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Healthy Shrink in Venture Capital

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Kate Mitchell, managing director of Scale Venture Partners, shares the questions she considers when evaluating pitches from entrepreneurs. The key questions focus on opportunity and market size, and whether each idea is actually best suited to be a company, a product, or just a feature.

Transcript

The good news about venture is it's a small amount of capital. It's 0.2% of assets invested in the markets and venture-backed companies generate 21% of GDP and 16 million private sector jobs. I mean it gives you a sense of the kind of impact that comes out of this kind of innovation going forward on the U.S. economy and why so many other parts of the world are looking to emulate what we do here. But we are shrinking. We are down almost 80% the venture industry itself and that's one I'm most familiar with, by the way not the only place to get capital, we'll talk about that in a second but we're down 80% from peak in 2000 when we raised - when Rory and I created our first fund, Scale Venture Partners. So a big - when I show these slides that talk about this, run up in capital up to 2000 and then it drops off. I always say as venture capitalist, we like exits, we just don't like it when it's our own. And that's true but it's the tree that needed to be pruned. It's the diet we need to go on.

It's actually very healthy not just for us but for you, because what happened when there was too much capital is we formed too many companies, you competed on price. It was a mess, you talked to entrepreneurs at that point. They didn't just have 10, 20, 50 competitors there were - I think it was real estate B2B at the peak, there were hundreds of companies formed. How are you going to succeed and stand out. There isn't an opportunity. So I think it's really healthy and the other thing that I also think is healthy is again more innovation around the different types of capital that's available and that was part of what we did with the JOBS Act in particular angels, which really to me is back to the future because a lot of venture firms, if you've seen Something Ventured, if you haven't seen the movie you should and somebody on campus should show that if you haven't, it's just fabulous, but it really gives you the arc and a lot of those firms are about the same size as lot of angels are today. So I see that as back to the future. Angels are experienced and I think really helpful to folks early on for modest amounts of capital and that whole ecosystem is healthy and alive. And also crowd funding we'll talk more about that, that's obviously still in the process of making its way through the SEC, but there are various way to get capital and by the way not every successful company necessarily needs to be venture backed.