

FINDING AND FUNDING THE NEXT BIG THING

Some lessons learned from IVP Principal Jules Maltz

Venture capitalists don't build companies. Entrepreneurs build companies and venture capitalists fund them.



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But before they fund them, they need to find them. And this isn't easy. If all private companies shared their numbers publicly and allowed anyone to buy stock in them at any time (like public companies), it would make the VC job a lot easier—and probably put most VC firms out of business.

The lifeblood of venture capital is access to quality investment opportunities.

Finding or sourcing these companies before someone else is what differentiates the best firms from the mediocre—and it also makes the job fun.

Because sourcing is often pushed to the younger employees in a firm, it's an area where non-partners can differentiate themselves. I've been at IVP for less than three years and I'm still very much learning the venture business, although I have tried to improve on sourcing. I have a long way to go, but here are a few lessons that I try to think about before I go out looking for the next investment.

• **Have I got a deal for you?** Most people cringe when they hear a salesperson say this, and for good reason. Yet, VCs get calls like this all of the time from bankers, lawyers and other VCs. Sometimes, a close friend will introduce you to a truly exceptional company, but most of the time you've got a date with adverse selection. The best companies rarely need introductions. They already have five to 10 VCs who are calling on them. So if you're looking for the next great deal, don't be afraid to go find the companies instead of waiting for them to come to you.

• **Quality over Quantity.** It's a common misconception, but sourcing is NOT a volume game. The quality of a potential investment matters more than the number of potential investments that you look at. Sourcing low-quality investments—even a lot of them—wastes time for both the investor and entrepreneur. Keep a high bar and look for truly exceptional opportunities. You're hunting with a rifle, not a shotgun.

• **Know Your Customer.** I cringed recently when an entrepreneur forwarded me a "form" email from an investor at a top venture firm. You could literally replace the name of the CEO and the startup and the sourcing email would have worked for any tech company. I bet this investor sent the same email to hundreds of companies. Respect entrepreneurs by understanding their businesses before you reach out. Spend time researching the market and have a thesis for what is needed to win. Demonstrate this knowledge when you reach out and you'll stand apart from your "form email" competitors.

• **Put Yourself in Their Shoes.** Take off your VC loafers and imagine what it would be like to wear the shoes (or flip-flops?) of the entrepreneur. What does she care about? Why would she want to meet with you? Once you change your perspective, you'll start thinking about things that genuinely help the entrepreneur instead of trying to "pitch" her to take your money.

• **Persevere.** Venture capital sourcing is inherently unpredictable. You'll feel like you're beating your head against the wall one week while the next week you've found five quality companies raising money at the same time. Sourcing is still about quality, but there's no substitute for consistent hard work. Don't get discouraged, you'll be rewarded eventually. Startups work tirelessly to sell their products. If you want to source the best startups, it's only fair that you have to do the same.

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