The Many Benefits of Local Venture Capital

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Not a single interested person in Colorado Springs disputes the notion that the local venture community suffers from a lack of capital. That there currently are no active venture funds within the borders of the city is not open to question. This is a crucial gap in our new venture community for many reasons. Private equity capital has a number of beneficial effects on the venture community that go far beyond providing fuel to grow. Primarily, private equity capital introduces a "return on investment" mindset and sense of urgency that no other resource, strategic plan, or well-intended politician can introduce.

If you have ever invested some of your own capital in a private venture you know what I mean. There are a wide range of elements to wise capital investing in private ventures that help create a culture and discipline of success.

Wise capital investing, especially investing in private venture opportunities, requires a future focus and hard-headed realism. Investors place money in private equity deals not based on what they are today, but on what they are potentially going to become in the future. And while no one has a perfect crystal ball about where markets and industries are going there are a number of tools investors use to divine that information.

One of the most important tools used by private equity investors to understand an investing opportunity is due diligence. The techniques used to perform effective due diligence have advanced dramatically since George Doriot created American Research & Development, the first venture fund in the United States, in 1946. Due diligence begins with a thorough review of the qualifications, experience, and resourcefulness of the venture management team. Savvy investors have learned to look beyond superficial appearances (such as college degrees and family pedigrees) and analyze in detail the capacity of the team to build a successful venture. No one who is unqualified to succeed will be barking up the venture capital money tree for long. At best, the unqualified will be ignored. The benefit of this to the venture community is that talented managers attract other talented people. Thus, resident capital tends to improve the local talent pool.

Capital investors also perform due diligence on the market potential of investment opportunities. Because it can be exceedingly expensive to generate returns that beat alternative investments, only outsize market opportunities will receive serious amounts of venture capital. Of course, outsize market opportunities require scaling, and scaling requires additional people. As such, resident capital tends to invest in companies that create net new jobs.

Scaling a venture is an incredibly difficult thing, and investors must also consider whether the founding team affordably can acquire the additional capital resources needed to succeed. Most serious venture capital firms are tied into a network of like-minded firms who often co-invest in attractive ventures. Because this is a very common practice in the venture capital community, resident capital tends to multiply its effects locally via deal “syndication” (bringing in capital from other firms to close an investing round). The venture benefits from the local venture capital firm’s network of investors.

I’ve been attempting here to highlight just a few of the ways in which resident venture capital can have a positive effect on the entrepreneurial culture beyond the provision of needed cash infusions into local ventures. The injection of capital into a venture, and into an entrepreneurial community, creates discipline and maturity that simply cannot otherwise be developed. All the good intentions, entrepreneur conferences, networking, and other efforts notwithstanding, nothing can positively influence a venture community as much as resident venture capital.

The reason that this is so is, fortunately, quite simple to understand: Human beings do, and always will, respond to financial incentives. There is no incentive that is more motivational for entrepreneurs and business people than access to cash for operating and growing a venture. That is not to say, of course, that entrepreneurs don’t feel passion for their vision and their venture. Most of them clearly do. In fact, that is another requisite that investors look for in the management team: passionate and committed people.

Yet, when capital enters a deal a profound sense of discipline and responsibility takes over. Anyone who has used other people’s money to build their own venture will immediately know whereof I speak. With every sense of elation that comes from succeeding in raising funds for a venture comes the dread of added responsibility.

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