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Redeye VC: VC - Back to the Future?

3-3 minutes

I just came across a great report by Industry Little Hawk entitled the Venture Capital Rebound (pdf). In the report, the authors reach a similar conclusion to Paul Kedrosky (read Paul's great research for the Kauffman Foundation here) -- that too much capital has gone into venture capital. Paul has argued that we need to shrink the amount of venture funding by 50% -- a statistic that almost every VC agrees with. (Ironically, 100% of VCs would argue that their fund should be in the half that survives).

What is refreshing about the Industry Little Hawk white paper, however, is that they don't just advocate reducing the capital allocated to venture. Instead, they advocate allocating capital to smaller funds. And they articulate a number of reasons for their position (smaller funds are better positioned for the current exit landscape, better alignment with entrepreneurs (per my last post) and with limited partners, etc).

The "money stat" from the paper is that in the 1980's there were just 12 venture funds above $250M. Today there are over 408 - and 30 over $1B. And most of this fund-size growth took place in the last 10 years. The chart is below:

Time Period	Average Fund Size	Total # Funds	Total # Funds $250M+	Total # Funds $500M+	Total # Funds $1 billion+
1980s	$ 53.7	653	12	6	3
1990s	$ 94.7	1,344	147	47	15
2000s*	$ 179.7	1,622	408	164	30
*Through 2008					

Source: Thomson Reuters (for funds greater than $10 million)

What is interesting to me is that the proposed solution isn't a radical change. It isn't a novel idea for re-structuring the industry. Rather, it's a realization that venture should go back to it's roots. So I spent some time researching the origins of many leading venture firms. And I was surprised to see that they all started with small funds. While venture is far from perfect, and can always improve, maybe we should spend less of our time working on "**new** solutions" to the "venture is broken problem" and spend more time working on **old** ones.

The data speaks for itself. My favorite factoid: *the initial funds of Accel, Kleiner Perkins, CRV, Mayfield, Venrock, Greylock, NEA, TA & Sequoia **COMBINED** were under $125M! And even on an inflation-adjusted basis the average fund size is $55M.*

Firm	Fund	Year	Amount (in $M)	Inflation Adjusted Amount
Accel	I	1984	$ 64.0	$ 131
Benchmark	I	1995	$ 100.0	$ 140
CRV	I	1970	$ 4.5	$ 25
Draper Richards	I	1993	$ 20.0	$ 29
Greylock	I	1965	$ 10.0	$ 68
Hummer Windblad	I	1990	$ 35.0	$ 60
Kleiner Perkins	I	1972	$ 8.0	$ 41
Mayfield	I	1969	$ 3.5	$ 20
NEA	I	1978	$ 16.0	$ 52
Sequoia	I	1972	$ 5.0	$ 25
Sevin Rosen	I	1981	$ 25.0	$ 56
TA	I	1972	$ 6.0	$ 31
Venrock	I	1969	$ 7.5	$ 44
Average			$ 23.4	$ 55.5

Note: I pulled data from the web and from Udayan Gupta's book Done Deals -- if you think I have incorrect data, or you have missing data, just leave it in the comments and I'll update the post.

UPDATE: Thanks to Kent Goldman for running the numbers through an inflation adjustment tool.