

You've decided you're going to raise venture money – all right, that's exciting. How do you decide which VC to choose and how do you close a deal? That's what we're up to next.

Clint: How would I know it's the right VC?

Jason: I would from the VC's standpoint it's like dating, and it's the same way for an entrepreneur. When you go out on a first date and you're like, "Hey, that was pretty cool. I want to meet that person again, I want to hang out. I feel inspired, I'm going to learn all this stuff from this person." That's when you know you have the right VC.

Having that emotional energy, that emotional connection, is super important. The average relationship between a VC and entrepreneur lasts longer than the average American marriage. If you keep that in mind, this is a very important decision you're going to make and it's a very personal one.

Besides the emotional gut instinct, it's very important to get out in the network and talk to other entrepreneurs, find out what happens when the going gets tough. Does the VC have a reputation if things aren't going well to throw up their hands, get frustrated, and be disruptive? Or is that going to inspire that venture capitalist to roll up their sleeves and help you even more? This is how you find the right VC, it's about asking.

By the way, ask the VC, "Hey, introduce me to other CEOs." I have several times where somebody said to me, "Prove to me I should take your money," and I say, "Here's my CEO list, call any of them. Here's the ones that failed, you'll probably want to call them first." The feedback that those CEOs have given these entrepreneurs has always worked in my favor.

A reputation is everything in this industry. Don't be afraid to scout it and make sure that it's real, that it's not just what's on the website.

Clint: That sounds great if I'm talking to a VC. How do I get that first meeting?

Jason: The first meeting is the hard one. First of all, do your research. I find that most entrepreneurs do a great job of strategizing about their

own business, a very poor job of doing it with regarding what venture capitalists they want to talk to. Go to TechCrunch, go to CrunchBase, go to all these things, find out a list of VCs who invest in the stage of your company and invest in your areas, although not in competitive businesses. Talk to your friends, talk to you network, talk to your mentors and advisors, even your lawyers, get a list of folks to contact and then try to connect with them in a way.

I find the best way is to send a personal email. The “Dear _____, please look at the following summary,” does not work. The “Hello Jason, I understand you’re a University of Michigan grad who likes to play drums. I went to Notre Dame, I hate Michigan, and I play guitar. Let’s talk,” okay, you got my attention. I know the person has a sense of humor. If it’s a good business plan they probably get a first meeting.

Be yourself, be strategic, tailor all communications individually to that particular venture capitalists, and you’ll increase your chances greatly.

Clint: So I’ve gone a couple of steps here, I’m talking to a handful of VCs, what’s this lead VC thing? How important is that in the process?

Jason: Extremely important. Like we talked earlier about having a lead angel or a lead person in your syndicate, having a lead VC who is professional, reputable, going to have the ability to get a deal closed quickly and be inspirational for other venture capitalists to come into the round, if you so choose, is extremely important.

Clint: I have someone that seems promising. What happens from this step to a closed deal? What happens in the middle there?

Jason: I have no idea, actually. It is different with every venture firm.

I can tell you how it works at Foundry Group. I can tell you that I want to have multiple interactions and every interaction I have I want to feel better about talking to than the last. If at any point I’m less interested, it’s over.

At our firm we make very quick decisions on a no. We always tell people we’ll get to a no immediately, yes takes a little longer, but not a lot longer, and we very quickly get the rest of the partners involved

in a company. If I'm working on something for a long time and you're not meeting one of my other partners, that's a bad sign.

At other firms it could be completely different. There could be levels of associates to go through, levels of partners to go through, the proverbial Monday meeting where you have to wear clothes that you've never worn before in your business life and go present in front of these venture capitalists.

The key is to be very clear, ask the VC, "What's your process? How does it work?" Ask some questions, figure out how it is. If you're not lining up to the process they've described, you know that something is not going right.

Clint: I'm having lots of meetings. First I was kind of excited about it, but now I'm getting a little tired of having all these meetings and preparing all these documents. How do I get a deal to close?

Jason: Well, the best way to get a deal to close is to get multiple term sheet offers, which will force everybody's hands. Creating competition is the best thing you can do.

Do not create false competition. Do not lie. As Brad likes to say, be honest and be transparent. Don't tell me you have a term sheet from a firm that you don't, because probably I know this person and can back-check that.

Don't overplay your hand, by try to create some competition. Tell me, "Hey, just wanted to let you know, I'm not trying to push you, but I've already had two meetings with another firm and they seem interested." Talk to me about things that are happening, be optimistic, be enthusiastic, be excited, and that will hopefully push me along to get to a yes.

Clint: Questions?

Student: If you do have multiple term sheets, should you be sharing those with the VCs? Should you be telling the VCs who the other firm is or should you try to keep that separate so they don't collude? I guess if you feel like they're going to collude, maybe they're not the best people for you anyway. Just in general, what is the etiquette there?

Jason: I think the etiquette is don't tell the VCs anything. If I ask you, "What is your other term sheet? What are the deals?" I think you absolutely say, "Look, I'm not comfortable sharing that information. They've told me they don't want this out in the market. Give me your best offer, let's discuss it. I'm really interested in working with you, Jason,...."

Please, don't ever allow the VCs to collude, because they will.

There is a caveat. Let's say you knew that it was a firm we invest with all the time. You said, "I know that Jason has five co-investments with this firm," maybe then you might want to take a different approach. Maybe you want to say, "Wait a minute, maybe I can get both Jason and this firm together in this deal." That you might want to play a little bit differently.

Certainly in firms that you don't know, do not share information.

Student: Can you talk a little bit about the timeline of this process? I know it will vary wildly, but specifically I guess I'm curious about closing timeframes and about how long that should take once you've agreed on a term sheet.

Jason: Somewhere between a week and never, generally lining up in a month to three months sort of range. We like to tell entrepreneurs that you're either raising money or you're running the business, you can't do both at the same time.

Just the closing from getting the term sheet to close is probably at least a month to six weeks. Getting this whole process done could be a week, two weeks, three months, six months, or, like I said, never.