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To VC or Not to VC

Geoff Yang, *Redpoint Ventures*

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Taking venture capital isn't for everybody, according to Geoff Yang, a founding partner at Redpoint Ventures. While companies who take on venture capital gain resources, unbiased expertise, and access to valuable networks, says Yang, entrepreneurs must understand that in exchange for these resources they will be giving up some ownership and control.

Transcript

So let's talk now a little bit about investment and taking the money and I referred to this earlier about whether or not to VC or not to VC, right. And the first is to say venture capital isn't for everybody, right. There are positives. The positives are you get professional help, that's all we do, that's what we get paid to do and hope - are hopefully and arguably we're okay at it. And we have, we provide the help and the expertise. We have a very large network of contacts, both to hire, for partners, for potential distribution arrangements, for all sorts of things. We come in with an unbiased set of eyes and brains. When you sign us up, there is no second agenda. It's not like you take money from a corporation and the corporation has a second agenda about the investment is only one thing. Our motivations are really clear.

We are trying to make a great return for our limited partners and we think the best way to do that is by building a very large, long-lasting, market share leading company, right. We are extremely transparent. And the final thing is credibility. Lots of times when a company gets venture finance, I will do this all the time where I will call up a potential recruit and I will talk to them about all the other great companies that we finance and why we think this is the next one and we're willing to put our reputation and our dollars behind it and that level of credibility often right or wrong is what's necessary to convince a candidate to kind of leave a - an otherwise interesting job. The negatives are dilution. We are very ownership oriented. Our typical ownership in a first round investment is just a little under 25%, right. We are very ownership hungry. It's by no means the cheapest money that you will find. And you will give up a little bit of control.

What we don't want to do is, we don't want to invest in something that's a hobby or something that's somebody - that nobody ever wants to get liquidity in and so by signing on to - for venture capital you're kind of buying into that roadmap. We have certain outcome expectations. As I said something that is a - at least at our scale something that could be a $10 million or $15 million or $20 million acquisition price may be very - may be terrific as an angel investment, it just doesn't work for an institutional venture capital firm like ours because we're looking to build very significant holding positions. And once you go back, once you start there is really no going back. Once we come on and I will talk about this in - right here on the bottom point. It really becomes a marriage, right. We're signing on with you, you're signing on with us and we're going to be in this journey for a long period of time and so when I talk to potential companies that we invest in and I talk to them about going on the board, I really encourage them to do reference checks and I really encourage them to take their time because as much as we are signing on with them, they're signing on with us and it's going to be probably a five, six-year journey we're going to have together. It will be a lot of fun, and we will go through a lot of ups and downs and it will be thrilling and it's exciting, but it's really hard for us to get divorced at the end of the day.