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VCs Ask Start-Ups: What's Your Worst-Case Scenario?

by Tomio Geron, VentureWire

For start-ups seeking venture-capital investment, it's no longer good enough to just present the new hot idea that will bring in tons of revenue.



Given the current dark economic climate, entrepreneurs now also have to present a worst-case scenario to venture capitalists in case revenue falls off a cliff, according to Betty Kayton, a Los Altos, Calif.-based chief financial officer for several early-stage start-ups. Ms. Kayton spoke at a panel discussion with several venture investors in Palo Alto, Calif., Tuesday night organized by [Women 2.0](#), a Silicon Valley entrepreneurs group.

Two of her clients, seeking a Series A and Series B respectively, have been asked to submit contingency plans for how to survive in tough times.

"VCs that were all hot and heavy to jump in have said, 'Can you please do a nuclear-winter scenario for us and say, if all hell breaks lose, how long can you make the cash last?'" according to Ms. Kayton, who has previously worked as CFO at educational-products company LeapFrog Enterprises Inc. and refers to herself as a "rent-a-CFO."

Entrepreneurs should come prepared to detail exactly how to make their company last if revenue dries up.

"What I'd suggest is if you're going in, have it in your back pocket. But don't put it on your main deck for God's sake," she said. "But have it and be prepared to say, 'Even with no revenue, I can cut expenses. I can cut whatever is necessary to make it last longer.'"

Venture investors are still very interested in investing in early-stage companies, according to Rebecca Lynn, principal, Morgenthaler Ventures and Prasanna Krishnan, an associate at Draper Fisher Jurvetson.

That said, for new companies that have been around a couple of years, the bar is getting higher to raise funding. So early-stage companies should prepare by raising enough in their first round to get to a point of generating revenue by a second round.

"It's a little tougher. You better be putting some numbers up," Ms. Lynn said.

Does this seem like a reasonable thing for VCs to require? Have you thought about your business's worst-case scenario?

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