



Smile 'N Dial – A New (and Few) VCs Approach to Sourcing Deals

August 18, 2005

By: *Paul J. Marino
Mathew Gulner
Patrick Michel*

When was the last time you were excited to receive a telemarketer's call? Well for most of us, the answer is never. However some people, such as entrepreneurs seeking capital, will be very glad to receive the call. Why? Because some Venture Capital ("**VC**") firms have adopted a form of proactive deal sourcing known within the industry as "*Smile N' Dial*".

Venture capital firms have turned to proactive deal sourcing because of their desire to remove the reliance on external sources (*e.g.*, business brokers, broker dealers, advisors, *etc.*) and more efficiently integrate the process from identification to investment. Using this technique, an associate in a venture capital firm is given the responsibility of identifying potential companies that fit the firm's investment criteria. While viewed with condescension in other businesses, some associates value the opportunity to connect with executives in this fashion. One Boston based VC associate stated "...calling is a great way to become knowledgeable on an industry and provide associates with exposure to companies".

Conversely, a recruiter with a private equity and venture capital search firm stated that "there is a degree of apprehension and anxiety involved with proactive deal sourcing (especially if it doesn't fit with the candidate's personality). Many Associate candidates view it as a sales role and may consider passing on a private equity opportunity, if the sourcing component represents a significant portion of their job (greater than 80%)." The recruiter also stated, "yet, it's important to realize that proactively sourcing new deals at any PE/VC fund is an important component of a firm's success, particularly in such a competitive deal environment. In addition, an Associate, successful in sourcing deals at their respective firm, is developing a transferable skill set that is highly-valued in Partner-track roles at PE/VC firms".

The process begins when the associate will then contact the company and attempt to have the startup present to the firm. This turns into a win-win situation for all: (i) the associates work on a deal from sourcing until investment; (ii) the venture firm is looking at companies which are much closer to their investment vision; and (iii) the company is presenting to a firm that has already expressed some interest. The Boston based VC associate continued with explaining how valuable it is to hone the skill-set of "being able

to bring in deals like a partner”. It goes with out saying that (obviously) venture firms do not invest in every company that gets past the “*Smile N Dial*” screening, but it would seem that receiving an invite to present would increase your probability of success.

As one would assume, the reliance on this proactive deal sourcing technique varies among practitioners. The time allocation and job responsibilities of associates tasked with executing the technique varies from 100% sourcing/cold calling companies, to a mix of sourcing and deal work. Some of these practitioners include TA, Summit Partners, Battery Ventures, Insight Partners, Platinum Equity, Spectrum Equity, Pequot Ventures and Concert Capital Partners.

It may surprise some that so many “name brand” VC firms have adopted the *proactive* model but it should not, “As partners and other senior officers become increasingly tied up with portfolio companies or general operations of the firm” the recruiter stated, “they have less time to source new deals. As a result, they are looking to have junior professionals handle more of that function”.

One final important aspect to note is that the variation in implementation of this technique directly impacts the daily life of associates and analysts. While some analysts and associates are working on deals brought in by them or others, and continuing to source new companies to bring and meet with, other analysts and associates at other firms are dedicating 100% of their time to cold calling companies and only working on deals that they bring in from their sourcing efforts.