

# VC Product discovery research

**UX-764**

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Section one

# Executive summary



## Executive summary

### **Key insight #1 - Cap tables are just a small piece of the puzzle**

Cap tables are generally used by VCs when considering funding rounds, primarily to determine share dilution & company ownership. In our discussions with VCs, they indicated the **shelf life a cap-table maybe 1-2 years**, as generally they have a "right to know" clause in their contracts and are proactively informed of events like new funding rounds.

### **Key insight #2 - VCs need to know "What is our investment worth today?"**

After an investment in a company is made, VC's rely on quarterly financial data to determine if the anticipated growth on their investment is on track towards meeting the value targeted at the time of investment.

The key piece being tracked here is the **difference in value between the entry point & today**

### **Key insight #3 - Quarterly reporting of fund performance to investors is a key event**

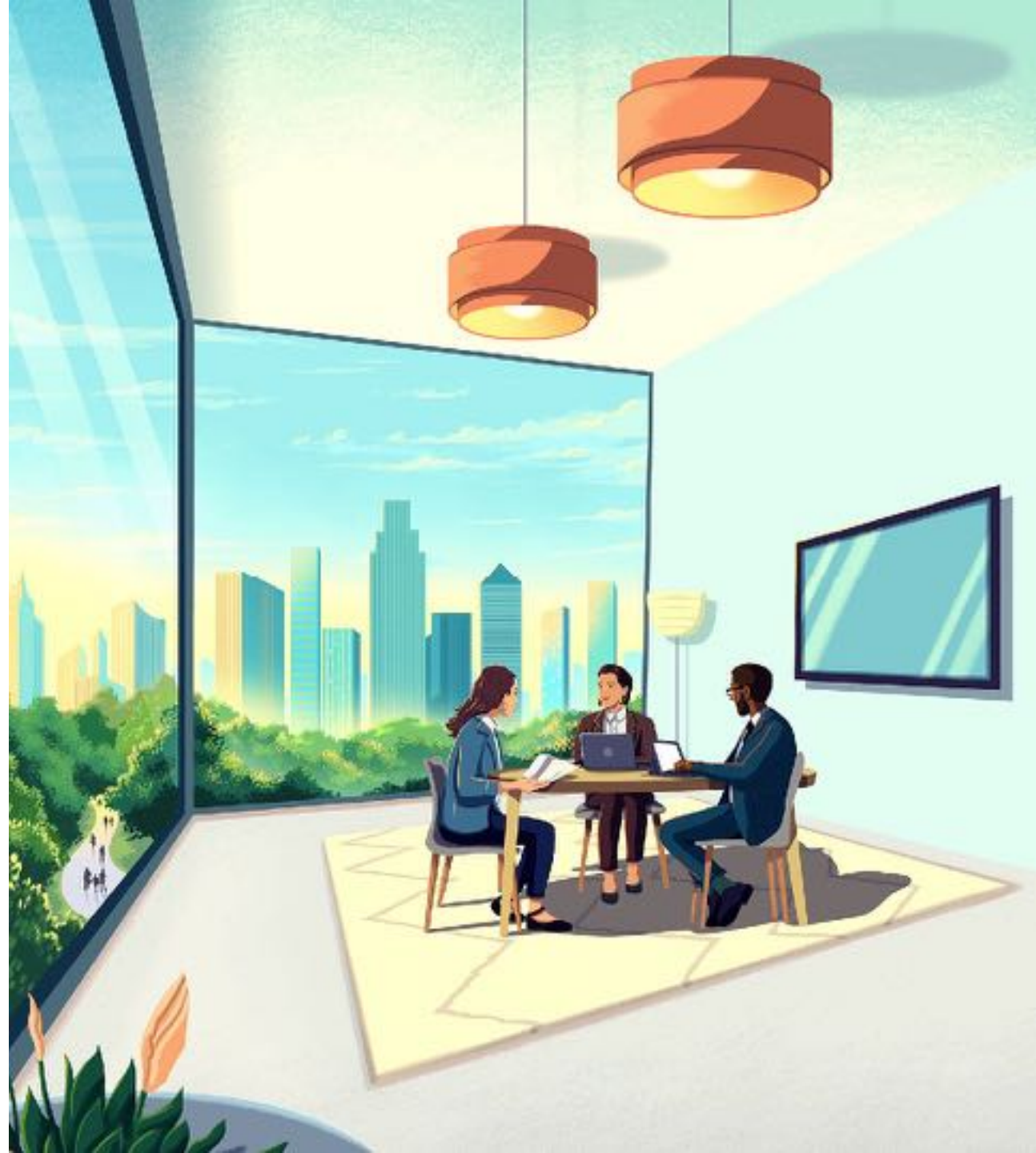
For the most part between investment rounds, VC's are relying on quarterly financial statements from the portfolio companies, which they then compile into "fund reports" back to the limited partners (the investors). The numbers often look like **"Your investment of \$X for Y% of a portfolio company is now worth \$XYZ"**

Additional the general partners are including qualitative information for context behind the numbers, such as who the fund 'winners' are, and what key events have occurred or will be occurring soon.



Section two

# Background overview



## Background & objectives

**The private markets group is looking to develop a new product targeted at Venture Capital (VC) firms, specifically geared towards leveraging Shareworks cap table data to aid them in making their funding decisions.**

**This study aims to learn more about the VC's workflow, decision-making process, and how they utilize data both from cap tables and other sources.**

### **Research Goals**

- Learn about the VC workflow & day-to-day use of data
- Determine what decisions are driven by what data
- Determine which data is used at what points in time

## Background & objectives

### Questions to uncover

- VC decision making process
  - Who are the decision makers?
  - What is their context/motivations/needs/pain points
  - What decisions are they making?
  - What does their decision process look like?
  - What are the drivers/events around decisions?
  - What data is most important in making those decisions?
  - Is different data needed for different decisions?
- How data is used
  - What are the key data points and why are they important?
  - How often do they make use of this data?
  - How is this data obtained?
  - What does this job well?
  - Where do they store it? How do they store it?
  - Does it change depending on the stage of the portfolio company?

## Background & objectives

### Questions to uncover

- How is cap table data used
  - Which cap table data points are most important?
  - What important data lives outside the cap table?
  - How is cap table data used in relationship to other data?
- What are the key events throughout the year?
  - Internal events vs external events
  - Reporting
  - Audits (who holds what)
  - Review sessions (What is our positions)
  - Managing share certificates
  - Where do we produce these? Who owns this task?
  - How does a VC get invited to participate in the cap table?



## Background & objectives

### Hypotheses

**#1** *VC firms are regularly making use of cap tables, as they are “living documents” subject to monthly or quarterly changes, and that the cap table would serve as the “source of truth” towards any investment decisions a VC would be making.*

**#2** *VC’s may be looking for a robust version controlled storage solution, in order to maintain the most current data, with an interface to allow portfolio companies to upload data ad hoc*

## Background & objectives

### Hypotheses

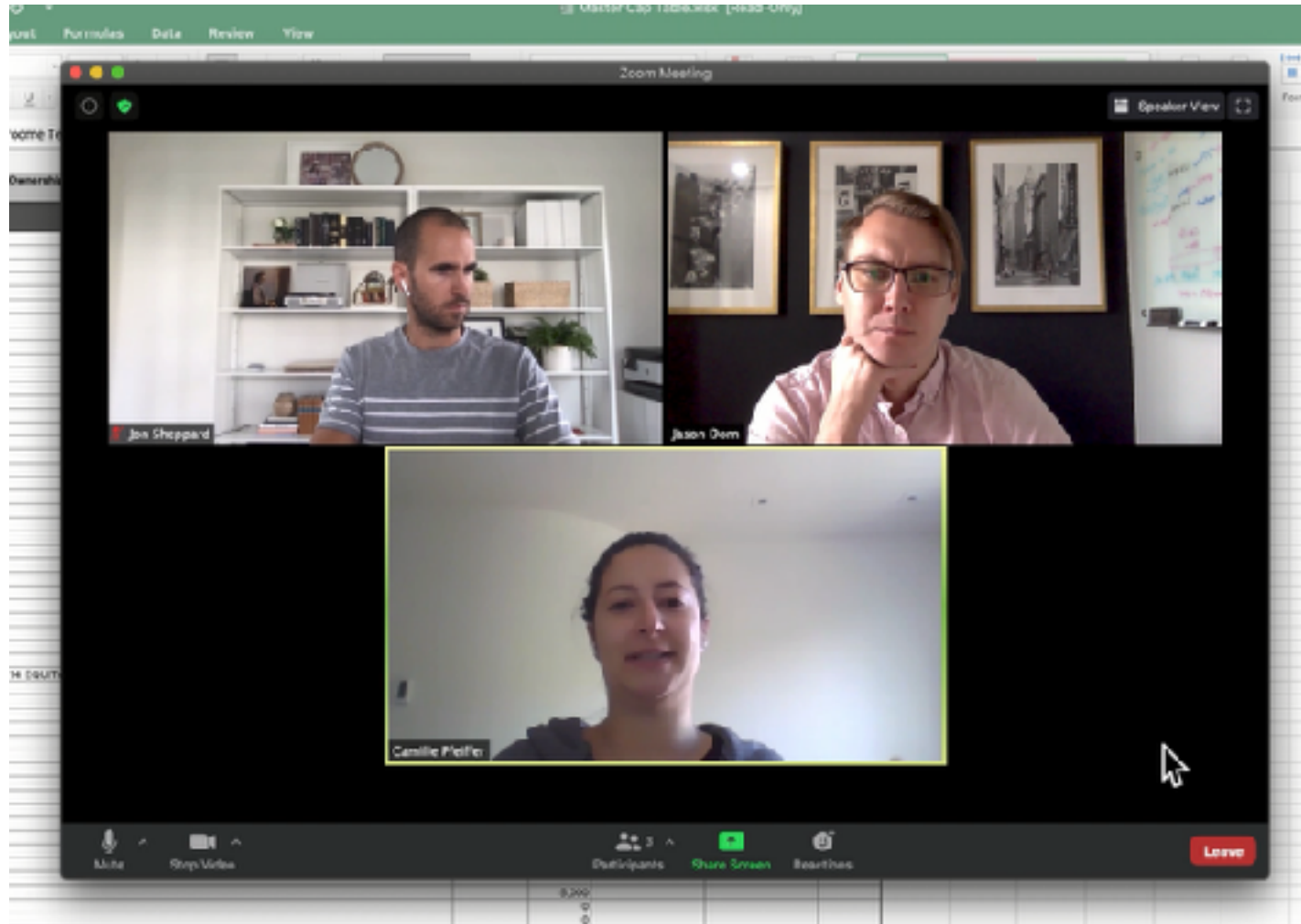
**#1** *VC firms are regularly making use of cap tables, as they are “living documents” subject to monthly or quarterly changes, and that the cap table would serve as the “source of truth” towards any investment decisions a VC would be making.*

**False:** *Cap tables are most subject to change as a result of fund rounds, because of the “right to information” clause included in their offer term sheets, VCs are seldom surprised by funding rounds or changes to the cap table. Outside of funding decisions the cap tables are not a day-to-day source of information in the VCs workflow.*

**#2** *VC’s may be looking for a robust version controlled storage solution, in order to maintain the most current data, with an interface to allow portfolio companies to upload data ad hoc*

**Partially true:** *VC’s did indicate that gathering timely data is a pain point, the driving need behind the financials from a portfolio company is in service of the quarterly reports. Because the financials are so time-based the dates of the documents themselves are much more important than the specific document version.*

# Research Methodology



## 1:1 User interviews

- **5 VC firm employees across Canada/US/Singapore**
  - **Study participants were asked about their day-to-day job responsibilities**
  - **Asked to talk through a common workflow/activity**
  - **Shown a sample Shareworks Cap Table for input on most commonly referenced data points**

Section three

# Who are the users?



## Personas intro

### Two primary segments of users emerged from our user interviews

- **The VC General Partner:** The people making the final funding decisions, as well as monitoring past investments against the target exit value. *“Should we invest in this company? How are our investment tracking?”*
- **Operations Manager:** Responsible for keeping the office records up to date, and ensuring data has been correctly integrated with the record-keeping systems. *“Which companies are we waiting on financial data from? Which quarterly reports completed and accurate? Which ones need further work?”*



## VC General Partner Leslie

*“I’ve done my due diligence before making an investment, I now need to back up those decisions with an eye on ensuring the companies can succeed, as well as keeping the investors informed of the context behind the performance reports we send each quarter.”*

### Goals

- Ensure portfolio company’s growth is on track with their business plan
  - Coaching portfolio companies
- Keep on eye on the fund “winners”
- Keep LP’s regularly informed on fund performance & trends

### Behaviours

- Quarterly/Yearly: Compiling key metric and performance indicators
- Checking with portfolio companies, casual chats for qualitative information
- Advising to struggling portfolio companies based on past experience & knowledge from other companies

### Needs

- To track progress between “entry date” and today, against the target exit value
- Up to date:
  - Financials from portfolio companies
  - Ownership & share dilution
  - Company demographic information

### Pain points

- It's difficult getting companies to respond to requests for data, as they are focused on their own day-to-day operations
- I'm using several different applications to gather and store the information now and it is a time consuming manual process
- My current process does not scale



## Regular User Donna

*“I’m responsible for producing the quarterly reports that the general partners use to communicate fund performance to the investors. I spend a lot of time collecting financials from the portfolio companies, and manually formatting the data into the final output, as well as filing the numbers into our internal systems.”*

### Goals

- To deliver reports to the investment partners in the format requested
- Entering and maintaining data on a quarterly basis

### Behaviours

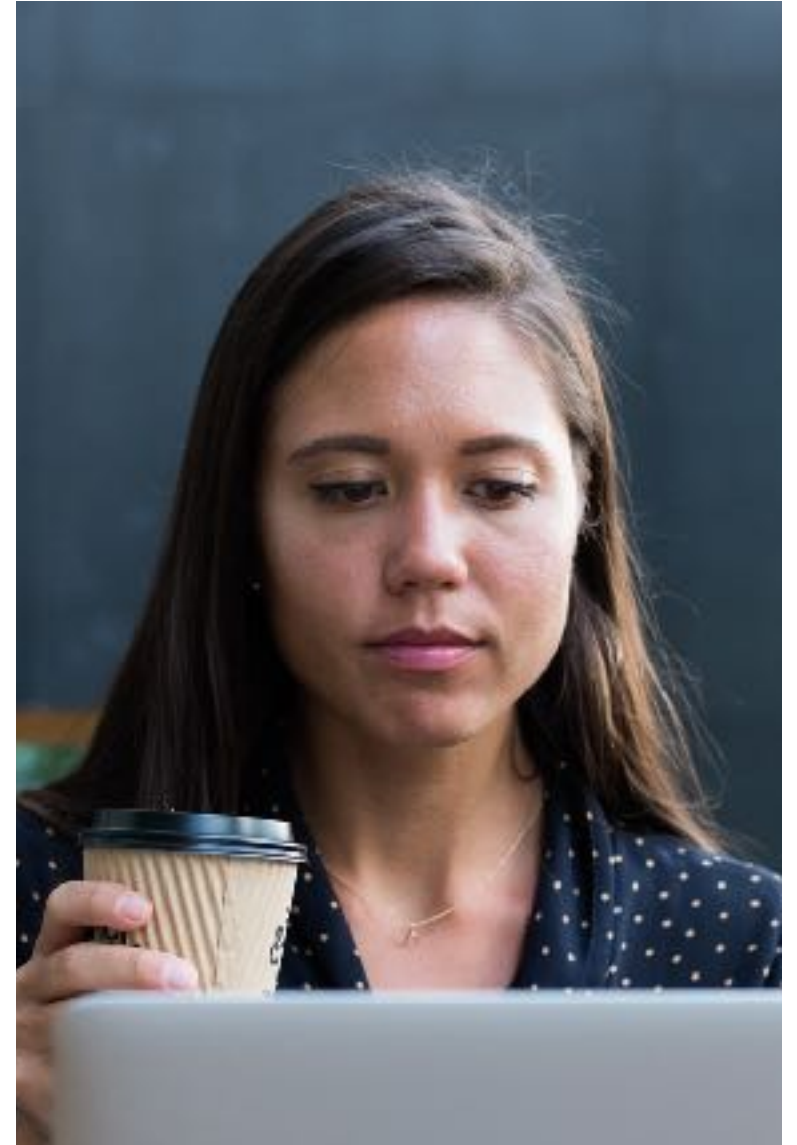
- Take raw data from portfolio companies and entering into the funds record keeping format
- Reformatting reports into specific formats as requested by certain LPs

### Needs

- Regular financial updates from the portfolio companies
- Track which companies need to deliver data

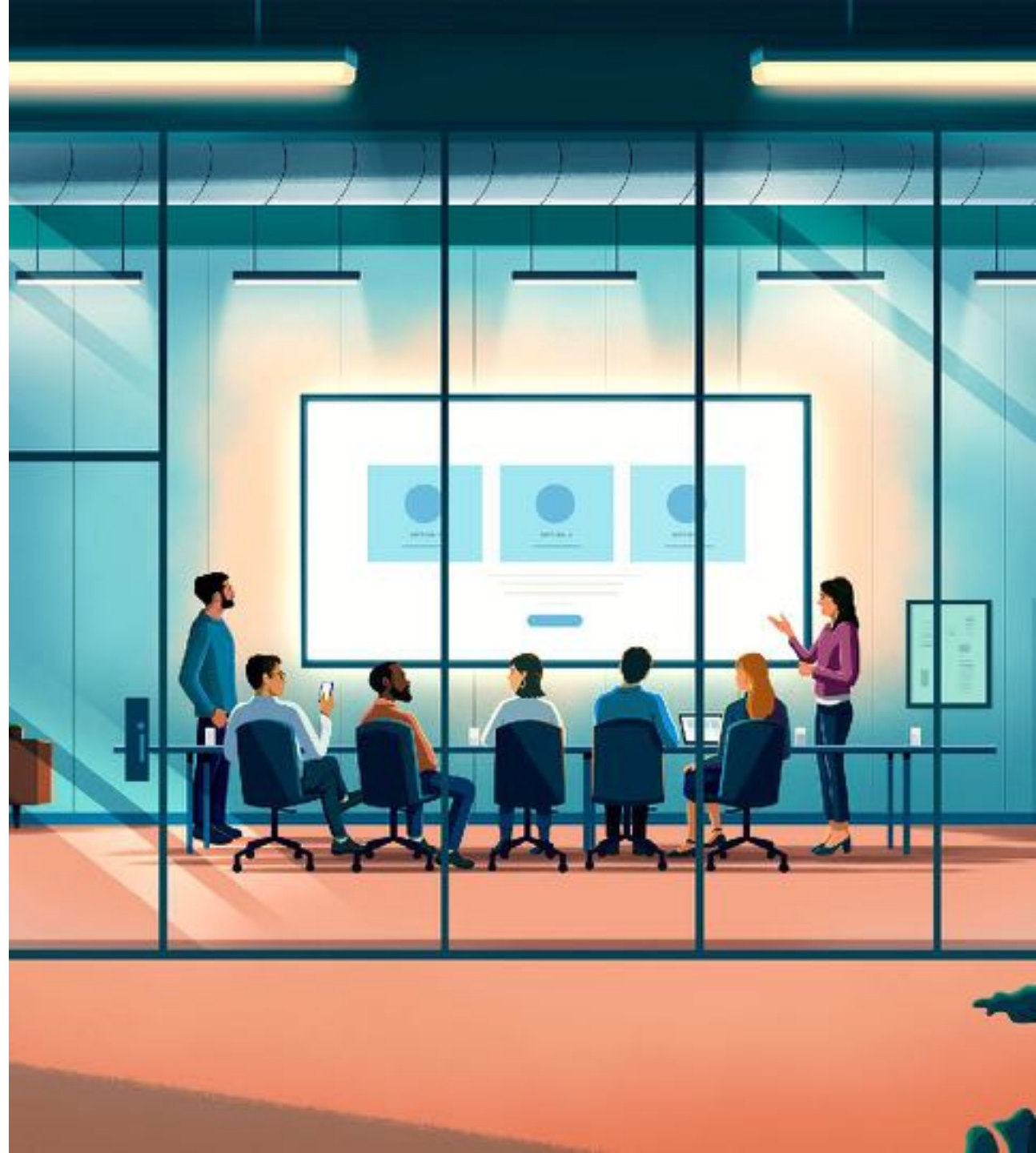
### Pain points

- Producing bespoke reports for certain LPs with very specific data format requirements
- Reconciling multiple data sources & formats
- **Otherwise shared with VC GP**
  - It's difficult getting companies to respond to requests for data, as they are focused on their own day-to-day operations
  - I'm using several different applications to gather and store the information now and it is a time consuming manual process
  - My current process does not scale



Section four

# What are their journeys?



## Journey overview

**When it comes to the day-to-day usage of data, the compiling & sharing of quarterly reports came up in almost every interview we conducted. With the majority of challenges being related directly to the quarterly reporting cycle, and how those numbers tracked against the investment target.**

### **Common journeys & task discussed**

- Considering funding rounds and opportunities
- Quarterly Reporting
- Assessing performance/tracking against the business plan



General Partner










Operations Manager

# Considering funding opportunities

	1. Opportunity comes in	2. Introduction chat	3. Deep dive	4. Vote for sponsorship	5. Due diligence	6. Funding
Doing	<ul style="list-style-type: none"> <li>- Researching industries I'm interested and finding startups that area associated</li> <li>- Taking cold calls from networking sites</li> <li>- Warm leads come in from Angel investors,</li> </ul>	<ul style="list-style-type: none"> <li>- Meeting with the potential companies                             <ul style="list-style-type: none"> <li>- zoom calls</li> <li>- in person meetings/site visits</li> </ul> </li> <li>- Listening the company's pitch</li> <li>- Asking questions about company values &amp; demographics</li> </ul>	<p>Assessing Risk:</p> <ol style="list-style-type: none"> <li>1. Market risk: adoptions will this be readily adopted</li> <li>2. Technology risk: how disruptive, complex</li> <li>3. How defensible is it.</li> </ol>	<ul style="list-style-type: none"> <li>- If everything looks good, an investment committee member takes a meeting with the company.</li> <li>- If they agree to sponsor it, the investment committee meets and votes</li> <li>- Create a presentation for the board</li> </ul>	<ul style="list-style-type: none"> <li>- Review financial information from company: Captables, financia</li> <li>- Look for how much equity in the company is still available and how much the founders still own</li> <li>- Review the company valuations and what effect funding will have</li> </ul>	<ul style="list-style-type: none"> <li>- Benchmark against threshold for seed round</li> <li>- <i>"Is this where we'd expect a series C company to be?"</i></li> <li>- Determine amount to fund, and draft up offer sheet based on valuation</li> </ul>
Thinking	"I want to make the right investments in companies that matter. It's important to me that the company matches our firms values and has a marketable product."	"I learn a lot about the company's dynamics by meeting, whether it's in person or over the internet. I'm looking to invest in a company that has a solid business plan/engaging problem to solve. I also want to hear that they are excited and passionate about the product."	"I need to see what level of risk the company is. Even if they have a great idea, if it's too much of a disruptor, the adoption could be low. I'm looking for opportunities where the the payout will outweigh the risk."	"I really believe in what this company has to offer. I want to do my best to get them the funding they need. I feel like will is investment will benefit the firm and and the company."	"The financial information is only a piece of the puzzle. I have to weigh all of the risks against the financial information in order to make a sound decision. I don't take making these decisions lightly. Sometimes, the due diligence can take months, but I want to make sure I've done my homework."	"What is a fair valuation of this company? How much of the company do we want to obtain? What should our offer look like?"
Feeling	Stressed, Anxious, Overwhelmed	Focused	Analytical, Excited, Concerned, Confident AF	Confident	Chatty, Optimistic	Programatic, optimistic



# Quarterly reporting journey overview

	1. Gathering financials	2. Formatting and compiling reports	3. Analyzing/editorializing	4. Distributing reports	5. Follow up
	 General Partner  Operations Manager	 Operations Manager	 General Partner	 General Partner  Operations Manager	 General Partner
Doing	<ul style="list-style-type: none"> <li>- Contacting portfolio companies for financials</li> <li>- Having general check-ins with portfolio companies</li> <li>- Saving received documents to the cloud</li> </ul>	<ul style="list-style-type: none"> <li>- Pulling out key data points</li> <li>- Putting them into the correct format</li> <li>- Reconciling with previous data-sets</li> </ul>	<ul style="list-style-type: none"> <li>- Adding an "interpretation" layer to the numbers</li> <li>- Highlighting fund "winners"</li> <li>- Adding qualitative information/updates</li> <li>- Comparing numbers against the targets/benchmarking against industry peers</li> </ul>	<ul style="list-style-type: none"> <li>- Sending out reports</li> <li>- Adding personal messages/relationship management</li> <li>- Filing reports internally</li> <li>- Sharing with the larger VC firm</li> </ul>	<ul style="list-style-type: none"> <li>- Answer LP questions</li> <li>- Follow up with companies</li> <li>- Offer support/get more data</li> </ul>
Thinking	<p>"The companies have a lot going on, I don't want to hound them too much or add to their stress"</p> <p>"I do need this data to do my job however"</p> <p>"I wish all these documents were in the same format, I wish things could be more auto-matted"</p>	<p>"This is a very manual &amp; involved process, but it's important to get it right"</p> <p>"I have a lot of different formats to interpret"</p> <p>"It's important to keep things really well organized"</p>	<p>"This data drives our business, and we'll be basing decisions off of what we see"</p> <p>"Good or bad there is a story to that needs to be told to the LPs for context behind the numbers"</p> <p>"Where and why are companies struggling?"</p>	<p>"I know who my fund winners are, I want to keep them top of mind in the messaging."</p> <p>"I need to ensure I've painting a clear picture of what performance has been"</p>	<p>"I'm prepared and ready to speak to these numbers as I have the data to back it up"</p> <p>"Which companies need a bit of extra coaching &amp; support at this time?"</p>
Feeling	Stressed, Anxious, Overwhelmed	Focused	Analytical, Excited, Concerned, Confident AF	Confident	Chatty, Optimistic

Section five

# Next steps and recommendations



## Recommendations

### *VCs need to know “What is our investment worth today?”*

- Make it easy to track the fund & investment performance over time
- Provide a place where current \$values can easily be compared against the target \$values
- Highlight commonalities and trends between portfolio companies
- Enable VC’s to quickly identify fund winners & under-performers
  - Surface the qualities from the winners for contrast & comparison sake

### *Leverage cap table data*

- Further research into which data from financials can best complement the current cap table data, make them easy to include
- Surface the data points that tell the true story of how a fund and companies are performing
- Apply ‘threshold’ logic to the cap table data to easily confirm if a company’s ownership at a certain seed round is in line with industry peers at that seed round
- Make it easy to compare potential investment opportunities against past/current investments
  - “This company we’re considering has a lot of similarity to our past winners”