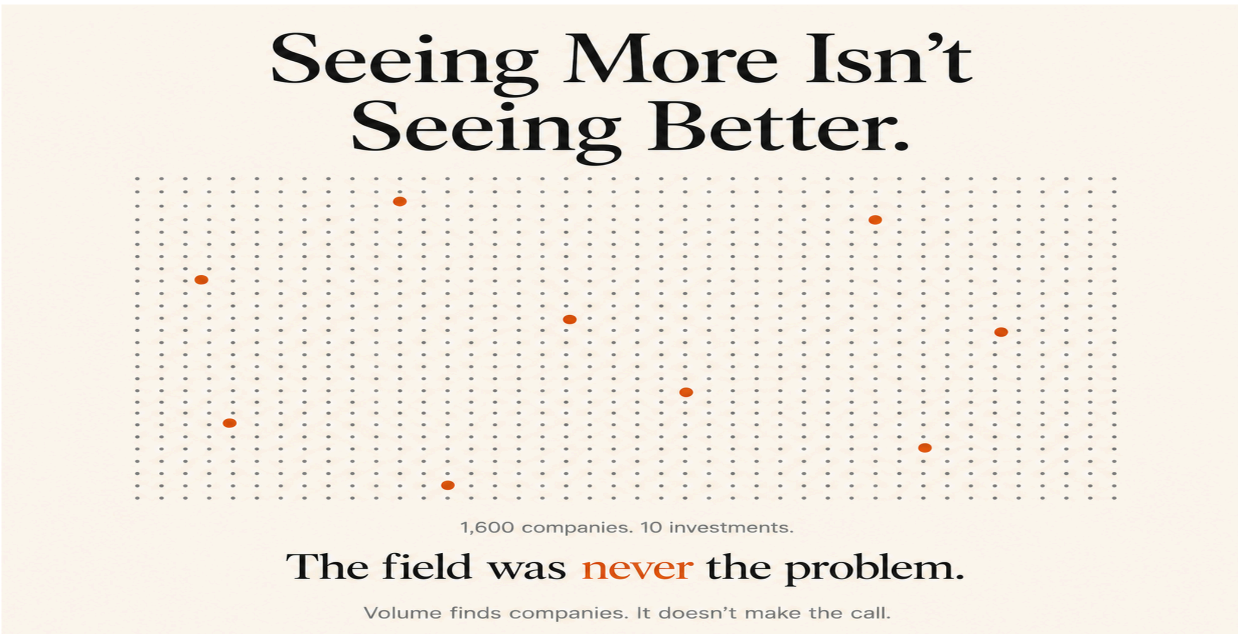
Seeing More Deals Is Not the Same as Seeing Better

Why the tools for sourcing outpaced the infrastructure for venture decision-making



The deal that improves a fund rarely begins with more inbound volume.

Yet the industry has spent the past decade building infrastructure to multiply it. Scout networks. Accelerator relationships. Data-driven sourcing. AI screening tools. Platform teams optimizing deal flow funnels. The assumption underlying this infrastructure is consistent: more opportunities entering the process equal more chances to find the outlier, more optionality, more shots on goal.

The premise contains a logical error that has become the industry's blind spot.

Deal flow is an input. It describes what enters the process. It says nothing about what happens inside it.

A firm that sees 1,600 companies and closes 10 investments has made 10 decisions to invest and 1,590 decisions not to invest. The quality of those decisions is determined entirely by what happened between seeing the deal and making the call, not by how many deals preceded it.

Yet the industry has built significant infrastructure around sourcing inputs.

The output from the moment opportunities are sourced, decision quality, diligence rigor, and conviction clarity, remains largely unmeasured, unsystematized, and manual.

This is the gap between the two.

What the Funnel Actually Tells Us

In 2018, Hunter Walk and Satya Patel published one of the few granular, attributable deal funnels in venture. Homebrew's documented funnel from 2015:

- 1,600 opportunities received
- 476 advancing to first meetings (30%)
- 64 reaching partner-level discussion (4%)
- 14 investment offers made (0.9%)
- 10 investments closed (0.6%)

The conversion rate from inbound to investment is approximately 0.6 percent.

This is not a failing of the system. It is the system.

A typical VC partner makes one to two investments per year, regardless of firm size. That number does not scale when the inbound funnel grows. What scales is the overhead? More first meetings. More screened decks. More early-stage conversations that produce nothing. More noise between the deal that matters and the team that has to process it.

The constraint is not at the top of the funnel. The top of the funnel is already full.

Every deal that does not become an investment represents time, attention, and judgment spent and not recovered. Simply adding volume to a funnel that closes one to two deals per year does not improve those one to two decisions. It increases the cognitive load the team has to process before reaching them.

The 2024 venture market illustrates this shift more clearly than any strategic statement could. Global VC deal count declined 17 percent year-over-year. Global VC deal value rose 5.4 percent.

The market is already making the distinction the industry has not yet articulated: fewer decisions, larger bets, higher conviction per check written.

The firms writing those checks are not doing so because they saw more deals. They are doing so because they had a cleaner answer to a harder question before anyone else did.

What Sourcing Tools Do, And Where They Stop

Sourcing platforms now automate significant portions of initial inbound screening. Industry research estimates that more than 75 percent of VC deal reviews are informed by AI or data analytics as of 2025. These platforms filter by sector alignment, stage, valuation range, hiring-trajectory signals, patent activity, and web-traffic patterns.

These are genuine efficiency gains. They compress the time between searching a deal database and the first pass at screening. They reduce the analyst burden on low-fit inbound.

What these tools do not do is more important.

They do not specify whether the criteria for evaluating the opportunity align with a fund's specific thesis. They do not surface the question that the investment committee should be asking, but have not yet formulated it. They do not know which piece of evidence in a specific deal should change the decision, because that depends on what the team is actually underwriting, and no sourcing tool knows that.

The paradox is this: as tools democratize sourcing capacity, every firm sees more. If every firm is processing the same expanded universe of opportunities through similar filters, the overlap increases. The overlap means differentiation moves downstream—to interpretation.

The ability to see what a company actually is, not what its materials say it is, before the competitive process begins.

Sourcing was the bottleneck when information was scarce, and networks were unequal. Synthesis is the bottleneck when information is abundant, and networks are increasingly connected. The firms that solve the synthesis problem do not need to solve the sourcing problem as aggressively.

The Attention Tax

There is a documented phenomenon in venture decision-making that practitioners recognize immediately but rarely discuss by name: a partner passes on a deal perceived as strong not because the deal was weak, but because the firm had reached the limit of its evaluation capacity. The capacity for rigorous diligence is finite and does not scale with pipeline volume.

Research reports indicate that a third of angel investments are made after less than 10 hours of due diligence. (The average is around 20 hours) VC evaluation depth shows that angel investors spending more than 10 hours on diligence are 2.3x more likely to achieve returns greater than 5x compared to investments made after less than 10 hours of diligence. The difference is not marginal.

For VCs, the diligence process is even longer, going to more than 40 hours per deal.

The diligence time depends on the stage and size of the deal. The result is the same: more time on due diligence means fewer losses and more successes.

More importantly, due diligence timelines under 30 days reduce diligence depth by 35 to 45 percent. Deals closed under compressed timelines show 2 to 3 times higher failure rates in the first 24 months.

Time per deal is not overhead. Time per deal is the evaluation itself. Compressing it directly reduces the quality of the outcome.

The attention tax on volume is invisible in most investment process discussions because deal-flow volume is measurable and reported, whereas evaluation quality is not. Firms track how many deals they screened. They rarely track whether the deals they passed on received the scrutiny that would have changed the outcome. That asymmetry shapes what gets optimized.

What Edge Looks Like After Access

Network centrality matters. Research by Hochberg, Ljungqvist, and Lu found that a one-standard-deviation increase in network centrality is associated with approximately a 2.5-percentage-point increase in exit rates. The network improves what enters the funnel. It provides earlier access, better terms and more time for evaluation.

But the network is still a sourcing advantage. It describes how a company arrives. It does not describe what the team asks once it does.

The firms building durable advantage for the next decade are not building it around sourcing. They are building it around the second problem: how they apply their thesis to an ambiguous deal, how they weigh conflicting evidence, how they surface assumptions that carry the most risk, how they stress-test the reasoning before the IC meeting, how they preserve the reasoning behind past passes so the next similar deal is evaluated with compounding knowledge rather than from scratch.

None of those capabilities are improved by seeing more deals. All of them are improved by building better venture decision processes and the tools around the deal pipeline already in the room.

The Math

The firms that outperform this decade will not be the ones that saw the most companies.

Power-law mathematics is unambiguous on this. The distribution of venture returns is extreme. Across large portfolio datasets, a small percentage of investments drives the vast majority of returns, sometimes cited as fewer than 10 percent accounting for 90 percent or more of returns across vintage cohorts.

This distribution is not won by coverage. It is won by the quality of the call made on the companies that matter.

Deal flow is an input. Decision quality, diligence depth, and conviction clarity are outputs. The industry has spent a decade building tools around the input. The output problem—how a team forms a high-quality judgment faster, with greater clarity about what it is actually underwriting —is mostly manual.

That is where the next edge is.