



Preparing for Friends and Family (Pre-Seed) Funding: A simple guide to get started

SeededVentures

Seeded Ventures

Preparing for Friends and Family Funding (Pre-Seed): A simple guide to get started

Introduction:

Raising funds from friends and family (pre-seed funding) can be an essential first step in this journey, allowing you to secure initial capital from those who believe in your vision and want to see you succeed. This guide offers practical steps, prompts, and tips to help you prepare for a friends and family funding round, equipping you with the knowledge and confidence to gain support from those closest to you.



Start with the Basics

Understanding Pre-Seed Funding

Pre-seed funding is the initial capital raised by entrepreneurs to help get their business ideas off the ground, often before a formal product or service is developed.

This funding stage typically involves contributions from personal savings, friends, family, or angel investors, providing resources to cover early operational costs like research, development, and initial marketing.

1. Start by Clarifying Your Business Idea

Define your idea clearly:

Write down your business idea in one sentence. What problem does it solve? Who is it for?

Outline key features:

Create a brief outline of what your product or service includes. Imagine you're explaining it to someone who knows nothing about your business.

Prompt:

"My business idea is to [provide a specific solution or product] for [target market], addressing the need for [specific problem or pain point]."



Tip: Keep your description simple. You'll want friends and family to understand the value of your idea quickly.



2. Determine How Much Funding You Need

Calculate startup costs:

List all major costs involved in launching and running your business for the first 6-12 months (e.g., product development, marketing, equipment).

Set a funding goal:

Based on your expenses, calculate the total funding you need. It's helpful to have a specific number in mind when discussing with potential supporters.

Prompt:

"I need approximately \$[amount] to cover initial costs, which include [list key expenses briefly]."

Tip: Be realistic and transparent with your calculations. Overestimating or underestimating can lead to challenges down the line.

3. Prepare a Simple Business Plan

Create a one-page plan:

This should include your business idea, target audience, competitive advantage, revenue model, and funding needs.

Explain how funds will be used:

Break down what specific items or activities the funding will cover, so your supporters know exactly where their money is going.

Prompt:

"With the funds, I plan to [list activities such as product development, website creation, or marketing]. This will allow the business to [achieve key milestones, like launch or first sales]."

Tip: Friends and family are more likely to support you if they understand how their funds will directly impact the business's success.



Advantages of Starting Your Business with Friends and Family Funding

A family or friend-funded startup allows you to kickstart your business with support from people who already believe in you and your vision, providing an initial source of capital with less formal requirements than traditional loans.

This funding approach enables you to grow your business while keeping equity within your close network, often with more flexible terms and the benefit of trusted relationships.

Additionally, it can help you establish early momentum, allowing you to refine your product, test the market, and attract potential investors as your business gains traction.

4. Decide on the Investment Terms

Choose between a loan or equity:

Decide if you'll be offering a loan (where they're paid back with interest) or equity (a share in the business). Many friends and family rounds are done on a loan basis for simplicity.

Set clear terms:

If offering equity, determine the percentage ownership they'll receive. If it's a loan, decide on repayment terms (e.g., monthly payments, payback period).

Prompt:

"I'm offering [loan/equity] with terms including [interest rate/ownership percentage] and a [repayment timeline, if applicable]."

Tip: Keep terms simple to avoid potential confusion or conflicts. Be open to discussing terms to find a fair agreement.

5. Create a Pitch for Friends and Family

Share your vision:

Begin with why you're passionate about this business and what impact you hope to make.

Focus on your progress:

Mention any steps you've already taken (e.g., market research, product prototypes) to show you're committed.

Address potential risks:

Be honest about potential risks involved, and discuss your plans to manage them.

Prompt:

"I'm building [business name] to address [specific need]. So far, I've achieved [list progress], and with your support, I believe we can [reach specific goal]."

Tip: Practice your pitch to feel more confident and be open to questions from friends and family members.



Crafting Your Friends and Family Pitch

When pitching to friends and family, focus on communicating your passion, vision, and commitment to your business idea.

Start with a clear explanation of the problem your business solves and how it meets a real need. Keep your pitch simple and engaging, avoiding industry jargon to ensure everyone understands.

Outline how their investment will be used, specifying key expenses like product development or marketing, and explain your business goals and timeline. Be open about potential risks but also emphasize the positive impact their support will have on your business's success.

Finally, provide clear terms—whether it's a loan, equity, or another arrangement—so everyone feels secure and valued.

6. Provide Clear Documentation

Draft a simple agreement:

Use a written document that outlines the investment terms, expected use of funds, and any repayment plans. This doesn't have to be formal, but it should clearly state everyone's responsibilities.

Include a timeline:

Outline the expected timeline for milestones and repayment. This helps keep everyone aligned and minimizes misunderstandings.

Tip: Keep documentation professional yet simple. There are free online templates that can help you outline investment agreements clearly.

7. Set Up Regular Updates

Provide updates on progress:

Schedule monthly or quarterly updates via email or video calls to share progress and discuss any challenges.

Show appreciation:

Remember to thank your friends and family for their support. Celebrating small wins together strengthens their commitment and shows you value their help.

Tip: Consistent updates build trust and help manage expectations. Use these updates to reinforce how their support is moving the business forward.

The friends and family funding round can be an effective way to gather initial support. By following these steps—clarifying your idea, setting clear funding needs, preparing a simple business plan, and establishing transparent terms—you'll increase the likelihood of gaining support.

Keep communication open, remain transparent, and remember that friends and family are supporting you not just because of your business idea, but because they believe in you!



Establishing Trust Through Clear Documentation

Clear documentation is essential for establishing trust and transparency in a friends and family funding round, ensuring everyone is on the same page and that the project moves forward smoothly.

By providing a simple yet detailed agreement that outlines the investment terms, expected use of funds, and any repayment plans, you help set realistic expectations and create a shared understanding of responsibilities.

Documentation also serves as a record, reducing the chance of misunderstandings and potential conflicts down the line.

For friends and family members, having a clear document offers peace of mind that their support is being managed professionally and used effectively to bring your project to life.