How VCs Decide to Take a First Meeting - 12 Reasons

Table of Contents

12. Referrer – Who introduced you to the VC?

Fundraising can be a very positive experience

1. Team – How do we know your team is excellent?

Team is everything for early stage ventures. They are mostly betting on you and your team. Your past successes help paint a picture of excellence, whether in startups, school, the military, or other places you have excelled. It all goes towards demonstrating your quality to a potential investor.

Advice from top VCs:
Reid Hoffman of Greylock Partners says that the key thing for a founding team to understand is how to learn at a fast pace. Investors look for Founders who've been able to demonstrate this ability, a skillset that prepares them to take on an infinite learning curve. As a Founder, you'll have to learn how to scale management, the executive team, your go-to-market efforts, your financing, etc. all on the fly. Along the way, you'll also have to correct the mistakes you'll inevitably make. Investors are looking for Founders who learn quickly.

Ann Miura-Ko of Floodgate, on the other hand, emphasizes the importance of having someone on the founding team who is rigorous and competent not only with overseeing product, but also with product marketing.

For enterprise startups in particular, you really have to know not only what a customer wants to buy, but also what the appropriate pricing strategy is and how your product integrates with others. Therefore it's necessary for at least one member of the founding team to rigorously understand product and go-to-market strategy.

James Currier, Managing Partner at NFX, advises Founders that there's an important difference between what you communicate to VCs about your team in writing and what you say in person.

In writing, he urges Founders to stick to the facts about where you worked, what your roles were, what awards and press you've gotten, where you went to school — the things you've actually done. Even side projects like how far you've gotten with playing chess, or with being a DJ. These facts show the quality of who you are. Also be sure to send information about how long your founding team has worked together.

Then when you meet in person, that's when you want to communicate your passion, commitment, tenacity, and why you're doing what you're doing out of all the things you could have chosen — anything about who you are as a person.

2. Company – Describe what your company does in one sentence

Nailing your short pitch or one-liner is an important part of the fundraising process because it will become the foundation of the story you tell — to investors, but also internally to employees and also to customers. As we've previously written about, language is at the core of your company even before product, and your one-liner will be central to how you talk about your company.

Advice from top VCs:
Mark Suster of Upfront Ventures says pitches should be pithy, punchy, engaging, and well practiced.

A "cocktail party pitch" might be a better way to frame it than the classic "elevator pitch" model. When you're at a cocktail party, just like when you're pitching an investor, you have about a minute to capture their attention before they get bored. In that minute you have to be exciting, energetic, and concise.

At a cocktail party, you can imagine that if someone starts going on and on about what they do, your brain will start to shut down and look for an exit to the conversation. Same thing for an investor when you're pitching them. So think about the business version of how you'd capture attention in a cocktail party conversation, and then practice that 25 times until it's seamless.

Trae Vassallo, Managing Director at Defy, observes that the best startup one-liners are emotional, not literal. Engineering-centric founding teams in particular tend to be very literal in conveying what their company does, and this isn't always the most effective strategy.

When the iPod first launched, the pitch was "a thousand songs in your pocket", not a description of its memory space, hardware, or even what the device looks like. "A thousand songs in your pocket" is an emotional construct that makes you think "yeah, that's a need I have, and I want that." For startups one-liners, eliciting a response like that is really important and can't be achieved with a literal description of what you're building.

Hunter Walk of Homebrew Capital says that you should make a statement or ask a question with your one-liner — don't just try to summarize your business. Many people think an elevator pitch needs to take the entirety of your idea and condense it down to 10 words or 30 seconds. That's not the purpose. The purpose is to say enough to get the investor to want to look through your entire deck or take a meeting with you. It should say something insightful, or be intriguing to the investor so that they are drawn in and want to know more.

Reid Hoffman believes the challenge of a one-line startup description is that while on the one hand you can anchor it in something that's proven to create value and take it in a different direction — for example, "it's like Airbnb, but for workplaces" or "it's like LinkedIn, but for doctors" — on the other hand, startups with the potential to become really large tend to do something truly unique.

To come up with a truly compelling one-liner, you can try to anchor it in something of proven value, but also be sure to get at your uniqueness and the potential for a large market instead of a more narrow version of what someone else has already done.

3. Market – What is the market opportunity and why will it be big?

Investors focus on the market you're entering. Some investors are passionate about some markets and not others. It's critical to show you've been thoughtful about the market and have a compelling line of reasoning for why you think there's a market opportunity.

Advice from top VCs:
Sarah Tavel of Benchmark warns against pitching a plan to disrupt a big market to investors, because investors might interpret that as a big risk factor and classify your startup unlikely to build an enduring business.

On the other hand, if you're planning to expand an existing market or create an entirely new one, that will signal a real market opportunity for investors. Moreover, evaluating the potential size of a market often comes from looking at markets adjacent to your startup— are they big enough that you could potentially expand into them? That's where bigger opportunities typically start opening up.

Mike Vernal of Sequoia thinks that the market is often the most important variable to consider when thinking about a startup. One of the traps he sees very talented entrepreneurs fall into all the time is to try to solve a problem they have with their company, without critically thinking about a) how many other people have that same problem, b) how much they are going to be willing to pay for the solution, and c) how addressable that market is.

Not every problem is equally able to capture consumer spend, and the more customers you have to convert over to your product in the market you enter, the more difficult it will be.

Gigi Levy-Weiss, Managing Partner at NFX, says that one of the biggest things he looks at, other than the size of the market, is what he calls the speed of the market. Does the market have any encumbering factors — such as regulation — that would prevent a startup that enters it from moving at startup speed? If so, it tends to be less exciting for investors.

Another thing to consider is how much of an advantage existing assets provide for incumbents in that market. For example, the hotel industry's lead over Airbnb in terms of assets were not much of an advantage because Airbnb was built on an asset-light marketplace model.

4. Business model – How do you make money? Who pays? What are the margins?

You'd be surprised at how badly Founders typically bury this in their long PowerPoint decks or in-person presentations. The VCs are often still left scratching their heads and thinking, "So HOW do you make money again? Who is the customer?" It's important to bring this out front and make it simple. At least show investors how you think about it and what numbers you have so far. What are the observed unit economics? How will you be able to monetize? What is the relevant pricing strategy? Showing that you've thought about this without being over-prescriptive will help bolster your chances to get a meeting.

Advice from top VCs:
Bill Trenchard of First Round Capital notes that in describing your business model, it's really important to be completely honest about what you do and don't know. It's fine for the business model to change, especially in the early stages of a business, but a lot of Founders try to insert numbers where there are really just unknown variables, and that can be frustrating for investors.

What you should explain, to the extent that you can, is how you monetize or charge for your product. What's the cost of acquiring a customer, and what do you think that customer will be worth over time with the small sample size of data that you have? Finally, you can talk about how you think your business model might change and evolve over time as you scale.

Pete Flint, Managing Partner of NFX, says that when he looks at a business model, he doesn't just consider how it looks today but also how the business might look in the next five or ten years. What do the unit economics look like at scale, as competition enters the market and as defensibility may kick in?

The other important thing is really understanding whether it's the type of business that looks to increase prices as they scale (e.g. Facebook, Google increasing their cost per click) or companies like Uber and Amazon that are looking to decrease prices as they scale. An amazingly few startups have a clear answer as to how their business and pricing will evolve as their company expands.

Saar Gur of CRV says that for some startups the business model is more clear than for others, but the Founders that are most impressive are those who are students of their industry. Even if there are many unknowns, entrepreneurs who are familiar with the history of their industry reliably have good insights into how their business might look. As they say, “history doesn’t repeat but it rhymes.”

5. Geography – Where is the team based?

Another thing VCs are going to ask you about: Where is the team located? Where are the CEO and management team? The engineering team?

Advice from James Currier:
Many VCs have a geographical preference to invest near where they live. It allows them to be more helpful by a) introducing you to potential employees, investors, journalists, or service providers like lawyers/accountants/bankers, by b) white-boarding in person to help you through hard problems, and c) helping on due diligence. And many investors, particularly outside Silicon Valley, have a mandate to stimulate their local economies.

Further, VCs want to know if your team is distributed or not. Some VCs have a bias against distributed teams, while others see it as a reasonable way to keep costs low and attract the best talent.

Geography matters when talking to VCs, but almost no Founder puts their geographic information in their deck or their intro email. If you are in the right location for a particular VC, they are more likely to take the meeting.

6. Number of Employees – How big is your team?

Investors are also likely to ask you how many people you’ve brought on, and how many of them are full-time vs. part-time employees.

Advice from James Currier:
This number gives investors a sense of your stage, and most VCs have a preference for stage. Some like to work with 3 co-founders at the earliest stages, and others like to wait a bit longer until the team is more collected and they can meet more of the team and get a sense of the culture you’re building.

Number of employees also gives VCs a rough idea of your monthly expenses.

It also lets them set expectations about your progress and sophistication before a meeting. If you have only 4 employees and some aspect of the business isn't buttoned up, they will be more understanding than if you have 30 employees.

Regardless, knowing your number of teammates can be helpful to VCs to decide if you are in the sweet spot of their target zone.

7. Timing – Why is now the right timing for your company?

Founders who make a strong case for the timing of their startup have a higher likelihood of getting a meeting. Often, VCs will have heard of something similar to your idea before. Pitching the timing as much as the idea can help them decide to meet with you, even if they passed on a similar idea before.

Advice from top VCs:
Mike Vernal says that a question he will often ask is "why is this company being started today? Why wasn't it started 3 years ago, or why shouldn't it be started in 3 years?" And that is one of the most important questions for the entrepreneur to have a good answer to.

If something seems like a good idea and it seems like the world should work a certain way — and that was true 3 years ago — then there are two possibilities: either no one has ever thought of the idea before (unlikely), or someone else thought of it and tried it, but it didn't work for some reason (more likely). Unless there's some clear macro trend to indicate that the timing is better now, there's no reason to expect a different outcome.

Charles Hudson of Precursor Ventures says he's usually looking for markets where there has been a recent inflection point. That inflection point can be driven by a shift in consumer behavior, a new technological advance, a regulatory change, or the disappearance of a previous competitor or incumbent. What's the market opportunity and why now?

Pete Flint has written before about how startup timing is everything, and says that there are three things he looks for in evaluating startup timing. 1) what is the economic impetus for this product today? 2) what is the technological catalyst that is enabling the new product experience? 3) what is the cultural acceptance of this phenomenon? Is society in a position to accept and embrace your product?

8. Traction – What are the traction metrics that show what you have achieved so far?

Traction can be many different things, depending on the stage of your company, as we've laid out before in The Ladder of Proof. Traction is one of the main reasons VCs will take meetings, so if you're clear and succinct in describing the traction you have, it lets the VC quickly figure out if it's worth the meeting today, next week or next month.

Advice from top VCs:
Ann Miura-Ko says that for her, traction is all about the numbers that matter. A pet peeve for her is when Founders shows her traction in numbers that mean nothing to the business. It paints a negative picture of how the Founder is running the business.

When you're describing traction, it should be relevant to the business fundamentals. Avoid metrics that look like hockey stick growth but turn out not to matter, because that will come up in due diligence anyway. If your story is around traction, make sure that it's true traction.

For Gigi Levy-Weiss, the best way that Founders can show traction is through the company numbers. It's especially helpful to get those numbers from a company's KPI dashboard because in addition to the numbers, it also gives investors a feel for how you track and analyze the numbers internally.

With early-stage startups that don't have much quantitative metrics yet, like a B2B company with early sales that don't show significant statistics, qualitative metrics like customer testimonials, initial sales targets, or anything else that tells a story can be an acceptable surrogate to show traction.

Sarah Tavel, who invests in Series As and Bs, says that when a Founder tells her about traction, there are three things she wants to understand:

Is the startup growing? You need growth to create energy for your product and your team and whatever community you're going after.
Do users love the product? More often than not, you can tell this through retention metrics.
Is the product self-perpetuating its growth? Either current customers are generating enough cash flow for you to reinvest in acquiring new users, or there's really great word of mouth to perpetuate growth.

9. Fundraising – How much do you want to raise?

Most VCs have a range of amounts that they prefer to invest, so they want to know the amount you're targeting to raise. If you are below or above that range, a VC is more likely not to meet with you, and you probably should prioritize meetings with other VCs who are structurally set up to invest the amount you want. Further, most VCs have a “sweet spot” that they like to invest. If your fundraising targets will enable them to invest that “sweet spot” amount, that can be a positive reason to take the meeting with you.

Advice from top VCs:
Reid Hoffman says that in thinking about how much money to raise, Founders frequently sweat dilution too much. A point or two of dilution isn’t going to be the thing to make you successful or not. You want to focus on being successful itself and maximize the probability that you create something interesting.

Financing is your chance to build fundamental partnerships that can make your company much more successful. It’s part of why selecting the right investing partners and networks that help your company is really important. I recommend taking more money than you think you need, because that way there’s always some slack you then have for unexpected needs.

For Charles Hudson, he always prefers to have a specific number as opposed to a range for a Founder’s fundraising target. If you’re thinking you want to raise $4M – $6M, there’s actually a big (50%) difference between $4M and $6M. It’s better to pick a specific number — if the number is $5M, say 5.

The investor will want to know how much thought has gone into figuring out the number, and they’ll really want to understand where the money is going to go. The default assumption is that 50% – 70% of what a company raises will go towards headcount and salary, but investors will look to see if Founders have really thought through how the funds will be allocated.

Trae Vassallo says that the thing to understand about figuring out how much money to raise is that a lot of investors are really being driven by their own interests. A lot of investors would want to put $10M to work when really you only need $5M.

So it’s up to you as a Founder to really understand the key milestones you have to hit before you go out to raise money again, and how much money is that going to take (obviously with a buffer built in). It’s also worth considering that capital constraints at the early stages before product-market fit can be helpful in that they force difficult product decisions, sales decisions, and prioritization that helps build a stronger and more durable business in the future.

10. Fundraising History – Who have you raised from, how much, and when?

The details of your fundraising history will be of interest to investors because they're a form of social proof, an indication of your speed, and a signal of how effectively you've been able to make use of your past funding.

Advice from James Currier:
Your fundraising history gives VCs a sense of the additional help and expertise you already have access to. Are the current investors value added? VCs will want to know who you've already been able to convince to take a risk on you.

The details of your fundraising history will also let the VC appraise your execution speed because it shows how much you've been able to accomplish with the cash you've had over a particular time frame. The more you've been able to accomplish with less money in less time, the bigger the reason they have to meet with you even if other attributes of your pitch are less appealing.

Sometimes Founders are slow to give this information out, but it's better to be up front with this information because the VC will ask you right at the beginning of their process of getting to know you anyway. Best to get past it and move on to the more valuable part of the discussion.

11. Fit – What about this particular investor (or firm) makes you interested in meeting with them?

There are tens of thousands of investors for Founders to choose from, and they are now easy to identify on Signal.nfx.com. Investors have different skills, knowledge and personalities to contribute to your startup. Some VCs are going to be better fits for you than others. You should have researched each investor and know why you think they are a good fit for you. It's also good for a VC to know how you are picking them, because it lets them know what kind of help you might be looking for in addition to money.

Advice from top VCs:
Charles Hudson notes that it's important to be honest and realistic about the list of target investors you build when you go out to fundraise. Given the stage that you're at, going after the "dream" list of big name investors you want to pursue might not be the best use of time because investing in seed companies (for instance) is not really their business model. It's better to focus on stage-appropriate investors and look for fit.

Mark Suster of Upfront Ventures says that as a Founder, the most valuable resource you have is your time. Yet when people go out and fundraise, they often take random introductions and just start taking meetings. There's an old saying "measure twice, cut once". As a Founder you want to spend time pre-planning your fundraising efforts to make them more efficient and get the most out of your time. Make a list of qualified investors who invest in companies like yours, and only take meetings with investors where you've been introduced to them.

Ann Miura-Ko says that early-stage investors are basically "co-conspirators" with their Founders, so if the investor feels no passion or love for the startup idea, then it's hard to become engaged enough to be a true co-conspirator. How an investor feels about the space you're in is often linked to how big they think your market can become, and it's always easiest for investors to feel passionate about Founders who are authentic about the problem they want to solve.

12. Referrer – Who introduced you to the VC?

Your chances of getting a meeting with a particular VC is directly proportional to the perceived quality of your referrer.

Advice from James Currier:
Over time, each VC has learned to trust the judgment of a select group of people outside their firm. If one of those people introduces you, it can make all the difference. So take the time to build relationships and trust with people that VC's trust. Win them over and they will help you win over the VCs.

You must, however, make sure that the email or phone call introducing you hits on all the key points the VC wants to know to get them excited. You must arm your referrer with the right information.

Most Founders fail to do this well. And most referrers don't refer well. Be very careful at this step to manage the exact wording and timing.

Building a Company Brief, giving the private Brief URL to your referrer and letting them send it to the VC dramatically improves your chances of getting the meeting.

Fundraising can be a very positive experience

If you've prepared good answers to all the twelve questions above, your fundraising process will go more smoothly than it otherwise would.

Part of our mission at NFX is to empower Founders and to reduce waste in our ecosystem. As mentioned earlier, we created The Brief as a tool to make it easier for Founders to build and share compelling pitches. We encourage you to make use of it from the beginning to the end of your fundraising.