

Obtaining venture capital funding as a young entrepreneur

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ABSTRACT,

This paper aims to identify similarities between young entrepreneurs who have successfully received venture capital funding, in order to give recommendations to young entrepreneurs who want to fund their business using venture capital. In order to examine the similarities, firstly the decision-making process of venture capitalists needs to be understood. The studied theory suggest five steps in the decision-making process: deal origination, deal screening, deal evaluation, deal structuring and post-investment activities. Within these steps, several criteria can be applied, which are often specific to each individual venture capitalist. The most common criteria are experience, gut feeling and business plan, with many more varying from market volume to commitment. The decision-making processes and criteria applied by venture capitalists have been studied by interviewing different venture capitalists from the Netherlands. From the interviews it was determined that, in accordance with the theory, the venture capital firms usually apply a similar set of base criteria, along with criteria specific to the venture capital firm. Experience is an important factor, but for most interviewed venture capital firms it was a factor with side notes. For example, experience is important, however, if the entrepreneur comes across as entrepreneurial and capable, it would not be a determining factor. Along with interviewing venture capitalists, a number of young entrepreneurs that have received venture capital have been analysed. An interesting fact about the majority of these entrepreneurs is that they have been approached by venture capitalists, instead of the other way around. They had all been operational for a number of years, allowing them to prove the growth and profit potential of their business.

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Keywords

Venture Capital, Young, Entrepreneur, Criteria, Factors, Finance, Investment, Business, Characteristics

1. INTRODUCTION

1.1 Situation and Practical Relevance

As a beginning entrepreneur, one of the main challenges is obtaining capital (Khin et al., 2017). There are several ways to obtain financing as an entrepreneur, such as personal equity, bootstrapping, acquaintances, banks, angel investors and venture capitalists (Wright, 2017). In this paper, the focus will lie on venture capital. When an entrepreneur is funded by a venture capitalist, it means that they receive monetary funds, managerial expertise and/or technical expertise from an organisation that focuses on investing in relatively high-risk, new organisations with the potential of a high return on investment when the so-called start-up succeeds (Investopedia.com, 2019).

The main advantages of venture capital over acquiring funding through a bank for example is the guidance and expertise, as well as credibility that the venture capitalists generally bring to the start-up (Denis, 2003). It was found by Wright (2017), that the average age of an entrepreneur receiving venture capital is 40 years old. This discovery is of significant interest to young entrepreneurs who are seeking funding for their start-up organisation. In order to clearly outline what helped successful young entrepreneurs (age 18 to 30) to obtain venture capital funding, in this paper, underlying problems and causes will be identified and young entrepreneurs who have successfully obtained venture capital funding will be compared to identify what they have in common and what makes them stand out from the crowd.

1.2 Purpose of the Study

It is clear that many students wish to start their own company: "Over a quarter (26 per cent) of students currently run or plan to run a business whilst they are at university." (Santander, 2018). Adding to the research by Santander, only four per cent would shut down their business after having finished university, whereas 33 per cent would pursue it as a career, 52 per cent would continue running their business on the side and nine per cent would continue their business with guidance from others.

For most students, one of the most significant challenges, as mentioned before, will be to raise enough capital to be able to start operations. Venture capital appears to be a great way to raise the necessary funds if you can get a venture capitalist to invest in your entrepreneurial concept and ambitions, especially considering the guidance and credibility these firms generally offer in addition to money alone. However, with the average age of entrepreneurs receiving venture capital funding being 40 years old, the need for younger entrepreneurs to be able to match or exceed the chance of being accepted compared to an older entrepreneur is crucial, especially taking into account that these young entrepreneurs have not had the chance to build capital for themselves during their careers, whereas their older counterparts have had roughly two decades of work behind them, giving them ample opportunity to save their own money.

There have been young entrepreneurs in the past, such as Garrett Gee and Catherine Cook, that have been able to raise venture capital funding and turn it into a thriving business

(Investopedia.com, n.d.). Comparing examples such as Garrett Gee and Catherine Cook will provide us with similarities in characteristics that made venture capitalists interested in their concepts.

1.3 Research Gap

Most papers today that study venture capital funding seem to only focus on identifying the criteria entrepreneurs have to meet in order to apply for venture capital funding and the decision-making process of venture capitalists. One significant criterium is experience (Simic, 2015). Very few, if any, though, study what the entrepreneurs who do *not* have this level of experience, in this case due to their age, can do to compensate for this lack of experience.

1.4 Research Questions

1.4.1 Main Research Question

Considering the aforementioned situation and both objective and academic relevance, a suitable research question has been selected. The most interesting question to investigate regarding venture capital funding among young entrepreneurs in the specified context has been selected as: "**What do young entrepreneurs who have successfully received funding from venture capitalists have in common?**".

1.4.2 Sub-questions

In order to answer the research question, a series of sub-questions need to be answered. An analysis of underlying causes and problems is essential in order to properly understand the problem and to thoroughly answer the research question. To gain more general knowledge on the topic, three sub-questions are proposed. Firstly, we need to know whether it is interesting for young entrepreneurs to source funding from venture capitalists. Secondly, the criteria that are used by venture capitalists should be assessed. Thirdly, it should be analysed whether there is an actual difference in acceptance rate for venture capital funding between young and older entrepreneurs.

With the knowledge gained from the questions above, the research will continue to investigate the major differences between older and young entrepreneurs, in order to establish that, besides age, there are noticeable differences between these two classes of entrepreneurs. Then, we will research whether there are young entrepreneurs who have successfully obtained venture capital funding in the past. When the above described information is present, we will start to investigate any similarities between the young entrepreneurs and what made them successful and what set them apart from older entrepreneurs.

Sub-questions:

1. To what extent is venture capital an interesting source of funding for young entrepreneurs?
2. What selection criteria do venture capitalists generally apply?
3. To what extent is there a significant difference in acceptance rates by venture capitalists between young and older entrepreneurs?

4. What are the main differences between young and older entrepreneurs?
5. Who are successful young entrepreneurs who have obtained venture capital funding?
6. What are the characteristics of the young entrepreneurs who have received venture capital funding and what do they have in common?

2. LITERATURE REVIEW

2.1 Venture Capital Firms

Venture capital firms are generally used as more than just a source of financing, especially by start-ups. A VC is generally more involved with the company they fund than, for example, a bank (Denis, 2003). The VC helps in the decision-making process of the company, as well as generally professionalising the company more quickly than a non-venture capital backed company, although a VC is more likely to replace the CEO, too (Hellmann & Puri, 2002), so it highly depends on the preference of the entrepreneur to determine whether VC funding is an attractive funding option.

2.1 VC Decision Making

Venture capital firms generally use five steps in their decision making process. As proposed by Tyebjee & Bruno (1984), these five steps are deal origination, deal screening, deal evaluation, deal structuring and post-investment activities. This model is well-established and slightly improved upon by other researchers over the years, but merely by altering the deal evaluation step (Fried & Hisrich, 1994). For this paper, the most interesting steps are deal origination and deal screening, as this is where most young entrepreneurs will likely be discarded based on their age or lack of experience.

2.1.1 Deal origination

In the first step, the deal origination step, is where the venture capital firm becomes aware of the investment opportunity. In the research of Tyebjee & Bruno (1984), this would happen in one of three ways: cold calls; referrals; and active search by the venture capital firm. Cold calls come from entrepreneurs who call the VC to enquire about receiving funding. Referrals to VC firms usually come from other players in the VC community such as other VC firms or banks. The active search by the VC firm occurs less, since they often have their hands full with requests.

2.1.2 Deal screening

In the second step, the deal screening step, the investment opportunities are compared to set criteria. This is done by a relatively small team. Due to the relatively large number of applications, criteria have to be set as to not overload the employees and to limit the venture capital firm to familiar and trusted areas.

2.1.3 Evaluation

In the evaluation step, the venture capitalist assesses the business plan presented by the entrepreneur. The business plan is generally assessed subjectively "on a multidimensional set of characteristics." (Tyebjee & Bruno, 1984). This multidimensional set of characteristics resemble the criteria set by the VC on which they base their decision-making process.

2.1.4 Deal Structuring

After the VC has decided that they agree to pursue the investment opportunity, an investment agreement will be structured, upon which both the entrepreneur and the VC have to agree. The agreement includes the share of the organisation the VC will

obtain, it provides protection against unreasonable expenditures by the entrepreneur and management, and it establishes performance objectives which determine the equity share of the entrepreneur.

2.1.5 Post-Investment Activities

When the deal has been established, the venture capitalist starts to take on a role as more of a consultant and co-decision-maker. This new role has a wide range and can be anything from a board position to providing credibility towards suppliers, the market and towards creditors. In the study of Tyebjee and Bruno (1984), most interviewees agreed that it is not usually desirable to largely control the day-to-day operations. In the case of a crisis (either managerial or financial), though, the VC does have the power to replace the managerial team by a more competent one. Five to ten years after the investment, the VC usually wants to cash out, as the organisation will most likely have reached maturity by then and the biggest value rise has already occurred.

2.2 Investment Criteria

Kollmann & Kuckertz (2010) propose that within steps one and two proposed in the previous part, deal origination and deal screening, 15 important investment criteria have been identified that are generally seen as a fairly complete list of criteria by venture capital organisations. These 15 criteria are: Venture capital character, leadership capabilities, commitment, track record, technical qualifications, business qualification, innovativeness, patentability, unique selling proposition, market volume, market growth, market acceptance, fit to investment strategy, return on investment and exit possibilities. Muzeyka et al. (1996) add management team criteria to this list, as opposed to just the characteristics of the entrepreneur, although this mainly applies to European countries.

Simic (2015) in stage one, the entrepreneurs go through "multi-phase estimation". In this stage, five basic categories of criteria are taken into account. These are basic categories in which each VC has their own line of criteria, but these give a general outline: characteristics of the entrepreneur / the team; product / service characteristics; market characteristics; financial characteristics and other (unspecified) characteristics. When the entrepreneur makes it through the first stage, they are challenged with the second stage, where the entrepreneur goes through a new set of criteria. These criteria appear to be based mainly on the personality of the entrepreneur as proposed by Simic (2015). The new criteria are focused around: willingness of the entrepreneur to resign from the ownership position; willingness to change management; willingness to negotiate; being prepared to achieve goals; intuition and gut feeling of the VC; and sympathy for management.

The stages and criteria mentioned by Simic (2015) appear to have great overlap with the decision-making steps proposed by Tyebjee & Bruno (1984) and the criteria proposed by Kollmann & Kuckertz (2010). The two stages mentioned by Simic (2015) appear to be similar to steps two and three from Tyebjee & Bruno's (1984) decision-making process. Additionally, the 15 criteria proposed by Kollmann & Kuckertz (2010) can all be classified into one of the five categories:

Entrepreneur / team characteristics: Leadership capabilities; Commitment; Track record; Technical qualifications; Business qualification.

Product / Service characteristics: Innovativeness; Patentability; Unique selling proposition.

Market characteristics: Market volume; Market growth; Market acceptance.

Financial characteristics: Fit to investment strategy; Return on investment

Other characteristics: Venture capital character; Exit possibilities.

Adding to the criteria, Suksriwong, S (2013), compared and compiled a total of 53 investment criteria as proposed by other researchers. In the comparison one can observe one criterium standing out from the rest, namely experience. Experience is the only criterium that was mentioned by all of the research that was being compared.

2.3 Investment Signals

Factors that can signal external investors towards investment opportunities have been identified in previous research. Zimmerman et al. (2002), researched the effect of legitimacy on venture growth. They identified various types of legitimacy and how to obtain it. Furthermore, Zimmerman et al. (2002) state that by obtaining and maintaining legitimacy within the venture, a degree of uncertainty is taken away from potential investors, as it shows that the organisation is properly constituted and committed. The above also counts for employees and suppliers, who will be more motivated to invest time and money into the firm and will have more trust in the firm when it shows legitimacy.

A different strategy to gain trust from venture capitalists, by taking away a degree of information asymmetry, are patents. Patents are used to lay out a product and to illustrate that the product is promising, which would help to reduce information asymmetry between start-ups and potential venture capitalists. The patents can signal a venture capital firm towards a start-up, increasing the chance for the start-up of obtaining funding (Conti et al., 2013).

2.5 Conclusion

In this chapter, the literature behind start-up financing, the decision-making processes of venture capital firms and investment signals has been discussed, in order to help answer the sub-questions. The decision-making process by Tyebjee & Bruno (1984), lays out a five-step decision-making model for venture capitalists: Deal originations, deal screening, evaluation, deal structuring and post-investment activities. The first three steps seem to be the most relevant to this paper, as this is where the entrepreneur is evaluated and selected.

Within these three steps, we can link the different criteria to a certain steps. Mainly steps two and three proposed by Tyebjee & Bruno (1984) and step one and two proposed by Simic (2015) seem to overlap greatly. Simic (2015) linked the easily assessable criteria (entrepreneur/team characteristics; product/service characteristics; market characteristics; financial characteristics; and other, VC specific interests) to stage one (stage two for Tyebjee & Bruno), which is the "multiphase estimation" or deal screening phase.

Alternatively, entrepreneurs can also attract the attention from venture capitalists by exposing signals such as patenting their technology and obtaining legitimacy. When investors pick up on these signals they may be enticed to contact the entrepreneur to discuss a possible collaboration.

3. RESEARCH METHODOLOGY

3.1 Data Collection

The data will be acquired by using a combination of existing literature, by conducting interviews and by researching existing articles and publications on successful entrepreneurs who have received venture capital and what defines them. The interviews

will be conducted with both venture capitalists and young entrepreneurs/organisations in order to gain a clear view on funding opportunities for young entrepreneurs, how the entrepreneur received venture capital (VC) funding and how VC funding has benefited their organisations. The small sample size makes it challenging to make noteworthy comments about the reliability and validity of this research. It is fairly likely that the results of the interviews would slightly deviate from those conducted in this research, when one would take a different sample of VCs, even more so when the research would be conducted in a different country, since the individual VC characters vary highly. Given that a completely random sample of Dutch VCs is used, the data can be perceived as somewhat reliable.

3.1.1 Entrepreneurs

To collect information on successful young entrepreneurs, the Quote top one hundred young millionaires has been used. This list contains the top one hundred most successful (in terms of wealth), self-made millionaires under the age of forty in the Netherlands. After analysing the list, the ages of these people when they started their business (where applicable) was determined (Figure one). Of these one hundred people, thirteen were either over the age of thirty or have made their money as models or as artists. Of the remaining eighty-seven people, six have certainly received funding from venture capitalists and two have certainly not received funding from venture capitalists. Of the remaining seventy-seven people information regarding funding was either not available or not clear enough to determine whether funding was provided by venture capitalists.

Of the seventy-seven entrepreneurs, the six most interesting organisations are those who have received venture capital in the past, since that is the most relevant to our research. Contact has been requested, but unfortunately none of the entrepreneurs agreed to be interviewed. However, a vast amount of relevant information is available online. The majority of the information is regarding the organisations, since the founders and CEOs of these firms appear to do an occasional interview but prefer to stay out of the spotlights. Financial information and information regarding funding is fairly widely available on the Internet. The analysis of the aforementioned data will be the main source of information regarding the entrepreneurs.

Using the data available online we have already determined examples of successful, young entrepreneurs who have received venture capital funding and we are able to determine various factors that appear to play a significant role in receiving venture capital funding.

3.1.2 Venture capital firms

In order to collect data from venture capitalists, the scope has been narrowed to Dutch firms only for the sake of accessibility and to stay in the same region as the entrepreneurs. A list of thirty-three venture capitalists has been retrieved from nlfunding.co. Of these thirty-three, fifteen have been randomly selected to interview. Five of the contacted VC firms have responded and agreed to participate in an interview.

The interviews will be conducted in a semi-structured format. This interview method has been chosen in order to be able to exert a certain amount of control and guidance over the interview, while also retaining flexibility, offering respondents the opportunity to elaborate upon their answers touch upon aspects that would otherwise not be discussed (RAND, 2009).

The interviews with the venture capital firms will take place over the phone. Interviewees will be asked for permission to use and publish their answers for academic purposes, whether it be anonymous or not. The interviews will be documented in

separate Word documents, mainly using keywords to document the more straightforward answers and full sentences to provide context and/or quotes where necessary, which is then typed out to form a comprehensive overview.

The data retrieved from the interview is then compared to the data retrieved from the other interviews, which should lead us to more general answers to the interview questions, which will then be used to create a clear picture of the commonalities between young entrepreneurs who have successfully obtained venture capital funding.

The line of questioning for the venture capitalist firms will be as follows:

1. In your decision-making process, what would you say are the most important factors that determine whether or not you will fund the entrepreneur?
2. To what extent is age or experience a determining factor in your decision-making process?
3. How old was the youngest entrepreneur you have ever funded?
4. What is the average age of entrepreneurs you fund?
5. How would a young entrepreneur make themselves stand out from more experienced entrepreneurs?
6. Have you had any large successes or failures and why did they succeed/fail?

4. FINDINGS

4.1 Venture Capital Firms

4.1.1 VC1

In response to the first question, what the most important factors are that determine whether someone will receive funding, VC1 said that most entrepreneurs get eliminated based on business plans, KPI (Key Performance Indicators) selection and growth potential. VC1 mentioned that they get 500 applications from entrepreneurs each year and only one or two get invited for a follow-up meeting. When the entrepreneur is invited, the main decision-making factor was how the VC felt about the entrepreneur.

In response to question two, VC1 mentioned that age or experience was not a factor at all when determining whether or not an entrepreneur should receive financing. VC1 said that they would rather fund a young, unexperienced entrepreneur with “a good set of brains and with a good vision” and with whom the VC had a good feeling than giving the funding to a more experienced entrepreneur who comes across as less capable than the younger entrepreneur.

The spokesman of VC1 was not able to provide an exact age when asked about the average age of entrepreneurs they fund and how old the youngest entrepreneur they funded was. When asked to give a rough estimate he said that the average age was most likely somewhere around thirty and that the youngest entrepreneur they funded was most likely around twenty-five.

According to VC1, a young entrepreneur could set him- or herself apart from the crowd by delivering a business plan that is thorough, clear and achievable and by simply having a good connection with the VC. For VC1 the factor that stood out most was the feeling they got from the entrepreneur.

VC1 has experienced one major failure and several successes. The organisation that failed went bankrupt due to a combination of a weak team and a market that was different than expected. The major successes only occurred when the organisation had a team leading it that consisted of motivated, capable people.

4.1.2 VC2

The second VC firm is not a textbook VC firm. They actively look for medical technology that has been discovered and broadly researched but hasn't been further developed due to budgetary limitation, and they look for the appropriate people to further develop the technology and make an organisation out of it. In order to do that, they have head-hunters to pick the people that meet all requirements within a large pool of people who are currently working at corporates or who want to become entrepreneurs. They then help manage and finance further development. Once the organisation has developed and has become profitable, the VC exits and sells their stocks.

In response to the first question, VC2 immediately said that experience and an entrepreneurial mind are the leading factors in their decision-making process. For them, it made a significant difference whether someone had previously owned businesses (a serial entrepreneur) and whether they had a great deal of experience within the specific field.

The second question was already answered in the answer to the first question. Experience was the factor that was mentioned immediately, so it is safe to say it is a very determining factor.

Currently, the VC does not fund anyone younger than 40. Funding younger people does not fit their strategy. The average age of the entrepreneurs is around 52.

In order to differentiate themselves from the crowd, the VC indicated that having previously owned an business will make a large difference. They also see many people who are too passive. They plan a lot but never truly execute those plans. This is something that can be reflected by having owned businesses, even at young age. The entrepreneurial spirit is one of the most important personal traits that would help the entrepreneur differentiate themselves from the crowd. When applying for financing, it is often too early. The VC wants to see some kind of proven growth and potential to grow and be profitable. You have to prove your model and do not let a “no” from an investor set you back. You have to put out a lot of lines and just keep going.

4.1.3 VC3

The third VC operates in sustainable business ideas, mainly in the agricultural sector and other high impact areas.

When asked about the most important factors in their decision-making process, a set of basic ground rules were given. The business needs to fit within the target sector of the VC (so sustainable agriculture), the team has to be able to gain trust from the VC, the technology needs to be superior and they need to be able to protect the technology (i.e. patents), there needs to be a growth potential for the business and they need a high value proposition for the target consumer base. To get back to the team, they need to have sector-specific market knowledge or at least be able to acquire the confidence from the VC that they are able to operate in the sector. The team needs to have balanced personalities, so that the team has varying skills and personality traits. On top of that, the connection between the VC and the team needs to be good. When there is no ‘click’, it becomes unpleasant to work with one another.

To answer the second question, age and experience are not a defining factor in the decision-making process. It does, however, change the approach with which the team will be handled. Young teams are often fun to work with due to their fresh insights and excitement. Young teams with little experience require more help than more experienced entrepreneurs, but they are also more ‘coachable’, as opposed to the more experienced entrepreneurs who often feel that they know better and refuse to take any advice from the VC.

The youngest entrepreneur that was ever funded at VC3 was 24 at the time, 30 now. The youngest entrepreneurs now are 25 and 28. The average age of entrepreneurs that are funded at VC3 is around 40 years old.

Young entrepreneurs can differentiate themselves from the crowd by offering a highly innovative, sustainable concept with clear growth and profit potential.

VC3 has almost exclusively funded successful businesses, mainly in flight simulation, chain craft and fermentation technology. In one instance, the investment went mainly to the business plan as opposed to funding the entrepreneur. In one instance the organisation went bankrupt. The most likely cause of the failure was that the company was too far ahead of its time. The market was simply not ready to adopt such an innovative concept.

4.1.4 VC4

The first criterium is the focus of the company. This VC only finances BTC (Bitcoin/blockchain) companies, companies with an online business model with a certain attack angle and they look for a specific type of branding.

When asked to what extent experience or age is a determining factor, they answered that relevant experience is always good to have, although it is not a leading factor. The most important factor is the connection between the VC and the entrepreneur. One problem VC4 encounters is that some entrepreneurs show different behaviour once they have received the capital. They start exploiting the funds and take a large cut of it and keep it for themselves. That is one of the reasons the personal connection needs to be good, as you nearly always have a 'gut' feeling while talking to someone. When something feels off, the deal will often not push through.

The youngest entrepreneurs that VC4 currently financed are 20 and 24. The average age is around 30.

As far as VC4 is concerned, young entrepreneurs can differentiate themselves from older, more experienced entrepreneurs by being consumer facing and displaying a positive appearance towards their (potential) customer base. With technological products, being young can even work in the advantage of the entrepreneur, as the entrepreneur will be around the same age as the people who will be using the product, potentially increasing the likelihood of adaptation of the product.

VC4 indicated they have not yet had any great successes or failures as they have only their VC three years ago. This means that VC4 has not yet made an exit (selling their stocks of the funded business). The KPIs that the VC applies, however, do seem to point into a good direction.

4.1.5 VC5

The last interviewed VC focused their investments in the high technology and hard science sectors, with sub-sectors everywhere from robotics, telecom and automotive to clean energy and healthcare.

Answering the first question, the most determining factors are the technology and the market focus. The market focus needs to be in line with the investment focus of the VC and the technology or science needs to be market-changing. The product needs to be highly innovative in order for the VC to be interested.

Experience is not a determining factor per se, however a more experienced entrepreneur with the same technology would usually be picked over a younger entrepreneur. The reason for this is that older, more experienced entrepreneurs usually have prior business experience and are generally more responsible and

sensible than younger entrepreneurs and would thus be the safer bet.

The youngest entrepreneur funded by VC5 was thirty-three at the time of funding. On average, entrepreneurs funded by VC5 are around forty-two years old.

Young entrepreneurs can differentiate themselves from older entrepreneurs by developing a sustainable business plan with large growth potential an entrepreneurial mind, for example by starting businesses at a young age, and by simply building the superior product.

4.1.6 Comparing the results

In order to discuss the results, we will analyse the interview questions in their respective order and compare the answers that the different venture capital firms provided.

In your decision-making process, what would you say are the most important factors that determine whether or not you will fund the entrepreneur?: Growth potential, experience, and feeling or connection were both mentioned by three of the five interviewed VCs. Business plan, an entrepreneurial mind and business sector were all mentioned twice.

Other factors that were only mentioned once and thus VC-specific are: KPIs, superior technology, patentability, balanced personalities and skills within the team, attack angle, and branding.

To what extent is age or experience a determining factor in your decision-making process?: Three out of the five VCs said that experience is not a determining factor in their decision-making process. All of them, however, added a side note to their answer. For one of them it changes the approach they use, since an inexperienced team will need more guidance, but the less experienced team will usually let the VC help them, as opposed to older entrepreneurs, who can be stubborn due to their experience and perceived knowledge. Another VC mentioned that experience is always good to have and might give the entrepreneur advantage over another with no experience, although it is not determining. The third VC mentioned that they appreciate an entrepreneur with past experience, as it shows an entrepreneurial mindset and determination, but it does not determine whether or not they will fund the entrepreneur. For the fourth VC, experience is the most determining factor and they would not fund an entrepreneur without experience. The last VC mentioned that an experienced entrepreneur would most likely be picked over a less experienced one, as it usually means that the entrepreneur has more knowledge and feel for what they are doing, which could lead to a higher growth rate. It does not mean that they refuse to fund young entrepreneurs altogether, but it is less likely for them to get funded.

How old was the youngest entrepreneur you have ever funded?

The ages of the youngest entrepreneurs funded by the VCs were twenty-five, twenty-four, twenty, forty and thirty-three. On average, that is twenty-eight years old (28.4 to be exact.) This is significantly lower than the number presented by Wright (2003). However, for more meaningful results we need the average age of the all entrepreneurs that were funded by the VCs, leading us to the next question:

What is the average age of entrepreneurs you fund? The average age of entrepreneurs funded by VC1 is around thirty years old. For VC2, the average age of the entrepreneurs is fifty-two. For VC3, the average age is forty years old. For VC4 the average age of entrepreneurs is around thirty and for VC5 the average age of the entrepreneurs is forty-two.

How would a young entrepreneur make him/herself stand out from more experienced entrepreneurs? According to VC1, the

entrepreneur should deliver a thorough, clear and achievable business-plan, and simply have a good connection with the VC. VC2 mentioned having previously owned a business will help make the entrepreneur stand out, along with being proactive. According to VC3, what will help entrepreneurs stand out is offering a highly innovative, sustainable concept with growth and profit potential. VC4 indicated that being customer facing and displaying a positive, recognisable appearance towards the customer base will help set the entrepreneur apart from the crowd. VC5 said that for them, sustainable business plans with growth potential would help differentiate the young entrepreneur from the rest. The answers vary from VC to VC, as we can see. They do, however, all largely correspond to what the VCs answered to the first question.

Have you ever had any large successes or failures and why did they succeed/fail?

Most VCs did not have one answer to this question. Factors that were pointed out were team motivation and capability and market adaptability.

4.2 Entrepreneurs

In figure 1, we can see that six of the collected organisations have received venture capital funding (marked in green). The organisations marked in red have not had any external funding. Unmarked organisations either had insufficient information available to determine whether they had received venture capital or they received another type of financing, which is less interesting for this research.

4.2.1 TravelBird

When analysing TravelBird, our first organisation that received VC funding, what stands out is their unique business model. TravelBird offers full package travel deals to their customers. They set themselves apart from the competition by using an algorithm similar to that of Netflix, enabling them to offer personalised deals through e-mail to their members. The founders, Dennis Klompalberts and Symen Jansma, were 30 and 35 at the time of founding in 2010, respectively, putting them on the edge of our age limit of 30.

When reviewing their resumes, one can tell that they both had prior experience in management and founding businesses. When they started TravelBird, they used their own capital to get started. In 2014 they received their first round of venture capital, worth 5.6 million USD (Crunchbase.com, N.D.). In the years prior to the funding, the company had grown to 170 employees (since 2010) and had already taken over two other travel agencies, although they had not made profits yet (Lutgendorff, A., 2018). Concluding, Travelbird was a promising venture that had already shown rapid growth in a short period of time. The interest of the venture capitalists most likely originated from media attention, as the founders were contacted by the VC firms (Outenaam, E., 2014).

On the 31st of October 2018, TravelBird was declared bankrupt due to solvency problems (Emerce, 2018). In November 2018 TravelBird was acquired by Secret Escapes, which retained only the name, logo, customer base and IT platform (Degeler, A., 2018). In 2018 TravelBird started to make profit for the first time since the start of their operations, however that has proven to be insufficient to make up for their arrears.

4.2.2 MessageBird

MessageBird, founded in 2011 by Robert Vis, delivers customer communication solutions to businesses. Messagebird offers business smart ways to route customer calls and allows customers to chat with intelligent artificial people (APIs) online in order to make the interactions more efficient and enjoyable for

the customer. Two years prior to starting MessageBird, Vis founded ZayPay, an online payment application, together with Adriaan Mol, known from Mollie Payments. In fact, MessageBird is a spin-off of ZayPay. When Zaypay was sold, the founders kept the part of the business with the “technology-stack), which they used to build MessageBird (Y Combinator, 2018). Only after six years, when Vis wanted to expand the business, they needed external capital to grow. Until then, Vis bootstrapped the business and said “it was a crucial time to develop our product, define our mission and build a strong, sustainable foundation.”(Y Combinator, 2018). According to Vis, they received many applications from investors, so they were able to decide which one to take on and collaborate with (Keswiel, M., 2017). In 2017, MessageBird received 60 million USD in venture capital (Crunchbase, N.D.). Since then, MessageBird has acquired Highside Telecom in December 2017 and they have opened an office in Dublin, Ireland in July 2019 (Crunchbase, 2017; Messagebird 2019).

4.2.3 WeTransfer

WeTransfer, founded in 2009, has become one of the biggest file-sharing platforms in the world since its launch. WeTransfer allows its users to send large files, up to 2GB for free users and up to 20GB for paying users, all around the world. The files are usually temporarily stored for seven days by WeTransfer, or longer when desired and the files can be password-encrypted so that sensitive files can only be accessed by authorised individuals. Founded by Ronald Hans, Rinke Visser and Bas Beerens. Hans, better known as Nalden, started the company with his peers when he was 24 and is still the CEO. Ronald Hans did not have any prior experience founding businesses, apart from his blog. Rinke Visser had been a sales manager at multiple companies and had founded another company earlier in 2009. Bas Beerens founded one company prior to WeTransfer and had been manager at another company. In 2015, WeTransfer got its first round of venture capital financing, worth 25 million USD (Crunchbase, N.D.). In an interview with the Dutch newspaper NRC, director Bas Beerens mentioned that they were approached by investors from all over the world, but then decided to go with a Highland Capital Europe, since they were an experienced, international party (Hijink, M., 2015). After receiving the funding, WeTransfer acquired two companies, Present Plus and FiftyThree, founder and CEO Bas Beerens stepped back to become Executive Chairman (Lunden, I., 2016; WeTransfer, 2016; WeTransfer, 2018). WeTransfer received round B funding worth 35 million USD in August 2019 (WeTransfer, 2019).

4.2.4 Mendix

Mendix is an enterprise application development platform, founded in 2005 By Derckjan Kruit and Derek Roos, who were 21 and 25 at the time, respectively. The platform allows users to create their own enterprise application which can be connected with almost all prominent enterprise systems such as Salesforce and IBM. Both Kruit and Roos did not have any working experience or entrepreneurial experience prior to starting Mendix (LinkedIn, 2019). In 2011, Mendix received its first round of funding. This A Series funding was led by Prime Ventures with a sum of 13M USD (Mendix.com, 2011). In 2014, Mendix received 25M USD in a series B funding round (Mendix.com, 2014). In 2018, Mendix was acquired by Siemens for 730M USD.

4.2.5 InSided

Founded in 2010 by Robin van Lieshout and Wouter Neyndorff, inSided provides community management to organisations, allowing users of a product to answer each other’s questions and assist one another. For both Van Lieshout and Neyndorf this was their first real business experience. Prior to this, no employment

records of either of them can be found. In January 2016, InSided received a Series A investment of six million Euros, led by Ventech, HenQ and Fortino Capital, six years after the company was founded (insided.com, 2016). In 2017, InSided opened its office in New York, in order to allow for a faster expansion into the global market (Mackaay, M., 2017).

4.3 Analysis

Something that stands out from the analysed cases is that three out of the five organisations were approached by venture capital firms instead of the founders reaching out the venture capital firm. The organisations had received a fair amount of media coverage prior to the funding rounds, which may have signalled investors. The other two organisations had not specified whether they were approached by the VC or whether they approached the VC. On top of that, each organisation already existed for a number of years and had thus had the time to show their potential to investors. One of the five organisations went bankrupt due to solvency problems, which indicates that even when one does receive venture capital funding, it is certainly not a guarantee for success. About half of the founders had prior working- and business experience, which indicates that, even though it certainly may be beneficial, prior experience is not always necessary in order to obtain VC funding. All five of the analysed organisations are online businesses, four of which were founded around 2010, with the exception of Mendix, which was founded in 2005. All companies were founded during the rise of the Internet, where the founders recognised several possibilities and opportunities prior to anyone else, which may have contributed to their successes.

5. DISCUSSION

What becomes clear from the interviews and analysed cases is that the criteria venture capitalists use vary highly from VC to VC. For the purpose of this paper, the focus lied mainly on the effect that age and experience had on the decision of venture capitalists and what the entrepreneur could then do to counter their potential disadvantage when compared to older, more experienced entrepreneurs.

The results from the interviews largely corresponded with the literature. Similarities in terms of criteria were experience, growth potential and investment strategy. Even though market acceptance was not mentioned by any of the VCs as a criterium, it did show importance both in the interviews, where one VC explained that the failure of one of their investments was partly due to a market that was not yet ready to accept the product, and in the literature.

Another similarity found is patentability, or at least signals to investors. Even though the reason was not specifically mentioned by any of the sources used to analyse the entrepreneurs, several of them did state that the investors approached the entrepreneur. This means that the VC picked up on a signal from the company of the entrepreneur. Whether this was proven growth, media coverage or a patent request is not entirely clear, however it is evident that signalling investors can play a big role in obtaining capital, as proposed by Tyebjee & Bruno (1984).

An interesting observation is that some VCs actually seemed to applaud young entrepreneurs approaching them, which may signal progression within the VC market, where they become more accessible for younger entrepreneurs and recognise the true potential and importance of young, fresh minds who may well become future industry leaders.

6. CONCLUSION

6.1 Sub-Questions

In order to conclude the research and answer the research question, the previously established sub-questions need to be answered for which the results from the literature review, interviews and analysis, the sub-questions are used.

To what extent is venture capital an interesting source of funding for young entrepreneurs?

Venture capital can be an interesting source of funding for a young entrepreneur. The main benefits for a young entrepreneur from receiving VC funding are the professionalisation and guidance that a VC brings to the company. Adversely, the entrepreneur does give up a large share of their company to the VC and they are prone to being replaced as CEO of the company. Whether VC funding is an interesting funding source highly depends on the personal preferences of the entrepreneur.

What selection criteria do venture capitalists generally apply?

Decision-making criteria that kept coming back in the interviews were growth potential, experience, the 'gut' feeling the VC has with the entrepreneur, business plan, business sector and an entrepreneurial mind.

To what extent is there a significant difference in acceptance rates by venture capitalists between young and older entrepreneurs?

Interview results highly varied regarding the difference in acceptance rates between young and older entrepreneurs. The acceptance difference is highly dependent on the individual VC. The majority of VCs, however, did note that experience was a factor taken into consideration, so older entrepreneurs do seem to have an advantage over younger entrepreneurs in general.

What are the main differences between young and older entrepreneurs?

The answer to this question seems fairly obvious. In terms of experience, both life and business, the older entrepreneurs have a clear advantage. What can be derived from the interviews, however, is that younger entrepreneurs are generally easier to coach, they have fresh insights and they are often enthusiastic about their business.

Who are successful young entrepreneurs who have obtained venture capital funding?

A list of successful young entrepreneurs who have received VC funding is compiled in the appendix. They are the founders of some of the faster growing companies in the Netherlands. The analysed companies are TravelBird, MessageBird, WeTransfer, Mendix and InSided. The founders of these companies were all under the age of 30 at the time they started their company.

What are the characteristics of the young entrepreneurs who have received venture capital funding and what do they have in common?

The main similarity found between the analysed entrepreneurs and companies was that they had existed for a number of years, had proven their growth potential and had received media coverage prior to receiving funding. In several cases the VC actually reached out to the receiving company, meaning the VCs must have been signalled, most likely by media coverage or patentability. In the interviews, the responding VCs mentioned that the young entrepreneurs they usually fund had innovative ideas in their field, they had a good connection with the entrepreneur and the entrepreneurs had an entrepreneurial mindset.

6.2 Main Research Question

Using the answers to the sub-question, the main research question “**What do young entrepreneurs who have successfully received funding from venture capitalists have in common?**” will be answered.

When comparing the results of the analysed entrepreneurs and the results of the interviews, what appears to be a common theme is that the business plans are highly innovative. All the analysed entrepreneurs had started to operate in then new and unexplored business markets, or they introduced industry-changing technology or products onto existing markets.

The most important characteristics appear to be having an innovative, promising business model and financing the first years of operation yourself, at least until the business has proven its growth potential. These characteristics make the business interesting for venture capitalists to fund, since the growth potential is proven, taking away a degree of risk, and they have the potential to become a market leader with the new product or technology.

6.3 Recommendations

In an attempt to help young entrepreneurs obtain venture capital funding, recommendations will now be suggested.

Firstly, young entrepreneurs need to make sure they have an innovative business plan, product or technology. This is, unsurprisingly, one of the largest factors VCs take into account while making a decision on whether or not an entrepreneur should receive funding. Entrepreneurs with innovative business plans, products or technologies usually have larger growth and profit potential than entrepreneurs with more conventional business plans, products or technologies, increasing the potential profit margin for the VC.

After passing the first criterium, the most important factor appears to be the “connection” between the VC and the entrepreneur. The reason this is relevant is that this will determine whether the working relationship between the VC and the entrepreneur will work out. One VC mentioned that you will always have a “gut feeling” while talking to someone. When this gut feeling is not good, it is hard for the entrepreneur to gain trust after all. This is not generally something that is easily influenced, however, so it is best for the entrepreneur to just go in clean and try not to hide anything.

What the entrepreneur can influence is the number of years the business has been operational prior to the VC application. With around five years of operation, the entrepreneur can prove the business is viable. Having proven business viability reduces the risk for the VC, which has a positive effect on their decision to fund the entrepreneur or not.

Lastly, entrepreneurs may benefit from small business ownership or working experience in the same market as the business they want to fund using venture capital. This, again, takes away a certain degree of risk for the VC, since it, to an extent, ensure the capabilities of the entrepreneur. Prior working experience also enables the option of contacting a reference at a prior working place to confirm the personality and working motivation of the entrepreneur.

6.4 Contribution to Knowledge

This paper explored similarities between young entrepreneurs who have successfully obtained venture capital funding in order to find out how they managed to obtain financing so other young entrepreneurs can use this to obtain venture capital funding for themselves. By combining existing literature, conducting interviews with venture capitalists and analysing young entrepreneurs who have successfully obtained venture capital

funding, this study attempted to provide the current knowledge with new insights.

Using the methods above, the main research question was answered: “*What do young entrepreneurs who have successfully received funding from venture capitalists have in common?*”.

Many of the results correspond with the theory, and as such do not add a lot of new information. What is not generally mentioned in the theory, however, are the exceptions VCs are willing to make regarding experience. When the entrepreneur makes a good impression regarding their business plan, the profit and growth numbers of the previous years or when they seem capable and entrepreneurial enough, the VC can decide to not take experience into account as a determining factor, however this is highly dependent on the individual VC. Adding to experience, what is not usually mentioned is the importance of proving viability. When an entrepreneur has already established the business and has proven to be able to grow and be profitable, this takes away a significant risk factor and may even signal the VC to approach the entrepreneur.

6.5 Limitations

The results of this study give a rough outline of what young entrepreneurs can do to increase their chance of obtaining venture capital funding. However, there are a number of limitations that have to be taken into account.

Firstly, the sample size of venture capitalists and entrepreneurs is too small to draw any generalisable conclusions. The conclusions in this study have been drawn from a series of interviews of five venture capitalists and the analysis of five successful young entrepreneurs. This sample can not be taken as representative for the entire industry and as such the recommendations should be carefully considered taking into account variations that may be country-, area-, industry- or VC-specific.

Secondly, the study has only examined Dutch VCs and entrepreneurs. As such, it cannot be considered to be representative for any country outside of The Netherlands. In different countries cultural or industrial specificities may lead to differing results.

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8. APPENDIX

Highlighted in *green*: Has received venture capital funding.

Highlighted in *red*: Has *not* received venture capital funding.

Company Name	Founder Name(s)	Year of Founding	Current Age	Age Start
Coolblue	Pieter Zwart (current CEO), Paul de Jong, Bart Kuijpers	1999	42, 40, 45	22, 20, 25
PB Web Media	Peter Becker	10+ years ago	39	<30
City Pads	Lee Foolen	2007	39	27
Transip	Ali Niknam	2003	39	23
Travelbird	Dennis Klompaelberts	2010	39	30
Billie Lucky Foundation	Lodewijk Bianchi	2006	38	25
Messagebird	Robert Vis	2011	35	27
vinden.nl	Jan-Willem Tusveld	1998	38	18
Traffic4U	Gert-Jan Munneke	2000	39	20
Hardeman Isolatie	Arend Hardeman	1997	39	17
YoungCapital	Bram Bosveld, Hugo de Koning, Rogier Thewessen	2000	37, 39, 43	18, 20, 24
Wetransfer	Ronald Hans	2009	34	24
Mollie	Adriaan Mol	2005	35	21
Drukwerkdeal	Marco Aarnink	2005	34	20
I3D.net	Stijn Koster	2002	34	17
Bencom	Ben Woldring	1998	34	13
Aethon	Casper Bannet, Lennard van Vloten	2005	39, 33	25, 19
ACT Commodities	Bram Bastiaansen, Jaap Janssen	2009	37, 38	27, 28
Online Soccer Manager	Jeroen Derwort	2001	39	21
Ampelmann	Frederik Gerner, Arjan Göbel	2002	37, 38	20, 21
Creative Clicks	Ramon van den Bulk	2009	39	29
Bookchoice	Boudewijn Jansen, Robbert van de Corput	2014	40, 31	35, 26
Level23	Marco Dompeling, Cor Jaspers	2007	35, 35	23, 23
spele.nl	Niels van Huet	2001	33	15
Creative Group	Dirk Ueberbach, Robin Weesie	2004	37, 37	22, 22
Qassa	Ramon Casander	2006	34	21
CM.com	Jeroen van Glabbeek, Gilbert Gooijers	1999	40, 40	20, 20
Greenhouse Group	Marijn Maas, Frank Sanders	2009	40, 39	30, 29
IS Group	Arjan Steevels	1996	40	16
Meestersgilde	Peter Huijser	2004	39	24
Emesa	Dirk Jan Koekkoek	2004	39	24
Inwork	Walter Buter, Bart Kramer	2006	39, 40	26, 27
Voetbalzone	Thijs Freriks	2001	39	21
Vianen Flowerexport	Joost Vianen	2000	38	19
LVDH Vastgoed	Wouter Langeveld	10+ years ago	40	<30
Track Group	René Rath	2007	40	28
Stella Fietsen	Daan van Renselaar	2010	31	22
Koel Products	Marc van der Koelen	2001	35	17
Zoomin	Bram Bloemberg	2000	39	20
Mobiel.nl	Thomas Borsboom Lucas van Reeken	2000	39, 39	20, 20
Denit	Dennis Bruin	1999	40	20

Focuscura	Daan Dohmen Wesley ter Haar, Terrence Koeman, Gin Roberscheuten	2003	39	23
Mediamonks		2001	40, 37, 40	22, 19, 22
PCS Stadswacht	Mohlad Hassan	2011	35	27
Projectontwikkeling	Radi El Kaddouri	2009	38	28
Mendix	Derckjan Kruit, Derek Roos	2005	35, 39	21, 25
FN Global Meat	Jeremy Meijer	2006	40	27
Nikkie	Nikkie Plessen	2012	33	26
The Datacenter Group	Siemon van den Berg, Raymond Kasiman	2007	36, 37	24, 25
SIMgroep	Frank de Goede	2009	39	29
Inside	Robin van Lieshout, Wouter Neyndorff	2010	37, 37	28, 28
Groupdeal, Get Me In	Paul Montagne	2010, 2004	39	30, 24
Eetgemak	Gert-Jan Nell	2006	40	27
Protix	Kees Aarts	2009	37	27
Voorneputten uitzendbureau	Rayif Ayyildiz	1999	40	20
Inflatables	JB Inflatables	2006	37	24
Belsimpel	Jeroen Doorenbos, Jeroen Elkhuizen	2006	34, 36	21, 23
Quotamel	Peter van Dronkelaar	2001	38	20
PRSS	Michel Elings	2013	36	30
Royal Berry	Jan van Genderen	2002	34	17
Nuts Groep	Floris de Haes	2008	32	21
E&A Events	Alex Hes, Essam Jansen	2008	29, 29	18, 18
MBC	Roy Molenaar	2002	40	23
Studio Roosegaarde	Daan Roosegaarde	2008	39	28
Lightspeed	Ruud Stelder	2005	31	17
Magicfx	Bram Veroude	1995	38	14
Dekbed Discounter	Niels Verwij	2014	30	25