

Critical Factors for Obtaining Venture Funding

Sometimes there is nothing more powerful than the passion and vision of an entrepreneur. But sometimes passion and vision are just not enough. It helps to understand the criteria that venture capital firms use to decide which companies to fund.

Some venture capital firms and corporate investors have very narrow criteria—specific technologies at specific stages in specific regions of the country.

Others have broader criteria and invest across many technology sectors and geographic locations. But all investors look for certain critical components in an early-stage company. Below is a brief summary of these critical criteria. If you meet these criteria, you may be able to continue to the next step in the venture financing process. If you don't, you are likely to receive a polite note passing on your opportunity.

1. **Compelling Idea**

Every entrepreneur believes his or her idea is compelling. The reality is that very few business plans present ideas that are unique. It is very common for investors to see multiple versions of the same idea over the course of a few months, and then again after a few years. What makes an idea compelling to an investor is that it reflects a deep understanding of a big problem or opportunity, and offers an elegant solution. This is the starting point for getting venture investors interested, but it is not sufficient. The idea alone does not make you fundable. You have to possess the rest of the ingredients below.

2. **Team**

You may have a great idea, but if you don't have a strong core team, investors aren't going to be willing to bet on your company. This doesn't mean you need to have a complete, world-class, all-gaps-filled team. But the founders have to have the credibility to launch the company and attract the world-class talent that is needed to fill the gaps. The lone entrepreneur, even with all the passion in the world, is never enough. If you haven't been able to convince at least one other person to drink the Kool Aid, investors certainly won't.

3. Market Opportunity

If you are focused on a product/market opportunity that is not technology-based, you probably should not be pursuing venture capital—there are different private equity sources for non-technology businesses. Venture capital is focused on businesses that gain a competitive edge and generate rapid growth through technological and other advantages. If you are focused on technology, you should be targeting a sector that is not already crowded, where there is a significant problem that needs to be solved, or an opportunity that has not been exploited, and where your solution will create substantial value. Contrary to popular belief, it's not about how big the market is; it's about how much value you can create.

4. Technology

What makes your technology so great? The correct answer is, “There are plenty of customers with plenty of money that want to buy it.” Not, “There are geeks with no money who think it's cool.” Assuming you have a technology advantage right now, how are you going to sustain that advantage over the next several years? Patents alone won't do it. You better have the talent or the partners to assure investors that you are going to stay ahead of the curve.

5. Competitive Advantage

Every interesting business has real competition. Competition is not just about direct competitors. It includes alternatives, “good enough” solutions, and the status quo. You need to convince investors that you have advantages that address all these issues, and that you can sustain these advantages over several years. A few years ago entrepreneurs could get away with saying that “competition validates my solution,” but today that's not good enough.

6. Financial Projections

If the idea of developing credible financial projections makes you wince or wail, you are not an entrepreneur and you shouldn't ask investors for money. Your projections demonstrate that you understand the economics of your business. They should tell your story in numbers—what drives your growth, what drives your profit, and how your company will evolve over the next several years.

7. Validation

Is there any evidence that your solution will be purchased by your target customers? Do you have an advisory board of credible industry experts? Do you

have a co-development partner within the industry? Do you have beta customers to whom investors can speak? Do you already have paying customers? The more credibility and customer traction you have, the more likely investors are going to be interested.

To secure venture funding today, you need a good grade in all seven areas, and an A+ in at least a couple. It's a tough environment out there, so don't waste your time with a story that is not compelling and credible.

At Garage, we would love to help and support all visionary, passionate entrepreneurs. Of course, we can't work with everyone. But if you have the elements for success above, we would like to get to know you better.

If you have any questions about this article, or about Garage, you can contact Bill Reichert, Managing Director of Garage Technology Ventures (email: reichert@garage.com).

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