

URL: <https://ecorner.stanford.edu/in-brief/vc-case-study-transparency-or-leverage/>

Vcs often meet with multiple companies in a given sector before investing in one of them. In this brief case study, Stanford professor of the practice Tina Seelig and Redpoint Ventures managing director Annie Kadavy explore how to balance transparency with a desire to access proprietary information.



Transcript

- So the second one is, when you invest in merging technology, you often invite in lots of different people, who are in that space to pitch, with the intention in investing in one of them.. So this is sort of an education process for you.. And when you're doing this, do you A, try to get the founders to divulge as much proprietary information as possible, and share it with the company you end up investing in.. So do you say, "Oh, this is a great way for me to get some good intelligence about competitors." Do you tell them, when they come in, that you're meeting with their competitors as well, and let them decide to limit what they tell you? Or do you not say anything? They should understand that VC's meet with lots of companies in the same space and that they should be very careful about what they say.. So do you essentially get them to divulge a lot? Do you tell them you're meeting? Or do you keep your mouth shut? Okay well Annie, while they're figuring out, Oh look, here's the polls popping up.. The poll says, Only 4% say try to get them to divulge as much information.. So we've got a very ethical audience here.. Set 52%, So it's split between the other two 52% say tell them you're being able to competitors and let them decide what to say.. And another half of them say, don't tell them anything they should understand.. So what do you think? - Okay, so my answer to this is also 2, and the reason is fundamentally this is also about trust and relationship building at its core..

It is completely reasonable for a founder to say, I don't feel comfortable answering that question or after we spend more time together, then I'd be happy to share that data.. Or I will tell you this in confidence, but please don't share it outside of this room.. And those are all totally reasonable responses to a question that I might ask about your user data or your product roadmap or, any other number of things that you would view as highly proprietary to your business.. That said, in order for someone to make an investment, you're going to need to share all of that information at some point.. It doesn't have to be in the first five minutes of meeting somebody on a first date, but at some point you do want to share that.. The second thing I would highlight is that you actually really want an investor that is actively meeting your competitors, and because that demonstrates that they have genuine interest in the category that you're building or perhaps the problem that you're trying to solve.. And so on the margin, this is actually, I think a really good sign.. If you have an investor say something like this to you of, Oh yeah, you know, we're interested in your company.. We've also met X, Y or Z.. How do you compare the business or the strategy that you have to those? And the last thing I'll say, as you know, as an investor, I'm actually quite interested in that answer because it not only tells me how they view the market shaking out, but it also tells me what they believe their relative strengths are to the other competitors in the space...