need to position your company well when it comes to capital efficiency. This ultimately means that you need to pay close attention to how much money your company spends on acquiring your marginal customers.

Investors like to use the LTV/CAC ratio as a financial metric to evaluate the long-term profitability of a company's customer acquisition strategy.

However, CAC itself might differ, depending on which definition is being applied:

- **Blended CAC** refers to the cost of acquiring customers through a combination of organic and paid channels.
- **Paid CAC** only considers the cost of acquiring customers through paid channels.
- **Fully-loaded CAC** encompasses all costs associated with acquiring a customer, including labor costs related to marketing, sales, and other related activities.

Fully-loaded CAC is the most commonly looked at and evaluated by investors, as it usually paints the most realistic picture of the cost to acquire a customer.

Some businesses make the mistake of estimating LTV as the present value of revenue or gross margin, instead of considering net profit per customer over its lifetime. To calculate LTV correctly, businesses first need to calculate revenue per customer, contribution margin per customer, and the average lifespan of the customer. To calculate contribution margin, simply subtract all variable costs that are associated with servicing a customer (e.g. operational costs, selling, admin) from the revenue per customer. To get to LTV, you then need to multiply this contribution margin by the average customer's lifetime, which is calculated by dividing 1 by your monthly churn rate.

A high LTV/CAC ratio indicates that a company is generating more revenue from a customer than it costs to acquire them, which is a must for the long-term health and profitability of the business. Conversely, a low LTV/CAC ratio may indicate that a company is spending too much on customer acquisition or failing to generate sufficient revenue from its customers.

The metrics investors are looking for
Capital efficiency benchmarks

LTV/CAC

More relevant from Series B onwards compared to earlier rounds, as more historical churn rates are available

Formula	Benchmark		
ƒ (Avg. monthly revenue p. customer / Monthly churn) / (Monthly S&M expense / # of net new customers)	Great >5.0x	Good 3.0-5.0x	Subpar <3.0x

** Performance corresponds to companies with USD10M - 30M in ARR*

Besides indicating the ability to grow capital efficiently, **LTV/CAC** gains in relevance as lifetime value is calculated on the basis of historic churn rates. As a company matures, these become more and more reliable and hence a valuable metric for investors to track.

Another way investors like to track how efficiently your company is able to acquire customers is CAC payback. It measures the time it takes for a company to recoup the cost of acquiring a new customer. It is calculated by dividing the total cost of acquiring a customer by the average gross margin per customer over a specific period. For example, if a company spends $1000 to acquire a new customer and that customer generates $100 in gross margin, the CAC payback period would be ten months (i.e., it would take ten months for the company to recoup the cost of acquiring that customer).

CAC Payback Period (fully loaded)

Formula	Benchmark		
ƒ Avg. CAC per customer / Avg. MRR per customer * gross margin %	Great <12m	Good <18m	Subpar >18m

** Performance corresponds to companies with USD10M - 30M in ARR*

The **CAC payback period** is an essential metric for evaluating the effectiveness of a company's customer acquisition strategy.

- A shorter CAC payback period indicates that a company is breakeven with its customers more quickly.
- A longer CAC payback period may indicate that a company's customer acquisition costs are too high or that it is taking too long to generate significant revenue from its customers.

By tracking the CAC payback period over time, companies can identify trends and adjust their customer acquisition strategies to improve their overall profitability. Compared to LTV/CAC, even in later rounds CAC payback is still sometimes regarded as the more “honest” metric, as it does not rely on assumptions on future churn rates but can be easily calculated based on historical data. It’s also fair to say that it is generally longer in enterprise vs. shorter in SME facing SaaS companies.

The metrics investors are looking for
Operational efficiency benchmarks

ARR per FTE

Formula	Benchmark		
⨍ EoP ARR / # of EoP FTEs	Great >$180,000	Good $130,000 – $180,000	Subpar <$130,000

** Performance corresponds to companies with USD10M - 30M in ARR*

The **ARR/FTE ratio** is used to evaluate the revenue-generating efficiency of a company's workforce. It is calculated by dividing the company's annual recurring revenue by the number of full-time employees.

- A high ARR/FTE ratio indicates that a company is generating a significant amount of revenue per employee, which is generally a positive sign for the business.
- A low ARR/FTE ratio may indicate that a company is not generating enough revenue per employee, which could be a sign of inefficiency or poor productivity.

By tracking the ARR/FTE ratio over time, companies can identify trends and adjust their workforce and revenue-generation strategies to improve their overall profitability. This metric is particularly useful for software-as-a-service (SaaS) companies, where recurring revenue is a key component of their business model. It goes without saying that comparing these ARR/FTE ratios on a global basis makes little sense. However, founders should be concerned with this metric while comparing it with their direct competitors that are offering similar products and services in the value chain.

Burn Multiple

Formula	Benchmark		
⨍ Net Burn / Net New ARR	Great < 0.9x	Good 0.9-1.7x	Subpar > 1.8x

Lastly, it is worth looking at the single most important metric when it comes to fast-growing companies in a capital constrained market environment: **Burn Multiple.**
Very simply, when your company is making one incremental dollar of total net new ARR for every dollar of cash spent, you are in a really solid position and your burn ratio is exactly 1. Exceptional burn ratios are below 0.9x in today's environment. On the contrary, you should be concerned if your net burn ratio eclipses 1.8–2.0x which indicates that you are potentially losing 1 dollar net in cash on every additional dollar your company turns over.

This metric is actually a rather simple yet effective measure to keep track of your company's capital efficiency. The truth however is also that the absolute thresholds for what is considered good vs. bad shift meaningfully with the market sentiment. While just 18 months ago a net cash burn of 2.0x was maybe considered in the range of what investors were willing to accept, the same ratio today would be considered alarming at this stage.

4

Investor outreach and due diligence

Investor outreach & due diligence

Identifying potential investors and managing the process

After covering the most relevant financial and operational metrics for businesses and later stage companies, we want to provide guidance on how to manage your due diligence and investor outreach process. Every company faces unique nuances, so this should be interpreted as a rough guideline more than anything else.

At a very fundamental level, it is important to map out the investor landscape for your upcoming fundraise well in advance of the actual event. This means building relationships through informal and non-fundraising related interactions, which ideally results in a range of investors that you like. Here, it is also imperative to do your own research on different investment firms to understand if your company fits into the investment criteria of such a firm or whether conflicts with existing portfolio companies exist.

For a proper fundraising process, you should entertain a minimum of 20 funds on your shortlist.

After having compiled a list of potential partners, it makes sense to segment these and prioritize by ranking the funds in order of preference. Ideally you factor in both, your preferred choice and likelihood to convert a fund. This should allow for a more targeted and well-structured fundraising strategy. When it comes to approaching the funds, it's best to do it in waves. Ideally, one can start by testing the waters with several investors that are not in your top badge of preferred partners. By doing this, it will help you refine your pitch and gain insight into how investors perceive your idea. Once you feel more confident, reach out to the top level of investors that you target and work your way down the list until you've garnered interest from several investors.

When it comes to relationship building with potential investors and ensuing outreaches, there are several ground rules that hold true, irrespective of the stage of your company.

If you don't have inbound and a relationship already, introductions will always provide a positive signal and severely improve the chances that your fundraise gets sufficient attention from external investors. In later stage growth rounds, this is however usually less of a problem, since there is an established base of existing investors that actively help on getting follow on funds attention.

When looking at alternative outreach options apart from friendly introductions, you should aim for few, personalized outreaches. It is instrumental to identify the person at the investment fund who is best suited for your business model (e.g. the partner that is specialized in your industry) and email them directly. Always make sure to really personalize your message and explain why you're reaching out to them specifically. In this context, it's important to avoid spraying and praying by cold emailing multiple team members from the same firm. This will undoubtedly create confusion among investors and send bad signals as a result.

Most importantly, late stage fundraising processes tend to take a lot of time (we are seeing companies spend upwards of 6 months in this market environment) and divert attention and energy from running your business. As a result, you should share responsibilities on daily operational matters with co-founders, or other senior team members.

For operational success, it is best to appoint one person as the key process owner for the entire fundraising process.

Investor outreach & due diligence
Round dynamics and core expectations

Another very important aspect relates to the overall aim of the fundraise and what specific milestones and targets are supposed to be achieved with it at what point in time. For Series B and later stage companies, the timing aspect of an equity round is also important.

Companies should consider raising anytime the commercial targets since the last round have been achieved and company metrics are in line with best-in class benchmarks

Alternatively, you can also use the momentum after a successful market expansion or if you generally have a strong plan on how to scale even faster in your current market to raise additional capital. However, as pointed out above, given your company's cash burn you should take great care in timing your fundraising activity accordingly and should not start a process with at least 9-12 months of cash left.

Another important topic revolves around the ideal round size of your equity round. In most cases, this is a function of the market appetite for your company and the capital requirements your business needs to ensure >24-30 months runway.

Average dilution in earlier rounds typically exceeds 15%. In many growth stage companies, the average dilution ranges anywhere between 12–15% or lower.

The dilution in later rounds obviously will become even lower. However, it should be noted that some investors have more rigid ownership expectations for their investments, and so this ultimately often ends up becoming a core item of negotiations.

5

Mistakes to avoid in the current market

Mistakes to avoid in the current market

Holding onto your previous valuation

Clinging to a previous high valuation can be a major roadblock in securing additional funding. Investors assess startups based on their potential, market conditions, and growth prospects. This means, holding onto an unrealistic valuation in the current market can send the wrong signal to investors, making it difficult to find common ground during negotiations.

It is essential for founders to be open to a realistic valuation that aligns with the current market dynamics, and be aware that you will always be able to adjust the valuation upwards as the round progresses – revising downwards instead is much harder.

Raising too much capital

While securing sufficient funding is critical for startups, raising too much capital can also be a misstep. Raising much more money than necessary will dilute the ownership stake of existing shareholders, as well as making future funding rounds more challenging. Founders should carefully evaluate their funding needs, strike a balance between growth and sustainability, and raise an amount that enables them to achieve key milestones without compromising the long-term health of the business.

Over hiring

As startups secure funding, the temptation to rapidly expand the team can be strong. Founders need to focus on strategically hiring, identifying the key roles that will drive immediate value, and defining the key milestones that will signal additional resources are needed to continue executing on the company's growth trajectory.

6

Putting your fundraising process into action

Putting your fundraising process into action
Translating the funding process into an operational plan

The best way to guarantee a successful Series B and C round is to manage the fundraising process with the same level of execution that you manage the rest of your business with. As a founder, it is your responsibility to drive the operating plan that aligns your team and outlines a clear path to raising your next round of funding. So, where do you begin in preparing your operating plan?

Define your target fundraising quarter

Partner with your Finance team to build the cash runway scenario for your business. The objective should be to confidently determine when your business will deplete its operating cash while allowing you to plan backward approximately nine to twelve months to the target fundraising date. **The best way of doing this, is by creating operating optionality with three scenarios (e.g. bear, base, bull).**
Putting the scenarios together will require integrating a top-down approach with a bottom-up capacity plan to ensure an output that has stress tested OPEX costs, forecasted revenue figures, and net operating burn. If your business has recently done this as part of its quarterly or annual planning, it is a good opportunity to revisit the outcome, challenge the assumptions, and make sure they correctly represent your business today.

Build a plan and start working backwards

Your business now has a target fundraising date based on its operating runway. Now it's time to build the operating plan that supports that date and clearly outlines what your business needs to accomplish.

As a founder, it is your responsibility to collaborate with your leadership team to build the operating plan, define the metrics (for guidance, review the metric benchmarks provided in Chapter 3), and the specific milestones your business will need to deliver. It is not enough to say you want to be Series B and C ready by a certain date, your business needs to show the organizational structure required to support that.

For example, if you are looking to raise a Series B in 15 months with $12m in ARR:
- What is the sales team structure that your business needs? What are the funnel efficiencies that said team will need to deliver to ensure a cost-efficient commercial process?
- If your product needs to have a series of features that will enable you to increase ACV or move upmarket, what are the product delivery dates?
- What does your organizational design look like, and what is the impact this will have on your operating runway?

A good operating plan provides clear strategic context, the organizational structure, and the milestones that support the timely execution of your company strategy (which underpins your fundraising target date). It also becomes a fantastic artifact to share with your investors, and the broader company to drive alignment as well as focus.

Putting your fundraising process into action
Translating the funding process into an operational plan

What gets measured, gets executed

After the plan is set, you now need to be proactive and make sure you are driving performance accountability against the operating plan with monthly reviews. A monthly cadence will allow you to track progress and iterate as needed.

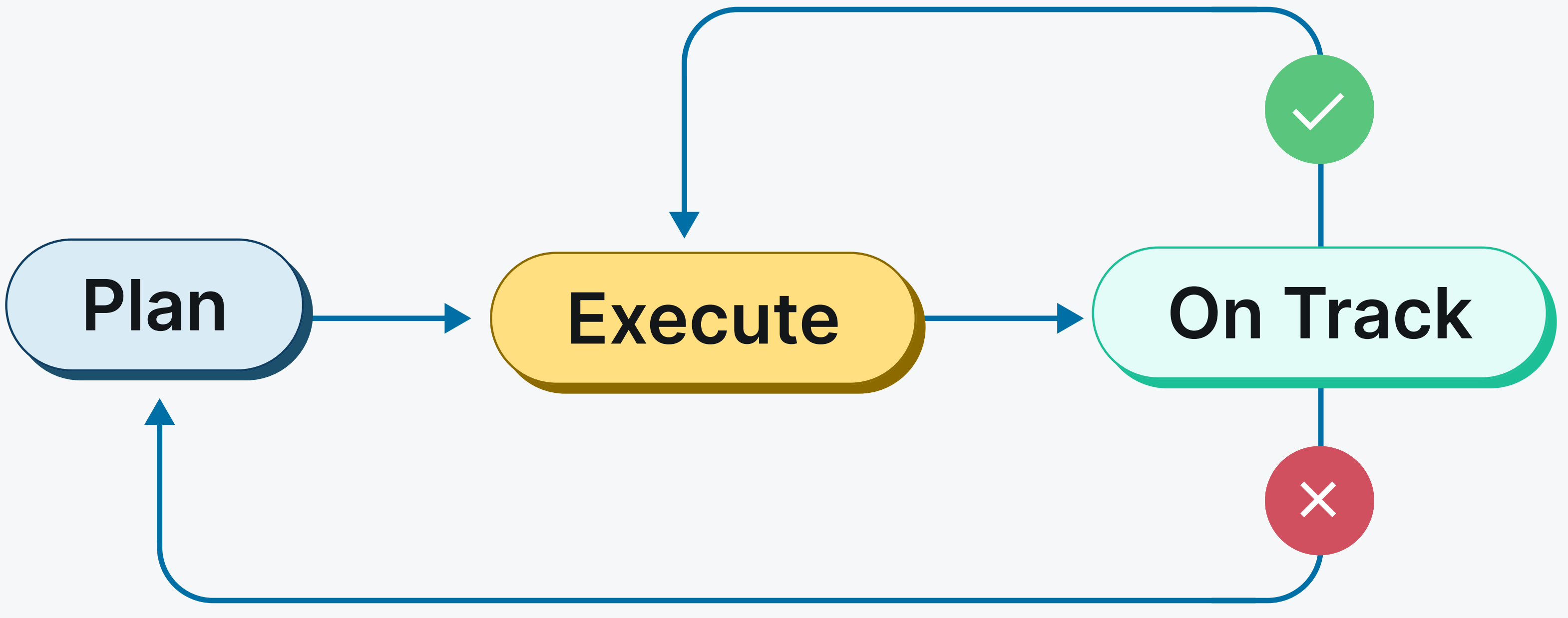
To foster a good culture of performance accountability, make sure everybody in the company has access to the metrics that matter. As a founder, it is even more important that you have real-time visibility on your financial and operational performance. This will give you the opportunity to take advantage of any opportunity that arises, or be able to quickly correct any deviations from the plan.

Once you have an operating plan, measurements on that plan, you need to consistently pause and find opportunities for improving, re-forecasting (looking at the impact on your runway), and iterating.

Turn your operating plan into a fundraising plan

You have executed against your operating plan, successfully iterated when needed, and delivered the milestones you established. Now, as your target fundraise approaches, simply translate the metrics and milestones of your operating plan into the core “fundraising metrics” and funding narrative. Your track record of performance will become the foundation of your data room, investor conversations, and drive the initial momentum of your fundraising process.

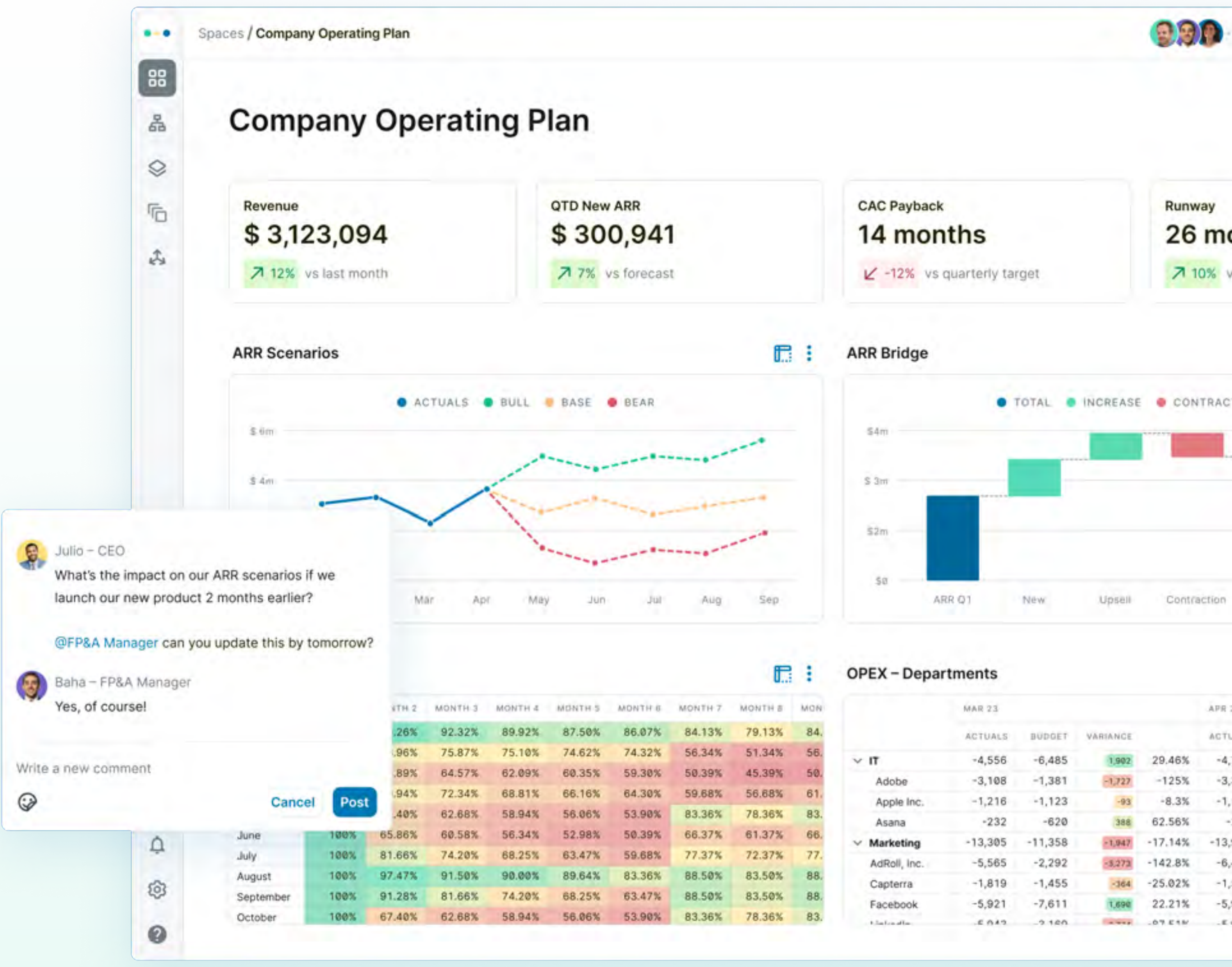
The building blocks of operational execution



Drive operational success with Abacum

The complexity of managing a fast-growing company and consistently delivering against your operating plan is not an easy feat.

Therefore, it is no surprise that during the period leading up to fundraising many startups may lose focus as they try to scale in many different directions (e.g. operations, company building, growth, fundraising). Without clear alignment and performance reporting, the operational plan and burn rate may be overlooked and potentially put the fundraise target date at risk.



This is why we built Abacum.

Abacum is the FP&A automation platform that acts as a central hub for founders, finance teams, and operators to build and execute on the operating plan that translates into a successful round.
At Abacum, we have seen firsthand how behind the success of any Series B or C round lies a consistent track record of 12+ months of operational execution. With Abacum companies can:

Connect their operational plan and data systems to drive real-time reporting of their financial and operational metrics, in one single place, and always tracked against target benchmarks.

Ensure accountability of their operating plan with structured workflows that help the leadership team seamlessly review performance and take corrective actions that put metrics back on track when needed.

Deliver faster insights to take advantage of every opportunity with bottom-up or top down forecasts, scenario analysis, vendor budgeting, or headcount planning.

Translate their operational success into the fundraising data room that immediately creates alignment with investors, automatically includes the custom metrics that support the funding narrative, and clearly demonstrates Series B and C readiness.

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7

Conclusion

Conclusion

The current economic climate has had a significant impact on growth-stage companies, which have been more adversely affected than early-stage companies due to the closer proximity to public markets.

In practice, this means that investors in Series B and C companies have shifted from a focus on “growth at all costs” towards favoring capital efficiency and outlining a clear path to profitability. While top-line metrics like YoY revenue growth are still important, investors have started looking at metrics further down the P&L with metrics such as burn rate and CAC payback becoming even more prevalent. In addition, investors have generally become more discerning and are increasingly requiring downside protection and minimum return thresholds.

To succeed in this environment, companies should prioritize capital efficient growth, minimize burn rate, the execution of their operational plan, and build relationships with investors who share their long-term vision. By adopting the strategies shared in this handbook, companies can navigate the current economic climate successfully and position themselves for long-term growth.

Abacum

Abacum is the leading FP&A automation platform to drive efficient growth with faster revenue forecasts, scenario analyses, tighter cost controls, and stakeholder accountability.

Leading companies like Factorial, Tier, ezCater, Leapsome, and Yoco are using Abacum to drive operational execution and make better decisions.

Learn more at www.abacum.io

CREANDUM

Founded in 2003, Creandum is a leading pan-European early-stage venture capital firm. The fund’s portfolio of 120+ companies includes some of Europe’s most successful tech companies across a wide range of industries, including Spotify, Klarna, Depop, Kry, Trade Republic, Pleo, Factorial and Neo4j. Today, every sixth company is a unicorn.

Creandum's advisory teams are based in Stockholm, London, Berlin, and San Francisco and offer extensive operational expertise to support the funds’ portfolio companies from seed to exit to become global category leaders.

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