

THE START-UP VENTURE FUNDRAISING REJECTION FORM LETTER

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I originally wrote this for laughs. After sitting through countless business plan pitches, my fellow investors and I needed to let off steam. This was the result.

It found its way onto the Net. People liked it. Reviews began to appear. It got shared. It showed up in the UK, Canada, San Francisco, even Spain. Investors and entrepreneurs everywhere were smiling in recognition. It wasn't just funny; it's educational too.

Having been on the entrepreneur side of the table more times than I can count, I will apologize in advance for any hurt feelings, but I know you'd rather have your feelings hurt than waste years of your life. Besides, the younger the business, the easier it is to change direction.

Remember: good entrepreneurs don't take things personally. This hurts me more than it hurts you.

 [Gene Boggs](#), [Jutta Degener](#), [Roman Gollent](#) and 4 others like this.



[Kevin Lenzo](#) Like Spinal Tap, so correct it s painful
March 14 at 8:41pm [Delete](#)



[Ken Simpson](#) Not so much funny as valid and true, Meng. This should be a required checklist for all entrepreneurs.
March 15 at 12:34am [Delete](#)



[Dwayne Jones-Evans](#) Um. Wow. That s pretty mind-boggling, given some of the things in there :-)
March 15 at 2:18am [Delete](#)



[Dave Jephcott](#) Hilarious, Meng we see this all the time at www.businessplanscanada.com. My colleagues will find this hilarious!
March 15 at 4:20am [Delete](#)



[Roman Gollent](#) When will you start handing these out to candidates?
March 15 at 9:09am [Delete](#)



[Mark Russell](#) Very useful. I had fun going through the form and checking off all the things that might apply to me and my projects.
2 hours ago [Delete](#)

Dear Entrepreneur,

Thank you for the opportunity to view your

- business plan
- slide deck
- in-person pitch.

- Unfortunately, due to the volume of unsolicited content we receive, we were unable to give it the attention it deserves. Get somebody we already know to refer you, and we'll look at it again.
- Because you asked us to review your materials under nondisclosure, we are returning them to you unread. We are unable to sign NDAs.

- We were impressed by your presentation.
 - We would like to begin our due diligence process. We will ask you to repeat your pitch to an expert reviewer sometime in the next two weeks.
 - Please find attached our standard term sheet. The valuation in that term sheet is not a typo; we are aware that it is not the valuation you asked for.

- We regret to inform you that we will pass on your opportunity at this time.
 - That said, we would like to keep informed of your progress. Please ping us again
 - if your idea changes significantly
 - if you are able to demonstrate market traction in the form of at least 100,000 end users or \$10,000 in accrued revenue.

- Something about you or your pitch triggered a visceral negative reaction. Please do not contact us again.

- Notably, another investor warned us about you.
- You seem to lack basic social graces, and we don't like to work with annoying people.

- Your pitch held promise but we would like further information about one or more aspects of your plan. See below.

PRESENTATION

Before we proceed further, allow us to make the following comments about your presentation:

- after thirty seconds it became clear that you were making unsubstantiated claims.
- you do not understand basic accounting principles: for instance, it is not possible for a profit margin to exceed 100%. Even for a dot-com.
- please do not read aloud each slide.
- you went way over the allotted time. We're sorry, but we had to cut you off.
- you don't seem to be fluent in your chosen language. This is a red flag for us. Leaders have to be able to communicate ideas. If we can't understand what you're doing, how will your customers?
- please be more precise about what you plan to do versus what you are already doing.
- every time you said the word "million" you sounded like you thought that was an impressively large number.
- it omitted one or more key elements which we will describe below.

Please review the following presentation-skills guides before pitching any other investor:

- Presentation Zen by Garr Reynolds
- garage.com/resources/perfectingpitch.shtml

MATURITY

You must understand that we focus on

- pre-seed
- seed stage
- early stage
- growth stage
- pre-IPO

investments only. Your startup is

- too early
- too late

for us.

How do we define these stages?

- You're pre-seed because you have an idea but no prototype or users.
- You're seed stage because you have a prototype or some nonpaying users, but no scalable way to convert those users to revenue.
- You're early stage because you have revenue, but are not yet profitable.
- You're growth stage because you have hit cash-flow-positive, but only in a small market, and you want to roll out new products and services to new markets.
- You're pre-IPO because you've got a solid track record of dominating your market.
- We couldn't figure out what stage you were at.
- Unfortunately, the amount of funding which you seek lies outside our investment range.

Accordingly, we suggest that you seek funding from a more appropriate funding source. Have you considered:

- asking friends and family for a "loan"

- building a prototype on a part-time basis while still working a day job; but do consider the IP clauses in your contract.
- a local angel association or any angels you happen to know directly
- an institutional venture capital investor
- government assistance schemes
- potential customers
- the venture arm of a large corporation which might be interested in a strategic investment.

Furthermore, we focus on

- high-technology
- Internet infrastructure
- media and entertainment
- B2B
- B2C
- energy
- biotech and healthcare
- turnaround

opportunities, and your opportunity does not fit our profile. We state this clearly on our website. Did you even look at our website?

MARKET

- You spent all your time talking about what a great product you had, but you didn't say anything about the size or nature of the market you would sell it to. This is a red flag, and tells us that you have a solution looking for a problem.
- We agree that a market exists, but we would like you to quantify it. Please produce top-down and bottom-up projections, and make sure they are consistent, before pitching to another investor.
- We are totally unfamiliar with the market you're trying to sell to. Please explain it better to the next investor you pitch.

- We dig your vision for a better world, but we're not convinced that the people you think will buy your product actually will buy your product. Can you provide a customer reference?
- You've already launched, but the market response is lukewarm. We want to see more traction than that. You have failed to inspire confidence.
- You've built the product, but haven't launched. Why not? Come back to us after you've launched and can show some market validation.
- Listen to the people who liked it; ignore the people who don't. Make them happy. Grow that base. Come back to us when you have better traction and can show some metrics.
- We're concerned that the people you need to sell to have much bigger problems (say, survival and revenues) than the one you're trying to solve for them (say, reducing expenses).
- We're concerned that the sales cycle in your chosen industry is so slow that you'll go out of business before you make your first sale.
- We're concerned that you're selling to a market that isn't growing. In fact, your market might not even exist five years from now.
- You seem to have chosen a small target market, when a larger one exists. Have you ever travelled outside your home country?
- You're targeting a market that doesn't have any money to spend. We can think of half a dozen better markets that are ready and willing, if you just tweak your value prop a bit. You won't even need to change the product that much, just the positioning.
- To do business in the region you've chosen, it helps to actually be from that region. For instance, you may want to launch in Japan, but do any of you speak Japanese?

- The market you're entering is incredibly crowded. We're concerned that the innovation you bring will be rapidly copied or matched by existing players who can outspend and outmaneuver you.

Some startups never achieve traction. They fail. There is no shame in this: startups are an experiment to discover what the market is ready for. They may not have been ready for your product.

More funding isn't likely to help, unless you're ready to restart the company and build a different product. That's why it's so important to get it right the first time. (Christy & Katsaros: <http://bit.ly/bYFeow>)

Remember: most startups miss the forest for the trees. Years of academia train you to do product development: build it, then sell it. But the real challenge is customer development. (<http://bit.ly/a1fF3t>) Sell it, then build it. Can't sell it 'til you've built it? Then build the Minimum Viable Product and sell that. (<http://tinyurl.com/yzpfdl>)

PRODUCT

- We couldn't figure out
 - what you make
 - who would use it
 - why someone would spend money on it.
- Is your product a painkiller, a vitamin, candy, or crack? We couldn't tell. (Entertainment=candy; people-you-know social entertainment=crack.)
- Your product is a vitamin. We don't fund vitamins. They don't sell well enough. Sorry.
- You didn't actually talk about what your value proposition was. It's great that your product is rapid adaptable customer-focused

scalable high-margin, but how does it make a difference to anybody's life? Make something people want!

- It's nice to decrease expenses for a corporate buyer, but unless you're saving them millions of dollars, corporations tend to be much more interested in increasing revenues.
- When people talk about "being the next Google" they don't literally mean the world needs another search engine. If it did, people would use Bing.
- We're not convinced your product, as described, will be compelling enough to reach the sales figures you claim. Come back to us when you can show more traction.
- You've talked about a technology, but you have no product. A product is something you can put in front of users, who then choose to use it.
- You've talked about a generic platform, but maybe it would be better if you could build a killer app on that platform, that's targeted to a specific vertical segment. Preferably one that has money to spend.
- Having a product that you can sell to six different markets is a red flag. Please pick a preferred embodiment or industry vertical.
- If your product is so awesome, and so easy to build, why hasn't somebody else already built it? Maybe they already have, and failed.
- We're concerned that your labor-saving invention may fail in a market where labor is actually quite cheap and doesn't need to be saved.
- The usage scenario for your product is so unlikely we can't imagine anyone planning ahead of time for that eventuality.
- Maybe it's not that unlikely. But your product still assumes that humans are wiser or more rational than they are. Smart people might buy it. Most people aren't smart.
- This is the kind of product that tends to be brought to market not by a startup but by a

big player. For instance, multitouch is cool, but bringing it to market is a job for the Apple iPad, not the Joojoo. Interactive gesture recognition for gaming is cool, but Xbox's Project Natal will bring it to market; you won't.

- What you're trying to do is really, really hard. It will need a lot of funding. For a professional investor to give you that much money, you need to be able to show a track record of success as an entrepreneur in that industry prior to your current startup.

BUSINESS MODEL

- You didn't talk about how you would monetize your product. What's your revenue model?
- 99% of the time, starting a company is not the best way to bring an idea to market. Have you thought about licensing the innovation to an existing player, or setting up a joint venture?
- You've described a feature, not a product.
- You've described a product, not a company.
- You've described multiple startups, but not one company; your vision for an ecosystem is great, but do you expect to play all the roles?
- Having six different ways to make money means you don't really know which will work. Do more market research. Pick one or two good ones.
- It is pretty clear that you have a content play whose revenue model is advertising, but please discuss it anyway.
- The success of your business depends on the cooperation and goodwill of industry players who have no incentive to show you any. When your business is young, you can't offer them enough money to move the needle, and you haven't got the credibility to lead a strategic partnership. Telcos in particular can be quite obstinate.

- We're worried that when your product doesn't sell, you'll fall into a consulting model and run for a long time building a business that's different from the one you pitched. We call those startups "dogs."
- Users aren't always customers. Users use. Customers pay.
- You seem to be pitching a not-for-profit social enterprise. That's cool, but we're investors: only fund for-profit acquirable corporations. You might want to try for a sponsor or a patron. Have you read *Doing Good Well* by Willie Cheng?

DISTRIBUTION

- You didn't talk about how you would put your product or service in front of potential customers. Cash is king, but distribution is King Kong.
- You are attempting to disrupt an industry, but the players you're attacking are the same players you need on your side to sell. Do you think they won't notice?
- Every pitch says "we'll use viral marketing and social media." But first your users have to like your product. We're not convinced they will. Maybe you can show us some traction metrics?
- We agree that the world will be a better place when everybody's doing it your way, but to get there, you have a huge chicken-and-egg problem. Boiling the ocean is hard. What's the hook? How are you going to suck people in virally? Can you make it a game?

COMPETITION

- You didn't talk about who your competition are. It looks like you didn't do any research and are flying blind. Surely that's not the case... is it?
- We are aware of somebody else who is already doing something a lot like what you want to do, and
 - they're got a more qualified team
 - they're better funded
 - they aren't getting any love from the market
 - they've already been acquired.If even you don't know who they are, maybe the market demand isn't strong enough. Did you look at Crunchbase and Listio?
- You've got solid competition in a well-established industry, and what you've showed us is a slight tweak on their existing value proposition. Your competitors aren't stupid – surely they've considered your variant. Wouldn't it be easier for them to try this? What makes you think they haven't? Maybe they have, and their market research came back negative. It takes a domain expert to know what's going on in the industry.
- Are you aware that the reason you have no competition is because everybody who's tried in the past has failed? Did you try a patent search?
- If Google wanted to do this, they could roll it out in a month. Of course this is true for many things but their superior access to data and distribution makes a big difference in this particular case.
- Anybody could do this. There's no barrier to entry. Once you launch, someone else will.
- Do you really think that if you start throwing off \$20MM of free cash flow, nobody else will try to bite off a hunk of that business?

COMPETITIVE ADVANTAGE

- Your product didn't appear to have significant competitive differentiation relative to what's out there today. It looks like a me-too play. Where's the innovation? You described a number of "competitive advantages" which are actually equally available to all your competitors, so they don't really count in your favour.
 - For instance, network effects might be believable if you were actually first-to-market. But you're not.
- You're competing on price. Everybody else is competing on functionality, convenience, reliability, security, or customization. Your industry isn't commoditized yet. Why are you acting like it is?
- It's easier to disrupt an industry from below than from above. You've got a luxury strategy serving the high-end. That might work, but have you read Clayton Christensen?

INTELLECTUAL PROPERTY

- You seem to have spent all your time filing patents rather than building product.
- Don't pretend to have IP when you don't. A trademark on your logo doesn't count.
- You can't patent this. Somebody else already did. Besides, if their patents aren't stopping you, would your patent stop someone else?

LEGAL

- What you're doing will get you arrested.
- What you're doing will get you sued by humourless corporations with deep pockets.

- The name of your startup directly infringes somebody else's trademark. How on earth did you think this was a good idea?
- Doing financial stuff is cool, but for you to do this, you basically have to be a bank, or partner with one, neither of which is easy.

FINANCIALS

- We're more convinced by bottom-up than top-down projections.
- You forgot to say how much money you want.
- It takes a lot of money to get this sort of business off the ground. It's going to cost more than what you asked for.
- Your startup is too early for DCF valuation to apply. Discounted Cash Flow works well for big corporations in situations where all the risks are known. But your startup is subject to huge market risk, execution risk, financing risk, competition risk. Where you are today, you're worth \$1MM at most, not \$10MM.
- You seem to be excessively reliant on government grants. Are you an entrepreneur or a grantpreneur?

SECTOR

- We regret that your sector has already experienced a mini-bubble, a mini-boom, a wave of consolidation, and a mini-bust.
- We believe that it is too late for new entrants.
- We have already made an investment in this sector and do not feel like making any more.
- Industry structure appears to dictate that an entrant in your role will be squeezed on margins to the point of unprofitability.

INNOVATION

- We tried to identify an exogenous innovation driver and we couldn't. In other words, we looked for a major obstacle that was removed, or a major enabler that appeared, to pave the way for you to do your thing; and we couldn't identify any such. We assume a certain level of background radiation –we expect that people out there are constantly throwing themselves at the wall that you've picked. Why should you succeed when they've failed? Why now? Why not five years ago? If your product could have been made six years ago, and sold to a market that existed six years ago, why didn't somebody do it six years ago? Maybe somebody tried, and now they're six feet under.
 - While you appear to have all the ingredients to make a successful, profitable business for yourself and your partners, we regret that it does not fit our investment profile, because
 - the high failure rate in our investment sector
 - our fund structure requires that we only invest in businesses which have the potential to be worth a billion dollars within seven years.
 - You appear to want to build a lifestyle business for yourself, rather than a business which investors can exit at a profit. Try friends and family.
 - We understand that your business will be very successful, but we will pass anyway, because we want to direct our dollars toward those innovations that help bring about a particular future that we care deeply about, and your business is not essential to that future.
 - You appear to be entering a mature, crowded, efficient, competitive market in which the only obvious way to gain market share is to work harder and price cheaper. We prefer to see companies price to value, not to costs. We are sympathetic to the idea that innovations are still possible in your industry, but we haven't heard clear enough differentiators that justify a value-pricing model. Have you read *Blue Ocean Strategy*?
 - It is not clear to us where the innovation lies. Yes, the world can always use another restaurant with good food, but we're not in the business of funding those kinds of ventures. We invest in deeply original, innovative, scalable, industry-making startups. Doing something marginally better than the next guy? Sorry; not for us.
- Typically we look for
- a defensible competitive advantage
 - a fundamental innovation in technology or business model
 - a seismic shift in market characteristics.
- We were unable to detect any of the above.
- You appear to be trying to create a centralized aggregation portal in an industry whose players seem perfectly happy to transact directly. The situation has to be a whole lot more inefficient for aggregation to make sense.
 - You appear to be trying to make it more convenient to do something which isn't actually that inconvenient.
 - You appear to be trying to reinvent the Internet, but for a specific industry. We suspect that they are happy using the Internet they already have. You will have to demonstrate more value.

Furthermore, an invention must make sense in the world in which it is finished, not the world in which it began. We believe that by the time you're done building this,

- competitors will have beaten you to market.
- the world won't want it any more.

Why don't you skate to where the puck will be?

TEAM AND EXECUTION

Please do not take this personally, but

- We've seen this pitch five times in the last month. It's not clear to us that you are more qualified to execute this venture than, say, a group of six random MBA graduates. Why you? How are you specially qualified? Where's the mojo?
- you appear to be missing a technologist who can actually build the product you envision. You may want to outsource development, but
 - in our experience, outsourced development rarely works.
 - you seem to lack the product management experience you need to specify the product in enough detail for a third party developer to build it.
- you appear to be missing a business person who knows how to run a business. Do any of you understand basic accounting and project management?
- you appear to be missing a sales person who is capable of selling into your chosen vertical(s).
- you appear to be missing an adult with social skills.
- you appear to be missing a domain expert who is intimately familiar with the market and the customer.
- your team don't seem to get along very well with one another.
- key members of your team seem to have left.

- at least one member of your team appears to be insane or impossible to work with.
- at least one member of your team appears ready to quit and go into competition with you.
- we are not convinced your team collectively possess the ability to execute the vision; the idea is good, but we're not convinced that you are the right team for the job.
 - you just don't appear to be smart enough to succeed in this field. True, persistence counts for just as much as intelligence, and we'd love to be proven wrong. But the fact remains that not everyone is cut out to be an entrepreneur.
 - we're looking for someone who lives at the frontier of innovation in their field, and knows where the puck is going.
 - Is this pitch for real or just an academic business planning project? If it's for school, that's fine – good effort – but please don't go starting a company to actually do this.
 - Are you doing this because you think entrepreneurship is a cool lifestyle option? People who are “passionate about entrepreneurship” but don't have a particular product/industry outlet for that passion might do better joining somebody else's startup, if only to gain some experience in business.
- While the business case seems sound, none of your team seem to be particularly connected to it. Can you please explain how you, personally, become passionate about this particular idea and not some other? Are you scratching your own itch, or did you simply identify an arbitrary opportunity that you don't really care about?
- We're not convinced that you will stick to this business for the next 5 years, through ups and downs, through thick and thin; your team

members don't seem to be driven enough, and we're worried they'll quit and get corporate jobs at the first sign of difficulty.

- Off the top of our heads, we can think of a half-dozen major risks to your business which your business plan doesn't cover. We'd like to hear a clear-eyed assessment of all the risks you face, and how you plan to deal with them.

ETHICS

- The average time to exit is 8 years. If we give you the money to do this, you might be spending the next eight years doing it. We don't think that what you're doing is important enough for anyone to spend eight years on.
- Your business appears to be legal but unethical: it doesn't make the world a better place. How on earth do you sleep at night?

CONCLUSION

- We must ask: why are you seeking venture funding?
 - The business seems capable of bootstrapping to success.
 - You claim to have a successful exit behind you. Why not fund it yourself?
- There is nothing terribly wrong with your pitch. There are no major holes in your plan. You have a stellar future ahead of you.
- However, none of our funds are currently in an investment mode, so we won't be investing. So why did we take the pitch?
 - Because an hour of our time doesn't really cost that much.
 - We just wanted to hear what was going on in the industry, and it's cheaper for

companies to come to us, than for us to go to conferences.

- We have a company in our portfolio that is in your space, and we're going to help them by passing them your business plan and your best ideas! Sorry.

We hope you have found this feedback constructive, even if it was not encouraging. Starting a company is hard. Most startups fail. This document tries to explain why they do, in a way that you can benefit from: go fix those problems!

And we hope you can understand why we will be taking a pass on this opportunity. We screen about three hundred deals a year, but we close about six at most.

We sincerely wish you the best in your venture, and close by reminding you of two things:

- Even Bessemer passed on Google. We probably would have, too. Go ahead, prove us wrong.
- You probably wouldn't give up even if we told you to, so we won't.

Should you be able to successfully answer the objections we raised, we are always happy to view an updated pitch. :-)

Good luck and best wishes!

Love,



Your Friendly Neighbourhood Venture Capitalist