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Why and when you get a NO from a VC

For one year a typical VC is exposed to over 500 startup ideas and entrepreneurs. Typically, they ultimately invest in less than 1 percent of the deals that they see.

That means VC investors are saying “no” at least 99 times for every time they ultimately say “yes”.

It is therefore understandable that VCs can seem negative, arbitrary and arrogant to the entrepreneurial community.

“No” doesn’t always mean what you think it does, though.

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What “No” Does NOT Mean

It doesn’t mean your idea is not good

- VCs turn down very smart ideas from very smart entrepreneurs all the time.
- Usually, it’s because the deal doesn’t meet some criteria the VC needs to construct their desired portfolio of investments.
- Many entrepreneurs don’t realize that VCs have made promises to their investors-the Limited Partners-about what kind of deals they will invest in. They must stick to those promises or they risk not being able to raise their next fund.
- Now that’s not to say your idea might not be improved, or that they don't have seen another deal which is built around an even better idea. But a turndown is almost never about a stupid idea. It’s frequently about an idea that doesn’t fit the venture fund’s focus.

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It doesn’t mean the management team is not good

- Most of the entrepreneurs are smart, dedicated and courageous individuals.
- You must be courageous to even contemplate starting a company. And a turndown is certainly not meant to denigrate the entrepreneur.
- Nevertheless, that’s not to say the management team might not benefit from some improvement. First, it might be insufficiently experienced in the target market area and sometimes, the VCs will be upfront about it and tell you so.

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It doesn’t mean you will fail

- Every seasoned VC has examples where they passed on a deal that later was very successful. The VC business isnot exclusively about picking winners. It’s about picking winners that meet their selection criteria, for capital required to win or market area addressed or time to success.

What “No” Might Mean.

Your market or technology focus doesn't fit the VC investment objectives or promises they made to the VC's Limited Partners.

- The Limited Partner community, typically large endowments, or pools of money from individuals or organizations, is trying to maintain diversity in their investments.
- For example, an LP may already have substantial funds invested in a number of high profile, later stage venture funds. They may therefore invest in an early-stage fund as an offset to that strategy.
- LPs invest in a VC because they explicitly focus on an investment niche. Each VC investment philosophy complements the LP own portfolio and gives them desired diversity. But that means that a VC may turn down an otherwise good-looking deal if its stage or market niche doesn't meet the criteria promised to their LPS.

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Your capital needs exceed don't fit the VC's investment criteria.

- Some businesses require more or less investment than others to become

  successful
- It doesn’t make sense for a small early-stage VC fund to invest in a deal that will ultimately require substantially more follow-on funding than that fund could ever muster.
- Perhaps the most painful outcome for a venture capitalist is to have invested millions in an idea that is finally reaching fruition, but their fund is now running out of money to cover its position in a later round, and ultimately, they get washed out.

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You have insufficient protection for your ideas.

- If your business is a success, then other better-funded companies will copy it and compete with you.
- On the other hand, if your business fails, nobody cares.
- This is not related to patent strategies, but to market and management strategies.

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The VC doesn't see how your idea will develop into a sufficiently large business to meet their exit objectives

Lots of good ideas that can change the world in some narrow way, especially in biotech and medical devices and can even provide a nice “lifestyle” business for their founders but can never grow big enough to go IPO or find a buyer willing to pay enough to justify the investment or the time expended by a VC investor. Frequently, what isn’t big enough for a VC may be plenty big enough for an angel investor, an incubator, or an early-early-stage fund.

The idea is too young

- Venture Capital funds usually have finite durations like 10-15 years.

  That means the VCs have promised their LPs they won't tie their money up for longer than that period and will start returning capital by then.
- If you are presenting a deal that has a 5-year regulatory window in front of it, and the fund is already 4 years into its life, then a "no" answer may simply mean your timing is too long to meet the venture firm's now-foreshortened time window.

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Any of the reasons associated with “no,” combined with the managers or analysts lack time

- VCs see hundreds of deals a year. There are so many deals, and so little time. There is, therefore, a premium placed on time management.
- To simply manage their time most efficiently, VCs must make quick triage decisions: “Is this a deal that has a realistic chance of being funded by our firm?”
- When the answer is no and time permits, it is polite to communicate this back to the entrepreneur in a constructive and helpful manner.

  But frequently, saying no brings to a chain of subsequent submissions.

  Some polite declines just don’t get done.

Your submission was unsolicited or not introduced by a credible source

- VCs get a large number of deals that don't fit with the investment field that the VC publishes or communicates, as desired.
- Frequently, they have been blindly submitted without any effort made to see if this is an area they might invest in – or an individual the investor doesn't know (or hold in poor regard) is the one referring the deal to the VC.
- It might also come from some remote location far from the investor offices; therefore, the investment follow-up will be time and energy consuming. Physical distance is often a problem that can be solved in several ways. Some investors mind about it more than others.

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The intermediary's role and importance

- Professional and well-informed intermediaries are ideal for this task, since they are updated about the VC wishes and needs.
- They also bring several deals on one meeting with the investor, therefore optimizing time management.
- Opportunistic individuals that introduce themselves as finders, often in transition between works, will do just the opposite, burning the entrepreneur's image and opportunity.
- Outsourcing your fundraising needs will save you time, energy, frustration, except in the case that you outsource it to a non-professional player that is temporarily in the market.
- When choosing to whom outsource your fundraising, the criteria should be the same as in any other outsourcing. You should beware of self-called professionals that are willing to work for nothing or promises, with high risk of not having any compensation for their efforts.

  Why should a good professional work with no expectations of ROI?

  Do professionals gamble on their compensation?

  If their work is professional, they should be compensated as any other of the people that you use as advisors, especially in this sensitive field.

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The VC already has an investment addressing that market area

- In some cases, it is s better (safer) if nothing at all is said.
- This is one of the reasons why VCs prefer to receive non-confidential information regarding new deals.
- Reputable VCs **do** respect confidentiality notices on submissions.
- VC businesses run on trust and reputation would be quickly damaged if confidential information is forwarded to another company the VC has an interest in.
- That reinforces the importance of the entrepreneur researching venture firms and their partners, portfolios and focus areas, before blindly submitting their plan.
- Ideally, an entrepreneur should look for an investor that has some familiarity with a market and/or technology area, but hasn't already invested in a directly competing business

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Your submission went into the spam folder

- This, unfortunately, happens. Therefore, having a trusted intermediary, whose adders is on the investor address book, whit whom they communicate often avoids this problem.
- Remember, there is information to be drawn from a turn-down. Ideally, a good VC will try to give some constructive feedback with a decline message. But VC professionals don't always have the time.
- Reputable intermediaries get this feed-back, since the investor has a primary and genuine interest on nurturing the relationship with a good source of deal flow, that knows how to optimize the investor time, guiding the entrepreneur through the process.

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- As an entrepreneur, you will hear more “no’s” than “yes’s” in your startup career.
- Remember that you only need one yes per investment.
- The key is to focus your efforts on putting together a credible story, an important market need, a technological advantage, a well suited, complementary team, and then finding the right investor who gets it *and then wants to help you make it happen*.

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Thank you