diffuse tap
Virtual Event Series

Fund Branding Strategies

Guest Speaker:

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DiffuseTap: Fund Branding Strategies

Last time on DiffuseTap, Dave McClure, Founder and Managing Partner at Practical Venture Capital, Founder of 500 Startups, and PayPal Mafioso, explained why branding sometimes matters more than a track record to LPs, why "less is more" when it comes to branding, and how to effectively share your fund's story to the world.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas) … straight from your armchair like a boss.

Meet the Speaker

DAVE MCCLURE is an engineer, entrepreneur, and an investor in Silicon Valley for over 30 years. With 500 Startups, PayPal, and most recently, Practical Venture Capital under his belt, Dave has invested in hundreds of startups around the world, including 20 unicorns and five IPOs. He is listed in the Forbes Midas List as one of the top 100 global VCs in 2016 and 2017.

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KENNY ESTES: Mr. McClure, I'm not really going to do you justice with an introduction, so maybe I'll just kick it over to you and let you introduce yourself. Super lazy!

DAVE MCCLURE: That's totally fine. Actually, I'm not going to worry about the intro. Hi, I'm Dave. I've been a nerd in Silicon Valley for about 30 years. About half of that time, I've been a software developer, entrepreneur, marketing, conferences, janitor, pretty much all of the above. And for the last 15 years or so, I've been investing in startups, initially as an angel investor, and then later as a VC at Founders Fund, with Peter Thiel and Sean Parker.

After Founders Fund, I started my own VC firm called 500 Startups back in 2010. Like the name suggests, we made investments in several hundred companies. Although most startups don't work, we did invest in more than 20 unicorns. Then in 2019, I started a new firm called Practical Venture Capital, where we primarily do liquidity via the secondary market for funds.

Anyway, that's enough on that topic. I'll try not to use too many slides, but if folks want to play along, I included a link. (View the slides here, passcode: diffuse). I'm going to show at least one of the slides before we jump in, and then I kind of want to keep it interactive after that. I will try not to talk too much to the slides.

The thing that we're going to talk about today is about brands for VC funds, and I guess there's two primary audiences for that: There's the founders that you're trying to get to take your money, and there's the LPs that you're trying to get to give you money to invest. (By the way, that picture is one of my favorites, the cat with the gun on top of the unicorn. I don't know who to credit for that, but I like to call it the "Nerdacorn" but I'm not really sure what the name for that is.)

Anyway, a lot of the things I'm going to try and talk to you about today is what your brand is and what that represents. It's basically sort of a promise to your customers. However, a lot of people kind of stop there and don't think about how you tell that story to the customers. And that's kind of where a lot of the marketing comes in. The other thing I want to talk about is how your value-add, which is a really overused term (and oftentimes, a bunch of BS) is different from the rest of the market, particularly in how it's different to the founders, but also to the LPs that you're trying to reach.

So, the idea here that I'm presenting is that much of VC is really a deal flow funnel. You're trying to get people to come to you, hopefully, or you may be chasing them. And then you're going to be telling your story, getting them to react to that story, and hopefully give you a chance to pitch yourself, or have them pitch you on what they're doing. And then, there's the process of going through due diligence, asking questions, research, negotiation, etc., that might result in an investment. A lot of people talk about the evaluation process and due diligence, so we might talk a little bit about that.

What I want to primarily talk about is how do you fill the top of that funnel with qualified leads, that is, companies that you want to invest in, and hopefully want you to invest in them. Not companies that you don't want to invest in, such as companies that aren't in the right stage, or the right geography, etc. And then we'll talk about the LP side of that as well.

I guess to start out, I'd like to keep this interactive. On that right side, I really talked about what you need to be successful as a VC. And that is, can you raise money? And can you get deal flow? And then we'll talk a lot about how you help the companies. The numbers that people quote in VC most of the time is, can you return 3x net on the money? Can you return 20% of the IRR? But what I'd like to ask everyone is, try to describe your fund if you are a VC in three words – that would be stage, geography, and vertical – and can you just throw that into the chat right now? Because I just love to see what people are trying to do. Three words: stage, geography, vertical.

AYLA KREMB: Seed is taking over our feed.

DAVE: I'm seeing a lot of seed, yes. I kind of assume that. I'm assuming most of the people here are probably U.S.-focused.

AYLA: Yeah, a lot of U.S. Some Mexico, some Africa.

DAVE: Got it. Definitely some fintech. Some weed tech. We've got bio, SaaS. Okay. I'm going to show you one more slide, and then I'm going to stop for the slide thing. So, the thing that you have to figure out is, what are you going to do to differentiate yourself from the rest of the market? If you're doing pre seed and seed SaaS, or pre seed and seed fintech, or pre seed and seed, I don't know, choose the other favorite category, there's a lot of other people doing that. And you're not going to be very distinguishable, either from the fundraising side or from the founder side.

Having said that, if you look at this next slide, what are you trying to do that's different from the rest of the market? And you might want to qualify that with, what do portfolio companies care about? Because you don't want to just be different, but you also want to be relevant to what they need, or at least what they think they need. Those two might be different. But in any case, you want to be able to tell a differentiated story that resonates with the customer and is different from the rest of the market.

I'm going to stop with the slides now and go back to the talking head part. Again, if folks want to play along, here is the link to the slides (passcode: diffuse). So go ahead, Ayla. Take over if you want to start asking questions.

AYLA: Yeah, we've got some questions that I think some people are pretty curious about. Really good tip on the three main points, by the way. What common mistake do you think emerging managers make when it comes to branding? In our chat, you previously said they try to sound too perfect. Could you elaborate on that a little bit?

DAVE: Well, I don't know about perfect, but I think maybe they elaborate too much. Brands don't necessarily get better because you add more words or talk longer. Usually, I would try to get it to be pretty simple. That's why I asked people for three words to describe their brands, and that's tough, right? It's tough to differentiate yourself from the rest of the universe in just three words.

I think the other thing that could be challenging – and we had this issue with 500 Startups – is what's your brand to the LPs versus what's your brand to the founders. That can be challenging to be aligned with. We had a brand for founders that was sort of irreverent with 500 Startups, and very "power to the people and community" and a lot of that stuff resonated really well with founders, but sometimes it was a little bit edgy for the fundraising side of the community. I think you have to figure out how to find a balance between your LP brand and your founder brands, and hopefully, those aren't too far apart or too misaligned.

But overall, I would say the primary thing is to tell a simple story. And then the other part of it, again, is to tell the story. Just because you create a brand and put it on your website, or your deck doesn't mean that people are going to hear about it. And so, the marketing activities are the communication of your brand to customers.

In one of the other slides, I talked about how you tell that story. Do you tell it online? Do you tell it via speaking? Do you write? Do you run conferences? Do you do networking? etc. There's lots and lots and lots of ways to generate deal flow and tell your story. However, some people don't tell the story, and they may not really be communicating your brand. Even though you think you've defined it, you haven't really told people what it is, or how it's different from other people.

KENNY: That makes sense. And to go back to one thing you discussed, you talked about the superpower, what makes you special. Obviously, with every fund, we dig in on its tight thesis, really differentiated background, etc. But aside from sector stage and geography, what are some of the really interesting superpowers? You can use specific examples, if you want to plug somebody. What sets people apart from the crowd?

DAVE: Sure. Actually, I think Gopi Rangan is in our community here somewhere, and he's doing an insurtech fund. I would suggest that a lot of his differentiation is really focusing on building a community that matters, and trying to drive a story around a very specific part of fintech and insurance tech. He talked a lot before about how he wanted to get his message out, so he started working on a podcast to tell the story.

I think, again, you want to be different from the other people out there. If you're just talking about fintech, that might be overly broad. You may want to differentiate within fintech. On one of the slides that I have, I think it's slide 5 or 6, I defined five key areas to think about for differentiation. These are probably product, customers, people or the recruiting process, and raising money. You don't have to be great at all of those, but you probably want to be great or better at least one.

Usually, people have to be good at helping their companies raise money regardless, but those first four areas are probably a place where you could differentiate. For example, you might be a very *product-focused* VC that's helping an early-stage company. Think about how to do the technology architecture, or the user interface design, or the user experience. You could be someone who's more *sales and marketing-focused*, who's trying to help them with getting users or customers. You could be *recruiting-focused*, and that might be for a specific discipline such as maybe engineering, or sales, or leadership focus. Or you can be *process oriented*. Maybe you're someone who's great at setting up a sales process or setting up a customer support process.

So, I would say rather than trying to be good at everything, try to emphasize one of those areas, which is probably relevant to the stage, geography, and vertical of the company that you're trying to invest in.

AYLA: We have a good one from the audience. Helena asks, why aren't we creating engagement strategies? Aside from Twitter, of course.

DAVE: Maybe that's more effective these days, but I'm not sure that Twitter is always the best strategy for fundraising. Fundraising is a challenge, particularly for folks who are raising new funds, small funds. A lot of the institutional community doesn't want to invest in smaller funds, or people who are on anything less than fund three, or even longer, sometimes. It's hard for people who are institutional to invest in funds that are smaller than $50-100 million.

I think knowing what type of LP you're trying to go after is important. I would probably put those into three or four groups that are simple for the moment, and those are high net worth individuals, family offices, corporates, and everything else. There's a lot of "everything else" but usually, the "everything else" requires larger checks and more background and track record. That can include government and other entities that might have a little bit more access than the institutional folks.

But for the high-net-worth individuals and corporates, they probably are at least open to investing in smaller funds, or maybe even first-time funds. And usually, you'll have to tune your message to them about what you're trying to accomplish, and not necessarily just in returns. Corporate LPs might care about industry research. You might be able to help them with marketing or events. Sometimes they're not just interested in deal flow, although they might be interested in deal flow.

Some of the family offices may be looking for direct investment opportunities, so you might be pitching co-investment options, or other investment REITs. Individuals may have a personal interest in a particular type of company or being part of the process. And maybe a lot of non-investment returns may be something that might be engaging for them.

KENNY: That's great. You were talking about the audience there, and a lot of the audience in this event are first-time managers. What we found is that, when you get to that fund three, your fund is larger, you can talk to institutional allocators, and that means your strategy has to change, because now you're leading, instead of following - and that includes deciding whether you have to go tighter on a vertical, or go more agnostic, etc. With regards to that "natural evolution", how have you seen people manage that so that it doesn't completely blow up the branding? Because if you change your strategy, your branding might also have to evolve.

DAVE: Right. Well, I don't always believe that just because your fund gets larger, the strategy changes. However, that is true for most people who want to keep doing a similar number of deals when they have a lot more money to spend. Usually, that pushes them out the stage that they're investing in to higher up the scale. And you're right, it probably does take on doing more of an elite deal, potentially taking board seats, and others.

However, I would disagree that your strategy needs to get more niche focused. Actually, I think it works the other way. You're better off being a specialist in the beginning, because it's easier to get deal flow if you specialize. And then, as you get more famous and recognized, you can expand your funnel, and you don't have to stick as much to the initial target area. This assumes that you're getting more recognized and getting more deal flow.

You may still want to specialize, but I think it's more important in the beginning to try and identify a place where you can differentiate yourself, because the smaller you cut that pie, the more narrow opportunities will be. If you're the only venture capitalist who is investing in left-handed scuba divers who do fintech for the people who are under 5'4" community, then you're pretty specialized, and you could probably be the best in that niche. I don't know if that's the niche you want, but...

As a more relevant example, if you say, hey, I'm investing in women's healthcare - then that might seem more specific. But then, somebody else could say, well, I'm investing in women who are between the ages of 25 and 45, with two kids in metro areas, and they can even give them some income data. So that's becoming really specialized. That could still be a really big niche, but you might be a lot more defined in your story.

One other thing I would mention is that a lot of times, people come up with a great sounding thesis, but their background doesn't match the thesis. People talk about founder-market fit, product-market fit, whatever. But you really have to understand whether you can execute on the thesis that you're talking about, or can you win the deals that you're trying to go after? Your thesis might be great, but whether you can win those deals is an entirely different question.

AYLA: That's probably one of our favorite things to dig into, where we bang our head against the wall the most. One of the questions for emerging lenders that might not have a track record. If we eliminate the track record from the deck, what else can people use to establish credibility?

DAVE: Sure. Actually, I will do another screen share really quick and talk through a slide. Here, this is a page about a sample deck that's included in my deck, just to clarify. The stuff on the left is probably 10 categories that you might want to include. And also, if you have a track record, and it's a good track record, you should probably talk about that first. And the more that you can talk about that, the better.

But for a lot of emerging managers, you might not have much data, or not a lot of performance yet. So then, you might talk about what your team's experience is. Or if it's just you, what your experience is. Sometimes, if you have a really hot thesis that a lot of investors are really excited about, you don't necessarily need a track record. That might not be the right strategy for your investors to be making decisions that way, but right now, if you're working on the creative economy, or NFTs, or fintech, or crypto, you probably have a lot of interested parties regardless. Other times, less sexy topics may not be as exciting.

If you don't have maybe the hottest thesis or the hottest track record, I think that's when you really have to start talking about things like, how do you get access to deal flow? How do you win deals? What's your differentiated story? I think really smart LPs should be asking you about your deal flow, but a lot of LPs may overlook that. But for the more informed LPs, they're going to want to know why you are going to win these deals. And again, — I feel like I'm doing talk radio where I reintroduce myself every time, like "here's the link to my slides again! — I'll post these on SlideShare later.

KENNY: It's our completely arbitrary "No pitch deck rule" for speakers. That's where the conflict's coming in.

One of the things that is a theme being picked up — is probably the right way to say it — in the chat is “process”. Specifically, what that investing process looks like. 500 Startups, which you know a thing or two about, is famous for having a very clear streamlined process on diligence, in a good way. What are the key elements as a first-time manager that you need to have in place, in terms of process, and specifically, more for positioning with LPs? What do they want to see in that process other than the top of a funnel, to your earlier point?

DAVE: Again, what LPs want to see and what I actually think is best may not always match up. LPs like to see a lot of process, whether or not it matters, but probably the things that they do care about a lot, particularly more institutional LPs, is do you have a structured reporting process? Do you have a fund administrator? Do you have somebody helping you with financials, or maybe tax planning legal issues? And things like that.

There's a lot of back office, and a lot of things that aren't deal-focused to make sure that the operation runs. And sometimes, for single GPs it can be challenging to manage all that stuff, and to even understand them.

I would say that there's a lot of focus around the evaluation process, the due diligence process. But again, I think people tend to overbuild that a lot. One thing that I like to say is, can you identify a critical few set of questions that filter in or filter out the deals that you want to do, and can you try and make that as simple and as fast of a process as possible.

It's not effective to throw a really long due diligence process for founders. They're just going to get pissed off, especially if they have options. They will just say, forget it, I'm not going to do that. A lot of times, we got to a point with 500 where we can probably ask three to five questions and know whether we want to have a longer conversation or not. And some of those questions might be around, do you have a product? Do you have customers? What's the current level of revenue on a periodic basis? What's the growth rate? Do you feel like you have product market fit or not?

And there's probably not a lot of questions that you need to ask to understand. Sometimes the answer is a hard yes or a hard no. Or at least, if it's not a hard yes, it's a yes that I want to learn more about. And so, I don't think that you should try and have a too-detailed due diligence process. In fact, you want to go the opposite way, which is, what's the fewest number of questions that I can ask, where I know 80 to 90% confidence, I'm going to say no, and 80 to 90% confidence, I'm might not say yes but at least want to have a meeting.

And the great part about once you get that defined is tell everybody what those questions are and get them to know in advance before they refer deals to you, if they fit those questions. You don't want to have an opaque due diligence process. Rather, you want to have very, very clear criteria, where you can say "Okay, if you're doing more than $10,000 a month, and you have customers and a product, and you haven't raised more than $3 million, I want to talk to you."

Also, somebody else could figure that out for you and send companies your way. So, then you have a very targeted list of folks to talk to you, as opposed to just having a meeting calendar filled up with a bunch of people that I'm going to say no to.

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Corporate Director, CME Group

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CEO & Founder, LionShare Media

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VP/Global Head of Tax, Binance.US

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