Funding Your New York or New Jersey Business: What Do Venture Capitalist Firms Look For?

by KENNETH C. OH *on OCTOBER 2, 2012*

For many New York or New Jersey businesses, it all starts out with a great idea. However, in order to turn that idea into a successful business, you will often need to attract investors.

Venture capital (VC) is often used to fund young, emerging growth companies, and serves as an alternative to more traditional debt financing sources. In most cases, venture capital investments involve cash funding, which is exchanged for shares in the company as well as an active role in its future. So while VC provides a much-needed influx of cash into the business, the funding also comes with a price.

Before a VC firm invests in a new company, it wants to make sure that its risk will pay off. Below are a few of the top considerations for VC firms when evaluating a potential investment:

- **The leadership of the company**. The VC firm will closely evaluate the background, knowledge, and skills of your leadership team to determine if they have the tools necessary to run the company successfully. It will be particularly interested in how the team's experience can be used to manage the obstacles the new company will undoubtedly face. Management should also be prepared to explain how it would overcome any potential deficiencies.

- **The products and services offered by the company**. The VC firm also wants to make sure you have something valuable to offer the public. Therefore, you should be able to clearly demonstrate not only that your product or service is unique and innovative, but also that it capitalizes on a void or need in the particular industry. The VC firm will also want to see what steps you have taken so far to develop the product or service as well as what remains to be done.

- **The potential growth of the company**. VC firms are always looking for companies that are poised to take off, if given the proper funding. Therefore, they will want to know a lot about the particular industry and how the company plans to take on competitors. You should also be able to provide marketing, sales, and distribution plans as well as other strategies that you plan to employ to attract and retain customers.

- **The expected return on investment from the company.** VC firms are willing to take a significant risk on a growing company if they believe the financial rewards will be worth it in the end. Therefore, the firm will want to see detailed financial statements showing current and projected expenses, sales, earnings, and dividends.

If you have any questions about venture capital funding or would like to discuss this topic, please contact me, Kenneth Oh, or the Scarinci Hollenbeck attorney with whom you work.