CAMBRIDGE, MA – When you think about the process of raising venture capital, you should imagine yourself moving through a gigantic funnel. At the top of the funnel is every venture capital firm listed in Pratt's Guide to Venture Capital Sources. At the bottom of the funnel are the six venture capitalists who are most likely to fund you.

Your mission, as an entrepreneur who needs financing, is to narrow down the list of potential funding sources to the six VCs who are most likely to fund you.

The first step in working through the venture capital funnel is to go to the reference section of your local business school library and check out a copy of Pratt's Guide.

This is a huge book, but you don't have to look through all of it. You're only interested in writing down the names of those VC firms that are located within a two hour drive of your business.

My rationale for being geographically selective is as follows. Venture capitalists don't want to spend their lives driving back and forth from board meetings, and after September 11, it's hard to convince anybody to get on a plane. So you're better off focusing your efforts on those firms that are located within 100 miles of the site of your upcoming board meetings.

Once you have narrowed the list of potential VC sources down to the firms that are located in your geographic region, you should look at the dollar amounts that the firms like to invest.

Some firms prefer to invest $50,000 to $2 million in a young company, while other firms prefer to put $5 million to work in a round. A seed-stage venture capital fund might want to invest $500,000 in a new business while a later-stage firm might refuse to look at a company that needs less than $10 million. It's foolish to spend time pursuing a firm that does not invest in companies your size.

To find out how much venture capital you can afford, figure out how much your company is worth. It's common for venture capitalists to purchase a 30 percent equity stake in a young company. The hard part is figuring out how much you can get in exchange for a 30 percent stake in your company.

Corporate valuations shift over time, so it's a good idea to spend a lot of time talking to fellow entrepreneurs that you meet at networking events. Your goal is to find out how much money similarly sized corporations in your industry have been able to raise recently.

After you've narrowed the list down to those companies in your geographic region that invest dollar amounts that are right for you, look at the sorts of industries the firms specialize in. If you are a biotechnology entrepreneur you will probably want to seek venture capital financing from firms that have a history of financing biotechnology companies.

Firms that have a history of investing in biotechnology companies will understand how long it takes to get new drugs approved by the FDA, and how long it takes to get new drugs on the market. Firms that have a history of financing biotechnology companies are more likely to have connections to the large pharmaceutical companies that might ultimately be called upon to acquire your business.

When you have made a list of the six firms that are most likely to invest in your business, visit each firm's Web site. Try to figure out which individual partners within these firms specialize in your particular area. There are lots of VC firms that invest in both biotech and telecommunications, for example, but individual partners are usually segregated by industry.

Once you have identified the six individual VCs who are most likely to fund you, work on getting referrals to those VCs. When you are studying the firms' Web sites pay particular attention to which companies your target VCs have already invested in.

Try to make contact with the entrepreneurs who have already received financing from your six target venture capitalists. Send the entrepreneurs e-mail. Call the entrepreneurs on the telephone and invite them out for a cup of coffee. Tell the entrepreneurs about your business. Listen to what they have to say.

It is very important for you to be open-minded and friendly at this stage. If you feel like you have good rapport with an entrepreneur, ask her whether the venture capitalist who funded her company might have an interest in funding your company, too.

If you're lucky, the entrepreneur you've just had coffee with will volunteer to bring up your name at the next corporate board meeting.

If this happens, you've got a great chance of raising money with the individual venture capitalist in question.

But keep up your efforts with those other five VCs, just to be on the safe side. It's better to have too many leads than not enough.

The Venture Cafe: www.theventurecafe.com.