

1

The Venture Capital Investment Framework

STARTUP INVESTING

The relationship between an entrepreneur and their venture capitalist (VC) is a lot like the relationship between a player and a coach. The VC/coach typically has a broader perspective because they meet lots of companies, sit on a lot of boards, and learn from multiple entrepreneurs'/players' experiences while studying the market and analyzing the gaps. At the end of the day, the entrepreneur decides what the company will do, motivates the team, and executes it on the field. With that in mind, venture is a unique ecosystem where people have to work together. No one party holds all the cards and no one party can dictate the terms, so all parties have to make their own decisions on who they want to work with. If a startup is going to be successful, if it's going to be profitable, scale, and endure, then VCs, entrepreneurs, startup employees, and startup customers have to be aligned—which is a lot easier said than done. With this Venture Capital Investment Framework (VCIF), I hope to help innovators in the startup industry: VCs, the entrepreneurs and founders creating companies, the startup talent, and startup customers who work in or with the companies,

and folks aspiring to be any of the above in the entrepreneurial ecosystem.

In my experience, startup investing is still an imprecise art. Venture capitalists tend to either highly productize their process—we are talking complex spreadsheets or software programs quantifying each little detail—or essentially wing it based off vibes. Both can work. But it amuses me, and doesn't surprise me, if a useful framework like this would be helpful medicine for both.

*(Alex Konrad,
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venture capital, cloud, and startups)*

The following are what I consider to be the most important questions in VC. I believe these provide a simple yet effective way to arrive at the fundamental answers needed to confidently streamline the decision-making process and to work with a startup. These questions actually mirror a framework we've used since Aristotle's time: Who, What, When, Where, Why, and How. These are great questions to ask before starting or working with a company, much less investing in one. Aristotle's framework still exists for a reason: after years of learning and figuring out that, if you really want to understand something, you need the answers to those six questions.

I have organized the book to cover each of the questions and explain how they apply to venture. This will show you how you should structure your thinking, and the related questions you'll want to address to make those decisions in the startup ecosystem.

Chapter 2: Who = Team

Chapter 3: What = Problem

Chapter 4: When = Timing

Chapter 5: Where = Market

Chapter 6: Why = Solution

Chapter 7: How = Scale

Chapter 8: How to Use the VCIF

I remember when I first encountered questions that fit in these six categories. In the initial days, I didn't even know why those questions mattered. I just wanted to know the answers. But all of these questions need your point of view when you carry out due diligence on a company. So, for example, you'll want to get to know the team, understand them, know their strengths and weaknesses. And the same for the product: what is it? What does it do? What problem does it solve? How important is it? How valuable is it? For "Where," the question is, how big a market is this? "When" involves timing and is critical to startup success. "Why" gets at product management, around customer empathy, and the solution. How well do you understand your customer? The "How" identifies the concept of scale—is the company changing and improving as the other factors change and improve? Does the company have the right resources to be able to continuously evolve alongside the customers? One important component here is the sales machine, which has plenty of KPIs to measure success.

When you first start with the framework, it might feel like a lot of guesswork, but as you get comfortable with the six questions, it will become second nature, especially as the answers become clear from more exposure to entrepreneurs and startups. This doesn't mean because everyone is using the same framework that they'll all come up with the same questions or answers. Why have multiple partners in a VC firm if everyone is going to have the same questions and answers? You want that diversity of thought and you

want those different perspectives because it makes organizations better. Sometimes having diverse opinions and ideas can lead to a longer decision process, but usually the more diverse the people and their perspectives, the better answers you get.

If you take ideas about the team, everyone is going to have different ratings. For me, I love curiosity in a team but someone else might hate that and say that all they care about is mental horsepower. They look at a team where everybody has straight A's in every single class they've ever taken in their entire life, and they say, this team is going to be super-successful. Someone else is going to say, nope, I did not get good grades—I'm only looking for drive. So everyone is going to apply that "team" part of the framework differently and that happens because we're humans, we're all unique, we all have different childhoods, different life experiences, and different things that we're wary of. But yet, there's still some structure in terms of human behavior and we have spent a lot of time trying to figure out those structures. We all know about the Myers Briggs or the Big Five type personality tests. And, for me, I think those are very productive, very helpful, because they help you start making sense of the world. It's a framework mindset, a systems approach to understanding people.

For me, I grew up thinking everyone's a secret, super-special snowflake—everyone is different; everyone is unique. And if you think about someone like a VC who is trying to work with a large number of people in their career, they're never going to be able to understand every perspective. They're always going to have to learn about a person for the first time as if it's a brand new person and they would have no prior experience to apply to this person because they don't know them at all. But

with frameworks, I can think, “okay, you are an introvert. I know how to work with introverts. Oh, you’re an extrovert. Okay. I know how to work with extroverts.” Yes, there is some generalizing that I’m doing. There are 16 people patterns in the world according to the Myers Briggs, which seems low—but are there more than 300 different types of people in the world, personality-wise? I’m an introvert so I don’t naturally enjoy certain situations but a big part of being successful is building and expanding the network of people to help me source deals, triage business ideas, hire CEOs, or pull off a strategic acquisition. I had to find the introvert’s way to networking and building relationships to progress in my VC career. While it took time for me to learn, I didn’t have to find a rare unique way of doing things, there were plenty of introverts in the world that I could learn from.

With this framework, now we have six categories of things to sort data into. One of the dynamics of venture is that you’re never going to get every single question answered. Venture is inherently risky and there’s no perfect information. But this framework gives me the confidence that I’ve applied my experience and I’ve done my due diligence in a programmatic and structured way. And whatever decision I make, I did it as thoughtfully as I could.

Does Order Matter?

Do you know the feeling that sometimes things are just meant to be? While realizing the “most important questions” that I’ve learned to ask in VC are the Who, What, When, Where, Why, and How framework, another important coincidence made it the perfect guide for VC:

even the order of the framework aligns with the milestones a startup needs to achieve as it matures.

- Who = Team-Fit (can this founding team work together well?; Pre-seed stage).
- What = Team-Problem Fit (is this team a good fit for the problem?; Seed stage).
- When = Timing-Problem Fit (has the team proven the “why now?”; Series A stage).
- Where = Market-Problem Fit (what is the size of this problem and what long-term strategy makes sense?; Series B stage).
- Why = Product-Market Fit (does their product solve the market need and how well?; Series C stage).
- How = Scale-Market Fit (has this company scaled appropriately to keep up with the market demands to eventually reach IPO?; Series D and later).

If you’re already familiar with VC, the next chapters jump into my interpretation and some of my learnings related to each section of the VCIF, but if you’re new to the industry or need a refresher or more context on where the framework comes from, the “Notes to Stakeholders” in Part III can be helpful. There I share additional opinions, thoughts, and advice for specific stakeholders in the entrepreneurial ecosystem, the innovators and creators, the investors, the customers, and anyone who may want to pursue a career in this ecosystem.