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Venture Capital: It's More Than Money

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Jim Collins, author of *Built to Last* and *Good to Great*, and an old friend of mine, has written that the critical questions in life are who-decisions, not what-decisions. “The primary question is not what mountains to climb but who should be your climbing partner,” he writes. As professional investors, our evaluation of each potential investment opportunity emphasizes the entrepreneurial team more than market strategy, technology or financial projections. When evaluating the pros and cons of bringing on an investor as a partner in your business, your considerations should be similarly weighted toward who-decisions. Professional investors should provide assistance and value in many areas beyond financial resources. Here are some key areas to consider when selecting an investment partner:

Strategic guidance. Venture capitalists are typically former entrepreneurs or industry executives with experience and skills to contribute. Additionally, lessons learned from previous investments give them a unique perspective that allows them to identify key trends and challenges. While they will never have the entrepreneur’s depth of market knowledge, their experience yields objectivity. Exceptional venture investment professionals provide strategic insight and act as a sounding board, while respecting that the ultimate judgment about operational matters are best trusted to the entrepreneur.

Fundraising. Most venture capitalists prefer not to be the sole source of a company’s financing. They should help attract additional debt or equity capital by improving the company’s positioning and fundraising materials, and recruiting industry colleagues to join the venture. A good venture capitalist should relieve the entrepreneurial team of some of the fundraising burden.

Talent recruitment. Venture capitalists have networks of relationships across a variety of industries, and their contacts are often with senior-level executives. Because they have observed entrepreneurs and management professionals in similar positions across various portfolio companies, venture capitalists can provide guidance and insight into the performance and proper compensation of most positions.

Exit strategies. The ultimate goal of any venture-backed company is to achieve financial liquidity for all shareholders, entrepreneurs, employees and investors. Venture capital investors develop experience and relationships by working with multiple companies on exit strategies.

Entrepreneurs should evaluate the ability of their venture capital partners to assist, when the time comes, in achieving this all-important goal.

Venture capital investors are more than capital providers. They are partners in almost all aspects of the business. Given this, entrepreneurs should give equal consideration to who they bring on as investment partners as they would to any other team member.

To learn more about Flywheel Ventures, visit www.flywheelventures.com.

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