

Party rounds

There is a recent trend in Silicon Valley towards party rounds—in early financing rounds, instead of raising large amounts of money from a few large investors, companies are instead raising small amounts of money from many small investors. The number of investors in such a round is commonly between 10 and 20, but I've seen rounds with over 50 investors.

I think the rising popularity of party rounds is bad for companies.

Ask some startups how useful their investors are, and you'll get a variety of responses, but some commonalities emerge. It turns out that investors are generally about as involved as they are invested. Having at least one investor very focused on your company is valuable, even if the investor is not very good. The cadence and rhythm of meeting with someone every month to review progress and goals turns out to be an important focusing function [1].

In a typical party round, no single investor cares enough to think about the company multiple times a day. Each investor assumes that at least 1 of the N other investors will be closely involved, but in fact no one is, and the companies sometimes wander off into a very unfocused wilderness.

While it's true that many investors are bad, I have found wonderful exceptions. Good investors stay out of the way when you don't need them and help you a lot when you do. This is really valuable—it turns out that most of the great companies end up having great investors.

Additionally, a closely involved investor will help coordinate your next round, and can bridge the company if necessary (things often take longer than founders plan). I've noticed that companies that raise party rounds seem to have a harder time raising their next round compared to companies that

raised their first big round from a VC.

Perhaps another reason that party round companies have a harder time raising capital is that worse companies get funded this way—everyone seems less disciplined in deciding to invest. Social proof plays a large role, and because the amounts are smaller people don't think as hard about the quality of the business.

I'm all for seeing founders have more power and more ownership, and I'm all for VCs being forced to evolve, but I don't think that having party rounds replace what used to be an A round is the answer.

[1] There is a version of this that makes Y Combinator work—the deadline of Demo Day is extremely good at focusing companies on the right things.