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## FINANCE

# Picking the Brains of Venture Capitalists

What do venture capitalists really look for in entrepreneurs? What are some big mistakes they see entrepreneurs making? We asked them these, and other, important questions.

**JAMES PARK**

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Few business owners ever get to sit down one-on-one with a venture capitalist to have a chat. To help you understand what goes on in the minds behind all that funding money, we asked several venture capitalists what they look for in entrepreneurs, big mistakes they've seen made, and what trends they predict for the future.

**What common mistakes do entrepreneurs who are looking for funding make?**

"[Many entrepreneurs] plan for the best case as opposed to preparing for the worst."--*Barbara Schilberg, managing director and CEO, BioAdvance*

"A big mistake people make is hiring the wrong people. If you're not teaming up with someone with a lot of integrity, that will come back to bite you."--*Patrick Ennis, managing director, ARCH Venture Partners*

"A pet peeve of mine: plans where the business model is created in a vacuum, with no recognition of either competition or substitutes."--*Robert Chefitz, general partner, New Jersey Technology Council*

"People put too much focus on financials. How many business plans do we get where you have 10 pages of problem, statement, solution, approach to market so forth and then 30 pages of financials? I take the 30 pages of financials and I throw them away. I don't even look at them."--*Chad Waite Jr., general partner, OVP Venture Partners*

### **What is your advice for entrepreneurs who are seeking funding?**

"What [entrepreneurs] need to do is state a proposition and make a case. What I tell them is, "You need to think like a lawyer, because if nobody knows where you're going, usually by the time you get there, everyone else is lost."--*Steve Domenik, general partner, Sevin Rosen Funds*

"What makes for a great pitch is an entrepreneur who can stand up and speak intelligently, articulately and with passion."--*Eric Young, general partner, Canaan Partners*

"You've got to look at fundraising as a process. You don't get the order on Day One. The first meeting ought to be a good, crisp, concise introduction. You want us to come back to find out more."--*Chad Waite Jr., general partner, OVP Venture Partners*

"Make sure the venture firm you're pitching is the right fit for your business."--*Andrea Kaufman, partner, Novak Biddle Venture Partners*

**What trends did you notice in 2005, and what do you expect to see for the rest of 2006?**

"I think it will be a very robust year for investments. It was robust in 2005, and I think you'll continue to see that in 2006."--*Nader Naini, general partner, Frazier Healthcare and Technology Ventures*

"[There's going to be a] shift away on the IT side, from things driven by enterprises to things driven by the consumer market. We'll [also] see an increase in focus across the venture community on alternative energy or clean tech investments."--*Bill Wiberg, general partner, Advanced Technology Ventures*

"I think today we have seen much more of a movement toward the quick hits in our industry, and those investors

that are out there investing in the five-year-plus kind of time horizons are actually fewer and further between."--  
*Joseph Landy, co-president, Warburg Pincus*

"The entrepreneurial revolution that has swept this country in the past 15 years is here to stay."--*Patrick Ennis, managing director ARCH Venture Partners*

"VCs are going back and looking a little more closely at early stage investing, so we're seeing a positive trend for early stage companies."--*Barbara Schilberg, managing director and CEO, BioAdvance*

"Many of the emerging new business models are being driven by a much wider-spread consumer adoption of the internet, which has been picking up nicely for the past couple of years."--*Eric Young, general partner, Canaan Partners*

### **What do you look for in companies and entrepreneur you're funding?**

"We look for [entrepreneurs] who are creative, who [aren't] afraid of running into problems and can figure out how to solve them."--*Barbara Schilberg, managing director and CEO, BioAdvance*

"[We're] looking for someone who's looking for help, looking to expand their horizons and who recognizes that you've got to reach out for those things. You don't bring them all to the table from Day One."--*Joseph Landy, co-president, Warburg Pincus*

"A great venture investment is three things: You have a great team, a huge market and novel technology."--*Bill Wiberg, general partner, Advanced Technology Ventures*

"It's an old saw, but our business is about investing in people that can get it done. The idea is almost secondary."--*Steve Domenik, general partner, Sevin Rosen Funds*

"One of the things we look for in an entrepreneur or founder is someone who has a very distinctive view of the industry they're selling in to. That isn't what you can go out and read in analyst reports in everyday press and media sources."--*Scott Irwin, general partner, El Dorado Ventures*

"I think a lot of people overlook the fact that the investor-or board member-entrepreneur relationship is often a five-year horizon, so you want to find people that you think will work well with you."--*Scott Irwin*

"Companies need innovation, and the truth is most innovation and most new products come from small entrepreneurial startups."--*Patrick Ennis, managing director, ARCH Venture Partners*

### **What are some of the strangest pitches you've received?**

"[I] saw [a pitch] that was using high-altitude Russian Cold War military aircraft to map the surface of the earth.

That kind of info is very valuable, but it's mostly collected by satellite or people driving with maps or using GPS-style information, so I thought this was a pretty out-there idea to use Soviet-era aircraft and custom-developed radar tech to collect this data."--*Scott Irwin, general partner, El Dorado Ventures*

"The quirkiest pitch I heard last year was a company that wanted financing for a technology that could control people's brains-maybe right for another fund, but not for us."--*Andrea Kaufman, partner, Novak Biddle Venture Partners*



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