Who makes the decision at a VC firm and how the decision gets made?

–Mark Suster

If you've read any of my ongoing series on fund raising from venture capitalist (episode 1—controlling your psychology) you no doubt have heard me say that raising capital is a sales & marketing process. You company is the product and you're selling an equity ownership in your company but much more broadly you're selling trust & confidence that you're going to build something enormously valuable and that you're going to be enjoyable to work hand-in-hand with over the coming decade of each other's lives.

In order to understand how to "get to yes" with a VC you first need to understand how VC partnerships make decisions and then you can understand how to increase your odds of closing a deal.

VC Partnerships

Start by understanding how many partners are at the firm you are approaching. It's pretty easy since nearly every VC lists its partners on the website. Some firms are trickier since they artificially call everybody "partner" but they're not all "investment partners." It's super easy to suss all this out. Find a portfolio company or two that they've invested in. Find one that's on the earlier-stage size or one that raised a long time ago and never scaled and get to know the founder & CEO. They can likely give you the entire playbook of the partnership if you build a meaningful relationship with them and they trust you. The key to your "consigliere" is that they can't be crazy busy because they're scaling at meteoric rates. You can't try to meet the executive team at Bird to understand the Upfront Ventures partnership dynamics because they're too damn busy dealing with explosive growth.

What do you want to know?

- How many partners are there?
- Which partners are active and which are less active?
- Who in the firm has "pull" to get deals done when they want to?
- Which partners work well with which other partners?

- Who are the most optimistic partners and who are the most generally skeptical partners?

- How does the partnership typically make its final investment decisions?

Decision Dynamics

Each firm makes decisions in different ways so understanding the firm's decision framework matters. Some firms are "consensus driven" and look for unanimity in the decision or near unanimity. Some partnerships are "conviction driven" meaning they're looking for a super committed partner who will slam his or her proverbial fist on the table to push through a deal. Those partnerships want to know that the "sponsor" of the deal is willing to have his or her head on the chopping block advocating for this deal. In larger partnership you often have "shadow partners" who serve as the role of an advocate (or detractor) to the main sponsoring partner.

In any event the process is you meet a partner (whether you went direct or first built support from an associate) and that partner decides whether to bring you to meet more people and eventually to a "full partner meeting" which in most firms is on Monday. Usually after a Monday partner meeting you get a pretty strong:

- Yes, term sheet coming
- No, sorry we're passing
- Maybe, we need to do more due diligence / analysis / work
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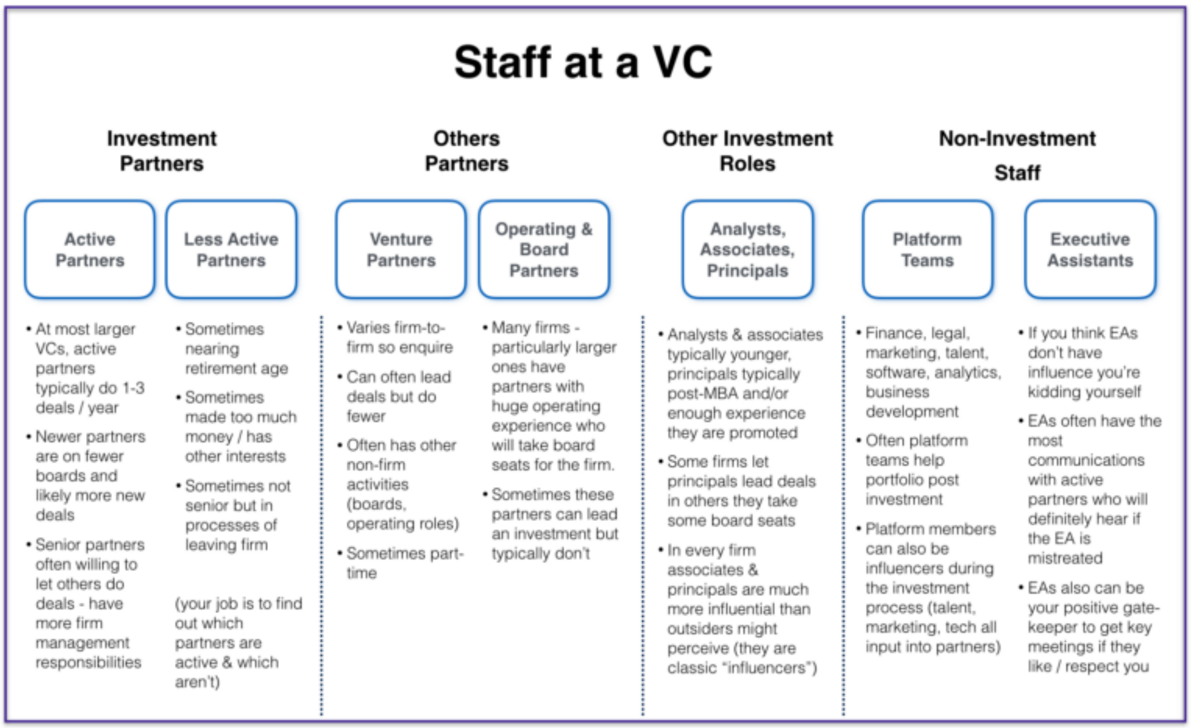
I always counsel founders that "good news comes early" so if you haven't heard by Tuesday at noon chances are it wasn't likely a clean "yes."

The Role of "Other" Partners

You also need to be aware that every partnership has partners who are not full-time investment partners. These can be called: Operating Partners, Venture Partners, Board Partners or similar. These are often seasoned executives who have influence at the firm but aren't carrying a full-load of annual new investments. They might sponsor an occasional deal, they might be looking to jump in and run a company or they might take the board seat if the firm invests. Every partnership is different so it's worth knowing whether you're talking with an investment partner or an other partner and what their actual role in the firm and in investment decisions is (you can download VC staff chart here.)



The Role of Non-Partner Investment Staff

Most VCs have investment staff who are not yet partners. These can be called Analysts, Associates, Principals or similar. The "A's" typically don't have investment authority and Principals it depends firm to firm.

The role of these investment staff varies firm-to-firm but they often entail:

- Sourcing deals for partners

- Helping with initial deal screening with a partner
- Helping with due diligence (competitive assessments, customer calls, reference checking, market sizing, technology reviews, etc.)
- Building models to evaluate the deal and/or reviewing customer files, company financials, business plans, etc.
- Adding color to partner discussions during a Monday partner meeting
- Completing due diligence post partner meeting for thorny questions that were raised

How a Monday Partner Meeting Works

You come in and usually have between 45 minutes to an hour to present. The best companies build a deck and a cadence to use up 50–60% of the time and save buffer for discussions. If the questions aren't organically flowing you have "pocket slides" after the main deck you can pull out to share more information or analysis.

You leave. The sponsoring partner often outlines his or her thesis and then feedback on the company is offered. Sometimes these are love fests but usually they are pretty brutal take downs of why a company would or would not work.

A vote happens at what’s called “investment committee” and the sponsoring partner is tasked with what comes next.

Some firms have formal voting systems and if the vote passes the deal gets done. Some firms have broad discussions and then resolve the final investment decision until the sponsoring partner answers more questions. Some firms — whether they have voting or not — have a “super user” partner that has all the juice in the vote whether that’s formal or not. Some partnerships allow “vetos” and others don’t.

What Happens When There’s Dissent on the Investment Decision?

If the firm is consensus driven a deal will be killed. If a firm has a voting policy and a set number of “no’s” come in the deal is killed. If a firm has a “super user” partner or a “veto right” and somebody kills a deal then the deal is dead. In some firms dissent is tolerated but then the sponsoring partner really has to show ownership for the concerns raised by the dissenters.

I have sat in some meetings where we reached a decision in 20 minutes and I've seen some meetings where an argument lasted 2 hours. Honestly, it can be draining.

I can tell you that at Upfront:

- We're conviction driven

- If somebody has deep conviction "against" a decision would be postponed and a small group might caucus later with more information answered

- We have 6 full-time investment partners and every partner has an equal say. We also take input from our board partners and from our non-partner investment staff.

- We operate a policy of "no retribution" and "no reciprocity." This is critical to build a cohesive venture capital firm. If you have retribution (you argued against my last deal so I'll argue against yours) you have animosity. Anybody who knows VC knows that this retribution-type behavior exits and is corrosive. Reciprocity is equally

> destructive. It says that “you approved my last deal so I feel bad and will approve yours even though I don’t love it.” This produces shit deals getting done.

How to Land and Expand

This was a long walk where I clearly buried the lede. But one advice I have for you is that you not leave your entire outcome simply to your sponsoring partner and/or associate.

Think about it … if you have 6 investment partners and a whole supporting cast of influencers and you have only met with one partner and then you appear in front of a committee of deciders who have never met you before—that’s a lot riding on your pitch and the willingness of the sponsoring partner to advocate.

This is Sales 101. You find a champion but then you find reasons to meet other staff prior to the meeting where your fate would be decided. VCs are busy people and just because one partner is showing you time doesn't mean others easily will prior to a partner meeting.

Find productive reasons why your sponsoring partner or associate can introduce you to other partners. Maybe you have some knowledge they would find valuable? Maybe they've worked with a similar company to yours before. Maybe you go from meeting a partner to meeting 3 associates to broaden your relationships and learn more about the firm. Maybe they even help you meet other partners?

There are a million methods for building broader relationships in any buying organization but there is one key lesson that can't be ignored. The more people you have in that partner meeting who come in with a stronger sense for what you do and the more you have answered their biases and concerns in advance the higher the probability of getting to yes.

Summary

Every VC firm is different and the decision-processes vary; however, they all form the basis sponsor / supporting staff structure and the more people you know when the investment committee happens the higher the probability of success.

Good luck with your raise! Remember, it’s not easy for anybody. Even the ones who tell you they’re “crushing it.”

Next up in the series is “cash in, cash out”—understanding how to talk about how much capital you’re raising, why this number is right, how long the cash will last and what you’ll have to show for yourself once your money is spent.