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Underfunding a startup is risky because downstream capital might not be there if the startup hasn't made material progress.

It's a terrible idea to fund a plan that only gets a startup 80% of the way to Mars!

Here's why: 🧵 👇

Building a startup starts with an idea backed by some combination of research, intuition, experience and a huge number of assumptions.

The goal of a Founder is to learn every day and adjust the business based on these learnings.

Every new learning is either proof that a startup is on the right path (positive proof) or proof that the market reality and the startup's assumptions aren't in sync (anti-proof). Positive proof helps the fundraising story. Anti-proof hurts the fundraising story.

But fundraising is all about selling the future vision and potential economic outcome of a business to an Investor, and in this context positive proof and anti-proof play critical roles. They anchor the narrative and set the context for diligence.

Positive proof is evidence of de-risking and confirmation that the prize is worth the effort. Anti-proof is evidence that the business is more difficult to build than anticipated and brings into question whether the projected outcome is even possible.

And to an Investor, positive proof and anti-proof aren't equals. One piece of anti-proof could kick off a stream of additional questions. Or it could drastically impact deal terms. And in today's market it's a convenient excuse for an Investor to walk away.

The truth is that in today's market, startups need significant amounts of proof and no anti-proof to be fundable by a new Investor. If anti-proof exists then the company will likely need to pass the hat with existing Investors to fund until the anti-proof is in the distant past.

Startups should be capitalized such that enough positive proof can be generated and any anti-proof can be overcome before running out of cash.

And there needs to be breathing room in the plan because anti-proof is easier to generate than proof!

The downstream implication of underfunding a startup is that existing investors will be on the hook for bridging the startup at a very tense time....a time when the startup is running out of cash.

And a small "pass the hat" bridge round can be a negative signal. They typically happen when a startup misses its goals or overspends its budget or isn't able to attract outside capital.

The next "full round" can be challenging if it comes on the heels of a small extension.

The TL;DR: It's better to make sure a startup has enough capital to achieve important proof points than to fund a plan that's almost certain to fall short.

Running out of oxygen when you're 80% of the way to Mars will put a startup in a really painful situation!

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