

What is micro-venture capital?

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USA
September 5 2014



Over the past few years, a new funding source for seed stage startups has developed and quickly become an integral part of the startup ecosystem. This newer brand of investor is typically labeled a seed venture or micro-venture capital fund (a Micro-VC).



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Micro-VCs are smaller venture firms that primarily invest in seed stage emerging growth companies, often have a fund size of <\$50M and typically invest between \$25K to \$500K in a given company. While many Micro-VCs are managed by former venture capitalists, former entrepreneurs and/or super angels, many larger venture firms also have Micro-VC equivalent funds used (or have earmarked a small portion of their fund) to target the same seed stage startups and prospect later opportunities for their larger venture funds (or investments).

Samir Kaji, Managing Director at First Republic Bank, provides an excellent overview of the Micro-VC market and his observations and predictions regarding the prevalence of Micro-VCs going forward on the CB Insights blog (entitled Where is the Micro-VC Market Going?).

As Samir notes, the Micro-VC investor has developed to fill a necessary gap in startup funding, namely the window prior to a traditional venture capital round. From my experience, Micro-VCs are much more tolerant to the risk of the unknown that all startups face as they develop new technology or attempt to enter or create a new market. Given the ever decreasing cost of getting a startup off the ground (due to technology innovations and efficiencies such as cloud, SaaS, digital distribution channels, etc.), startups need less money to sanity check their business concepts – and Micro-VCs have provided much needed capital to the startup world (especially considering the reduction in the number of traditional venture capital funds over the past several years) and have reaped the rewards of getting in early on the next big ideas.

CB Insights estimates that there are 135 Micro-VC firms actively investing at this time. Here is the list from CB Insights of the funds it identified, together with a list of the most active Micro-VC funds between Q1 2011 and Q1 2014. However, the actual number is likely higher than 135 given that a few Seattle-based Micro-VCs (that are not listed) also come to mind. The good news for entrepreneurs and startups is that Samir estimates there may be an additional 40 to 50 new funds entering the market.

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