Why Venture Capital Firms?

The reputation of venture capital firms differs a lot, from "the early success of VC firms depends almost entirely on having been '*in the right place at the right time*' " (Nanda, Samila, & Sorenson, 2019) to "consistent returns owe as much to a firm's reputation and early luck as the smarts of its employees" (Sorenson, 2019).

Why is working, investing & funding with a venture capital firm (VC) then a common trend for employees, investors and start-ups. We tried to answer this question from the BackBone Venture (BBV) point of view.

Why working at a venture capital firm?

As an employee or partner of a VC you will not experience this constant security feeling of a big firm such as the globally active banks or as within the Big Four, where your daily tasks are fixed even before you enter the office, all meetings are appearing on a regular basis and the exact processing is always clear. So, if you are looking for reliable and predictable assignments a VC might not be the best employer for you. The daily tasks can be very fluctuating, and approaches can change within minutes. Mainly this volatility of the workload appears along with the external involved parties we work together, such as the start-ups, where we always gather information and by the income of news we have to adjust valuations and processes or the investors, who demand details and change investment amounts. This challenge of adaption, while leading the processes to a successful deal, make the work demanding and interesting at the same time. We at BBV screen around 2000 start-ups, analyze thoroughly around 50 and finance 5 to 8 per year. Therefore, the upsides of working within a VC are for sure the daily fresh wind of ideas, entering own opinions in the success driven decision process and the tickle about future perspectives.

Why investing with a venture capital firm?

Probably an open secret is that 90% of start-ups fail and as venture capitalist invest in them the question really is why would you, as an investor do it? Well this can be said quite easy as well, because align to the high risk are the high possible returns, and if you want to minimize this risk but still want to invest into future entrepreneurs, VCs might be your best choice. If you are seeking for a stable and risk-free investment, but with straightforward returns the alternative investment in start-ups is not your deal. For all the other wealthy individuals, professionals and institutionalists, to invest along a venture capital firm will let you profit from the grazing of a fragmented start-up landscape. As BackBone Ventures we specialize on certain industries and countries where our expertise lies, and diversify within this clusters, so we can ensure a prepared and qualified deal flow. Despite the pre-deal and deal period, we also commit to a strong binding on both ends afterwards. So, investors in this area should not only want to invest money but rather also transmit expertise towards the entrepreneurs, which is possible and highly appreciated. As an investor the key takeaways of investing with a VC are; save time searching and digging through mountains of ideas, rely on expert knowledge and diversify your own portfolio along with a 'proficient partner in crime'.

Why be financed by a venture capital firm?

The amount of capital raised through VCs has doubled in the last 5 year in Switzerland and this is probably quite reasonable. From our perspective not every venture capital firm is the right fit for you, as an entrepreneur. Despite the main scope of the investment portfolio (industry, location, funding stage), there are other factors that must match. We break them down to involvement, personal relation and demand, so if you seek for funding, you really need to be clear about what funding partner you want.

- Involvement: how much external knowledge do you want and need to succeed. A VC with a strong expert network might be important for some and for others not, as they already have expertise in place.
- Personal relation: do you want to get along with your investors or do you just want the money. Each investment firm is different, and some will give the money after an in-depth analysis. Other want a relation to the management and support also strategic- & decision wise.
- Demand: where are your current financing, network or other pains to pursue your plan. Every issue and possible lack should be clear and based on that you should choose your investors.

Here the same strategy applies for start-ups as for investors: DIVERSIFY! Choose your partners properly and top up through relating with different kind of backers, one of these might be a VC. So, we don't think that the question should be 'why be financed by a venture capital firm ', but rather why not? There are so many different VCs out there and each of it has an own strategy and structure, then the only issue is to find the right one for you which is worth the cost of dilution.

Each potty has a lid.