

Entrepreneurs Should View Raising Venture Capital as: The End of the Beginning

By Neil Schaffer

Obtaining venture capital is rigorous, stressful, and demanding. Time-consuming and distracting to CEOs and management teams, the process could be accelerated and the probability of success improved, but lean entrepreneurial teams are often consumed by the daily pressures of running and growing their companies. Many take long and unproductive steps due to their lack of experience in raising capital.

Business strategies and operational capabilities of companies seeking early-stage or expansion capital undergo scrutiny and dissection like never before.



Investors react harshly toward ill-prepared suitors, so thoughtful planning, preparation, and concentrated attention are imperative. "Lucky" is not a word associated with raising venture capital these days.

Many that clear the first barrier of attracting serious interest stumble during the due diligence process. Unable to convincingly demonstrate performance to the benchmark standards – requisite skills of the management team, uniquely differentiated and sustainable business plans, defensible competitive positioning, etc. – investors will flee.

Those companies that obtain venture capital should view the achievement as "the end of the beginning". Closing a financing provides needed growth capital, gratifying validation, and marks a transition to a new level of maturity, responsibility, and expectation. There are now new partners and legal obligations to them and the investors who entrusted the venture firms with their capital. This is the moment to embrace a culture that fosters the company's future via a disciplined process of continuous improvement and renewal – the future that the investors truly bargained for.

It is absolutely critical that a company's management team and board maintain focus on the future of ever-shifting markets, demanding customers, and wily competitors, and not succumb to the "busyness" of daily routine. Strategic planning, often unattended in the background during the entrepreneurial early stages (except during the period leading up to venture financing when "proper" business plans are so central), must not be consigned to the "we'll get to it later when we have time" category. Remember, a company's top customers and competitors devote concentrated resources to strategic planning, so emerging companies must do the same.

Despite best intentions, many venture-backed companies fall short of expectations. There may be myriad details to explain the failure to reach their potential, but planning and execution are the main themes. Here are four main failure scenarios:

- **Poor or immature planning** – A plan that misreads market and customer needs cannot be remedied by good execution.
- **Good planning implemented prematurely** – Launching a product or service too far ahead of the market need and willingness to pay for it.
- **Good planning derailed by poor execution** – Failing to bring the right resources to deliver, scale, market, and sell a properly crafted and timed product or service.
- **Good planning at the time of investment that did not evolve with changing circumstances** – Everything goes well initially, until the company loses focus or is blind-sided by change.

In each of these examples, maintaining the status-quo will only lead a company further and faster down a dead-end road. Prompt re-thinking and course evaluation are essential.

Strategy is about creating ideas for the future, and a diversity of viewpoints and backgrounds is central to exploring and exploiting new opportunities and avoiding risks. Part of an emerging company's new beginning is embodied in the experience the investor representatives bring to the boardroom. In addition, external specialists can help accelerate positive change by extending perspective and bringing forward important ideas and expertise that may not exist within the organization.

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