Stanford eCorner

Disadvantages of Venture Capital

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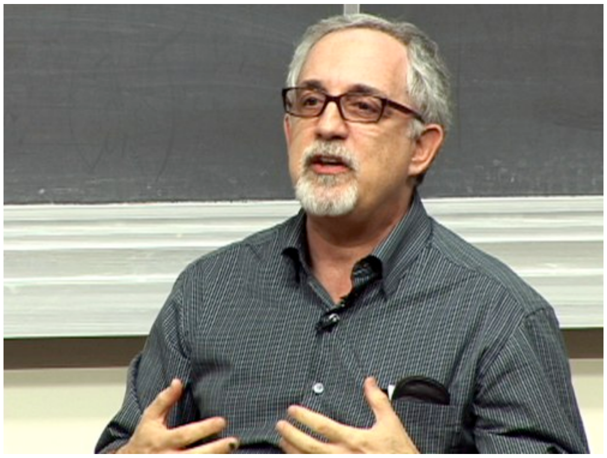
While entrepreneur and former Lotus 1-2-3 founder Mitch Kapor understands how selling finance can boost a burgeoning enterprise, his experience has also acquainted him with some of the disadvantages - mainly accountability and a forced schedule of progress. Here, Kapor outlines some of the many alternatives to the traditional VC paradigm, including self-financing and angel funding.



Transcript

One thing that's different then and now of course is, as an entrepreneur there are many more sources of capital. In many cases actually possible to self-finance. It's so inexpensive. Even if you're not wealthy you can get going. Another thing is all of angel money that is around of entrepreneurs and others who have been successful who can help with the first fifty or hundred thousand dollars. And we're going to meet a couple of them next week and Ron Conway. And so that has changed the picture. So that there are a lot of projects now that never get to institutional venture capital because they don't need to. And it's a much more competitive kind of market. And some cases people have been successful, will come back and start a second company, even a third or a fourth.

I mean there's have to be triple digit numbers serial entrepreneurs in the valley. Maybe even thousands and that didn't used to be the case. So something that I've learned which is that while there are obvious advantages to being able to sell finance, mainly you don't have to go out and raise money. You don't have to spend your time spending much trying to get somebody to write a check. You can be working on product and you're not subject to certain kinds of negative pressures that come sometimes when you raise money. I understood the advantages but it turns out I now think at least for me personally, there are disadvantages which is that if you have to go out and raise money, it actually creates some accountability conditions. Like you actually have to demonstrate progress and make somebody else happy besides yourself. And when you self-finance it's too easy not to have the discipline even if you mean well to put off tough decisions about going to business. Because you know you could stretch it out. I could put a little bit more money in.

And I think that actually there are liabilities around that. And so with a company like Foxmarks, we are in the process, this is myself and three other founders, literally even though I could continue financing it, making a fundamental decision that says if we can't go out and raise outside money within a certain period of time, maybe we shouldn't be doing this. Maybe that's a real signal that it's not the right thing to do. It's sort of that external review or validation? Yes. Right.