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Metadescription: Pre-seed funding is the initial capital you save up when forming a company, and typically comes from personal sources such as friends and family

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H1: A guide to pre-seed funding

So, you've got a great business idea and want to form your own company – congrats! Pre-seed funding is a common obstacle that many entrepreneurs face when first starting a business. If you've got a sufficient pre-seed round behind you when starting out, this can kickstart business growth as funds are allocated to marketing, distribution and product development. But where do you get the initial funds to start your business? And what is this process called?

In order for your start-up to quickly accelerate growth, you ideally need to receive funds via investment rounds. But if your business is in its infancy and doesn't yet have enough income to support this growth, it is likely that you'll have to raise a pre-seed funding round of your own to get you started. This really is as simple as asking friends and family for capital to invest in your business (as well as establishing funds of your own to put into your venture).

H2: What is pre-seed funding?

To put it simply, a pre-seed round is a round of funding that's created by yourself, your friends and family, and anyone else who is happy to put down some of their own cash to fund your idea and new business venture (also known as a 'friends and family round'). While some people may seek out pre-seed investors, especially if they have prior experience of founding and owning businesses and establishing connections with investors, this is tricky if you are embarking on your first business and don't yet have the knowledge and network of contacts to hand.

H2: How to get pre-seed funding

Essentially, you'll need to ask friends and family to risk their own money and hand funds to you to finance your project if you don't have any investors. Once you have your pre-seeding funding established, your business has the funds it needs to finally get off the ground. From here, you can potentially hire staff to boost production lines, spend money on marketing, and develop your product or service further so it sits within a competitive slot in its market.

H2: When should I raise a pre-seed round?

Typically, you may have a prototype or proof-of-concept when you are at the stage of generating a pre-seed round. This is very important, as a pre-seed investor won't want to part with their hard-earned cash unless you can persuade them that your company has an actual product or service to sell, long-term growth plans for the future, and long-term scalability. Your company is likely very bare-bones at the moment, and you've identified a clear gap in the market. You may also be in the process of slowly hiring more staff, or shelling out on equipment via expenses. Finding a pre-seed investor can take a while, so be as prepared as possible to quickly get your company off the ground with your own pre-seed funding. Work to a fundraising timescale during your 'friends and family round'. Take too long to do this, and you may not get your venture going in time to attract investors. Have a clear understanding of your business goals and objectives. Look at the value of your business now, and what your projections are for the future.

H2: How much pre-seed funding should I raise?

A pre-seed investor will always need a little persuasion to invest in the new kid on the block. At this stage, your company may have little or no influence or momentum, so the pressure is on to convince them. That said, you should use caution in terms of how much personal money you raise for pre-seed funding, and how much you raise and receive from investors in the early stages. Be aware that larger sums of money from an investor will mean that the investment terms will be more costly, and an investor may ask for a greater stake in your company to ensure that they have more control over how their funds will be used.

If you receive more funds than you actually need, and your business has more capital than it requires, an investor will likely raise their contribution to accommodate this. This can place financial pressure on your company, as if anything does go wrong, your valuation will drop, affecting your business's future investment potential and reputation. Finally, having too much disposable capital can cause overspending, which could impact the way your company operates. When doing your own pre-seed round, don't just raise as much as you possibly can – calculate a reasonable sum based on your company's growth, expansion and incurred expenses over the next one-two years. Set saving milestones depending on your business model, proof of concept, and product testing and development.

H2: Fundraising milestones

A pre-seed investor will be all-too aware of the risk that is investing in a start-up. So you'll need to put clear financial milestones in place (as part of your financial plan) to put confidence into your own business model, and so investors can assess your start-up's value. Never oversell to an investor. If your milestone fails, set a new one as quickly as possible. Make sure that your milestones are achievable and reasonable.

Prepare a detailed business proposal that outlines resources you'll need and other expenditures required to meet your financial milestones (including extra income to cover unforeseen circumstances and uncertainty). This will help you to determine the amount of pre-seed funding that you need. If you plan well for the long-term, the milestones you set should be in parallel with each round of funding you intend to raise. Of course, the first round will be your own capital and funds from friends and family. After this, future rounds should include investors. Use the capital raised during your pre-seed round to expand your business and accelerate growth in line with your financial milestones, as this will appeal to corporations and investors who are willing to take a chance on you.

H2: Pitching to a pre-seed investor

As your business grows and develops (after you have acquired your initial pre-seed funding), you'll need to look at the next steps, which involve formally pitching to investors. Have a clear understanding of your business objectives and its overall value. Give an investor clear estimates of how much it will earn in future. Complete all necessary legal paperwork ahead of time before pitching to investors, so there are no delays if one decides to take the leap, (**SeedLegals** can help all early-stage start-ups with their documentation). Do your research on top investors, and create a pitch deck as well as a finalised business plan, so you are prepared for your first official fundraising round. Good luck!

H2: Got a question?

Start a chat or email us at **support@seedlegals.com**. To find out more about pre-seed funding and for more advice on funding your start-up, **check out our funding guides**.