

# When VCs *Add* Value and When They *Don't*

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## Do VCs Add Value to Portfolio Companies?

There are extreme views, both are well qualified.



National Venture Capital  
Association (US):

*“Venture capitalists...doing much more than providing capital to entrepreneurs, venture capitalists have a significant impact on the market performance of their investees.”*

**The answer,  
as usual, is...**



Vinod Khosla, Co-founder Sun,  
Partner Emeriti KPCB, Founder  
Khosla Ventures:

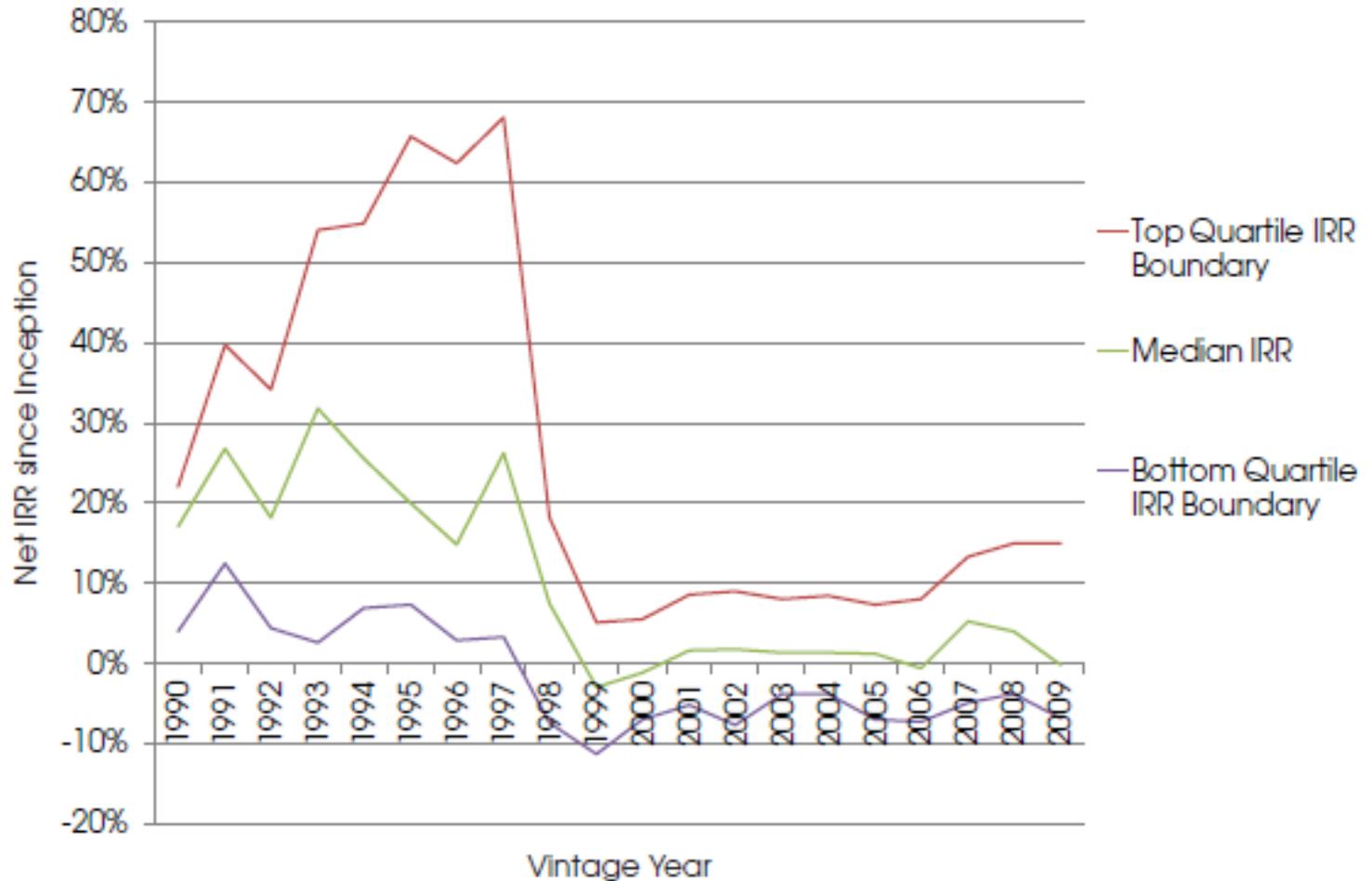
*“Maybe some percentage that’s substantially larger than 95% of VCs add zero value. I would bet that 70-80% add negative value to a startup in their advising.”*



## ...It Depends.

Returns shows that some VCs may be able to produce the best companies, partly because of their value addition.

**Median Net IRRs and Quartile Boundaries by Vintage Year**



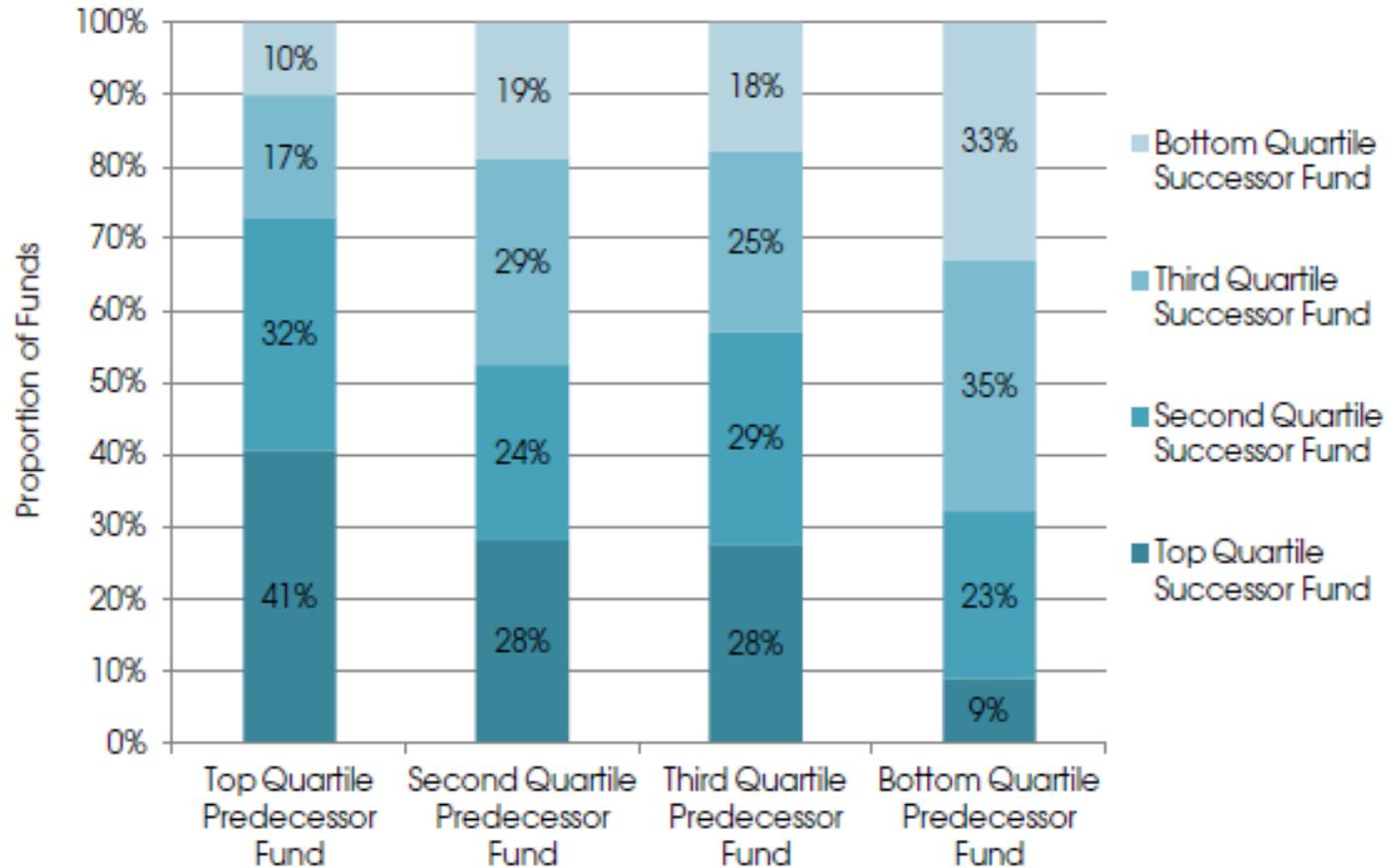
Source: Preqin Performance Analyst Online Service



## What is the Best Indicator Whether VC Can Do It?

Statistically, track record is the best indicator for VC performance. It implies that firms develop their proprietary systems, processes, brand and culture to replicate success.

### Relationship between Predecessor and Successor Fund Quartiles



Source: Preqin Performance Analyst Online Service



## How Do VCs Add Value to Portfolio Companies?

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What proprietary systems? Aren't all VC websites the same?

1. Provide capital
2. Advise & mentor companies on a wide range of issues:
  - Strategic
  - Operational
  - Financing
3. Tap into own network of relationships:
  - Talent network
  - Customer network
  - Financing network
4. Brand & visibility



## How VC Defer Then? Meet Three VCs.

Different ways VCs add value.

### Operator



**Value add:** I have a well structured process to add value. I have accelerated systems to provide standardised services via operational support teams such as recruitment, online performance marketing, product development.

I am best to test the business at the seed stages. If it works, I will be back (with more capital).

**Watch out:** I can get too involved and start micromanaging a business which has a full management team.

### Mentor



**Value add:** I have been through that journey and I will mentor you. But is it your journey, Frodo.

I use my network and unstructured interaction with the founder to add value.

I am best at A – C financing rounds.

**Watch out:** I may be as useful as your company is relevant to provide portfolio returns.

### Financier



**Value add:** I focus on investing right amount at the right state at the right valuation. I work with founders via formal interaction at the board level (if at all) and formal reporting.

I help you to raise more equity and debt capital, do mergers and acquisitions, IPOs.

I am best at late stage/growth financing and very soon, you need to show me the money!

**Watch out:** I may distract you with my obsession with financial engineering.



# 1. Provide Capital

Every dollar that a company does not spend is the dollar that a company does not need to raise.

**PROVIDE ENOUGH CAPITAL TO REACH KEY VALUE MILESTONES WHILE RECOGNISING THAT FOUNDERS OFTEN UNDERESTIMATE AMOUNT OF CAPITAL NEEDED.**



**OVERCAPITALISE THE COMPANY WHICH LEADS TO LACK OF FOCUS AND DRIVE (E.G. BECAUSE OF FUND MINIMUM OWNERSHIP LEVEL STRATEGY)**



VC Value Add:

- 1. Provide capital
- 2. Advise & mentor
- 3. Network of relationships
- 4. Brand & visibility



## 2. Advise & Mentor Companies

VC's most basic/fundamental advice/service is often most productive.

VC Value Add:

1. Provide capital
2. Advise & mentor
3. Network of relationships
4. Brand & visibility

1. KEEP NAYSAYERS AWAY  
PRESERVE FOUNDER VISION, FOUNDER  
CULTURE & FOUNDER FOCUS



2. VC AS A GLORIFIED HEADHUNTER  
HELP RECRUIT



3. WHEN THINGS GO WRONG, THE BEST IS TO  
STRENGTHEN THE FOUNDING TEAM WITH  
EXECUTION EXPERIENCE



4. ASK QUESTIONS AND TELL STORIES FROM  
PERSONAL EXPERIENCE





## 2. Advise & Mentor Companies

For a VC sometimes it is hard to draw a line.

**1. SOME VCs (OFTEN EX-CEOs WHO BECOME VCS) TRY TO DO CEO'S JOB FOR THEM BUT TAKING NONE OF THE BLAME**



**2. HIRE MANAGEMENT TEAM, THE MAIN FUNCTION OF THE CEO IS TO HIRE, VC IS TO RECRUIT**



**3. DISTRACT MNGT WITH NO VALUE CREATING EFFORTS – E.G. M&A FOR AN EARLY STAGE BUSINESS**



**4. BOARD IS A COLLECTION OF 2-5 VCS WITH EACH OWN INFLUENCE OF AGENDAS AND EGOS (E.G. FUND RESERVES, FUND LIVES)**



VC Value Add:

1. Provide capital

2. Advise & mentor

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4. Brand & visibility



## 2. Network of Relationships

To benefit the network, you need to feed in it not be dead meat.

VC Value Add:

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## 4. Brand & Visibility

Many entrepreneurs are enchanted by big VC brands. But brands by themselves do not generate value.

VC Value Add:

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4. Brand & visibility

**BRAND ONLY MATTERS WHEN IT WORKS FOR THE COMPANY INTEREST.**





## How Can a Founder Get Comfortable that a VC Would Add Value?

VC financing is a mutual selection and it is more subtle than appear.

