Stanford eCorner

Multiple Investors

Brook Byers, *Kleiner Perkins Caufield &Byers*

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Video URL: http://ecorner.stanford.edu/videos/1309/Multiple-Investors

Byers believes that two to three co-investors is a good set for a young venture. An entrepreneur should balance between the number of investors and their minimum stake in the company.

Transcript

You need to find a firm that's courageous and will do it on their own. And there are firms like us who will do that, who just decide on their own and doesn't depend if anyone else is interested. And we've done that in the past year with a couple of start-ups where we liked it and a lot of people didn't. The case a couple of years ago was Align. It was the company that made Invisalign. Invisalign is a set of laser scan and then molds done for orthodontics, and they're made out of plastic. And people get a set of about 60 and they wear one for a couple of days and then throw it away and put the next one in, and aggressively it changes the shape of the teeth, and that's instead of wires and all that. That was started by a couple of Stanford grad students. They met with 120 venture capital firms. My partner, Joe Lacob, liked it and decided to do it, and no one else did.

So we did it in our own. We always liked to co-invest; almost every venture firm does. So it can be one--I think an optimal is two or three from the beginning. It's good to have more smart people working on your ventures. So that would be a good construct for you to do. But you have to balance that by what you want them to do for you. The more time you want someone to spend with you in coaching you and helping you recruit and build your business and bring in other ideas and do all this work, which is the value-added part, the more they would like to own of your company. Since most firms have plenty of money, they can put up the money to buy more stock in your start-up. So it becomes this kind of fine balance between how many investors to have and what their minimum ownership requirements are. Now, most venture capital firms say they want to own at least 20% of the company if they're going to be on the board.

But it could be more than that as well if you want them to be Chairman of the Board, if you want someone who has a huge amount of expertise. Or if you want someone like my partner, John Doerr, on the board, you've got to be willing to let KP pay more cash but buy more in the company, because his time is so valuable and we partners are watching after that.