



Stanford eCorner

Venture Capital vs. Customer Funding

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Video URL: <http://ecorner.stanford.edu/videos/1233/Venture-Capital-vs-Customer-Funding>

Verma explains the different situations in which venture capital might be a better funding option, including the desire to scale quickly. He also points out some of the drawbacks as well.



Transcript

I think it would have worked out similarly because there was only a weird phase between '99 and 2000 where venture capitalists had this mentality that everything needed to be turned around and got the liquid in two years. I mean look, this time, I did it-- so there are two ways. Savi won, which basically resulted in a reasonable amount of liquidity, so the way it almost looked at it is we took almost no money, I think less 3, 4 million dollars. Most of it was funded outside. We have built it up to 40 million. We sold it. Employees owned about 70 million, so we take out five. So we probably had about \$30 million in 1995 which is split between a bunch of employees. This time we raised a hundred million. The company is valued, I think recently has offered, about a couple of months ago, at about half a billion.

And I am sure we will split a lot more between employees but I don't think it comes down to whether venture capitalists would have had patience or not, it comes down to what you want to build. The whole purpose of venture financing is a different scale, right? So for us, we bought the company for ten, we are putting a hundred, valued at approximately half a billion but that venture financing allowed us to scale and go through some very tough times where customer funding would not have not been enough to kind of keep us going. Plus, our vision is so much bigger that it could not be a self-funding company now. So, it comes out again. What do you what? You want to build something that is self-contained, self-funding, grows slower in a very focused manner. You should do it without venture financing and there is some great things to be said for it. You want to scale quickly, you want to level more scrutiny. You want some help but the ability to take on some bigger competition and have a much bigger dream, you do venture financing and you live with the consequences. My attitude is, by the way, if we are hiring in, if there is any CEO's of around and somebody is better than me, come on. Because the bottom line is, towards that point, I don't care whether I am the best guy.

I care that I am the best guy but there is a better person and somebody can find out and really find the better person, so be it. Alright? So you just have to be much more comfortable with the fact that its level of change and the ruthlessness of change will be much more under a venture capitalist but it may actually be better for the business.