

Is Venture Capital Right for You? By Dave Kauppi, CBI, President MidMarket Capital, Inc.

I tried and I gave up. When we started out high-tech Merger and Acquisition Practice, I thought it a natural fit to also offer finder services for Entrepreneurs seeking Venture Capital Funding. That service is no longer available. Why not you ask? We failed miserably. Our firm has successfully completed several small high tech M&A deals at great multiples, but finding venture capital turned out to be a very frustrating and unproductive experience.

Unfortunately many high tech entrepreneurs have eventually landed on our doorstep totally drained from their experience of trying to raise venture funding themselves. Quite frankly, the process has caused several of these businesses to fail. According to venture industry statistics only 2% -3% of firms seeking venture capital actually are successful in receiving funding. Only 2 out of 10 of those firms that receive funding provide the target returns for the Venture Firms. Since their failure rate is so high, they are looking for a 30 to 1 return on their money in their three or four year exit period.

It is generally not a good idea to alienate my readers, but the biggest problem that entrepreneurs have is that they are naïve about this whole process. They generally have unbridled optimism about the value of their company, idea, product, or technology in the marketplace. These entrepreneurs are usually the inventor or the author of the computer code and are not sales or business development guys.

They do not understand the sales process. After all, raising Venture Capital is the ultimate sales job. These tech-focused individuals will be strung along by the Venture firms unless they have a track record of starting a company and making investors rich. In that case the Venture Firms fight for their place in line to give you money. I would often speak with high-tech entrepreneurs who just completed "a great meeting" with XYZ Ventures. They would excitedly tell me that XYZ asked them for a report on this, pro-forma's for that, projections for this, a competitive analysis of the major players, etc. They would then schedule another meeting.

Our entrepreneur is thinking they are on the verge of landing the big one. My response is, "How much are they paying you for educating them on your space." The image that comes to mind is when you were a kid and were using a magnifying glass to burn up ants on an ant hill – kind of sadistic torture.

For you tech guys out there, this is not Field of Dreams – If you build it they will come. It is business and the mantra is – If you sell it they will come. Get over your bias of not valuing the sales process and go tap the best available sales and marketing person you can find to partner with you. Build a customer following that demonstrates a trend rather than a couple of isolated successes. Then go find a large strategic partner to acquire you at fantastic multiples. Work through your non-compete period and then launch your next great idea. Go to the venture guys from your new-found position of strength and tell them to get in the queue.