The definitive guide to raising a blockbuster seed round by leveraging FOMO

One of the things I find most fascinating is the psychology behind early-stage investing. Over the past couple of years investing at Episode 1 and from founding Focal, I've become somewhat specialised in helping companies optimise their rounds. There've been some interesting discoveries along the way. The first and most important thing to understand is that there's so much more to fundraising than having a good business.

Temps de lecture : minute

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13 July 2023

If you have a great business, investors will probably find you and you'll raise an ok round. The trouble is, you might miss out on a great round.

It's perfectly feasible for a company raising a £1.5M seed round to instead raise £3M by doing a few things differently.

Founders often underestimate (or don't think about) the power of FOMO (fear of missing out) when raising their rounds.

I want to unpick FOMO and offer practical advice to founders on how to build it and use it most effectively.

What is FOMO in this context?

Because there are many investors a founder can speak to, investors know they have to move fast on good deals or else another investor will beat them to it. The speed at which investors feel they need to move varies greatly between deals and depends largely on the amount of FOMO generated.

For investors, FOMO builds when they feel like other investors might be getting excited about a deal they’re interested in.

Why does creating FOMO matter and what difference will it make?

It matters because you’ll be able to get investors to move fast and in tandem with one another. Fewer investors will drop out too, because they’ll be thinking ‘if other funds are interested, we probably should be too’.

Ultimately, you’ll be offered better term sheets, sooner, and you’ll be able to get back to building your business.

How to create FOMO at pre-seed and seed stage

Step 1

How much should you go out for? It’s often best at pre-seed and seed to go out for the amount you actually need to execute your plan, and no more. This way you’ll attract interest from the maximum number of investors and limit the risk of receiving no term sheets. Later in this guide I’ll explain how you can increase your round size later on.

When you’re creating your deck, the narrative needs to make it clear that if things go to plan the business will be huge. Don’t just state the size of the entire b2b SaaS market, instead go bottom up. How many people feel this pain point strongly enough to pay for your solution and how much will they pay.

If you have a logical and compelling answer to this you’re well on your way to convincing investors, particularly if you have some evidence (even anecdotal) to support it.

If investors get the feeling that this could be too big to miss out on, they’ll take a meeting.

Step 2

Design the deck well by following *these* rules from YCombinator. Remember that your deck is primarily to secure a first meeting, so make that your goal. Your deck isn’t there to get the investor over the line on a decision to invest and that’s an important distinction to make or else you’ll try to tell the investor too much in the deck.

The deck should strike a balance between being abstract/mysterious/philosophical and being detailed - but always paint a big vision. Generally the advice I give to founders is to add grandeur and remove detail because when you’re in the weeds as a founder, you tend to over do it on the detail which may serve only to make investors less excited.

Step 3

Do a few practice pitches on yourself, trusted advisors, friends or co-founders to hone and improve it. Go through each part of the pitch and deck as ‘devil's advocate’ and pick holes in the argument/story.

> *Repair those holes thoughtfully and coherently because your answers to these weaknesses, risks*

> *and issues are where you'll really win over the investors.*

You should then build a list of 50+ investors who you think are likely to invest and who you want to invest. To build this list, use your network and Crunchbase Pro and then find someone who can introduce you to each investor. Build a simple CRM on Notion, Excel, Monday, Airtable or whatever you like using to manage the process.

Step 4

Book meetings with these investors so that the meetings are all within two weeks of each other.

If you have all the meetings in quick succession you'll start to notice the 'whisper effect' where investors (mainly Associates) start talking to each other about your company. This is a sign that FOMO could be growing amongst investors. Hopefully you'll start getting messages from investors who weren't on your original list asking for meetings.

The other great thing about having the meetings in quick succession is that you can legitimately talk about how fast the process is moving. You'll be able to say things like 'we've got meetings with a bunch of other top tier funds later this week' and 'we have second/third meetings booked with a bunch of funds that we like' which will all add to the momentum and sense that your business must be highly investable.

Step 5

Keeping the excitement levels high and investors moving in tandem is now the name of the game.

Prioritise the investors who are responsive and get those second meetings booked in soon. Deprioritise the investors who don’t seem that keen. Be honest with yourself, if the investor is being slow and iffy, they are unlikely to invest, so don’t waste much time trying to re-engage them.

Your aim here is to get second meetings booked in with a good number of investors. Again, try to book these meetings close to each other so you can talk about how your conversations are progressing which will keep the FOMO building. By the second or third meeting, the chances are that someone at the fund is really pretty keen on investing and is probably becoming emotionally attached to the deal.

Naturally, investors will move at slightly different speeds and that’s fine. Don’t be strict with timings, just suggest timings that fit your process schedule. Investors don’t like it much when founders try to make them stick to very tight deadlines - the harshness of the approach will reduce the emotional attachment and you don’t want that.

At this point the language you should be using with investors is centred around wanting to get the round wrapped up so you can get back to building. You could also use personal flattery and compliment the firm you’re talking to if you want their money - just like any sales process.

A phrase that works is something like ‘we’ve been blown away by the interest in the round and we’ve had a few meetings now with some top tier VCs but we really like working with you guys and feel there’s a good connection and also that you guys would offer real value add. We now want to get over the finish line and get back to building the company which is where our time is best spent’. This is all very nice and will keep the pressure up in a friendly way.

Step 6

Hopefully after a few more meetings with the investors left in the process, you’ll receive a term sheet.

Once you have a term sheet, you should message the other investors you’re talking to and tell them something along the lines of ‘we’ve just received a term sheet from one of our top-pick investors but have really enjoyed our conversations with you so far so wondered how you were getting along in the process. Would be great to hear your thoughts.’

The aim here is to get more term sheets and keep the FOMO up. Once an investor knows you have a term sheet, they know they need to move fast and it’ll also serve to deepen their conviction that your company is highly investable.

It’s not uncommon to start pushing for a larger raise if you receive multiple term sheets. You’ve limited downside and conjured up maximum interest by going out to raise the amount you reasonably need, but if you raised more, you could grow faster. I’ve literally seen the amount being raised increase 5x once multiple term sheets arrive and investors start battling it out.

> *Now you just have to pick which investor to go with.*

Hopefully this was a helpful guide to a pre-seed or seed fundraise.

If you want to pitch in front of just about every early stage investor in one go, apply to pitch at *Focal* and let me know you’ve done so!

Caveat to this guide

You will not have much luck building FOMO unless you have a good business and are an impressive individual/s. Using FOMO is all about getting good founders blockbuster rounds instead of ok rounds - it’s not something that can magically raise a round out of nowhere for a mediocre company.

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