Is Your Company VC-backable?

What founders need to know before raising venture capital

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*Real started supporting Front Row Ventures (FRV) two years ago because of our shared mission to back outstanding founders while building the startup ecosystems in which they thrive. This year, FRV is expanding to university campuses across Canada with the goal of building the strongest community of ambitious young entrepreneurial tech talent by investing money in stellar student-led startups.*

*This collaborative post is the first of many pieces that will shed light on how we make investment decisions and work with founders in the Real Ventures family, as well as what entrepreneurs need to know before raising venture capital.*

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If you have a great big audacious idea and are building a company with massive potential to disrupt an industry, chances are you’ll be looking for venture funding to help you grow. But how do you know when is the right time to look for funding? Or if your business is even a fit for venture capital?

At Real and Front Row Ventures, we spend a lot of time speaking with entrepreneurs and answering these exact questions. As venture capital firms that fund companies from pre-seed through growth, our ultimate goal is to spot the most ambitious companies and help them develop into industry leaders. That also means saying no to a lot of companies that have excellent ideas but just aren’t right for venture funding — that have potential to do great things but not necessarily with the returns that we’re looking for.

Why do VCs look for such high returns? Just like the entrepreneurs we back, we also need to return a profit to our investors. And because VCs are essentially making bets on new companies, we need to feel confident that the odds of success are great in order to make up for those that don’t hit it out of the park. This is why VCs don’t back companies that look like they’ll be successful but not on a world-changing scale. **If a startup doesn’t have the potential to alter the state of an industry in a market worth billions and generate more than $100M in annual revenue, then it simply**[**won’t make financial sense for a VC to bet on it**](https://techcrunch.com/2017/06/01/the-meeting-that-showed-me-the-truth-about-vcs/)**.**

So what *do* we look for in a startup? The framework we use to determine whether or not a company merits VC funding — and is ready to raise — is through the pillars of **team**, **market, vision**, and **traction**. And while each stage requires a different level of progress on each of these pillars, strength in one or two pillars can compensate for less on one of the others.

**TEAM: Borderline obsessive**

We get excited when we meet individuals who are so deeply passionate about the space, market and products they are working on that it’s clear that they’ve been obsessing about it for a while. This person may have been working in the industry and become obsessed with a way to change it, having identified a solution to a major problem that affects countless other businesses or people.

They don’t simply have an idea, however. They have an obsession that has merit. They have done their homework on what their customers need or want, they know the industry trends, who their competition is, and are strategically positioned to capture a large, shiny opportunity. They are approaching their solution in an impactful way, and are in the process of turning it into a massive opportunity.

VCs look for founders with ideas that have the potential to disrupt industries. For a company to have great success it takes a founding team with the ability to scale the company and be the long-term leaders. What we look for in this team are complementary skill sets, market experience and connections, as well as solid relationships. While we will back solo founders on occasion, we prefer to work with teams of two (or more) people as they tend to be radically more efficient than solo founders. For example, the [FounderFuel](http://founderfuel.com" \t "_blank) accelerator only accepts companies with 2+ co-founders so that there is always someone to keep the business running while the other is out raising funds. A strong founding team (and early hires) also prove to us that a startup’s vision is legitimate and that they will be able to move quickly enough with their ideas to support the business growth needed for VC growth targets.

While we value the experience of serial entrepreneurs (especially those with successful exits), many successful founders are also first-time founders. What’s most important to us are traits like tenacity and passion, the willingness to take feedback, the ability to test, learn and iterate quickly, to bring projects to market and form strategic partnerships, and — very importantly — the ability to attract others to join their mission.

**MARKET & VISION: Making a billion dollar impact**

If a founder’s insights make it clear to us that they’re the ones to solve a critical problem — if they can make others passionate about what they are consumed with — then chances are they have a strong vision. If this vision and approach have the potential to become a business worth well over $1 billion, then the company is definitely right to be looking for VC funding.

It is crucial that an entrepreneur can prove that their market is not only big enough for the company to generate $100M in annual revenue but also that this market is not already owned by established players. This may take a good deal of insight and creativity if it’s a market that doesn’t currently exist, but that’s why founders need to be perfectly prepared. They need to have thought through every question one could ask about the business and market, and know, without a shadow of a doubt, that what they’re onto is something huge.

Questions they need to be able to answer include:

* Is this a massive opportunity in a huge market with enough differentiation for adoption?
* Are there network effects and/or a competitive moat that will ensure growth and market domination?
* Does the team have a clear roadmap and view of what they need to do today to fuel the business a year to two years from now?
* Is this solution backed by strong research and intimate knowledge of the market, its trends, where competitors sit, and what the customer needs?
* Does the team have the conviction that their tech will change the way people or businesses operate given all of the above?

Overall, we look for companies with the cards stacked in their favour. Be it based on research, go-to-market, business development, or technology, we want to make a bet on a company that has a clear advantage.

**TRACTION: Incredible ability to execute**

Strong vision is worthless if a team can’t execute on it. That’s why a founding team needs to prove traction before approaching a VC.

This traction, at the early stage, can be milestone-based. Depending on the market and tech being used, milestones might be significant advantages in terms of the team and research — for instance, with companies like [InVivo AI](http://invivoai.com/en" \t "_blank)or [Element AI](https://www.elementai.com/), it made sense for VCs to fund them before they acquired customers (pre-product or pre-market). For other businesses — marketplaces, apps, SaaS — the key milestones for success are having an MVP in market and customer traction (10 percent month-over-month growth, and a clear view of the milestones they would need to hit in order to raise another round in 12–24 months.) In hard sciences — companies like [Xanadu](https://www.xanadu.ai/), [eNuvio](http://enuvio.com/" \t "_blank), [Spark](https://sparkmicro.com/), or [Tenstorrent](http://www.tenstorrent.com/" \t "_blank) — white papers, super credibility, fantastic team or chip-design are the relevant milestones a VC would look at pre-market or pre-product.

**Does your company fit the bill?**

Not all great companies are right for venture funding, so it’s also important that founders understand exactly how the landscape works before trying to make contact with a VC. If you are certain that your company is strong in the pillars of team, vision, market and traction, and you can prove that you can dominate a massive market with an eye to becoming a billion-dollar company, then you’re right to be looking into venture capital funding.

So what do you need to do to get the meeting with the VC of your dreams? We’ll dig into the details of building your startup community, VC meeting preparation and how to get your foot in the door in the next post in this series.

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