



Stanford eCorner

Venture Capital vs. Corporate Funding

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Video URL: <http://ecorner.stanford.edu/videos/79/Venture-Capital-vs-Corporate-Funding>

VCs give entrepreneurs money and want to get a lot more of it back sometime in the future, Roizen says. Unlike VCs, corporate investors generally want an early view into the technology and sweet deals from a business development perspective. If you are taking money from corporate investors, Roizen cautions, make sure you know what they want and what you want.



Transcript

When you deal with the peer VC, we have one thing in mind. We're giving you money and sometime in the future we'd like to get a lot more of it back. That's it. Very simple business. When you're dealing with the corporate investment arm, generally they're giving you money. But the prime directive is not to get a bunch of more money back. They generally will list return on capital as item number four or five. And ahead of those are early view in the technology. Early view in the potentially competitive technology. Watch out for that one.

Sweet deals from business development perspective. And again this is not to say every corporate arm works this way. But I would suggest to you if you're going to consider corporate investment, the first thing you sit down with them and say how are you judged. What does your boss tell you, you turn in at the end of the year? And if all they say is hey they gave me a pile of money and they expect a lot more back at the end, well then you're pretty closely aligned. If they say we want to gain access to technology, we want to do this or that, you got to decide whether that's what you want out of somebody who gives you money. Now a lot of times, first of all that may be the only money you can get. Second of all, it has advantages of credibility, business development relationships, things that come with it that can be advantageous to a start-up. And it can help you get going in a way. But I think you need to be very careful to, and this is almost impossible to do, not tie the financing relationship to the business development relationship. And you have to say we'd be happy to proceed with you on independent courses.

But we don't want to make one dependent on the other.