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ENTREPRENEURS (/ENTREPRENEURS) 4/18/2014 @ 9:30AM | 25,371 views

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Six Reasons VCs Won't Back Your Deal

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The following guest post is by Eric Schiffer, chairman and CEO of Patriarch Private Equity and CEO of Digitalmarketing.com.

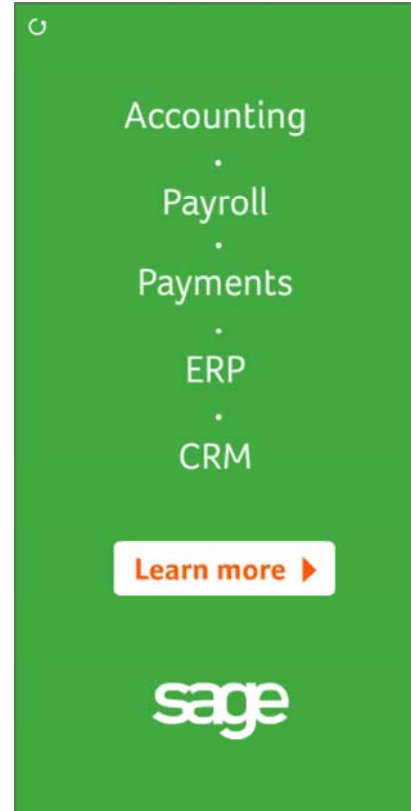
It might look like anyone who's got a pulse can get funded in Silicon Valley these days, with venture capitalists injecting \$9.99 billion into deals the first quarter of 2014 alone, according to the research firm CB Insights.

But the reality is that VCs want to cruise to an IPO – and will actively avoid entrepreneurs without the mojo to steer them there. Here are some fatal flaws they're quick to spot when they get pitched. Get some intervention now if you're struggling with any of these.

Lack of detachment. You can't scale a business if your ego is so wrapped up in it that you're terrified to delegate a single task, lest someone else make a mistake. VCs want to know you can attract the talent you need to scale up—so prove it!

One entrepreneur recently asked our firm to provide a cash infusion and business services to his e-commerce clothing store. He was certain that the cheapest way to expand was for him to do every job at the business himself—because no one else could work at the same capacity. Each of the seven times we met, he showed up in the same rumpled trench coat, which looked like he was sleeping in it. I took a pass on the deal. The thought of a business that depended on one guy working 24/7 didn't win my confidence.

You seem like you need a babysitter. Investors don't mind coaching young entrepreneurs, but they want to see that you have the emotional maturity to



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build scalable company with a diverse group of employees. A team where everyone looks like you, dresses like you and hangs out in the same bars doesn't portend well for the future.

Your idea smacks of “me too” ism. Great entrepreneurs know how to detect the conscious pain in the collective unconscious before anyone else does—and serious investors know this. Why bother pursuing, or pitching, a copycat idea? You'll end up boring the investors—and ultimately yourself.

One young entrepreneur pitched me on backing a digital directory for home builders he had created. His big selling point was that it looked cooler than an existing directory published by a major company. But when I pressed him on what was different, it was clear the design was the only differentiator. He'd never spoken with builders about what functionality would make it more appealing to them. No deal. He tried launching it, but it blew up six months later.

“So that's how things are done?” Don't waste investors' time by pitching them any idea until you've done a rigorous Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis on it. Your plan will look like a joke if you could've been piggybacking on an existing technology—and you've never heard of it.

You're all ideas, no action. Vision can only get you so far, so don't play the dreamer card too much. VCs want to know that you can execute on your proposal—so make sure you can demonstrate a clear track record of moving the ball in your past endeavors. Explain exactly how you'll handle the marketing or ensure that operations roll out smoothly.

Getting stuck in the vision stage can keep you from making your pitch at all. Not long ago, someone I know came up with a great idea for a medical technology. I offered to arrange introductions to pharmaceutical company CEOs, but he put off meeting them. I think the prospect of rejection scared him. If you're confident that you've developed a strong pitch, put your ideas into the ring and let them fight it out. Separate your ego from their success. Otherwise, you'll get frozen and never accomplish your goal.

You ignored fear and greed. The perfect VC investment has no risk, all upside. If you don't build a prototype of your product and beta test it, you'll probably get a lower valuation. The more proof of concept you have, the less worry the investor has about backing a loser—and the easier it will be to say yes to your deal.

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Worldview

"I'm skeptical of being an entrepreneur for the sake of being an entrepreneur," says Geoff Lewis, a Principal on the Investment Team at Founders Fund. "It's about worldview – we're look for someone who has got a really contrarian view of the future," he said pointing to SpaceX, the space exploration company started by Elon Musk, who also led Paypal and Tesla Motors. Musk's ideas expand beyond the design of rockets. "He's doing this because he wants to see humanity colonize mars," said Lewis, "that way the entrepreneur becomes part of the vision."

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