



## How the democratization of funding is changing the venture capital landscape

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Entrepreneurs are benefiting from a wealth of funding options. (BigStock)

Over the last decade the venture capital and funding market has changed dramatically. Whereas in the past venture capitalists were the go-to-guys in the playground, there are new players giving entrepreneurs with many choices. One used to focus their efforts in the famed VC offices on Sand Hill Road, but today it is happening in every corner and coffee shop around the world.

Here are nine of the new entrants into the funding game:

1. Corporations making equity investments in start-ups. These are generally strategic investments and can have potentially huge upsides. Often a precursor for an intended acquisition and could mean a large investment, but the corporation is not interested in leading the round. They are generally passive investors and not on boards.
2. Corporate venture funds. With billions of dollars in reserves, companies are very well equipped to make large venture investments. Most large companies have very large VC operations, i.e. Intel Venture Capital, which has billions of dollars invested in start-ups and larger companies, and runs as a lucrative venture firm. Other companies with major venture operations include Google, Samsung, and many others. This assures a seat at the table for the large corporations and close involvement in innovation.
3. Angels and angel consortiums. There are tens of thousands of individuals with high net worth around the globe, investing in start-

ups. You can do so either individually or in a groups that collectively evaluate the opportunity (due diligence) and are able to invest extremely rapidly. The pot has gotten much richer and in the right consortiums you could see over \$1 million raised in a week, or much larger sums. Angels are very strong in initial rounds, but quickly fizzle out in subsequent larger rounds (as the risk appetite and investment tolerance is limited), and that is when the VCs step in.

4. Super angels. These are individuals with extreme high net worths and an appetite for investment. These individuals can fund an entire round by themselves and this is becoming quite prevalent. Such investors can bet in the tens to hundreds of millions with very little politics and in record speed. This definitely is in the sweet spot of VCs as that is where they would be playing and threatens the VCs chance to play.

5. Equity investment funds pouring money into deals. These are equity companies who invest in companies and could be affiliated with large financial institutions or stand-alone firms.

6. Boutique VC firms. They are generally founded by a few highly successful entrepreneurs who have had some phenomenal exits. Unlike the traditional VCs these boutique VC firms are hot and sexy and the 'in' group! They are super connected with the current pulse and are cool and highly sought after.

7. Accelerators and incubators: These started out as kind hosts to help start-ups become successful. In return they get a percentage of equity of this start-up. Over time, after a number of successful exits, the equity adds up into millions and hundreds of millions of dollars, and voila in comes this new player into the funding game. Often very dynamic entities, with great and current connections, who greatly drive and impact what the "next big thing" is. This is one of the places that VCs and the above entities go shopping to see what is hot and what to invest in. Hence, they have an interesting driver role in addition to being where very new start-up entrepreneurs want to be associated with.

8. Crowdfunding platforms: Thanks to Kickstarter and Indiegogo now everyone can invest in an idea or a company from around the globe in a matter of hours. You can put in from a few dollars to thousands and beyond. Equity is not shared with the investors, so the founders get to keep the money raised, to make greater headway faster. It can be at the pre-prototype stage or purely conceptual. It is about what the market will respond to so creating



Funding now pours in from around the globe.  
(Alexander Gerst/NASA/Reuters)

passion is key. Today via these platforms, a start-up or an idea, can raise millions from the general public while at the same time they are mass testing their idea on the spot.

9. Global money: The VC investment field used to be dominated by the United States, specifically Silicon Valley. Somewhat like Hollywood, the folks that believe they are magnificent and exceptional. Rightly so at times, as they made major bets which paid off, allowing us to have today's amazing tech industry. However, large bets are being made in all continents and in places such as China, Russia, India, South America and every part of the world and the bets are massive. This game is no longer only dominated by Silicon Valley. In fact, the largest tech IPO we are expecting to see will be from China, Alibaba this August. This category is directly a threat to the current VC market.

As an angel investor in the United States and other countries, and an entrepreneur who has been on the fund-seeking side, I love today's world. If you have talent and passion, you are no longer beholden to a few VC firms. The world is your oyster. The more passion you possess (the more viral you are), the more people (from all the groups above) you can pitch to, you can get your product huge upfront visibility (market awareness) and have many choices about how much and from whom you want your funding from. I call this the democratization of funding.

I believe this is disrupting the VC landscape dramatically, but in the long run in a very positive way. The democratization of funding is and will continue to create a healthy and vibrant ecosystem with many, instead of a few entitled players.

The most important element for an entrepreneur which no VC can solve upfront is 'how will the market accept my product?' and to do so quickly. Crowdfunding platforms have opened up the theater of possibilities to all from around the globe. Within days you can know if your idea has appeal. A healthy ecosystem is vital for the future success of innovation and enabling entrepreneurs around the world to succeed. Market validation upfront (at the seed investment

stage) will directly help the entrepreneur correctly value their company, and the visibility will allow more players to participate. This disruption will evolve us from the closed door (only a few see what is going on) secret term sheet discussions, to a transparent and vibrant world discussing innovation and great ideas openly.

Of course, soon after the initial seed phase, start-ups need serious funding and that is when the VCs will get to play and compete with the large players. This is a growing-up period for VCs to realize that they are not the only players, rather one of many. Among VCs there are those who bring massive experience and expertise to the start-up. These VCs will thrive. However, those VCs who simply got to invest because they were the first to the table, or because the start-up was out of funds, will struggle.

This vibrant and healthy ecosystem of many players and the democratization of funding is core to this inevitable and fantastic transformation ahead. Most importantly, this democratization will bring much larger segments of the globe into the vital discussion of innovation. More 'what-if' discussions taking place, more possibilities explored and as a whole far better for the many instead of "just the selected few."

Every person, from anywhere in the world, investing a dollar or looking at product ideas on the open crowdsourcing platform is a micro-funder in this new democratized funding ecosystem. Imagine the possibilities when many play in this game of innovation and the impact of this awareness on advancing our civilization.

In my next piece I will be discussing this notion of democratization of funding with key players in the various sectors discussed above, for us to get a healthy and dynamic exchange started. In this democratized world and dialog I hope you will be a participant. So looking forward to it!

<http://www.washingtonpost.com/blogs/innovations/wp/2014/07/18/how-the-democratization-of-funding-is-changing-the-venture-capital-landscape/>