

BLACKTECHSTARTUP EDUCATION

How Much Should You Raise? Use of Funds, Milestones & Round Sizing

Size the round backward from the next value-creating proof point, the cash required to reach it, fundraising lead time and a contingency buffer—not from what another startup announced.

Investors do not fund a number; they fund a plan that should move the company from today's risk profile to a stronger one. SEC capital-readiness guidance explicitly connects amount needed, runway and plan for proceeds. The strongest round-size answer therefore starts with the next financing-quality milestone and asks what resources are required to reach it with enough time left to raise again from strength.

Know what weak and strong look like

READINESS AREA	WEAK / DILIGENCE RISK	STRONG / INVESTOR-READY
Milestone	"Grow the team and scale."	Specific evidence threshold: product, revenue, retention, regulatory, manufacturing or commercial proof.
Use of funds	Percent pie chart with broad categories.	Role-, program- and month-level cash plan linked to milestone dependencies.
Round size	Copied from market headlines or desired valuation.	Calculated from monthly cash needs through milestone + financing buffer + contingency.
Buffer	No contingency because it "looks inefficient."	Explicit contingency for delay/variance with rules for when it may be spent.
Next round	Assumes new money arrives exactly when needed.	Leaves enough runway after milestone achievement to run a real process.

Define the de-risking milestone first

A seed round might need to prove repeatable acquisition and retention; a hardware company may need certified pilot units; deep tech may need third-party performance validation and a commercial partner. “Launch” is not a milestone unless launch produces evidence the next investor values.

Build the critical path

List the activities that must happen before the milestone: hires, product releases, trials, certifications, tooling, sales cycles, partner agreements or deployment. Mark dependencies and earliest/latest start dates.

Translate the path into cash

Add loaded payroll, vendor spend, cloud/COGS, equipment, legal/regulatory, sales, working capital and one-time costs by month. Do not use a percentage-of-round pie chart as the primary model; derive the pie chart from the actual schedule.

Add financing runway after the milestone

Reaching the milestone with six weeks of cash left makes the milestone less valuable because the next negotiation starts under pressure. Size enough runway to prove the milestone, package the evidence and run the next financing process.

Test dilution against the round

A larger round may lower execution risk but increase dilution, valuation pressure and governance complexity. Model smaller/base/larger raise scenarios and identify the minimum round that still funds the critical path safely.

Run the diligence stress test before investors do

Do not rehearse an answer. Rehearse the evidence. Give yourself a short diligence window and try to produce the underlying records without rebuilding the story from memory. A clean result is reproducible, tied to a source system or signed document, and consistent with the numbers elsewhere in the company.

→ **Milestone:** Put the underlying records on screen and prove this standard: Specific evidence threshold: product, revenue, retention, regulatory, manufacturing or commercial proof. If the

evidence still looks like this weak state—"Grow the team and scale."—record the gap, name an owner and give it a due date instead of explaining it away.

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→ **Buffer:** Put the underlying records on screen and prove this standard: Explicit contingency for delay/variance with rules for when it may be spent. If the evidence still looks like this weak state—No contingency because it "looks inefficient."—record the gap, name an owner and give it a due date instead of explaining it away.

→ **Next round:** Put the underlying records on screen and prove this standard: Leaves enough runway after milestone achievement to run a real process. If the evidence still looks like this weak state—Assumes new money arrives exactly when needed.—record the gap, name an owner and give it a due date instead of explaining it away.

Do the math investors will do

Round sizing model: $\text{Raise need} = \text{projected cash shortfall through target milestone} + \text{minimum cash reserve} + \text{expected financing-process burn} + \text{contingency} - \text{reliable non-equity cash inflows}$.

Example: if the plan needs \$1.55M through milestone, you want \$300k minimum cash, expect \$350k of burn while running the next raise, and have \$200k of contracted customer cash, the base need is \$2.0M before contingency—not "whatever a seed round is this year."

Capital-access strategy for Black founders

Black founders often face less room for a failed financing process. That is a reason to be more disciplined about round sizing, not more timid. Build the case from milestones and cash so you can defend the amount to investors, grant partners, strategic capital and lenders without signaling that the number came from social-media round announcements.

Build the evidence investors can verify

- ✓ Milestone definition with measurable pass/fail evidence
 - ✓ 18–24 month use-of-funds model by month
 - ✓ Critical-path hiring/product/commercial schedule
 - ✓ Three raise-size scenarios with ownership impact
 - ✓ Next-round trigger and financing lead-time assumption
 - ✓ One-page use-of-funds narrative that reconciles to the forecast
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Questions an investor may ask

- ? Why is this the right milestone for the next round?
 - ? What breaks if you raise 25% less?
 - ? What would you do with 25% more?
 - ? How much runway remains when the milestone is achieved?
 - ? Which spend is reversible and which creates long-term commitments?
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30-day repair sprint

- 1 Days 1–5: define next financing-quality milestone and pass/fail evidence.
 - 2 Days 6–10: map critical path and dependencies.
 - 3 Days 11–15: price every resource by month.
 - 4 Days 16–20: add financing buffer, contingency and reliable non-equity cash.
 - 5 Days 21–30: model dilution/valuation scenarios and produce the one-page round-sizing memo.
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Research behind this guide

Use the primary and authoritative sources below to verify current rules, market conditions and technical guidance. Terms and regulations can change.

SEC — Ready to Raise CAPITAL



SBA — Write Your Business Plan / Financial Projections



Carta — Round Benchmarking Tool



Federal Reserve Small Business — Race and Ethnicity Research



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