Stanford eCorner

Venture Capitalists Mitigate Risks

16-11-2011

URL: https://stvp.stanford.edu/clips/venture-capitalists-mitigate-risks

Venture capitalists work diligently to identify, understand and mitigate risks in the ventures they invest in, says Dana Mead, partner at KPCB. Mead explains the importance of trying to solve for risks as early as possible and his firm's willingness to fail in pursuit of answering grand challenges in the world.

Transcript

So as I mentioned earlier, they - we're willing to accept risk.. There is a certain level of risk that we're willing to accept and really what our job is, as Tina mentioned, is to really try to mitigate the risk the best we possibly we can.. And many people describe that the white-hot risk whether that's a clinical risk or a technical risk, what we try to do, as I mentioned earlier, is put those risks upfront and solve for those risks before we get five, six, seven years and $100 million of capital down the road.. So yes, and so that's what we're continually doing and we try to look at it.. Unfortunately, sometimes it's hard because over a six, eight-year period, things can change dramatically in the market, another technology can come out of somewhere, and that's really why there is a high mortality rate in early stage venture capital.. Not all the companies, I showed you a lot of logos of very successful companies.. We probably have another 100, 150 companies that were not successful, okay.. Now, they could have been great ideas and for different reasons, they didn't happen.. So what we try to do is we try to look in those big buckets of risk and within each of those, we try to do that and we do a lot of pattern matching.. So we over the - looking at a lot of companies over many years and working with many companies, we have some patterns of things that worked and patterns of things that didn't work and we try to pattern match those the best we can to minimize risks but all of these ventures are risky..

That's why they call them ventures, right? Some will fail.. We probably aren't doing our job right if some of them don't fail because if you shoot really high and you do what we call in our firm, you do the black swans or the grand challenges, some of those are going to fail, right? In life sciences, the failure rate is probably not as high in IT.. But in IT, the home runs are bigger home runs than they are in life sciences.. So we have to have a lower failure rate.. You think about venture capital, it's really about slugging percentage, right.. How many home runs you hit versus batting average, how many singles you hit.. Because a home run or two can make up for many companies that don't do well and so we have to balance that...