But I don't know any VCs!

12-15 minutes

Jun 25, 2007

In my last post in this series, *When the VCs say "no"*, I discussed what to do once you have been turned down for venture funding for the first time.

However, this presupposes you've been able to pitch VCs in the first place. **What if you have a startup for which you'd like to raise venture funding, but you don't know any VCs?**

I can certainly sympathize with this problem -- when I was in college working on Mosaic at the University of Illinois, the term "venture capital" might as well have been "klaatu barada nikto" for all I knew. I had never met a venture capitalist, no venture capitalist had ever talked to me, and I wouldn't have recognized one if I'd stumbled over his checkbook on the sidewalk. Without Jim Clark, I'm not at all certain I would have been able to raise money to start a company like Netscape, had it even occured to me to start a company in the first place.

The starting point for raising money from VCs when you don't know any VCs is to realize that **VCs work mostly through referrals** -- they hear about a promising startup or entrepreneur from someone they have worked with before, like another entrepreneur, an executive or engineer at one of the startups they have funded, or an angel investor with whom they have previously co-invested.

The reason for this is simply the math: **any individual VC can only fund a few companies per year**, and for every one she funds, she probably meets with 15 or 20, and there are hundreds more that would like to meet with her that she doesn't possibly have time to meet with. She has to rely on her network to help her screen the hundreds down to 15 or 20, so she can spend her time finding the right one out of the 15 or 20.

Therefore, **submitting a business plan "over the transom"**, or unsolicited, to a venture firm is likely to amount to just as much as submitting a screenplay "over the transom" to a Hollywood talent agency -- that is, **precisely nothing**.

So the primary trick becomes **getting yourself into a position where you're one of the 15 or 20** a particular venture capitalist is meeting with based on referrals from her network, not one of the hundreds of people who don't come recommended by anyone and whom she has no intention of meeting.

But before you think about doing that, the first order of business is to (paraphrasing for a family audience) **"have your stuff together"** -- create and develop your plan, your presentation, and your supporting materials so that when you *do* meet with a VC, you impress her right out of the gate as bringing her a fundable startup founded by someone who knows what he -- that's you -- is doing.

My recommendation is to read up on all the things you should do to put together a really effective business plan and presentation, and then pretend you have already been turned down once -- then go back to my last post and go through all the different things you should anticipate and fix before you actually do walk through the door.

One of the reason VCs only meet with startups through their networks is because too many of the hundreds of other startups that they could meet with come across as amateurish and uninformed, and therefore not fundable, when they do take meetings with them. So you have a big opportunity to cut through the noise by **making a great first impression** -- which requires really **thinking things through ahead of time and doing all the hard work up front** to really make your pitch and plan a masterpiece.

Working backwards from *that*, the best thing you can walk in with is a **working product**. Or, if you can't get to a working product without raising venture funding, then at least a beta or prototype of some form -- a web site that works but hasn't launched, or a software mockup with partial functionality, or *something*. And of course it's even better if you walk in with existing "traction" of some form -- customers, beta customers, some evidence of adoption by Internet users, whatever is appropriate for your particular startup.

With a working product that could be the foundation of a fundable startup, you have a much better chance of getting funded once you do get in the door. Back to my rule of thumb from the last post: **when in doubt, work on the product**.

Failing a working product and ideally customers or users, be sure to have **as fleshed out a presentation** as you possibly can -- including mockups, screenshots, market analyses, customer research such as interviews with real prospects, and the like.

Don't bother with a long detailed written business plan. Most VCs will either fund a startup based on a fleshed out **Powerpoint presentation of about 20 slides**, or they won't fund it at all. Corollary: any VC who requires a long detailed written business plan is probably not the right VC to be working with.

Next: **qualify, qualify, qualify**. Do extensive research on venture capitalists and find the ones who focus on the sector relevant to your startup. It is completely counterproductive to everyone involved for you to pitch a health care VC on a consumer Internet startup, or vice versa. Individual VCs are usually quite focused in the kinds of companies they are looking for, and identifying those VCs and screening out all the others is absolutely key.

Now, on to developing contacts:

The best way to develop contacts with VCs, in my opinion, is to work at a venture-backed startup, kick butt, get promoted, and network the whole way.

If you can't get hired by a venture-backed startup right now, work at a well-regarded large tech company that employs a lot of people like Google or Apple, gain experience, and *then* go to work at a venture-backed startup, kick butt, get promoted, and network the whole way.

And if you can't get hired by a well-regarded large tech company, go get a bachelor's or master's degree at a major research university from which well-regarded large tech companies regularly recruit, then work at a well-regarded large tech company that employs a lot of people like Google or Apple, gain experience, and *then* go to work at a venture-backed startup, kick butt, get promoted, and network the whole way.

I sound like I'm joking, but I'm completely serious -- this is the path taken by many venture-backed entrepreneurs I know.

Some alternate techniques that don't take quite as long:

If you're still in school, **immediately transfer to, or plan on going to graduate school at, a large research university** with well-known connections to the venture capital community, like Stanford or MIT.

Graduate students at Stanford are directly responsible for such companies as Sun, Cisco, Yahoo, and Google, so needless to say, Silicon Valley VCs are continually on the prowl on the Stanford engineering campus for the next Jerry Yang or Larry Page.

(In contrast, the University of Illinois, where I went to school, is mostly prowled by mutant cold-weather cows.)

Alternately, **jump all over Y Combinator**. This program, created by entrepreneur Paul Graham and his partners, funds early-stage startups in an organized program in Silicon Valley and Boston and then makes sure the good ones get in front of venture capitalists for follow-on funding. It's a great idea and a huge opportunity for the people who participate in it.

Read VC blogs -- read them all, and read them very very carefully. VCs who blog are doing entrepreneurs a huge service both in conveying highly useful information as well as frequently putting themselves out there to be contacted by entrepreneurs in various ways including email, comments, and even uploaded podcasts. Each VC is different in terms of how she wants to engage with people online, but by all means read as many VC blogs as you can and interact with as many of them as you can in appropriate ways.

See the list of VC bloggers on my home page, as well as on the home pages of various of those bloggers.

At the very least you will start to get a really good sense of which VCs who blog are interested in which kinds of companies.

At best, a VC blogger may encourage her readers to communicate with her in various ways, including soliciting email pitches in certain startup categories of interest to her.

Fred Wilson of Union Square Ventures has even gone so far as to encourage entrepreneurs to record and upload audio pitches for new ventures so he can listen to them on his IPod. I don't know if he's still doing that, but it's worth reading his blog and finding out.

Along those lines, some VCs are aggressive early adopters of new forms of communication and interaction -- current examples being Facebook and Twitter. Observationally, when a VC is exploring a new communiation medium like Facebook or Twitter, she can be more interested in interacting with various people over that new medium than she might otherwise be. So, when such a new thing comes out -- like, hint hint, Facebook or Twitter -- **jump all over it**, see which VCs are using it, and interact with them that way -- sensibly, of course.

More generally, **it's a good idea for entrepreneurs who are looking for funding to blog** -- about their startup, about interesting things going on, about their point of view. This puts an entrepreneur in the flow of conversation, which can lead to interaction with VCs through the normal medium of blogging. And, when a VC does decide to take a look at you and your company, she can read your blog to get a sense of who you are and how you think. It's another great opportunity to put forward a fantastic first impression.

Finally, if you are a programmer, I *highly* encourage you, if you have time, to **create or contribute to a meaningful open source project**. The open source movement is an amazing opportunity for programmers all over the world to not only build useful software that lots of people can use, but also build their own reputations completely apart from whatever day jobs they happen to have. Being able to email a VC and say, "I'm the creator of open source program X which has 50,000 users worldwide, and I want to tell you about my new startup" is a lot more effective than your normal pitch.

If you engage in a set of these techniques over time, you *should* be able to interact with at least a few VCs in ways that they find useful and that might lead to further conversations about funding, or even introductions to other VCs.

I'm personally hoping that the next Google comes out of a VC being sent an email pitch after the entrepreneur read that VC's blog. Then every VC on the planet will suddenly start blogging, overnight.

If none of those ideas work for you:

Your alternatives in reverse (declining) order of preference for funding are, in my view: **angel funding, bootstrapping via consulting contracts or early customers, keeping your day job and working on your startup in your spare time, and credit card debt**.

Angel funding -- funding from individuals who like to invest small amounts of money in early-stage startups, often before VCs come in -- can be a great way to go since good angels know good VCs and will be eager to introduce you to them so that your company goes on to be successful for the angel as well as for you.

This of course begs the question of how to raise angel money, which is another topic altogether!

I am not encouraging the other three alternatives -- bootstrapping, working on it part time, or credit card debt. Each has serious problems. But, it is easy to name highly successful entrepreneurs who have followed each of those paths, so they are worth noting.

Closing link:

Finally, **be sure to read** this page **on Sequoia Capital's web site**.

Sequoia is one of the very best venture firms in the world, and has funded many companies that you have heard of including Oracle, Apple, Yahoo, and Google.

On that page, Sequoia does entrepreneurs everywhere a huge service by first listing the criteria that they look for in a startup, then the recommended structure for your pitch presentation, and then finally actually asks for pitches "over the transom".

I have not done a thorough review of other VC web sites to see who else is being this open, but for Sequoia to be offering this to the world at large is a huge opportunity for the right startup. Don't let it pass by.

[Editorial note: This will be the last VC-related post in this series for a while. From now on I plan to focus much more on how to make a startup successful.]