

## Venture Development – A New Model for Start-up Success

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*Existing entrepreneurial methodologies are not creating robust new ventures sufficient to supply the modern economy with innovation, jobs, and wealth creation. It is time for a new model.*

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Every summer tourists flock to the south Texas coasts to witness the short trek of adorable little sea turtle hatchlings as they struggle out of their nests, across the beach and into the sea where they hope to thrive and grow. It's a little depressing to realize that, due to garbage, predators, disorientation, and other obstacles, less than 1 in 1,000 of the tiny creatures will actually survive to adulthood.

For new business hatchlings, the start-ups, the odds are a little better, but still plenty disheartening since our economy depends on the maturation of these new ventures for a fresh stream of innovation and employment. To help increase start-up success rates there are a numbing array of support institutions including accelerators, incubators, angels, advisors, and others with missions and definitions so blurred as to make them almost indistinguishable. And yet none of the effort seems to be making a material difference, at least not as much as the innovation economy requires. We are stuck on mediocre, our entrepreneurship institutions keep producing new ventures sickeningly vulnerable to the same threats as newborn sea turtles: garbage, predators, disorientation and obstacles.

This is in large part because the existing incubation/acceleration models all rest on a foundation of common assumptions:

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**Innovation Policy  
Analysis**

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- Incubated and energized founders exist in ample supply; it's just a matter of weeding out the others.
- Selected founders will have what it takes to succeed, mentally, emotionally, and professionally. All they may need is a little coaching.
- If skill gaps do appear, they can be quickly filled by money, education and network.
- Once funded and launched, the new venture will thrive by tapping into the momentum that fuels mature companies.

Are these really good assumptions? In our work at Opus Faveo, we too often see quite the reverse. There are great new venture ideas and technologies for which there are simply not founders with time, energy, skill, desire and understanding of what it will take to prevail. Even skilled and motivated founders can be overwhelmed; the deck is, after all, stacked against them. Getting funded is often the obsession as if ample cash can solve any problem, while the real goal of getting customers becomes an unattended secondary concern until it is too late. Most new companies don't implode in the face of an overwhelming strategic challenge; rather they just fizzle out as they discover to their surprise that the most inevitable force acting upon start-ups is not momentum at all...it is entropy.

We believe the start-up infrastructure that has long been defined by accelerators and incubators is about to enter a phase in which it is defined instead by what we call venture development, or "VenDev" for short. The venture development firm deploys organized, focused, executive management resources within a start-up as co-founder along with the venture's entrepreneurs. Its emphasis is management, not capital. As such, VenDev is very different from VC's and, importantly, even from most accelerators/incubators in several key characteristics:

- **Depth:** VenDev is not just periodic advice or mentorship but hands-on, real operational work.
- **Breadth:** Long term, not time-bound, VenDev does not end at funding, launch, or completing a boot camp; it ends only at exit,

termination, or the transition of operational responsibilities to full-time company management.

- **Commitment:** The VenDev firm is co-founder, embedded insider not outsider; a VenDev firm's equity stake aligns it with other founders.
- **Focus:** VenDev deals in unique companies, not in classes or cohorts of firms.
- **Capital agnosticism:** VenDev is not incented to place capital; part of its job is to help acquire the best investment at the best price and on the best terms.
- **Cash efficiency:** VenDev's compensation is heavily weighted to equity; it is success based and demands little or no cash from the new venture.
- **Operational experience:** VenDev provides outsider perspective, operational expertise, and, importantly, credibility to the start-up.

*Angels and investors appreciate VenDev engagements paid for by the dilution of founder equity stakes*

The VenDev firm and the new venture set shared expectations of minimum resource commitments, reporting structures, and eventual transition of responsibilities to full time company management. This appeals to angels and investors who appreciate long term VenDev engagement paid for by the dilution of founder equity stakes; but it is also attractive to founders who are willing to spend a portion of their available ownership currency in order to make themselves more attractive, more quickly, to investors, partners, and customers.

To do its job properly, a VenDev firm must have a ready network of operational resources at hand and some baseline characteristics:

- Financial patience
- Entrepreneurial incentive
- Experienced management
- Broad set of functional and professional skills
- Operational network

*...willing and competent potential start-up managers exist...they, like venture capital itself, are just inefficiently deployed.*

- Commitment to VenDev as a vocation, not a sideline

VenDev firms can be used by both investors and entrepreneurs to exploit the availability of experienced managers familiar with entrepreneurial environments. Many willing and competent potential start-up managers exist among available executives; they, like venture capital itself, are just inefficiently deployed. The growth of VenDev firms can change all that and finally begin to realize the goal of the entrepreneurial infrastructure: a significant increase in the new venture success rate, and a flow of robust new enterprises creating jobs, wealth, productivity and finally delivering an investment return to all that venture capital.

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