



## Stanford eCorner

### Why Take Venture Capital?

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Video URL: <http://ecorner.stanford.edu/videos/78/Why-Take-Venture-Capital>

Roizen talks about her experience in taking venture capital. She learned that if one can use venture funds judiciously to raise the inflection point, then it makes sense to do it. For her, it was an economic decision. Other reasons to take VC money involve credibility issues. Customers want to see that you have partners and money in the bank to prove that you will be around, she says.



#### Transcript

Well I'll tell you why we took Venture Capital. Because I think it sort of shows the right time. We had an application software company. We started it. We were growing it. We boot strap. We were profitable every year since the inception. And we had grown in three years time to \$3 million in revenue. While there were these other companies like Lotus Development that got started a year after us and in a year had \$50 million in revenue. And granted there were also other companies like Context MBA and Ovation that started around the same time with similar products and they were out of business, you know.

And they raised venture capital. But you know over time you look at these things and you say, "If you can use venture capital judiciously to raise the inflection point, you know, to move the inflection point or raise the curve at which your company can grow as a result, then it makes sense to do it." So for us it was an economic decision to say that we wanted to turn up the volume on our marketing efforts and on our development efforts because we saw an opportunity that we couldn't fuel out of our income. I think the other reason to do it. I think if you ask Bill Gates why he took venture capital. They didn't need any venture capital. It was a credibility issue. They were selling the customers who didn't want to look at their balance sheet and wanted to see that you have partners, that you have sufficient money in the bank. This is an interesting thing I want to add. There are some really good companies right now that are raising venture capital who probably can get by without it. But what's happening is they're selling to enterprise customers.

And enterprise customers say, "Oh you want me to buy quarter of million dollars worth of software from you? I've never heard of you before. Well I'd like to have your audited balance sheet. Because I want to make sure you're going to be around 12 months from now even if you miss a couple of quarters. Because I'm not putting my mission critical data and applications on your software when I don't even know if you're going to be around in a year." And so you're going to bring in the balance sheet. And that balance sheet has to show a year of operating capital in the bank. So even if you could probably get by without it, you need that extra operating capital or your customers won't buy from you. So I think there are reasons why raising venture capital can make sense. Even if you're in those rare cases you're never going to actually use the money. And I'm pretty sure I think Microsoft never used the money. Right, they raised a million dollars, they never dipped into it.