

The Definitive Guide To Raising a Series A in the UK in 2024.

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Introduction.



I have just conducted over 15 interviews with a range of UK Series A investors, with most answering a 38-question survey in great detail covering every major aspect of raising a Series A in 2024, from all the key metrics, to how they think about topics like go-to-market maturity, product-market-fit and competition.

The aim of this piece of work is to help both founders and seed funds understand what to focus on to give themselves the best chance of raising a successful Series A.

Sincere thanks go to the following Series A funds in alphabetical order Albion, Atomico, Beringea, Bessemer, Balderton, Creandum, Earlybird, Mercia, MMC, Notion, Molten, Octopus, Smedvig and Triple Point.

Seed funds have a little talked about metric called the 'graduation rate'. Simply, this is the % of Seed-backed companies in their fund that go on to raise a Series A, and staggeringly according to data from Dealroom, the industry graduation rate is just 19%.

So that means over 4 out of 5 companies that load up with £2-3M in cash won't make it (yes some don't raise again and do OK or become 'zombies') but most simply run out of cash and go under.

So it's clearly a very hard journey to secure a Series A, and I wanted to find out what has changed, if anything, from the bubble of 2021 to the harsh realities of late 2022 and 2023.

Who should be reading this?

To be clear this article is for:

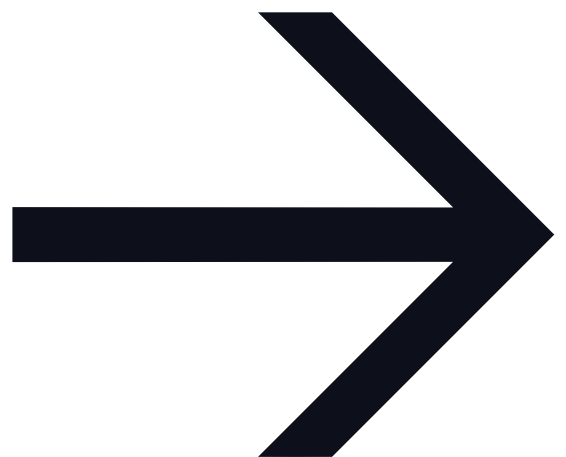
- UK founders who are at the seed stage and are looking to raise a Series A in the next 24 months
- B2B SaaS founders and you have started your revenue journey
- SMB, mid-market or Enterprise B2B SaaS

The difference between the three main sales motions listed above is huge, so many operational things change – your cost base, team structure, your core sales, risk and efficiency metrics and I have catered for this in my research.

How this benchmarking report is structured.

There are two distinct parts to this report. Part One is a commentary on some of the key themes that emerged from my research and some industry observations I have made over the last year. I had assumptions going into this that were simply wrong.

In Part Two, I will unpack every single question I asked in the survey and give you sentiment and target metric ranges I got directly from the funds. In a lot of cases, I will be quoting responses from funds verbatim but maintaining anonymity. Each question and answer could be a blog post in and of itself, so rather than consume this in one go, perhaps use it as a sort of 'manual for raising your Series A'.





Fundraising is not an exact science.

Every time I thought I was getting close to a universal way of thinking across all the VCs about a particular metric or topic like 'go-to-market maturity', someone said something contrarian. I'm sorry to say that there are no industry 'standards' when it comes to venture capital – which is not entirely surprising given funds all differ in size, approach and structure – and I'm sure for almost every conclusion in the research you can find an exception.

This is partly why fundraising is both art and science.

But what I can confidently say, is that I am directionally correct. I am trying to help you secure a Series A with the right valuation and terms, and simply put, the more you fall outside what is considered good or great on each of the questions in the survey, the harder it will be to raise.

Have things changed from 2021 to 2024?

In short yes...but it's nuanced. And the picture is overly simplified in the tech press. I first raised venture capital in 2013 in New York from a VC called Greycroft for a company I co-founded called Ceros. It was a \$3M Series A!

Clearly today, that's a Seed-size ticket. When we went on to raise our Series B of circa \$10M (today's Series A ticket size), it was described to me by one of the VCs as the 'shit gets real' round. He called the Series A back then 'the hopes and dreams round'.

I remember it vividly because we were a hair's breadth from not pulling off the series B which meant the company running out of money and going under...it took 6 months and the due diligence was intense around our core metrics. That business is now closing in on \$100M in ARR.

In late 2020 to early 2022, we all lost our marbles. Deals were being done in a week or shorter with no due diligence, and I even heard stories of VCs being sent a one-slide deck and being told they had 24 hours to make a decision.

Well, obviously, that's all stopped. But I do smile when people talk about the bar going up for the Series A, because what's really happened is we have reverted back to the sensible norm. It is the modern 'shit gets real' round because you now have real-life metrics and data to be scrutinised.

This reverting to a sensible norm is also now true again for the length of time it takes to raise a Series A. Assume 4-6 months from start to finish, so it's important you start the process early enough – the closer you are to 'cash out' the less leverage you have.

However, not only did startups raise way too much cash at silly valuations in 2020 to early 2022, but VC funds themselves also raised massive funds too – in some cases you could certainly argue – too much! This is capital they have to deploy to achieve the returns they have promised their LPs in order to be able to raise their next fund and stay in business. We are seeing more and more funds close down or move into zombie mode.

So the UK VC market is curiously at odds with itself. The bar has returned to the right level for Series A impacting the flow of capital to seed companies whilst the need and quantum to invest has never been greater.

I see this as reassuring, and a great opportunity for companies who are executing really well. One last important point, whatever you read on Sifted, you don't need to be an AI startup to get investment – although having a narrative on how AI will impact you operationally and can feature in your roadmap is important.

You are in the business of fast growth like it or not!

I am pretty deeply entrenched in the early stage VC-backed tech company eco-system, and I have noticed a dangerous mindset take root in both the UK and indeed the US.

That is the mantra that 'efficiency always trumps growth', and that VCs are looking for profitability even at the Series A. Indeed, there almost seems to be a prevailing view that growth is not even that important anymore.

WARNING: You couldn't be more wrong.

Yes, of course, the days of crazy cash burn are thankfully over. I did that in my last startup and it didn't end that great for me!

But as long as your unit economics are sound, burning cash makes total sense and it's why VCs exist in the first place. Not a single VC I talked with would invest if you are below 2X growth. **At least half set the floor at a minimum of 3x.**

Please beware of drifting inadvertently into no man's land – feeling great about your £1M in ARR but with annual growth slowed to <50%. It could be fatal.

In a recent post on SaaStr, Jason Lemkin published a super helpful table on minimum YoY growth and I've cut and pasted it below:

“No VC wants to invest in mediocre growth, what is that?”

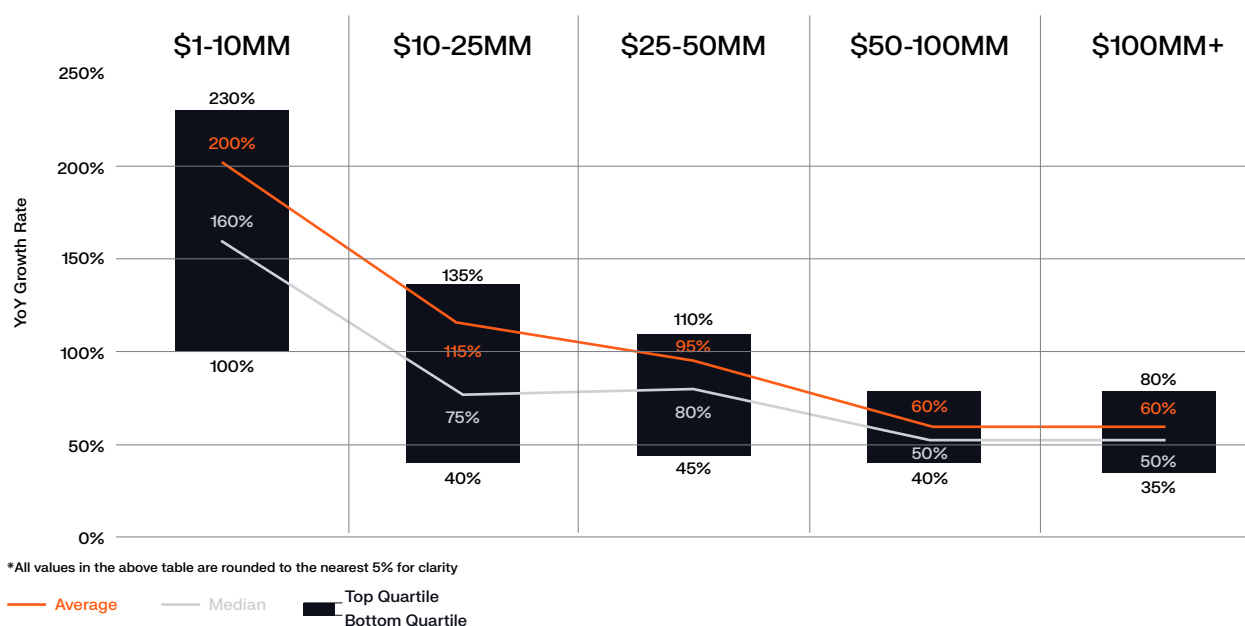
- From say \$100k-\$1m ARR, growth less than 200%
- From say \$1m-\$5m ARR, growth less than 125%
- From say \$5m-\$15m ARR, growth less than 100%
- From \$20m-\$40m ARR, growth less than 60%-80%
- From \$50m ARR, growth less than 60%
- From \$100m ARR, growth less than 40%-50%”

I stress here, that these percentages are the absolute minimums. The full post is [here](#).

Bessemer, where I am an Operating Advisor has also just published a fantastic benchmarking report on ‘Scaling to \$100M’ in revenue based on internal data over many years of investing. You can see the full report [here](#), but the below chart shows the importance of ARR growth, with top and bottom quartile and median growth rates at various stages of revenue scale.

The YoY growth rate trends by ARR scale.

Lesson 1: ARR is the North Star



The VC Business Model.

At the Series A, you are selling between 15-25% of your business to a VC, and it's so important you understand how they make money, just like you should deeply understand the businesses of your most important clients.

Lots of people think being a VC makes you automatically rich. For some yes it does, but now I am spending more time in a VC firm as Entrepreneur-In-Residence at [Episode 1](#) and now also at [Bessemer Ventures](#), and talking with VCs pretty much every day, I now understand why it is so hard to actually make money, and also how long it takes!!!

Many VCs I know still haven't picked up a carry cheque – which is typically 20% of the money made after returning the fund – 10 years into the job!! Yes, it takes that long for a portfolio of companies to grow up and exit. And some funds will never return enough to even get to carry (especially if you deploy at the top of a hype cycle like 2021) – something you won't get clarity on for perhaps 6-7 years as an early-stage investor. Buckle up for the slowest ride of your life!!

So let's dig into the returns model which drives everything at a venture capital fund. One of the questions I asked the VCs in the survey was 'What percentage ownership do you expect at exit as a Series A fund'. The

range is broadly 10-20% and they get there by continuing to invest in future rounds using their pro-rata rights. Let's say 15% to keep the maths simple.

If you have a £500M fund, and you expect to own 15% of the companies at exit from the 30-40 companies you invest in out of that fund, you will need that cohort of companies to be worth £3.3B at exit – **just to return the fund!**

Funds need to broadly hit about 3X total funds raised to make the business model work for them and their LPs (the investors investing in the funds) – so a £500M fund will need that cohort of companies to achieve £10B of exit value. **EXIT VALUE.** That's cold hard cash through IPO, PE or trade sale.

To put it simply – any fund over £150M is in the business of unicorn and decacorn hunting. In Europe! And to put that further into context, as of Saturday 3rd February 2024 [UiPath](#) one of Europe's rare decacorns is currently trading at \$13B (so just over £10B).

Now go back to the idea of slow growth! The larger the fund, the more conviction they need you can scale to £50M, or more commonly £100M plus in revenues. Some partners at giant funds in the US and UK will need to get conviction you can get past £500m! Remember, public SaaS is currently trading around 6-8 X revenues.

So, understand the business you are in when you raise venture capital! I can sum it up as:

- Very fast growth
- High gross retention and NDR
- Strong underlying unit economics, read efficiency
- Highly defensible

And unlike 2020-early 2022, you can't get to revenue scale by just throwing money at the problem – yes, the game got harder.

Sidenote – there are a number of UK VCs who do not have to obsessively hunt for companies that will scale to £100m + in revenue and are instead looking at a portfolio approach. If you are a lower-risk company that has a decent chance of getting to £10M-£20M in revenue, that's still a very impressive achievement/outcome and there are plenty of funds that will back you. Just focus your fundraising energy on the VCTs and smaller Series A funds. Swinging for the fences is not for everyone, and not even possible to achieve with many products.

The Big and Mild Surprises.

There were two big surprises and three mild surprises in my research.

Big Surprise One – Needing £1M in ARR is a myth

You don't need to hit £1M in ARR to secure a Series A. My long-held assumption was that to raise a series A you need a minimum of £1M. We will unpack that more in Part 2, but some Series A deals are happening at £500k in ARR, and in some cases even pre-revenue! Reason?

Quite simply, given how rare unicorns are, and how decacorns are even rarer, big funds can't afford to miss one given their importance to the core VC business model.

If you look and smell like a potentially huge company – rapid traction, customers that LOVE you, amazing founding team, huge problem, huge market, defensible product... you are ripe for an early Series A raise.

Big Surprise Two – Competitor landscape is way more important than I thought

I've raised over \$100M in venture capital, mostly in the US, and I'll be honest, I put the least time into the competition slide on the pitch deck than any other slide. You know the one I mean, the 2x2 matrix that puts your startup up and to the right!

What took me by surprise in the survey responses was how critical competition is to making a series A investment decision, and how every fund placed huge importance on this. One major fund even said it's one of the highest priorities in their due diligence process. Be very clear on how you plan to differentiate your product over time and create barriers to entry.

Mild Surprise One – Go-To-Market Functional Maturity Expectations

My assumption coming into this research was that all funds would expect a pretty high level of maturity in the GTM function, that being predictable pipeline creation, 2+ reps consistently hitting quota and clarity on conversion rates across the funnel.

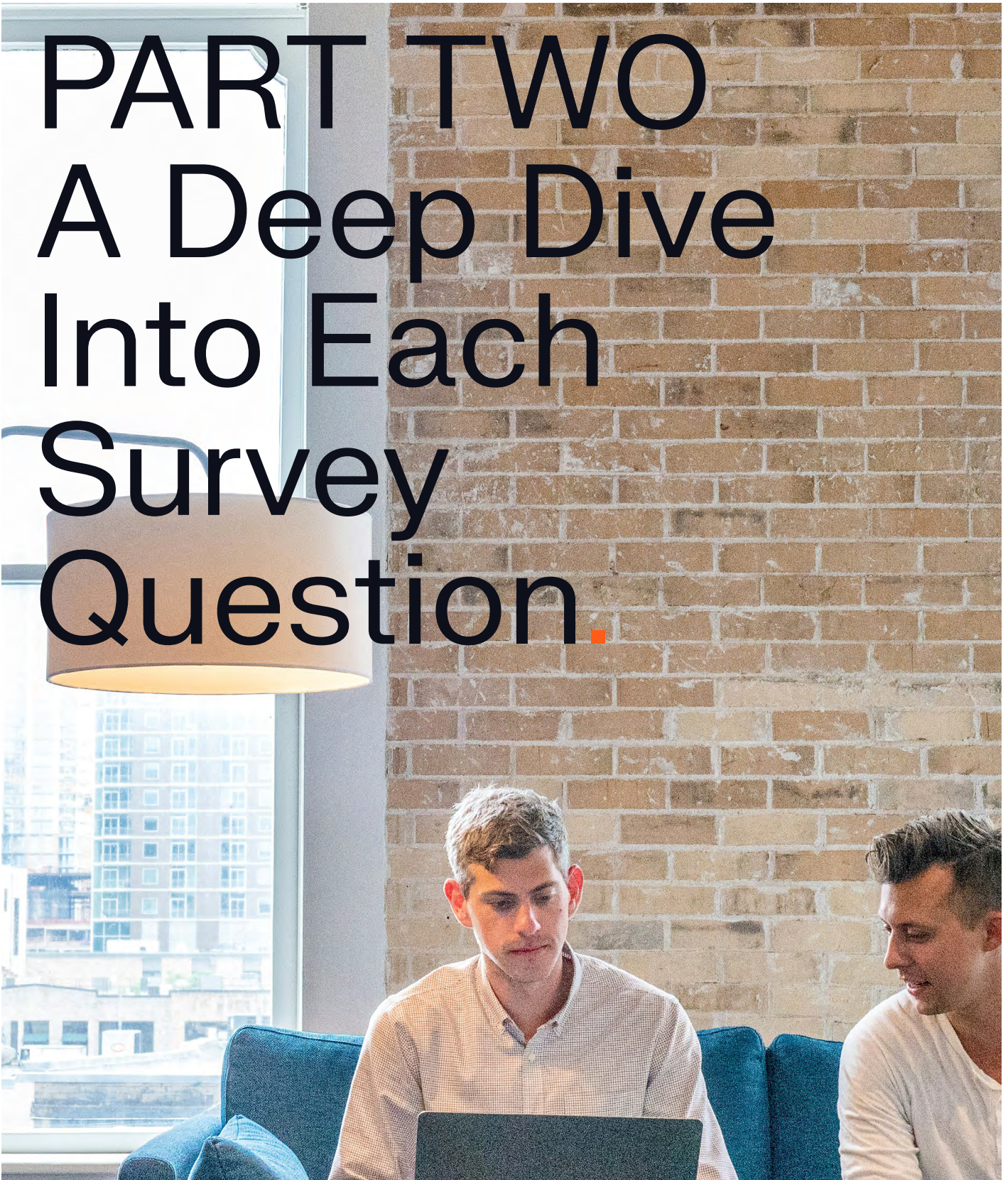
I was therefore a little surprised when a handful of funds were comfortable if the company is still at the founder-led sales stage. However, they were in the minority, and as you will see in Part 2, the majority of funds would like stronger evidence a product can be sold by hired in reps. To give yourself the best chance of raising your Series A, I wouldn't rely on finding those outlier VCs!

Mild Surprise Two – LTV:CAC is not a particularly useful metric

I've long thought this metric was a bit useless at the seed stage – it's good to know VCs feel the same way. Yes, it's important to track, but for a maturing post-Series A, definitely for Series B. But how on earth is a seed stage company, that may be two years old, going to know how long a customer is going to stick around!? Plus churn can be choppy in the early days as you refine ICP and improve product. This view is now shared by most Series A investors.

Mild Surprise Three – Secondary Is A Realistic Option at the Series A

The idea of a secondary at Series A is not an outright no. In layman's terms, a secondary means selling some of your shares directly and getting money into your own bank account (primary capital is the cash that goes into the business). I will say VCTs are not allowed to do this, traditional GP/LP VC funds can, and most are open to a small amount. More below on that in Part 2, but I welcome this. Founders are all in on one bet, and taking a small amount of personal financial pressure out of the equation allows them to focus even more on the very hard task of rapidly scaling a venture-backed company.



PART TWO

A Deep Dive Into Each Survey Question.

Metrics.

What is your minimum required ARR for a Series A investment?

Referencing 'Big Surprise One' above, this blew away my long-held assumption that you need to hit or be close to hitting the magic £1M ARR to even be considered for a Series A. Interestingly, the VCTs as an investor group tend to require this, but for the traditional GP/LP funds, throw out the rule book!

However, to pull off a Series A under £1M you need to be exceptional. I am an angel investor in a company that just raised from a top tier UK VC at £510k in ARR, but they got there from £50k ARR in just 12 months, won large respectable customers who gave raving feedback on the product and the CEO is highly respected in the industry.

In summary – don't let the £1M myth hold you back from raising your A but only try if you have a very exciting story around traction, product, pipeline, market size and team. And use the power of FOMO to get 'pre-empted' which means taken off the market before another fund spots you!

What range of ARR do you typically invest in at the Series A?

No huge surprises here (except as per the above on the low side of the range) but

across all funds, the ARR range is Zero to £4m. More typical is £1M-£3M as a guide.

What is the typical size of a Series A in the current market, and what is your cheque size range?

This was almost universal – £5M-£15M. Only one fund said they would aim to take the whole round, with most funds wanting to lead, but taking around 80% of the round.

What is the typical total investor ownership size of a Series A in % terms?

No surprises here, still in the 15-25% range. One fund went as far as 30%.

What is your minimum YoY growth for a series A investment?

To drive my earlier point home, I am going to quote some anonymised responses, something I will do frequently so you can hear directly from the horse's mouth. →

"Absolute minimum 2x, ideally 3x"

"A bit clouded recently, hard if less than 2x"

"2x is the bare min. to weak in current market, 3x is ok to good, 4x+ is great, but again doesn't say much if you start from a very low base..."

"3x+"

"3x YoY minimum"

"3x"

I stress this again – you are in the fast growth industry. Except now you are in the fast growth industry and expected to do this within a tighter set of efficiency metrics whilst developing a product people would sell their Grandmas for!

Make sure this YoY metric is absolutely front of mind when planning your 24-month, immediate post-seed to series A strategy.

In the current environment, do you generally accept lower growth but better capital efficiency?

Most funds flirted with ‘yeah we like efficiency’ – we all have 2021 PTSD after all – but pretty much every fund then caveated that with ‘we need at least 2x or 3x growth’ or even ‘as long as the unit economics work not too concerned with capital efficiency’.

If there was a trend, I’d say the VCTs look for capital efficiency more than the traditional GP/LP funds, especially the big ones.

One fund talked about how they think about the Series B as they are deciding on a Series A investment. Capital efficiency in today’s market is very important at the Series B, and it would be an orange to red flag if a seed company was very capitally inefficient as they would have to fix that post-Series A which adds an extra level of risk in a deal.

What maximum gross churn is acceptable for an SMB sales motion for a Series A investment?

There was quite a broad range of answers here, and the general theme was that some funds would accept higher gross churn if the acquisition cost was low.

The maximum gross churn range for SMB was between 10-50% – I would say 10% is a very high bar. There was very little consensus here with a number of funds saying ‘it’s hard to say’.

I would suggest targeting 20% maximum churn, and make sure you are tracking quarterly cohorts so you can show improvement over time as you improve your ICP and the product.

I would say anything below a £5k annual contract value would be considered SMB.

What maximum gross churn is acceptable for a mid-market sales motion for a Series A investment ?

There was a more narrow window for midmarket – ranging from 5% to 25%. I would recommend targeting 15% churn (ideally 10%), and again, ensure you have a cohort view of your customers so you can clearly see the newer cohorts are trending to the right churn %.

What maximum gross churn is acceptable for an enterprise sales motion for a Series A investment?

Much more consensus here – no one expects to see enterprise churn exceed 10%, with a majority at 5%. However, a number of funds also acknowledged that if you have a low number of enterprise customers and one churns for good reason, this could hugely skew the numbers. Again, the cohort view may well help here.

What is the minimum acceptable NDR %?

Ok so this was interesting. Many funds use this as a data point for product-market-fit (more on that below), however, one fund mentioned how this metric can easily be gamed so take it with a pinch of salt on face value.

An example of how this is gamed - lets say, year 1 is focussed on design partners with a low ACV, but you have baked into your agreements that they pay full price in year 2 if they get the value you promised. You then proudly present 150% NDR and think you will get showered with praise by your prospective investor.

You've got to remember that VCs see hundreds of companies and spot these patterns! However, genuine NDR is incredibly important to most VCs. Some are very specific e.g. "\$0-5Mn ARR – 113%, \$5-10Mn ARR – 125-130". Another stated "105%" and only one said "95%".

My recommendation on this is to present 'true' NDR figures, and it's vitally important you are over 100%. If you want top marks here – and remember in the tech crash investors saw eye-watering churn across a lot of their portfolios and horrible NDR numbers – I'd aim for 110% at a minimum.

This obviously then means you need to think carefully about your cross-sell & upsell motion, which impacts the product design and pricing.

Does that change for the three different sales motions, SMB, mid-market and enterprise?

The broad consensus here was 120% if you are focused on the enterprise. It's an interesting data point to suggest it's another reason to maybe avoid the enterprise as a seed stage company.

My last point on NDR is to make sure you have a cohort view as you will be able to see the NDR trend way more clearly, especially given you may not have gone through many annual cycles. This view of your customers is very powerful for you as a founder or exec team, as well as being a key request in due diligence by VCs.

What is best in class NDR?

Gaming aside (!) – anything over 130% for genuine NDR is seen as world-class. One

fund even invested recently in a company with a 200% NDR.

What is the longest acceptable CAC payback in months for an SMB sales motion?

This is a real focus for VCs in the post-crash world, especially as it takes into account gross margin (more on that below). For SMB one fund replied: →

“Depends on the sector and stage of growth. \$0-5Mn ARR, 7-12m CAC is more common, \$5-10Mn ARR 12-20months, \$10-15Mn ARR 15-20months (\$10-15Mn ARR for a Series A is high but has happened with bootstrapped companies)”.

A high proportion of funds wanted to see a 6-month payback at SMB, with a max payback period of 12 months, (although one fund said 18 months, which is a real outlier).

Between 6-12 months is a good target.

What is the longest acceptable CAC payback in months for a mid-market sales motion?

The consensus here was in the 8-18 months range – I’d say 12-14 months would generally be seen as good.

What is the longest acceptable CAC payback in months for an enterprise sales motion?

Here costs are acknowledged to be higher when chasing the enterprise and the consensus range was wider at 12-24 months.

What is the maximum acceptable CAC to new ARR ratio?

Ok so this one is a little non-standard, but the brilliant CFO of my previous company really likes this metric. Essentially you are looking at a ‘how much does it cost in sales, marketing and marketing expenses to acquire net new ARR’.

1:1 is healthy, so in a given quarter if you are spending £250k on sales and marketing, you bring in net new £250k. It’s a little like the Magic Number (which was not mentioned by barely any of the VCs) except it focuses on net new, not the total shifts in ARR including churn, upsell and contraction.

About 50% of funds look at this metric, citing 1 as good, anything approaching or over 2 being bad!

What is the maximum acceptable LTV:CAC ratio?

So as we already talked about, there is a general scepticism of this metric given the early stage which is in my view correct.

Churn could be high with the early non-ICP customers (totally normal), a low customer base means churn impact can be high when there is no problem, and this metric can be gamed.

Some funds did throw out a number here, with 2x being acceptable to some, 3x to others. Just to give you a flavour of the answers here: →

“I personally don’t look at this at the early stage. I rather look at churn and CAC payback individually”

“We don’t look at LTV/CAC since it is so often misleading given how low churn can distort LTV”

“Its kinda too early – focus more on inputs, CAC payback, churn low enough”

Tick the box here and move on. As long as churn is within an acceptable range you’re fine here.

What maximum net burn ratio is acceptable – so net burn to net new ARR?

So this has become the hot new metric in the post-tech-crash world. I advise companies to look at this on a minimum of a quarterly and half-year basis, definitely not monthly. You tend to have a relatively steady monthly burn, but sales can be lumpy in the early days, and one great or bad month can move this metric around pretty dramatically.

If you are on say a monthly board meeting cadence, make sure this is only reported on in the quarterly view so people don’t panic unnecessarily!

The ranges are 2-5 (although I have to say 5 seems high!). Most are pegging the maximum ratio at 2 or 3. It’s an important metric that funds scrutinise so you should absolutely be tracking this in your management reporting.

Do you have a gross margin expectation, if so, what is the minimum acceptable GM?

We have a consensus again! The absolute floor is 70%, and a handful of funds peg this at 80%. Part of the craziness of 2021 was that everyone claimed they were a software company, even though they had low GM (which suggests you are not a pure software company!).

So a GM north of 70% is absolutely critical now and in the normalised world – otherwise, most of your core unit economics falls apart.

How do you calculate Gross Margin?

Over the years I’ve been involved in tech, I have seen some really whacky things go into the COGS (cost of goods sold) line for a SaaS company, often by finance people. I would imagine some companies didn’t get that all-important first VC meeting because their gross margin looked too low, say <60-70%. In football/soccer parlance, it is the epitome of an own goal.

I've seen people adding costs like the development team, the sales team, and even portions of the exec team! All this is totally wrong. In most cases it's just hosting, LLMs, any third-party software used in the product, support people and some (or perhaps all) of the customer success costs. This last point is debated among firms, but I know US firms often add all of CS to the COGS line.

Beyond that, there was consensus here across all funds, with one partner giving me a very detailed description so I thought it best to simply copy that for you here: →

“Calculate Total Revenue: This is the starting point for the gross margin calculation. In a SaaS business, this typically includes all the revenue earned from subscriptions, services, and any other sources during a specific period (usually monthly or annually). **Identify and Summarize Cost of Goods Sold (COGS):** In SaaS, COGS includes all the direct costs associated with delivering the service to customers. These costs can vary but often include: **Hosting Costs:** Expenses related to servers, cloud services, or data centers. **Support and Success Costs:** Direct costs of customer support and success teams. **Software Licenses:** Costs for any third-party software used in service delivery. **Direct Personnel Costs:** Salaries and benefits of employees directly involved in service delivery (like system administrators, hosting managers, etc.). **Amortization and Depreciation:** Related to capitalized software and hardware used in delivering

the service. **Calculate Gross Profit:** Subtract COGS from Total Revenue. This gives you the gross profit, which is the profit a company makes after deducting the costs associated with making and delivering its services. $\text{Gross Profit} = \text{Total Revenue} - \text{COGS}$.

Calculate Gross Margin: Gross margin is expressed as a percentage and shows the proportion of revenue that exceeds the COGS. To calculate the gross margin percentage, divide the gross profit by the total revenue and then multiply by 100. $\text{Gross Margin \%} = \left(\frac{\text{Gross Profit}}{\text{Total Revenue}} \right) \times 100$ $\text{Gross Margin \%} = \left(\frac{\text{Total Revenue} - \text{COGS}}{\text{Total Revenue}} \right) \times 100$

There really is nothing more to add after that very detailed response. Much appreciated!

How much do you value NPS scores? What do you see as good?

Most funds simply don't track this at all and some amusing comments here like “Bullshit bingo :)”.

A handful of funds did like to see NPS scores used, and one said it would factor into decision-making only for an SMB customer base.

This VC didn't hold back!!!! “VCs seem to like these but coming from an operational background, this is completely useless. I don't care and never look. The only reason

consumers respond to an NPS survey is if they are pissed off, blown away, incentivised with a discount. Great (and upset) customers give feedback in other ways when it's relevant and authentic. There are better ways to measure customer love and satisfaction. "How likely is it that you would recommend our company/product/service to a friend or colleague?" NPS was created by a Bain consultant in 2003. It's a bit dated, I prefer more engaging interactions and I find that CX teams have better input here and know the answer pretty fast."

I'd say nothing much to see here, it's not going to impact any investment decision but I have found as an operator it can be handy at least from a directional perspective if you have a large volume of individuals using your product.

Does the rule of 40 factor into discussions?

Total consensus. Series B metric.

Are there any other metrics you look at that I have missed?

I will just cut a paste a few answers here so you have the full picture which will help any data room / DD process: →

"We look at Magic Number, Years to Size (ARR), R&D Spend, S&M Spend"

"Fundamentally this is about PMF....unit economics is working"

"Revenue per employee, contribution margins, burn (in €), magic number / sales efficiency"

"Look at sales cycle length and look for the balance between S&M, R&D and G&A cost/ staff. Want to see at the Series A a proper tech business with fewer sales ppl. I.e. show that revenue is generated due to product, not related strictly to the number of sales ppl"

"We also look at net burn (not only burn multiple), pipeline value, conversion across stages for the pipeline (to predict future rev), ARR/FTE"

It's interesting that revenue per employee has popped up a few times here. Obviously, there are some key sales pipeline metrics to be tracking, with the main ones below:

- Amount of pipeline created in a given month / quarter (measured using SQOs)
- Gross pipeline value
- Weighted pipeline value
- Sales cycle length
- ACV
- Conversion rate from SQO to closed won, and across stages too if you have that data

Sales and Marketing.

Can you describe the level of GTM maturity you are looking for?

This was of particular interest to me, and I had assumed the bar would have gone up in this area post-crash. I was a little surprised to learn that a number of funds were quite happy if the company is still in the founder-led sales phase. One comment was “ideally someone who is not the founder has closed a few deals’. Another was “We say “product-market-fit”. Have you mastered your local market with a few customers that really love what you’re building?”.

However, a number of funds are looking for something more than founder-led sales and expect to see a little more of the GTM infrastructure in place: →

“A series A company should show a clear product-market-fit, and upon raising a series B you should show a G2M-fit as well. This means that upon raising a series A, you should show repeatability in your sales motions and pipeline metrics, incl. good conversion rates, within your core ICP and home market plus maybe started to expand into your first international markets. You want to show that you can scale your G2M efforts efficiently with your Series A investments, i.e. unit economics, sales efficiency and pipeline conversion are good. After the series A investment, you need to show that you have predictable and repeatable G2M playbook and thus can scale these efforts into more markets, and product lines”.

“Moved away from Founder sales (or sales by chance) into a more reliable & repeatable motion. Does not rely on Partnership sales at this stage, which is usually developed at the Series B. Want to see at least 5 accounts for Enterprise or 10 accounts for mid-market. Ideally have gone through the first renewal cycle/have upsold during the year. Evidence that the first customers are absolutely raving about the product (e.g. referrals/expansions/ other). First international sales crucial if based in a small country/France, otherwise strongly desired. Able to argument well how product is differentiated from large existing players in a defensible manner”

“Varies a lot but we would ideally like to see a sales motion that works outside of founder-led sales (although founders can still be heavily involved). We like to see some clarity on conversion in the funnel e.g. SQL -> Demo -> Demo to PoC -> PoC to Signed contract”.

“Evidence they are moving away from founder-led sales, maybe 1-2 senior that are selling, they have some view on outbound versus inbound and what they need to invest in. Usually 4 -5 people in the team overall. Want to make sure it’s not just the founder charm! That founders are able to train others to sell”.

In all my experience, GTM is where founders really struggle – a lot of the common mistakes in the Seed stage are in the GTM execution. GTM is hard for people who know what they are doing, it’s almost impossible if you are making it up as you go along.

The big issue is that if you get it wrong the first time around, let's say you hired a VP sales way too early (one of the most common mistakes) and or you hired the wrong profile of sales people, it can take a year to rebuild, given how long it takes to hire and ramp reps.

A critical part of the Seed to Series A journey is getting the early GTM machine set up in the right way. Even if some funds are more relaxed if you are only at the founder-led stage, enough funds expect more than this, so to give yourself the best chance of landing your Series A, it's really important to get some consistency in your pipeline creation, and 1-2 reps hitting quota.

I wrote a chapter outlining my GTM playbook on the zero to £1m+ journey in the recently published book [“The Go To Market Handbook for B2B SaaS Leaders”](#). Either buy the book or email me paul@inthistogether.vc and I can email you the chapter stand-alone.

Competition and Defensibility.

How do you think about competition and the current and future defensibility of potential investments?

Competition and competitive moat is universally seen as a critical factor for all funds when considering making a Series A

investment. In fact, I'd go as far as saying that of all the answers I got, sentiment here was unequivocal across the board.

One fund ranks this as “one of the highest priorities in our DD” while another said “We would almost never invest when there is a well-funded competitor in the same or near adjacent space.”

Of course, there is a general recognition that we are in the early days – but funds need to hear a differentiated vision that they believe can be productised.

Only one fund said concerns around competition and moat can be overplayed.

I have mixed views on this topic as a former operator, but I have not competed in ultra-competitive environments, and the markets I have played in have been very large. I do believe that over time good founding teams will find ways to create differentiation in their product and execution.

But it's not me you need to convince! Just to reiterate how important this topic is to funds, here are some direct quotes from the survey: →

“This is tricky as it depends, we have invested in over-saturated markets and undersaturated ones. Revenues and traction can really trump any questions on defensibility. Never underestimate the power of a winning brand.”

“Really important at series A.....you want them to be doing something exceptional...it

has to be 10x better than the competition – very important.”

“Rank it very high, one main reason for rejecting a startup is that it’s operating in a too-red ocean market and has little defensibility in the product.”

“We think a lot about this and want to see either team moat, GTM moat, product moat, or geo moat but would say we focus on team and product moat”.

“Very few startups have defensibility on day one however we look for founders being intentional about building moats. At maturity, we need to believe there is a moat (competitive and stickiness) such that the company has price and margin control”

Talent.

How important is the team to you?

It won’t surprise anyone to hear all funds were unanimous in their view on the importance of the team. If you put this into a word cloud you’d see the following words in large type – “vital”, “everything”, “very”, “top priority”.

Here are a few quotes directly from the survey: →

“Super important, team is everything. Best successes are strong teams that find a way

through hard times, and industry insight that enables them to build a great product. Self-awareness and grit. Self-awareness is important to grow a team.”

“Founder quality is the most important thing at Series A. In terms of wider SLT, we don’t expect it to be well built out, but it’s a positive up signal if an impressive SLT hire has been made and is happy”.

I don’t disagree with the viewpoint here, it makes complete logical sense you want to back the best team possible. I would however say, that for me product market fit is still number one – I’ve directly witnessed what happens when you have it and the market is falling over itself to buy your product. Companies can win here ‘in spite of themselves’ – and you can fix teams over time, including the CEO.

But of course, these are outlier situations – having spent time now on the VC side of the table, I’ve witnessed first-hand how much time is spent discussing the team, with the phrase ‘founder-market fit’ being used frequently. To give yourself the best chance of landing your Series A, make sure the team is world-class.

How do you assess the quality of the CEO?

There are many things you learn over the course of a 25-year career building companies, and one big one is ‘don’t burn your bridges!’. It’s a cliché – but I have done

this a few times in the cauldron of startup life where emotions can get the better of you – and ended up regretting it each time.

Not only this, but I can't overstate the importance of just being a decent respectful human being in all your interactions, be that with peers, employees, investors or vendors. Hopefully, this comes naturally to you!

Because if you are not, and you burn bridges at will, it could have serious implications when raising capital. Funds will check all the boxes you expect – reference checks, interviews with multiple partners and evidence of being able to attract top talent and articulate a compelling vision – but often without you knowing (I have seen this multiple times), they will 'back channel' to former employees, senior people you have worked with previously and others in their own network may know you.

The CEO has a disproportionately huge impact on the company and is therefore a clear area of risk in any investment. Here are some ways funds think about the CEO: ➔

“Founders to be convinced of the big opportunity ahead & able to effectively convince others of that, yet coachable/ winning advice from others to avoid spending time re-inventing the wheel. Need to have made top-notch hires and evidence of making others believe in the company, effective at keeping the best talent, acknowledging own weaknesses as CEO to be covered by great talent”

“We have internal HR teams doing interviews with the CEO, in addition to the investment team's interaction. Would assess: domain expertise, visionary, execution capability and drive (willingness to go fast), ability to attract talent, decision making, listening and open to feedback etc.”

“Conversations over a long period of time, culminating in an attributes questionnaire close to Term Sheet. Looking at speed of response and execution, strategic thought, data led decisions, awareness of weakness and gaps, intellectual curiosity etc. We do referencing as well.”

“We have a proprietary model covering 6 investable traits and 6 traits linked to the ability to scale”

“Spending lots of time together. We assess their communication and sales skills as well as their technical and domain knowledge.”

How do you assess the quality of the leadership team?

Leadership is assessed in much the same way as the CEO, although the DD won't go quite as deep on each one. One fund said the leadership team is a “reflection of the CEO's competence”. There is no doubt funds will interview each member of the senior leadership team, and they will be assessing both skills in their respective field as well as overall leadership style and drive.

Do you have a minimum available options pool required pre-money for a Series A investment?

The answers here were quite mixed. Some funds don't have a minimum available pool requirement, but most expect to have a 10% pool available once the round is complete, out of the post-money valuation. Certainly enough for the Series A to Series B hiring journey.

Those that did give a number were in the 5-6% range, with one fund saying they would like to see 8% available, but they qualified this by saying it's "slightly dependent on how much of the leadership team is built out already with top talent".

Product-Market-Fit, Market sizing and Valuation.

What do you look for when deciding if a company has product-market fit?

There is no question that VCs across the board saw unprecedented levels of churn in their portfolios in the post-tech crash era. I've heard examples directly from VCs of companies with \$20M+ in revenues being almost completely wiped out as their clients started scrutinizing costs and decided their product was redundant or not adding value.

So I'd say giving VCs total confidence you have or are very close to product-market fit is now unquestionably the most important aspect of a successful Series A fundraise.

In addition to reaching the bar on all the key metrics we have already covered extensively, an interesting phrase kept coming up that I hadn't heard before – and that is to ensure you have a 'repeatable use case'.

I really like this – I've been tripped up here before where we were selling to one use case, only to discover our product was being used for a different, and much less robust use case. This is where your early customer success team is crucial in ensuring consistency of use case once the product is live and up and running with your customers.

Tied to this is having a deep understanding of how you are creating value for the customer for this repeatable use case, and how you are delivering an ROI for them.

The key metrics VC look at to support the product-market fit story are:

- Pipeline conversion and win rates
- Gross churn
- Upsell / +ve NDR
- Ease of selling
- Product usage metrics (this is key!!!)

Of course, in addition to this, VCs will run extensive customer interviews and they are looking for RAVING fans who can clearly

articulate the value they are getting from your product. They may well also choose which customers they would like to talk with rather than be given the 4-5 customers you know will give great feedback.

Expert views will also play a part here – VCs have strong networks in fields they invest in, so don't be surprised to be doing a demo to someone with deep domain expertise.

I would also ask yourself some tough questions here – especially “What would happen to my retention metrics if there was a sharp economic downturn in the market that I serve”. Or in another way, “Is our product truly a must-have, are we solving a hair-on-fire problem?”.

In summary – prove product-market fit beyond all doubt and you dramatically increase your chances of securing a successful Series A, but this is also the critical foundation to building a big and enduring business irrespective of your fundraising efforts.

How do you assess the true size of a market?

There was a good deal of consistency here across the funds with the most common approach beginning bottom up e.g. ACV x number of companies that could be potential customers.

Top-down methods are also used with some funds seeing this analysis as largely

indicative at Series A, and more important at Series B.

Are there any industries or market trends you are especially focussed on?

I just want to dispel any myth that only AI companies are getting funded! Here is a cross-section of answers: →

“All!”

“No”

“We are fairly agnostic across software. Spent a lot of time looking at generative AI, more on the infrastructure level, but didn't do anything. Generally like vertically focused software companies. Focused on time-to-value for customers (less than industry)”

“Me personally: Consumer/E-commerce Enablement, Sustainability, Cyber Security”

“Enterprise software (Dev/Data/AI tools, IndustrialTech, HR & Ed tech, Productivity software, RegTech, ecom infrastructure) Fintech, Deep Tech”

“Dev tools, deep tech, future of work”

“Keeping a close eye on GenAI developments. Otherwise, continue to look for novel but strong monetisable FinTech solutions and compliance tech is attractive now”

“Generalist, but don’t like commoditised spaces (HR tech, productivity SaaS etc.)”

“Generalist, but looking at smarter data, health and wellness, gen AI, cyber, sustainability, smarter processes”.

There should be something for everyone there!

One comment to point out in reading the above is the survey reply that starts “Me personally”.....funds may be agnostic but partners do specialise. Ensure you do your research before reaching out funds, and make sure the partner you are contacting is investing in your space. It will significantly impact your response rates and the chances of getting that important first meeting.

How do you think about valuation? Do you use comps in public markets or does it come down to competitive pressure and the amount a company wants to raise?

Here I have to bow more to the financial modelling experts! Rather than give you my narrative on this, you can hear directly from the fund managers themselves: ➔

“We triangulate a few methods.

Fundamentals approach – market size x 10% market share (end state) x expected EBITDA margin given unit economics x 9 (long term stock market average) to give max long term profit pool. We then work back from that to see max price we can pay to give our target return. Decay curve

approach – similar but looking at likely position of business in 7 years following a growth decay curve from current performance and then applying benchmark public saas arr mult for that growth bucket. Those two tell us the theoretical answer and then we compare to what we think market series a multiples are to see if we can make something work.”

“Yes, we use all of those to triangulate but eventually have a band for acceptable valuations”

“We look at multiple of ARR & comps. We pre-set a maximum price would be willing to get pushed on so there is a little wiggle room for competitive pressure but up to a maximum”

“Still element of a factor of dilution. Top-end multiples seem to be about 25x”

“Multiple of rev, public comps (roughly the same) , competitive pressure. If the amount doesn’t make sense negotiate on amount. Also, look at the exit and using public comps for the exit then looking what returns at different stages to determine 3x or 5x and what is the risk.”

What kind of exit % are you targeting as a Series A investor?

The broad range here is 10-20%, with most funds accepting it will be more in the 10-15% range. In my opening scene setter, I have

explained the importance of understanding how this impacts core fund economics.

Stating the obvious, the larger the fund, the bigger the outcomes need to be to make the fund returns work.

This is an existential point – if a fund dramatically misses their return targets to LPs, it means they may not be able to raise their next fund which is game over. Venture funds do close down, and this is the principal reason.

By simply looking at the size (and type) of the fund, you can tell the kind of company outcomes they will be looking for. Any fund greater than say £250M will need multiple unicorns to hit the return metrics they need.

Miscellaneous – Outliers and Secondaries.

Are there times when companies may not reach certain requirements across a number of areas, but the proposition and traction are so compelling you still invest?

I recognise this is quite hard to answer – but all funds accept not everything will be perfect. One fund even said they may take 1-2 bets on companies that fit this broad description. Others are more resolute and simply said no!



“If it’s a number of areas then probably it’s a no, if it’s 1 area it could be an exception”

“Yes, there are always weak parts of the thesis. If team and market are strong, or team and growth then we can usually accept some weakness elsewhere”

“No company is “perfect” so we’re not expecting every box to be ticked. However, we try to not be swayed as much by traction unless we feel we have a good understanding of what’s driving it.”

Are you open to buying founder shares at Series A and if so what criteria do you apply to that decision?

So interestingly on this very final question, the general sentiment for some element of a Series A round going directly to founders in what is called a ‘secondary’ is quite positive. I had assumed a firm no at this stage, but what is encouraging in my view, is that funds are open to the idea.

Building a big business that will hopefully generate 10s of millions in revenue, maybe one day 100s of millions is an all-in job. It seems funds now recognise this and will support founders to ensure they can remain fully focused on the task at hand. Oh, how things have changed since my first UK fundraising efforts in 2012!

For the final time, here are some direct quotes: →

“Open to a small amount of secondary if A) cash out is not “life-changing” or “motivation changing” for founder B) remaining equity is still motivational C) bulk of the investment is still primary capital to drive growth”

“Small amount, not really a fan, it’s not a firm no”

“Never – would see it as red flag if founders want to cash out already at series A”

“Often not at Series A, would only be if there is some personal matter that requires them to have some free cash (like upcoming tax etc.)

Summary.



I hope you have found the benchmarking report a useful guide as you work towards raising your Series A. I really can't stress enough the importance of understanding the game you are in when building a business that requires venture capital to grow. If I had to summarise the absolutely critical metrics you need to focus on they would be:

- YoY revenue growth
- Gross retention
- NDR
- Gross Margin
- CAC payback

You need strength in each of these metrics. If you are top quartile in each, you will raise. Weakness in any of them, and your fundraising will be a slog and may not even happen.

At the core of everything is product-market-fit. Expect any series A fund to dig into this deeply - they will look hard at usage and will need to be convinced that your customers absolutely love your product and can't imagine life without it.

Make sure you have a bullet-proof story around competition and how you differentiate and create defensibility as you scale. Weakness here and your fundraising will be a slog and may not even happen.

Remember you are in the business of fast growth. Don't get sucked into the efficiency above all else narrative, it's just plain wrong. I am seeing great companies struggle to raise even with top decile metrics across the board because ARR growth is sub 2X.

Team is absolutely vital, investors need to be convinced you are the right team to solve the problem you are tackling. And finally, make sure you have a sizable TAM, again I see companies struggle to raise where there are doubts about the market size.

As the opening copy on the Episode 1 website says - "if it was easy, everyone would do it!". Building a venture-backed company is one of the greatest challenges you will ever face, but that's what true entrepreneurs relish. Winning against crazy odds, being challenged and living every professional moment outside your comfort zone.

I respect and admire anyone who takes this challenge on, who wants to solve a major problem and make this place a little better than when they arrived. I wish you all the absolute best on your journey.

About the Author.

Paul Fifield is 4 x founder with 20 + years of experience in founding and scaling UK companies into the US and global markets. Over the last 14 years, he has focussed on tech, co-founding and scaling two companies, and joined two more at a very early stage, one as CRO, and the other as a non-exec board member.

All four companies now have combined sales of \$200M, a headcount of 1200 people in the US & UK, and are collectively worth over \$1.5B. Two companies have EBITDA north of 40% and all started in the UK and successfully became market leaders in the US.

Paul has also raised over \$100M in venture capital predominantly from US funds at all stages.

He is now an Entrepreneur-in-Residence at Episode 1 and Operating Advisor for Bessmer Ventures. He also coaches CEOs of venture-backed companies through his coaching company 50to500 – for more info visit www.50to500.biz.

In addition to his coaching practice, Paul is developing a new venture called “In This Together”, a coaching platform and venture fund designed to support companies from Seed to Series A. Apart from his professional engagements, Paul loves playing guitar with his new indie punk band proFESSional and runs the odd half marathon. He is a very proud father to his autistic teenage son and he currently resides in London, England.





Contact details

If you would like to contact the author [Paul Fifield](#) with questions about this benchmarking report or you are the CEO of a venture-backed company and you are interested in being coached by Paul - see www.50to500.biz for more info - please email him paul@inthistogether.vc.

If you would like to speak to Episode 1 about a pre-seed or seed round, please submit a deck at www.episode1.com.