



# Stanford eCorner

## Historical Growth of Venture Capital

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November 16, 2011

Video URL: <http://ecorner.stanford.edu/videos/2841/Historical-Growth-of-Venture-Capital>

KPCB Partner Dana Mead offers a historical perspective of venture capital, from its origin as a boutique industry to its current place as an established asset class. Mead also discusses why university endowments, particularly those at Stanford and Yale, drove the explosive growth of venture capital in California and the rest of the United States.



### Transcript

So if you just step back and I use these dates 1980 and 2006, to really talk about how the venture capital industry has changed dramatically. So if you look at 1980 there were approximately 100 venture capital firms, approximately 1,000 venture capitalists in the country. By 2006, it's basically 10 fold change and just look at the amount of capital that was raised in those two years, in 1980, \$2.1 billion and almost \$30 billion in 2006 and then it's - amount of total venture capital money under management, \$235 billion in 2006. So it went from a very small boutique industry to asset class and how did that happen, it was really driven by university endowments and two in particular, Stanford here with Mike McCaffery and Yale with David Swenson, and what they saw was they said and they wrote books about this, they said it in your portfolio of assets that you manage, which would include equities, real estate funds, private equities et cetera, you need to have part of that allocation in venture capital that wasn't a big allocation, it was 2% to 3% but they said you needed to have venture capital and so those endowments, a pension funds et cetera then came and said look we want to get in venture capital and that was really what drove the growth of the industry. So if you look at the industry from a geography and these are 2008 data, they haven't changed very much at all of the mix. So in this year we are on track to have about \$28 billion in investments. So very similar to this mix and if you look at the mix of the investments, it's very similar to these data right now. So information technology software is still the biggest area. Life science is second with biotech being a little bit larger than devices and then you can see Greentech basically came out of nowhere in the mid 2000 but now stays about \$4 to \$5 billion a year VC investment. Another interesting thing if you have interest in venture capital starting companies California obviously is a great place to be and about half of that venture capital is invested every year in California and we'll talk about why that's the case.

And you can see some of the other markets, I often travel around the country and everyone wants to recreate what we have and research triangle Boston, San Diego, Minnesota area, The Northwest are all interested in gathering and gaining some of these investment dollars.