## CHAPTER -7
### FOCUS AREA OF VENTURE CAPITALIST

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CHAPTER 7

FOCUS AREA OF VENTURE CAPITALIST

7.1 INTRODUCTION

Venture capitalist receive several proposal for investment. Many projects which find it difficult to raise funds from banks and other financial institutions approach venture capitalist for assistance. Venture capitalist assess several projects and invest only on handful. They receive as many as hundreds of proposal and finance few. In order to screen the proposal for funding they should focus on the essential criteria, important and desirable parameters based on the quantitative model generated by the researcher. The various parameters on which Venture Capitalist should focus more can are explained as under:
7.2 ESSENTIAL PARAMETERS

Capable of sustained intense effort-
Staying power: Venture Capitalists want an entrepreneur who is capable of intense effort over a long period of time. Vcs know that 99 percent of every venture’s success comes from perspiration, not inspiration. They know that if a small business is to succeed, the management team is going to have to work long hours to compensate for the lack of employees at the company.

Ability to evaluate and react to risk
Venture Capitalists look for an individual who has the intellectual power to evaluate risk and knows what to do after the evaluation. Every small business twists and turns many times during its life, and the early capability of analyzing situations, evaluation the probability of success, and implementing a plan is important for entrepreneur. Unless they are able to evaluate risk and analyze complex situations, small business usually remain small businesses.

Urge to grow
High degree of determination is required in entrepreneurs .They all seem determined to succeed .They want to accomplish things, and their desire to do so is strong. They are able to fix on a goal and reach it. Entrepreneurs also exhibit this sense of determination and ability to see a clear win for themselves. Make sure that your entrepreneur is a determined person.

Knowing what is real -
Entrepreneurs rarely fool themselves into accepting bad situations. They know they have a marketing program and a sales job to carry out, and they do it. However, they are not caught up in their own sales hype or their own promotional fever. They know that the real and what is fabricated. As a result, they can get to the bottom of an issue very quickly. Differentiate between entrepreneurs from a dreamer. Dreamers hope a lot .They hope that what they want will happen .There have been studies of intelligent people who make poor decisions these studies have tried to determine why smart people make mistakes.
High level of energy -
Successful entrepreneurs must have a high level of energy in order to succeed.
Being an entrepreneur involves enormous amount of time and energy.

Familiarity with target market
Though venture capitalist do lot of research on their own but Venture Capitalists
don’t have the time to learn about a market place in detail. For this reason,
Venture Capitalists want to know above all that the entrepreneur has a thorough
knowledge of the market place. It is common knowledge that an individual needs
at least five years to understand an industry. No one wants to finance on-the-job
training for an entrepreneur.

Market acceptance
Economic, demographic, sociocultural, technological, and regulatory or natural
trends to be identified that will affect market, and also to identify the quantum of
effect. Whether the effect is favorable or not?

Expected return over 25% in five years
Expect high rewards of the investment venture capitalist is making. This return is
minimum which Venture Capitalist wants to make for any proposal.

Managerial skills
Usually it takes more than one person to make a corporation go investigate the
number-two and number-three people in the firm. Entrepreneur must find out if
any problems are brewing and review the experiences of the management team
to see how they fit together. If they have a diversity that will let them handle a
multitude of problems managing them and making sure that they work together
and solve the team problem if there is constant bickering and conflict.
7.3 IMPORTANT PARAMETERS

Integrity-
Most entrepreneurs are honest in their approach to the world. of course, a number of entrepreneurs have cheated and lied their way through life. As an investor, Venture Capitalist want to make sure that entrepreneur is honest and straightforward. If they invest in a dishonest entrepreneur, somewhere along the way they will pay for it; the entrepreneur, somewhere along the way investor.

As an investor in a venture capital situation one can never be too careful with entrepreneurs. It is much better to have an entrepreneur who is honest than one who cheats and lies.

Critical competence
Is it easy or difficult for other companies to enter in the same market? Entrepreneurs prefer less competitive rivalry and also want high entry barriers if they want to stay in the business for quite long time. It is also important to identify the differentiating factors and sustainable advantage.

Long term vision
- It is important to know entrepreneurial mission
  - To serve a particular market?
  - To change a particular industry?
  - To market a particular product?
  - Is the passion really there?

- Level of aspirations entrepreneur have for there dream
  - To work for yourself
  - To build something small or something big
  - To do, To manage, To lead
  - To change the world in some way
• Risk that entrepreneurs are willing to take
  - Risk a secure salary and the things that go along with current employment and if yes then for how long?
  - Risk of losing control of the business
  - Put money at risk and How much?
  - Risk home or time with family or loved ones?

Attention to detail
Venture Capitalists want an entrepreneur who knows the details. Most of us think that good entrepreneurs worry about the bid picture and hire other people to handle the details. This perception couldn’t be further from the truth. Entrepreneurs must carry an inordinate amount of detail around in their minds and be able to use it all to the best advantage of the company. Details about numbers as well as the situation will need quick reactions and an individual with the ability to do it. Without this attention to detail and knowledge of specifics, most small businesses can’t grow.

Commercial orientation
Project should be commercially viable it should make commercial sense and should fill the gap in the market.

Amenable to suggestion and criticism
It is important to accept suggestion and analyses if it is fruitful to the entrepreneurs and will help to scale the business. These criticisms always help them to evaluate the opportunity.

Leadership ability
Every Venture Capitalist is looking for a leader for the company. Any time a Venture Capitalist backs an entrepreneur without leadership; the Venture Capitalist has inevitably had trouble and has had to replace the entrepreneur. Therefore, Venture Capitalists look for entrepreneurs who have been in leadership positions in the past and who have demonstrated their abilities conclusively. Without leadership the company is probably not going to go anywhere
High Market growth rate

There is a need to answer following questions:

- How large is the market entrepreneurs are seeking to serve?
- In how many ways have entrepreneurs measured it?
- How fast has it grown over the last one/three/five years?
- How quickly will it grow in the next six months or two/five/ten years?

Easy Market accessibility

Entrepreneurs must see that what kind of powers buyers have to set terms and conditions. Entrepreneurs prefer weak buyer power. Reach to the market is very important. Information about consumers like number of consumers, usage occasion, target market etc.

Ability to create new venture

Diversifying and adding the values as well as new venture to build on the ideas. Innovation whether product or process both are important.

Uniqueness

Unique product always give advantage to the entrepreneur proprietary elements – patents, trade secrets and so on - that other firms cannot duplicate or imitate can also make unique product.

Expected return over 100% in five years

High return for risk is required by Venture Capitalist.

Venture can be easily made liquid

Exit route is something which is really important.

Technical skills

High tech products require thorough knowledge about them. Team to be aware of every aspects of the project whether its technical skills and should possess domain knowledge.
Financial skills
No business can run without money. Knowledge and basic information is important and even when it comes to valuation entrepreneur should have information and should understand numbers.

Marketing skills
Most entrepreneurs have good social skills and are adept at persuading and conversing with people. One can spot these skills in conversations with the entrepreneur. If the entrepreneur is able to explain the business proposal in a simple style, this will be an outward manifestation of self-confidence and social persuasiveness. If the entrepreneur seems to have an outgoing personality and good presence, this, too, will indicate great self-confidence.

Also, if the entrepreneur seems to be emotionally stable this will evidence strong self-confidence.

Balanced team
Team with all skills is the right team

Articulate to discuss venture
Venture Capitalists need an entrepreneur who can articulate an idea. Many people have tremendous minds but lack the ability to explain their thoughts to the outside world. Without an accurate and convincing voice, most small businesses will fail.

In the early years, an entrepreneur used to persuade vendors to give the small business credit, persuade banks to make loans to the business, persuade employees to work long hours, and persuade government authorities to stay off them. It is this verbal ability that sets most entrepreneurs and who lacks the ability to persuade, probably ends up making a mistake by investing in a business run by him or her.
7.4 DESIRABLE PARAMETERS

Compatible personality
Venture Capitalists most often invest in an entrepreneur who has a personality that is compatible with their own. Compatible personalities may not be at the top of anyone’s list, but entrepreneurs are not financed unless they are compatible with their venture capital source. It is indeed like a marriage. Most people don’t get married unless they like each other. Venture Capitalists don’t “marry” entrepreneurs unless they like them. Even if an entrepreneur is capable of meeting many of problems in a situation, a Venture Capitalist will not invest unless the Venture Capitalist can stand “living with” the personality of the entrepreneur.

Track record of entrepreneur
Along with market knowledge, Venture Capitalists would like to track people who have a track record, especially a track record relevant to the situation. E.g. Ten years ago, Venture Capitalist were about to back an entrepreneur who wanted to buy a business that was a “turnaround”. The individual seemed to have the proper background, in that the entrepreneur had turned around several businesses and made a substantial profit for the investors. The difficulty was that the entrepreneur had not been involved in a turnaround in this particular industry. Therefore, Venture Capitalist felt that they should not invest. The tracks investigate time and time again. The Venture Capitalist will look for achievements in the individual’s background and for achievements in the specific industry in which the Venture Capitalist is about to invest. This is a key point for every Venture Capitalist.

Entrepreneurs reputation
Venture Capitalists are looking for entrepreneurs with outstanding reputations. They want trustworthy people, they are about to give a great deal of money to a business run by the entrepreneur, and they want to be sure the manager of that business has a reputation that is above reproach. Every Venture Capitalist in the business can give a long lament about some entrepreneur who took money out of the business illegally. If there is any hint that the reputation of the entrepreneur is not good, experienced Venture Capitalists will not invest.

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Large size of market

Size of the market is important and how big the market is? Whether entry in one segment will help us to enter in other segment. Can the entrepreneur become market leader or there is a niche?

All these questions entrepreneur must answer.

Product in market familiar to target market

Product should provide solutions to the problem and it should also resolve issues. Customer must look at it as solutions to the problem.

High-tech product

High-tech product serve as high barriers for entry for the competitors and difficult to imitate or copy.

There are different kind of venture capitalist and risk financiers who invest in projects today. Not only the venture capitalist but also the entrepreneur should do their homework before approaching venture capitalist and should critically analysed all key factors. Any of these factors can be called as critical success factors for entrepreneurs as well as the venture capitalist. AS per the analysis there are some of the parameters which are rated as irrelevant by Venture Capitalist.
7.5 IRRELEVANT
Referred by trust worthy source
Little threat of competition
Proprietary or otherwise protected product
Expected return equal to 10 times in 5-10 years
Venture Capital Funds will not participate in later round of investment