STARTUP-VC FUNDING DYNAMICS IN "VC NON-CENTERS" (INTERACTIVE PAPER)

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Principal Topic

This paper compares the funding dynamics of startup-firms located in “VC Centers” (Bay Area, Boston, New York), versus those that are situated outside these centers. In doing so, we extend current literature that has predominantly explored the local and non-local (spatial-geography) interactions of VCs and startups in and among these three regions. We also track the evolution of the spatial geography of startup-VC funding relationships and the performance of these startups as they progress through typical VC funding stages (seed, early, late). Intuitively it seems that, regardless of startup location, local VCs with strong regional networks would facilitate initial funding, while further expansion of the firm might necessitate the involvement of non-local VCs. While we do find some evidence of this, we also discover that even in the initial stages a mix of local and non-local investors can lead to better performance.

Method

Using VentureXpert as our data source, we downloaded data from startups that received initial funding over the period 1990-2010 in two industries (software, biotechnology). After extensive data cleaning, we segregated the data into two time periods (1990-2000, 2001-2010) and into centers and non-centers. Hence, we formed 8 distinct data subsets (e.g. Biotech 1990-2000 in Centers; Software 2000-2010 in Non-Centers etc…). Our preliminary analysis of the data consists of descriptive analysis (population-level) and a binary-logit hazard model (firm-level).

Results and Implications

The results to-date (410/1571 firms coded, focused on seed-stage), suggest an increase in the percentage of local investors in seed-stage deals versus the population of deals as a whole across all stages. This holds true in both industries and whether startups are in centers or non-centers. There is an increase in the percentage of angel investors and a decrease in the percentage of foreign investors in seed-stage deals versus the population of deals across all stages, with a larger effect in the software industry. Across both industries, seed-stage startups in centers are found to be 1.75 times more likely to receive additional financing than those in non-centers. At the firm-level, we find that startups which receive seed-stage financing from both local and non-local investors are approximately twice as likely to receive additional financing as those who only obtain local financing.

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