



Virginia Business Lawyers

Ten Points When Seeking Venture Capital – #1

By: **Thomas L. Bowden, Sr.** *This was posted Wednesday, March 3rd, 2010*

I have watched the [venture capital market](#) place for over 25 years. I've represented venture funds in the formation process, and in their investment activities. I have represented companies that received venture capital, and many that did not. I also started a company that raised \$10 million in angel money and professional venture capital.

The next few posts are a few of my observations, and I hope that they may be useful if you are considering the venture capital route.

Point 1.

Be realistic. No matter how exciting your idea may seem to you, the chances of receiving institutional venture capital are low. Most venture money goes to companies that are started by entrepreneurs who have succeeded before, with venture money. In other words, they like to back the horses they know.

Even a new venture fund will reserve a substantial portion of its capital to support its early investments. One round is almost never enough, and they need to be able to invest in subsequent rounds or they may be diluted down like the founders. So, right off the top, as much as half of the new money is already committed, in the sense of not being available to you, the founder seeking capital.

Some VCs even maintain "CEOs in Residence" so that when an opportunity comes along, they can start their own company. It's attractive to the VC Fund because they don't have to negotiate against other funds. Plus, the experienced CEO knows the rules of the game, and doesn't hold out for ridiculous deal terms.

Against this type of competition, your idea had better be really good and well developed. The "give it away for free and figure out the business model later" approach is history. It will really help if you have long and deep experience in the market where your product or service will launch. In any well developed market, or "space" as the VCs like to say, there is usually a lot of information and development activity that the newcomer doesn't know about. So you could come to the market with a product that is already in development somewhere else. At

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best, you look uninformed. If you are an outsider, but you still want to try to crash the party, do your homework and read the trade journals, learn the acronyms, and you'll at least be speaking the same language.

Having said all that – don't just throw your hands in the air – get to work! If you're idea is good and you truly believe it's worthy, stick to it. More on that in my next post – Point #2 – Be Persistent!

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