

What Do VCs Look For?

The answers, here.

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When investing in a venture, VCs have two primary concerns—to maximize their returns and minimize their risks. Therefore, they focus on the following factors of a business.

PROPOSITION: The first thing that VCs want to assess is clarity in the minds of the entrepreneurs regarding the product or service they are planning to offer. The kind of questions they ask are:

- How clear is the definition of the offering?
- Are you clear on precisely who or what your target market is?
- What pain point is your offering planning to address. Is it something that is a must-have or a nice-to-have?
- How are the founders uniquely positioned to create this offering?
- Have you tested the concept / product with some kind of engagement with the market?
- How defensible is the proposition, i.e., is it patentable? If not, how will you ensure that competitors will not copy your idea and destroy your business model?

SIZE AND GROWTH OF THE MARKET: VCs want to ensure that the market for the proposed product or service is large and is growing at an attractive rate. This is because the venture has the potential to grow to a significant size and value in such a situation, maximizing returns for the VC. Also, a large market allows more than one competitor to survive and prosper; so, even if the investee company does not execute brilliantly, it may still do well enough to give the VC a decent return. This minimizes risks.

COMPETITION: VCs want to understand whether the founders are sufficiently aware of their competitors, how strong the competition is, whether the proposed offering is sufficiently differentiated to be able to succeed (i.e., is it doing something different or differently?).

FOUNDING TEAM: While satisfactory answers to all the above questions are necessary for a VC to consider investing, they are not sufficient. This is because VCs do not manage a company, but invest in a team that can do so and deliver. They would even prefer investing in an A-class team



with a B-class idea, rather than in a B-class team with an A-class idea. An A-class team will modify its plan in response to the market and find a way to succeed, whereas a B-class team will make a hash of even the best plan. The attributes that VCs look for in a founding team are:

- Past experience and its relevance to this venture.
- Integrity: This is paramount and a make-or-break factor.
- Coachability: Are the entrepreneurs open

to heeding advice?

- The complete team: The founding team should collectively have the major competencies required for the success of an enterprise, viz. sales / marketing, technology, delivery, finance, etc. The CEO need not be good at everything, but founders should be smart enough to understand the need to expand the founding team to cover all these competencies.

Business plan / financials: VCs do understand that if the venture is at the concept / early stage, the financials are more a spread sheet exercise than reflective of hard reality. Nevertheless, the way the entrepreneur puts together and presents the financials indicate the quality and rigor of his or her thought process and understanding of issues like operating expenses, cash flows, P&L, etc.

VALUATION: Clearly, VCs expect to invest at a valuation that they believe will allow them to make a decent return when they exit. So, if the entrepreneur is fixated on a higher valuation than they believe would accomplish this, they will usually not invest.

EXIT: VCs will only invest if they believe that there will be a way for them to exit that investment; without that, any return remains notional in nature. This means that the entrepreneur needs to convince them that the company can either go public or will be sufficiently attractive to be acquired.

SAURABH SRIVASTAVA is the co-founder of the Indian Angel Network, India's largest group of angel investors. The investors are keen to invest in start up and early stage ventures, who have the potential to create disproportionate value. The angel investors provide financial investment with high quality mentoring as well as leverage their vast networks. For more details please visit : www.indianangelnetwork.com