

# Venture Capitalists' Assessment of New Venture Survival

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*Increased understanding of venture capitalists' decision making in turn makes it possible for entrepreneurs seeking capital to address their requests for funding to those criteria venture capitalists find most critical to the survival of a new venture. Venture capitalists consider the market, competition, and the ability of management to choose and establish a viable position.*

## **Market Considerations**

- Superior performance arises from a fit between the capabilities of a venture and the key success factors of an industry.
- A new venture team must commit to a number of key factors they believe will lead to success within the competitive environment.
- If the competitive environment changes, so too may the key success factors rendering the venture at a competitive disadvantage. On the other hand, if key success factors within an industry remain stable, early commitment to a new technology and customers is likely to provide a sustainable competitive position and thereby a higher probability of survival.
- The timing of entry also affects performance—pioneers have higher returns if they are successful, but have a higher risk of failure. A pioneer enters a new industry first and a late follower enters an industry late in the industry's stage of development. Some entrepreneurs decide not to pioneer with unproven technology or an unproven market, but wait until more information is available about customers' tastes and behavior so as to provide a product that better meets their needs. In doing so they learn from the pioneer's mistakes.

## **Competition Considerations**

- In newly established industries, pioneers need to create and develop entry barriers to avoid having their positions eroded by new competitors who can successfully imitate them.
- Barriers to entry initially provide a pioneer a *lead-time*, and thereafter minimize *competitive rivalry* within the industry. Lead-time refers to the period of monopoly for the first entrant prior to competitors entering the industry and competitive rivalry refers to the level of competition among industry members during industry development.
- A long lead-time is valuable because it provides time for a venture to learn new tasks, to invent and overcome conflict in new roles, to develop an informal structure, to create stable links with stakeholders, and to develop some organizational inertia and stability that will encourage customer trust. In other words, lead-time increases a venture's chance of survival.

## **Management Capability Considerations**

- *Education capability* refers to the amount of resources and skills available to overcome market ignorance through education. If management is highly educated and, even more, able to educate their market, new ventures have a higher rate of survival.

- Ventures with high educational capability can more rapidly develop stable links with stakeholders, decrease customer uncertainty, and obtain customer trust.
- Venture capitals also assess management experience in related industries. *Industry related competence* refers to the level of experience and knowledge with the industry being entered, or a related industry.
- Success is more likely to be achieved by those entering an industry in which the management team has prior experience. Industry specific human capital is a significant determinant of venture survival.
- A management team often ranks as the most important criteria of a venture capitalist's decision-making process.

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