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The Flip in Technology Startup Funding

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Kate Mitchell, managing director of Scale Venture Partners, discusses how the industry’s approach to financing technology startups has dramatically shifted in recent years. She also explains why her firm targets startups with the potential to be a leader in their space.

Transcript

I think the thing that we've learned a lot that applies to you all thinking about building companies now is how different financing companies startups is than it was 20 years ago, used to be you spent a lot of money to build the technology, lot of IP and then your goal is to get cash flow breakeven.. That was the passion over time.. So a lot of money went in initially and then you get to the point where you get more revenue and ultimately you pass over into cash flow profitability.. We kind of have turned that on our heads because it is so much cheaper particularly in the tech space, particularly in software to build the technology, that can be done with really sometimes very low capital.. The initial testing of sales and marketing where we come in also doesn't take a lot of capital, you do a lot online, a lot of is done self-serve, freemium, converting people from premium et cetera.. It doesn't take a lot of capital.. What really takes a lot of capital is that later stage scaling.. So what we do is just at the point where we think we land the plane, we know that we can sell this thing efficiently.. It's capital efficient.. It can get to cash flow positive that's when we starting bringing on the cash..

It's actually from a risk point of view a relatively low risk stage.. We're burning sales and marketing dollars, which you can turn on and off and we calibrate sales efficiency within our companies and it goes deeper than gap and I'm happy to talk a little bit more about that later.. But we calibrate this, it's like watching a dashboard.. When we think it's doing well, we really start burning because we really want to make this company number one, two or three in that sector because that's again how you build the big company.. They are rare.. We've been lucky to be in Omniture, it was sold a couple of years ago to Adobe for $1.8 billion.. A company ExactTarget went public on the New York Stock Exchange the day the JOBS Act was passed in Congress and that a $1.5 billion outcome.. A lot of you may know a companies like Box in the Valley now are really high growth company.. They all followed a very similar path, proving it out early on modest amounts of capital and then really working to become dominant in their sector burning a lot more capital.. So it almost takes that whole equation, ultimately obviously once you go public you need to converge on cash flow breakeven, but you do that a lot later but again it's a very different risk profile and even as an entrepreneur again you're raising money later when you're doing it in higher values and you're doing it - again there is innovation even what we do..

Trevor Loy I think is teaching right now a class on this topic.. But again you're doing it when it's a very different risk profile.. So something we have gotten a lot more conviction even over the last couple of funds...