



“Why should I marry you?” and other questions to ask VCs

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The decision to have a venture capital (VC) invest in your venture should not be taken any less seriously than the decision of choosing a spouse. After all, your life and how you spend your time will be hugely influenced by the VC. You are going to be answerable to the VC on a lot of matters. Therefore, choose a VC with whom you feel you can work well and constructively spend the next few years of your life.

Here are some matters on which you should be asking your potential VC suitors some probing questions on:

- How can a VC add value to your venture;
- Time the VC is willing to commit;
- Industry or domain experience the VC has; and
- Fund issues.

Don't rush into signing up with the VC just because they are dangling a good valuation in front of you and you are desperate for money. Stay rational and get to understand whether the VC can genuinely assist your venture's cause or not. Many of these discussions are best had upfront to avoid any misunderstanding or false expectations to be raised on either side.

You are probably thinking, “how can I ask a VC all these questions; aren't they going to think that I am being a little too aggressive or arrogant?” My view is that you are a client to the VC, so don't feel shy about asking these questions. In their effort to serve you, if they really want your business, then the VC should be comfortable in candidly talking to you about all these subjects. Let the interrogations begin...

How can you add value to my venture?

There are VCs who choose to be hands-on, and there are others who give enough free reigns to the entrepreneur and prefer to be hands-off. What kind of VC do you want? Understand whether your potential suitor satisfies what you want.

Many VCs might be first-time VCs who are still figuring out what kind of role they are most comfortable with and suited for. Many might be working at first-time funds and building up their reputations. Therefore, they might not be willing to be completely detached from the investments they make from the first funds. Be aware of these dynamics while engaging a VC.

The value that a VC can add can come in many ways. Here are some ideas for you to consider:

- **Ability to open doors:** As a start-up, you will need access to well connected people who can help in business development, getting to key decision makers at your customers. Ask your VC what kind of network they have in the country. Is this the network that will help your business. Ask them how can this network help you.
- **Ability to help recruit people:** Attracting talent to your start-up will be a challenge, especially in the current economic climate. Having a VC who can turbo charge your recruitment efforts will be of immense help.
- **Strategic and operational reviews and inputs:** As the entrepreneur, you will be the driving force behind your business, but don't ignore the business judgment that a VC might bring. Additionally, the VC might also be able to share operational lessons based on its experience with challenges faced by other companies in its portfolio.
- **Company building skills:** You will need all the help in building the organization. VCs do this for a living, so take advantage of their experience and resources.

If your VC is the hand-off type and you need someone who has built businesses before and whose business judgement you need because that is a skill missing on the founding team, you might want to look somewhere else. There is no point in just taking the money when the VC is not interested in devoting time to you. □

SME/Finance Initiative

The SME/Finance Initiative (SME/FI) is a knowledge-cum-business network that puts together development banks, other specialized financial institutions and development organizations in different countries to discuss and address specific issues in the financing of and other support services to SMEs. It aims to enable and promote an international exchange of information, experiences, and best practices on financing SMEs among banking and finance professionals and institutions and to further improve the development and growth of the SME sector. The Parties/Initial Signatories to SME/FI will work through: exchange of ideas, experiences and best practices; organization of and participation in conferences, seminars and similar activities; and promotion of the Initiative in their respective publications and websites. For more information, contact:

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Speaking to potential investors



Points to prepare for a discussion

<http://bestpracticeschina.com>

Best Practices China, China

While preparing to speak to potential investors/partners, your Value Proposition should cover, among others, the following aspects.

Management team: This is a key question for all potential investors or partners. It is very simple: How good is your management today? How good will it be tomorrow?

When an international investor says management, he/she really means the Management Team, which comprises the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO), Chief of Marketing, and Head of R&D, if it is appropriate. The main question is: does everyone have proven business experience? The stress is on actual *business experience*; government and academic experience may be great, but be ready to discuss and explain the management team's business experience. How long have they been working together? Is their experience relevant to the market environment? Think of a bankable management team: have any of the team ever worked in a competitive, deregulated market environment before? If your company plans on going national or international, does anyone in your team have experience in those markets? Be prepared to discuss these issues fully and honestly, because you can expect these to come up.

Marketing and sales: The next major topic of discussion is likely to be your company's plans for increasing your market. Investors and partners will ask about your sales and distribution channels, commission structures, any unique sales or distribution methods you have, and the size and quality of your existing customer or client base. Do you own your own distribution facilities? What is the average age and experience level of your sales force? How do you reward your best salespeople? How do you plan on using distribution channels as a competitive advantage in the future?

Also, be ready to discuss your competitive environment. What is your market position now? Who are the new competitors entering your market? What are your goals and strategies for growth? How do you plan on executing? What will you do in the event of a price war?

Manufacturing and operations: How well do you manage your operation? Is your manufacturing facility modern and efficient? Are you achieving economies of scale? Do you have excess capacity? How will you manage growth? Are your costs under control, below industry average? What about your quality control? Do you have adequate supplies of components and raw materials? What if your costs suddenly rise? What if your supplier goes out of business, or gets bought out?

R&D & Technology: What kind of technology do you have now? How does your R&D budget compare with the industry average? Do you have access to other people's technology? Do you own any patents, copyrights or other intellectual property? What is your strategy for acquiring new technology? What unique R&D advantages do you have?

Connections and other issues: One other discussion you may find yourself involved in is about connections. We recommend that you be very careful when discussing your company's connections. It is highly unlikely that your company's connections are going to be accepted as a significant value proposition.

However, if the issue comes up, it is best to indicate that you have all the connections and relationships you need, and then move on to another topic. If the other side wants to discuss specific situations, then realistically and honestly discuss what problems that you can solve using your connections, and what the limits are. Control expectations, and make sure you can do exactly what you say. □

2008 Asia Pacific Biotechnology VC Directory

The 2008 Asia Pacific Biotechnology VC Directory, produced by BioAblity and published by BioWorld Today, provides accurate and current profiles of venture capital firms (VCs) in the Asia Pacific region that are investing in the biotech industry. This directory provides an excellent resource for biotechnology firms at any funding stage: Seed, Series A-B, Series C-D, Mezzanine, Bridge, and Buyout. More than 100 VC firms are profiled at over 240 locations. Multiple contacts are included for most firms, with direct contact details, including e-mail addresses. Also included is an index of biotechnology companies with their corresponding VC partners, allowing you to target VCs that are investing in similar companies. For more information, contact:

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