GROUND ZERO

Venture Capital Raising Plan

"If I had 24 hours to cut a tree, I would sharpen my saw for 23 hours"
Anonymous Wise Man

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"Money is plentiful for those who understand the simple laws which govern its acquisition."
George S. Clason

The term venture capital is used to describe investments made by professional investors in exchange for owning a part of the business. The investment is made through equity or quasi-equity securities making the venture capitalist (VC) a financial partner and a part owner in the business in which he invests. Typically, the businesses in which the VCs invest are those that are able to demonstrate their potential to grow rapidly. The VCs use the term "scalable growth business" to describe such potentially investible ventures. The VC not only provides money but also "adds value" in the investee businesses by mentoring the entrepreneurs and filling in their gaps in experience, market knowledge, and networking. The VC's investment and his support and facilitation enable the business to grow to a size or stage that substantially increases its overall value. As the VC's money is inextricably linked to his mentoring of the investee business, it is also aptly referred to as "smart money". After the business grows and is established, it is then either sold, or listed on the stock exchanges, thus providing the VC, as well the entrepreneur, a substantial return on their respective investments of time and money.

From an entrepreneur's perspective, the key point to note is that venture capital is a unique form of risk capital which targets specific businesses and requires quite a lot of time to raise. Therefore, it is important to have a good understanding of how VCs operate and have a definitive plan for raising venture capital.

A time bound plan which facilitates raising of venture capital greatly improves your chances of success. The Venture Capital Raising Plan on pages 14-15 provides you such a blueprint.

- **Part I** empowers you with the knowledge and concepts of venture capital and the working of the venture capital industry.
- **Part II** provides you with the tools and knowledge to assess whether you and your business are ready for the VC money. Some of you may realize at this stage that you are either not ready for the VC or not attractive enough for the VC to invest in your business. If that is indeed the case, you may decide not to go any further.
- **Part III** helps you to prepare all the documents that you require before starting the process. A lot of preparation has to be done before you start the process of searching and meeting VCs and soliciting their money. Also, you become "VC ready" by reviewing your business, validating its systems and processes, and obtaining an understanding of key VC concepts such as dilution, rounds of financing, etc.
- **Part IV** then prepares you to select, meet and present your case to the VC. You also learn how to negotiate the Term Sheet and manage the due diligence. Finally, you are ready to sign the legal documents that precede the infusion of VC money into your business.
- **Part V** details what happens after a VC invests in your business. For a period of 3 to 5 years, or more, you would have to work along with the VC. This section tells you what to expect and how to manage your relationship with the VC. Finally, the several exit strategies are explained for you to monetize the investment that you and the VC have made in the business over the years.

Most VCs in India raise a substantial portion of their funds from the US. Accordingly, they usually measure their investment and returns in the US dollars. I have, therefore, used USD, and not Indian rupees, to explain the concepts in this book. For those of you who would like to think in Indian rupees, I suggest that, as a thumb rule; use Rs. 1 crore (that is, Rs. 10 million) as a proxy equivalent of USD 1 million.

How Long Does the Process Take?

The time taken to raise venture capital depends on how well prepared you are before you start the process. On an average, you would take between 6 to 12 months to get VC money into your business.

The Venture Capital Raising Plan on pages 14-15 illustrates this process. The entire process is summarised below:

1. Understanding the VC Industry	15 days or less
2. Assessing your readiness and that of your business	15 days or less
3. Preparation before meeting the VC	2 to 4 months
4. Negotiating, structuring and closing the deal	3 to 6 months
Total time for raising venture capital	6 to 12 months

The detail of activities under each category of the process is the subject matter of this book.

Venture Capital Raising Plan

		Months											
	Activity	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
Part I	***How the Venture Capital Industry Works***												
Ch. 1	What is Venture Capital?												
Ch. 2	How the Venture Capital Industry Operates												
Ch. 3	How VCs Make Money												
Ch. 4	Are All VCs the Same?												
Ch. 5	The VC Investment Process												
Part II	***Assessing Your Readiness for Venture Capital***												
Ch. 6	Do I Need Venture Capital?												
Ch. 7	Getting Over the Fear of the VC												
Ch. 8	To What Kind of Business do VCs Provide Money?												
Ch. 9	The Process of Raising Venture Capital												
Part III	***Preparing for the VC***												
Ch.10	Hiring Advisers												
Ch.11	Doing an Internal Review of Your Business												
Ch.12	Doing a Growth Audit												
Ch.13	Determining the Strategic Direction of Your Business												
Ch.14	Building Your Board of Directors and Advisory Board												

Contd. . .

		Months											
	Activity	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
Ch.15	Understanding Ownership, Dilution and Rounds of Financing												
Ch.16	Determining the Valuation of Your Business for VC Funding												
Ch.17	Creating Your Funding Plan												
Ch.18	Creating Your Business Plan												
Ch.19	Creating the Elevator Pitch and the VC Presentation												
Part IV	***Negotiating and Structuring the Deal***												
Ch. 20	Selecting and Meeting the VC												
Ch. 21	Preparing to Negotiate with the VC												
Ch. 22	Negotiating the Term Sheet												
Ch. 23	Managing the Due Diligence												
Ch. 24	Closing the Deal												
Part V	***Managing the VC Relationship***												
Ch. 25	Getting Along with the VC	**Maybe for 3 to 5 years after VC Investment**											
Ch. 26	Exiting Profitably	**After 3 t0 5 years post -VC Investment**											

"Begin with the End in Mind" Stephen Covey's Habit # 2

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"Far and away the best prize that life offers is the chance to work hard at work worth doing" Theodore Roosevelt

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"Many of us spend half our time wishing for things we could have if we didn't spend half our time wishing."

Alexander Woollcott