



Stanford eCorner

How to Pick a Venture Partner

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Jason Green, Founding Partner at Emergence Capital, speaks on how to select a venture partner. Green emphasizes that selecting a VC is a long-term partnership commitment and encourages entrepreneurs to pay attention to four things when selecting a venture partner: 1) Negotiate from a position of strength, 2) Find shared belief, 3) Listen to your instincts and 4) Pay more attention to the partnership than the terms.



Transcript

So, your best options, I think, when you're thinking about a venture capitalist is to have a choice to say no. That choice to say no is the fact that your company is profitable and growing and something that is sustainable on its own right. Now, if you're in that position and then you can negotiate from a position of strength, then there are great things to focus on. But I think your first focus should be, "I'm making sure you don't have to make that decision." Edgar talked a lot about the importance of what drives entrepreneurship and belief was the first thing he talked about. I think when you're talking about getting an investor and Nick mentioned, when you're taking an investor in, it's like a marriage. It is like a marriage. It's a long-term one. It's very difficult to get a divorce. The key is belief, belief that you feel that this investment partner believes in what you're trying to accomplish -- your goals, your mission in your company and what you're trying to achieve in life. A lot of people spend a lot of time on the financial terms of the transaction and don't really try and understand what are your shared goals, what are your shared values, what do you want to achieve.

That's because we're all busy. We don't spend the time to go out to dinner and really get to know somebody. But I do, I still do that with entrepreneurs. A lot of people don't but I really try and understand what makes them tick and what success is in their mind because you're buying not only a piece of the business, you're buying your share of that person's dreams and fears and issues. I view that as a partnership -- when you really understand what another person's motivations are. If somebody is not interested in that part of the equation, then you ought to question frankly whether or not this person is really going to be there for you long-term. Secondly, I think how you're treated in the process is an important part of that decision making. If the shoe doesn't fit at the store, it's unlikely to feel good when you get home. I've had conversations in the past with people where there's been some red flags in the discussions along the way. When you're making business decisions, you have those instincts where you say, "There's something not quite right here." Well, listen to those instincts.

You may have not done it ten times before but those instincts are right. In 95 % of the cases, I'd say those instincts should tell you to turn another direction. So, don't be afraid by the fact that you haven't done this before, that you're being forced into a situation where you don't understand because you've made some great business decisions in building your business. Have the same kind of confidence about raising money. And then, finally I'd say the terms discussion we'll get to in detail, but I do think that people tend to focus a little bit too much on the terms and less on the partnership aspects of bringing an investor on board. Again, my experience though, the entrepreneurs have been the much more reasonable party in the discussions than the investors in my experience in working with Endeavor entrepreneurs and some of the choices they've had to make. I really do believe you got to have an opportunity to say no. My encouragement is to stick with your knitting, build your business

successfully and then date for a while, as Michael would like to say, build that reputation of trust with that investor ,and then come to the table with terms when it's somebody that you feel like you demonstrated both an importance to them and that they've really contributed back to your business. Hopefully, you can come to reasonable terms because ultimately you, as an entrepreneur, have to achieve your investor's expectations and dreams as well. You both have to satisfy each other's needs to really make it a successful relationship.