



## Stanford eCorner

### Cycles of Success in Venture Capital

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Video URL: <http://ecorner.stanford.edu/videos/2848/Cycles-of-Success-in-Venture-Capital>

KPCB Partner Dana Mead describes how much of the large returns seen in the venture capital industry, over the past 40 years, actually occurred during a handful of three year periods during that time.



#### Transcript

And if you look at the history of venture capital, a lot of the success has really been built around the strength of the public markets, the ability to take companies out as an IPO. Now in life sciences, especially in the device area I am, about 90% of the companies get acquired, they don't get public, but in the digital sector obviously the public markets are extremely important. So if you look at the history of the industry, a lot of the success or the large returns were over kind of three-year periods and if you look over the last 40 years, there is probably five or six three-year periods where a great deal of the returns to LPs were created. We haven't had one of those three-year periods in the last 10 years. And so until we have another set of those - another wave of three-year periods which I think we will, and unfortunately, they are very hard to predict. I think we were headed towards that in 2007, 2008 and then obviously the global financial crisis really hurt that. So we, many firms, including us, had a lot of great companies that were timed very well to participate in that and did not because of that. Now, I think you're seeing, your observation is what investors are observing obviously. And that's why it's been harder to raise money. I think that's changing.

The top tier firms historically have not had a hard time raising money because they had a very small supply. So for instance, someone like a Harvard as investor in us and they had a certain amount of money they were able to invest in our funds, that didn't change for 20 years and their endowment went from 3 billion or 4 billion to 25 billion during that same time. So venture capital in the top tier firms became a very scarce asset. The other thing with venture capital is, remember, these funds are 10 years long. So it takes a long time to cycle through funds. So for the industry to change dramatically in size et cetera will take time. We are in a process now where the industry is shrinking again, not super dramatically because it takes time, but it is just shrinking a little bit which I think will ultimately be healthy for the industry. You saw how fast we grew there, any time any industry grows that fast it probably doesn't grow as effectively as it should and so I think we have a chance to do that. So your point's well-taken. If the industry doesn't generate good returns over the next three to five years, it will be harder and harder for firms to raise money.