

Telephone Survey to VC Firms—Summer 2007

What sector or market have you already seen enough of?

Answers ranked by number of responses

- 6 responded that they are always open-minded or open to looking at all sectors:
“We like to think we focus on investing in the best opportunities across a number of market spaces. We don't tend to be 'fad' investors, but rely on understanding market needs and identifying promising management teams.”
- 4 responded “Web 2.0”:
“There is a huge amount of capital that has gone into Web 2.0 consumer companies. Some will be very successful but probably not enough to justify the amount of capital invested in the aggregate.”
- 3 responded “social networking.”
- 3 responded “mobile everything” or “wireless applications,” including wireless search.
- 2 responded online sharing applications:
Particularly photo-sharing applications.
New twists on video and audio groups.
- 1 responded “Phase I Clinical stage, in-licensed drug candidates.”

What specific sector, market, technology do you think offers the highest potential?

Answers ranked by number of responses

- 5 responded that they focus on the opportunity, not market:
“We don't view the world that way; we look for best teams we can find in good markets.”
“I think there are great opportunities out there in a number of sectors. We do not have a narrow target list.”
“We think there are some companies in all of the sectors we invest in that offer huge potential, but it is entirely specific to the company and market they are targeting.”
“We are excited about multiple technology sectors.”
“No sector bias. We rely on entrepreneurs to point out the most interesting opportunities.”
- 5 responded clean tech, green tech, alternative energy, energy conservation, or clean water technology:
“We have a particularly keen interest in transportation-related clean tech industries (anything impacted by the price of oil or the requirement to reduce emissions or improve energy efficiency).”
“We're interested in deals that work at the intersection of IT and energy.”
- 4 responded biotech, medical devices, or bio-pharma:
“The convergence of advanced materials and biotech and semiconductors.”

"Improving the predictive value of preclinical therapeutic product testing. Natural orifice surgery testing."

"Still a big believer in drug development companies, particularly those that are capital efficient and focused on unmet medical needs. We will always need better drugs that are effective."

Medical Devices, Bio-Pharma.

Other responses:

Digital media.

Deals that work at the intersection of entertainment/new media and IT (IT convergence).

PSP software.

Wireless communications.

Local search and online lead generation and search engine marketing.

Retail - something truly differentiating.

Marketing/advertising models.

Those that are currently not the focus of most venture funds.

What one piece of advice would you give an entrepreneur looking for funding?

Answers ranked by number of responses

8 responses suggested finding the right investors/partners and getting an introduction:

"Get a good introduction to the venture firm you're targeting. Don't blanket the world."

"Get an introduction."

"Get a referral from a trusted source."

"Find some funding sources you think will be value-add to your business."

"Be persistent and willing to be flexible. Finding the right investors takes time and patience."

"Keep looking, it takes a long time. For start ups, first look at mentors or friends and family that understand the business or technology they're working on."

"Partner up with experience - find board advisors, partners, investors who know how the game is played."

"Choose your partners well."

6 responses suggested focusing on knowing your customer/market and presenting well:

"Be articulate regarding your market and the competitive landscape you face. By all means, be sure you're solving a genuine pain for your target customer."

"Be ready to answer the questions: Can you build it? Can anyone else build it? Do you really know what 'it' is? If you build it, will they come? Where is your team weakest? What is the scariest part of your development plan? How will you read the warning signs if things are going wrong? Why are you the CEO? And...cut your revenue projections down by 25%."

"Persistence pays off. Tell the story of why the product makes money...the point of pain that it solves and why people are willing to pay to make that pain go away."

"Solve customer pain."

"Need deep knowledge of customer, deep knowledge of competitive dynamics, and clear understanding of own unit economics."

"Do some research on the investing community and refine then re-refine your pitch."

Other responses:

Persist.

"Focus on building a world-class team."

"Never be defensive."

"As someone once said, 'When you're looking for money, ask for advice. When you're looking for advice, ask for money.'"

"Try to start your company without institutional money."

"Do as much as you can with the business before seeking funding. The more visibility you have and can demonstrate in terms of product and customer traction will improve your chances of success on the funding."

What is the most common mistake entrepreneurs make as they try to raise money?

Answers ranked by number of responses

8 responded that entrepreneurs target an inappropriate fund-raising amount and/or valuation:

"Underestimating the time and expense involved in building a company. It often takes longer and more money."

"Not raising enough when raising first institutional round because you're too frightened of dilution."

"Selecting investors based on valuation."

"Not understanding valuation is market based (although this is less common these days)."

"Giving away too much too soon."

"Worrying too much about valuation and dilution. Instead, focus on how much money will it take to make your next valuation milestone. What do you need to do to dramatically increase the value of your company? How much will it cost to accomplish this? Once you figure that out, raise that amount. Otherwise, you run the risk of running out of money too soon."

"Many entrepreneurs tend to seek the amount of financing they think they can raise rather than the amount of financing needed to fund the business over a period of 12-18 months. We're very focused on the structure of the financing and the use of proceeds. This usually provides with great insight on the ability of the founders to execute going forward."

5 responded a poor presentation/pitch:

"Assume investors should be pitched to in the same way you would pitch to a customer. We don't buy product, we buy business opportunities."

"Placing too much emphasis on the technology. Technology is important but the team, capitalization, competition, IP and other risks are equally as important."

"Telling VCs what you think they want to hear. As soon as it veers into hype, VCs will see through it and say no. Be honest about the market and your market opportunity."

"Setting unrealistic expectations. Establishing credibility with your potential investors over the course of a fund-raise is critical."

"Misalignment of investor interests with stage of the company."

4 responded going after a wrong market or not understanding their market:

"Focusing either too small or too big. To be successful, you must balance the two just right."

"Often it's not going after a large enough marketplace."

"Me-too-ism."

"Thinking you are the only ones who've thought of this idea."

2 responded the entrepreneur's attitude:

"Arrogance. The founder will NOT be the long-term CEO. Thinking honestly about the management team development is vitally important."

"Being defensive. Every aspect of your behavior is scrutinized, not necessarily just what you're saying."

Other response:

"Failing to get some competent legal advice, making mistakes in the early phase of the business that have to be fixed, particularly concerning angel financing transactions, which sometimes create securities problems."

What is the most common mistake companies make after raising money?

Answers ranked by number of responses

10 responded spending money too quickly:

"Capital efficiency is a key success driver, particularly in life sciences investing, but also for IT companies."

"Spending ahead of revenue and not anticipating the next round soon enough."

"Forgetting that cash is king."

"Underestimating the amount of time and expense involved in getting to some critical value creation milestones."

"The inability to monitor the cash and adhere to a fixed budget. Typically, this means that the money is spent faster than projected without achieving the stated milestones."

"Spending too much of it while trying to grow their business. Think of it as every dollar spent in venture capital raised translating into more dilution for the founders."

"Thinking they can relax as they have money in the bank. It always runs out faster than you expect."

"Thinking they are done. Until a product is cash flow break even, its risk of failure is very high. A financing is only the beginning. Doing everything on a tight budget is very important. Some entrepreneurs don't reserve enough for bumps in the road. Capital is a precious commodity."

4 responded spending it improperly or focusing on the wrong things:

"Not spending the money on value-creating activities."

"Trying to do too much instead of focusing on key opportunities."

"Not being focused/prioritizing."

"Ignoring their business plan after they raise money. They use the plan to raise money then never look at it again."

"Not managing to their business plan (being distracted by investors)."

2 responded hiring the wrong people:

"Hiring the right people to help grow their organization."

"Hiring too fast. Better to wait and get A+ talent than hire quickly with A-/B+ people."

Other response:

Missing key milestones.

Being defensive and failing to listen.

"Remaining in the realm of vision instead of execution. Vision is what brings in investors, execution is what makes everyone money."