



Stanford eCorner

Investment Timing: Early, Late or In-between

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For a venture capital firm, the time they choose to invest in a company is important. At Mayfield Fund, Roberts explains, they either like to come in early and get a reasonable ownership of the company or take the less risky path of entering at a later stage. However, it is hard to invest in a middle stage deal where money requirements are higher and the concept has not yet been proven.



Transcript

So in terms of how we're seeing investing, I did just want to make this point because many of you are looking at businesses and how you get funded. And so, as venture capitalists, we look at risk reward. And what is increasingly happening--and I'm talking the royal 'we' now in terms of the venture capital industry, not necessarily Mayfield--we're very interested in deals we can get in early, get a reasonable ownership, add value to the company, and get a fair-priced deal. And those deals were obviously relatively more risky because you're early, you don't know how the company is going to be developed, you don't know how the market is going to grow. We're also interested in investing late, so where there is more traction in a company, there are sales, there are customers. Higher-priced, less risk, because you know the product or the solution works. In the middle, difficult. It's difficult today to get some of these B-deals financed, which was traditionally quite a sweet spot for investors, because we're concerned, particularly when you're looking at a consumer-orientated deal, if you don't know what a consumer's going to like and with the consumer product, you get it out there, until the consumer says yes or no you don't really know how well it's going to go. And it's difficult to tweak a consumer product unlike software, for example. So it's risky.

So you go in early and get the ownership, but in a middle-stage deal where you need more money but you haven't yet proved the concept, it's much harder to invest in today. So if you're involved in companies like that, I would encourage you, if you can't get sales milestones to get some milestones to prove somehow the concept that you have developed, or when you getting money in early, get enough money to take you to an appropriate milestone, because that middle ground is really tough and getting tougher.