Stanford eCorner

VC Startup Relationship

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Roizen makes it clear that VCs will not give all the money up front. It is important for startups to set milestones, and develop a relationship with a VC, she says. At Mobius, VCs collect data on all portfolio companies on a weekly basis to best understand their companies. They do so to improve their companies' performance.

Transcript

The distinction is that the VC is negotiating for a round that might last a long time. So a startup might get $3 million. But we're not giving all the money up front. We are saying, "OK, here's a half a million dollars." And then in June, you will have hit the following milestones: the product will be in beta, there will be three enterprise-level customers who will be using it who will have maybe paid some money, or even whatever the amount. What this shows us is that this company is achieving what it said it set out to achieve. And if it doesn't achieve those things, we're not obligated to give it the next tranche of money. So I don't think it leads to waste. I think that this can be some interesting game in the system that goes on once six months have passed, then, "Oh, damn we missed that one milestone. But, geez, we're still really good. Can we have the rest of the money?" So I think there's got to be some discipline that is imposed there, but I think it's a lot better to know where the money is going to come from and have to argue that case than to not know where the money is going to come from.

You know, I've had some come to me, they come to raise money and they say, "Well, we'll raise in a half the million," because that's all they think they can justify, right? They don't want the dilution. And they're already in debt, right? And so I say, "Well, that half a million, that will last you about 90 days, best as I could tell." "Well, yeah. But then we'll go raise some more." So that basically tells me that as soon as they cash my check, they're going to spend 50% of their time talking to other venture capitalists, which is not a really good way to build a business. So we want to get those people off the streets and into their labs building product. So how do you do that? You give them more money. But I think the other thing you'll find, not only in our firm but a lot of other firms, we collect an incredible amount of data and we're heavily involved in the financial underpinnings of our portfolio companies. In fact, at Mobius we collect data on the companies on a weekly basis that would probably spin your head. And the reason we do that is because of a number of things. Number one is we want to understand what's going on at the company in a very detailed level, both in terms of their burn and their expenditures as well as their ability to collect the revenues, their pipeline. Numbers are ultimately the lifeblood of these companies, and so we have very detailed analyses.

The other thing is we want to make sure that we are imposing the kind of discipline to be able to know when to say to the company, "Gee, it's January. Maybe you should be out raising venture capital because according to my calculations, you only have eight months to live, and nowadays it takes eight months if you're lucky to close around, and you kind of want to raise it when you don't really need it." So there are a lot of things that we can do collecting the data that I think can be very helpful to the companies. We also benchmark our companies. If you're an enterprise software company and you're in beta but you don't yet happen to have a sales force and yadda yadda yadda, you really shouldn't be burning more than about a half a million a month. If your burn rate's above a half a million a month, why? What's the reason. You should only have about so many people. Not to say that there aren't companies who burn higher. They have maybe heavier data center needs or they have some sort of licensing agreement that has to be paid or they had to buy out a royalty. There are good reasons to burn money, but we'd like to know them before you burn the money as opposed to, you know, "Oops! Where did that extra 5 million go this year? Damn!" Those are the kinds of things that drive companies out of business sense. So I think that because--and I think it's one of the advantages having venture backing can provide is the venture capitalist generally has exposure to a lot of companies in your class that you would not be able to get the data from.