



Stanford eCorner

Choose Venture Investors Carefully

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Video URL: <http://ecorner.stanford.edu/videos/1801/Choose-Venture-Investors-Carefully>

William Sahlman, professor at Harvard Business School, suggests that when raising money, entrepreneurs should carefully select venture investors based on the quality and value of the partnership not funding terms alone. Specifically, Sahlman argues that although all VCs claim to be value-added investors, the entrepreneurs job is to find the investors who add rather than subtract value.



Transcript

It is clearly the case that from whom you raise money can be as important as the terms. And certainly, I ascribe to the view that in some cases you should take money at a lower valuation from one group than from another group. But I remind us all that all venture capitalists have a common phrase, which is: we are value added investors. So go search the websites. Every single one says, "We have proprietary deal flow, and we are value added investors." And it is absolutely the case, that they're value added investors. But in my experience, only about 10 % get the sign right. And your goal is to find those who can add value, not subtract.