Venturelytic

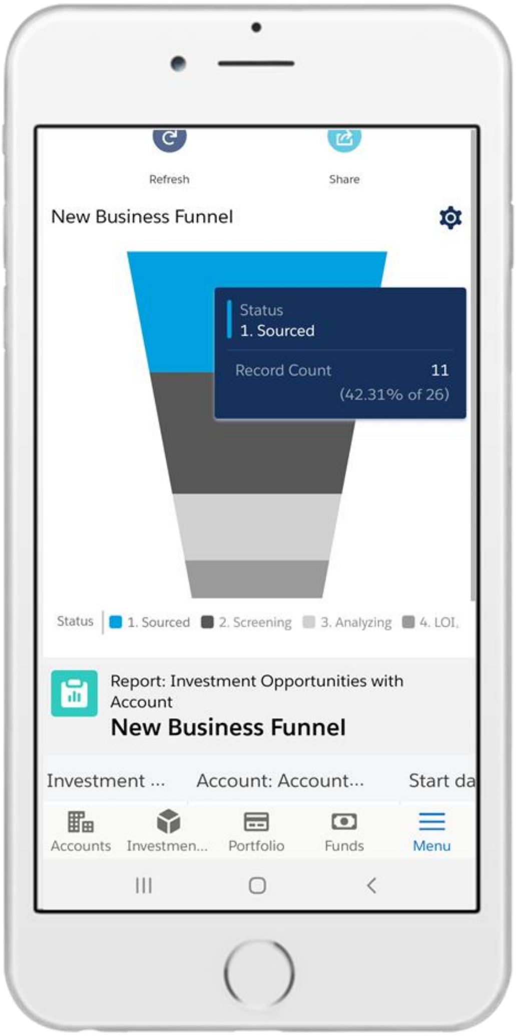
Dealflow series

Optimize your Deal Flow Process

Deal flow is the lifeline of every investor. Having great deal flow (meaning: high quality and, ideally, in high quantities) determines the success of a venture capitalist (VC) to a large extent. However, investment professionals experience that generating and managing deal flow can be a time consuming and intensive process that demands efficiency. The way many teams currently organize their deal flow process, however, lacks the structure and effectiveness needed to thrive in an increasingly crowded industry.

Simply put, deal flow refers to the rate at which your company receives new investment opportunities. According to research by Teten Advisors[1], the average investor in private companies evaluates over 80 opportunities to make a single investment. The same study also found that closing a single deal requires an average of 3.1 full-time investment team members - and 20 meetings with management.

Needless to say, it's virtually impossible for you and your colleagues to manage all these potential deals from memory. Consequently, this means deal flow needs to be documented. That documentation is often stored across different tools and members of your team. This is largely due to the fact that many investors have not moved beyond generalist tools like Microsoft Excel and Outlook to keep track of their deal opportunities.



[1] "Where Are the Deals? Private Equity and Venture Capital Funds' Best Practices in Sourcing New Investments", David Teten and Chris Farmer, The Journal of Private Equity Vol. 14, No. 1, pp. 32-52

Do More in Less Time with Fewer People

Multiple individuals and teams throughout your organization likely play a role in securing an investment. When holding team meetings to evaluate potential investments you want to have a fruitful discussion, point each other at important deal elements and provide suggestions for next steps. All in a time-efficient manner. To achieve this, you need your whole team to be on the same page, meaning that everyone should be up to speed on who did what and when, where the deal is headed and what the next steps are.

This becomes a real challenge when critical information is scattered across emails, spreadsheets, and numerous file storage apps. With only so many hours in a day, it can be a tedious task to find and bundle relevant information when needed. On top of that, these methods make it all too easy for details to get lost or forgotten, or for a meeting or phone conversation not to be followed up on as promised.

The lack of a system for recording and managing interactions with a vast pool of potential target companies puts an additional administrative burden on the team who spend too much time and effort on gathering latest updates and information, more often than not resulting in unnecessary delays in a deal process. The lack of one source of truth in the dealflow phase often slowly decreases the quality of the decision making process, without the team noticing.

Four Practical Tips

Most of you will probably recognize these challenges. We've bundled four tips on how to tackle these challenges effectively and optimize your deal flow processes:

1. **Create one source of truth**

   Unless you're working by yourself, one central place to store your deal flow is a must have. Without such a place, members in your team get confused on the latest status of leads, next steps are unclear, and last but not least, you miss a reference point to start measuring whether your team is improving or not over time.

2. **Organize specific deal flow meetings**

   Every investor has some form of team meeting on a periodical basis. Nothing new so far. However, these meetings often tend to take longer than planned, covering a range of different topics that came up on the spot and were not on the agenda initially. While it's good to have everyone in your team informed, these long team meetings have the downside that participants become passive listeners after a while.

   By planning specific deal flow meetings every one or two weeks your deal flow activities get the attention they need. With only one item on the agenda (deal flow) and a central database as the single source of truth, every team member knows what is expected from him or her during the meeting. This setting creates a sense of responsibility and accountability. Make sure people not only discuss their own deals, but also share valuable input on deals of colleagues. The fact that you allow your team to come in prepared and take an active role, will definitely increase your team spirit.

3. **Determine next steps**

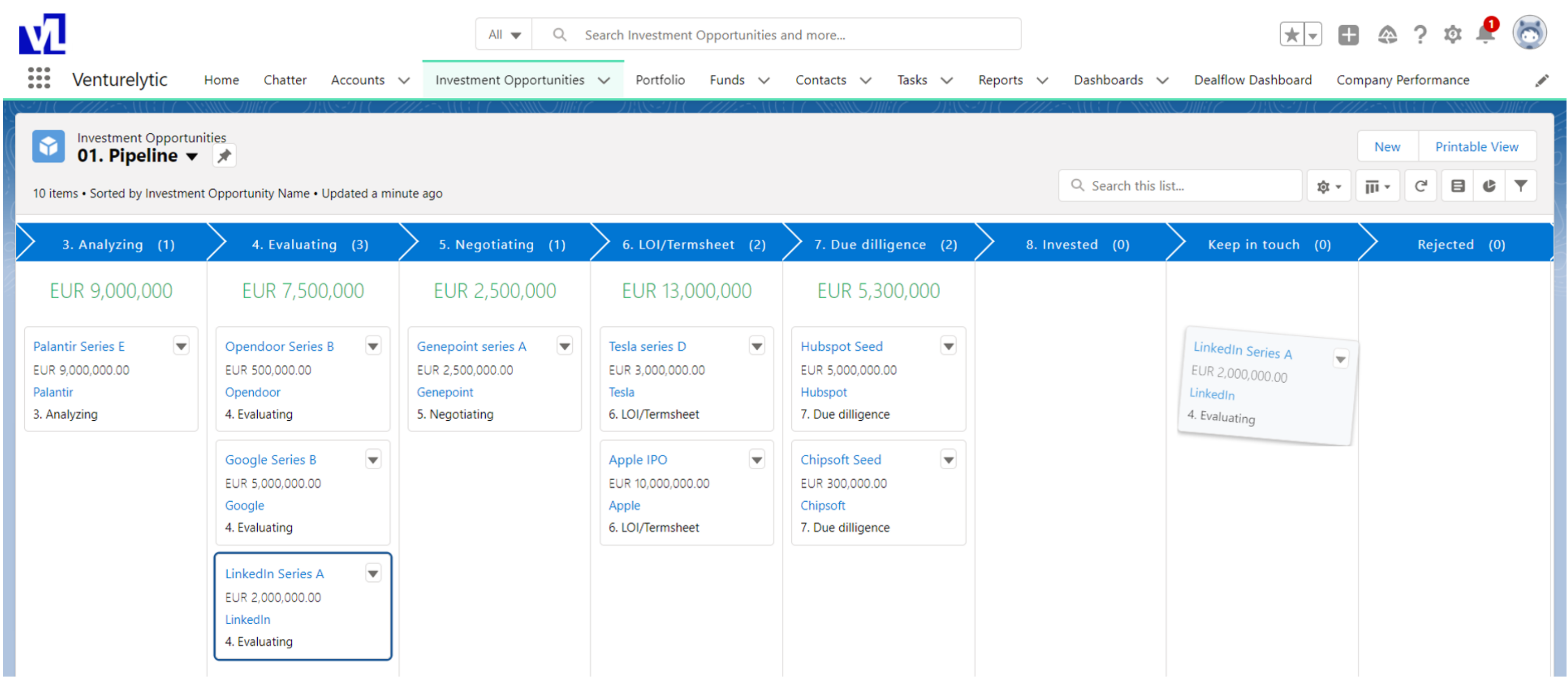
   An often overlooked item during the deal flow meeting is the discussion of next steps to take to move a potential deal forward. Discussing next steps is arguably more important than sharing the latest status of an opportunity with your colleagues, but often receives not enough time and attention in such meetings. Our advice would be to wrap-up every summary of a deal's latest status with one or two clear actions that you or your colleague will take in the coming weeks to make sure the deal moves forward. Ideally, in the form of a checklist that helps you memorize the most important next steps and that you can use in the upcoming team meeting again for checking off completed items.

Last but not least, we wrap up with a bonus tip:

4. Be proactive with inactive leads

This might sound contradictory, but by being proactive in handling inactive leads we mean that you should force yourself and your team to make decisions on how to deal with companies for which the timing of an investment isn't ideal or that you didn't get a response from in a timely manner.

All too often, these leads keep 'polluting' your funnel by standing there in between active leads in the same stage for weeks, or even months. Every investment manager understands it's difficult to move these leads further without any activity occurring around them. However, there are more downsides to a passive approach here. First, it results in a lack of overview. Your pipeline should reflect an up to date overview of active opportunities for your team to convert. Not an overview of all opportunities that you've seen throughout the years that are somewhat alive.

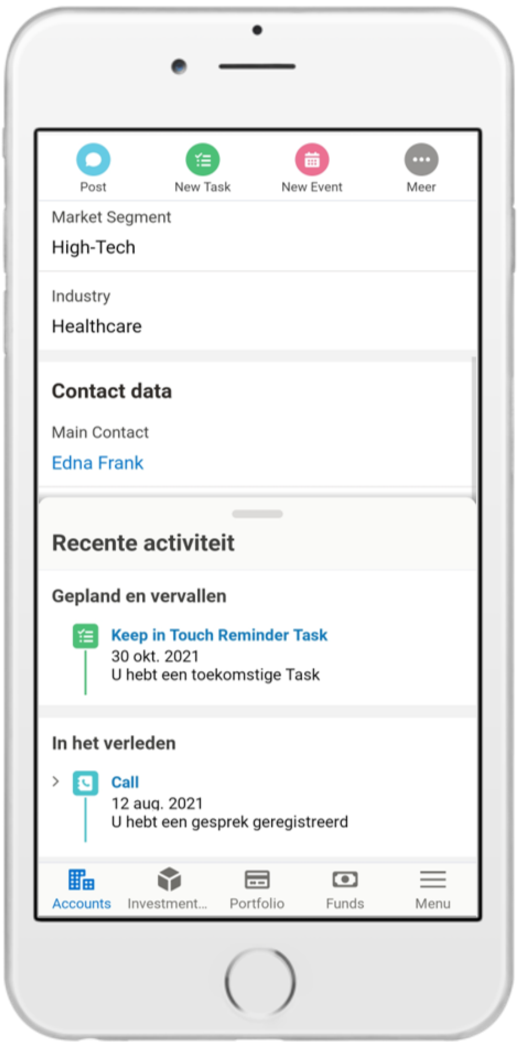


Subconscious or not, such a pipeline demotivates. The last thing you want is people constantly questioning the accuracy of your funnel.

We suggest setting criteria for inactive leads, defining what inactivity means for your fund (for example in terms of days or weeks without hearing anything from your lead) and distinguishing multiple types of inactivity. Then you assign specific actions to each of those categories, such as keep-in-touch reminder tasks that you have to follow-up after a certain period of time. These measures will result in clarity for your whole team. Leads are either in or out of your active funnel, and you periodically go through your separate passive *keep-in-touch* funnel to identify new opportunities. This forces your team to make decisions and helps you keep speed, which will eventually can be a distinctive factor for your fund.

Conclusion

We've seen multiple funds that implemented one of these tips in their weekly practices. Often supported by a spreadsheet or a simple pipeline tool. This often works just fine up to the moment their funds and teams grow and more people get involved in their deal flow meetings. Right at those moments, investors approached Venturelytic to see whether a switch from their current, often standard sales tooling, to a dedicated investment platform built on Salesforce could help them become more efficient. To date, we helped multiple venture capital and private equity clients become future proof.



Get in Touch

If you think your fund could probably improve its deal flow process, it's likely that you can realize quite some efficiency gains with our investment opportunity module. We're more than happy to advise you on an appropriate way to do so for your team and fund setting.

Our team is ready to work with you.

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