### Value Neutral Money Is All You Need

#### Abstract

This paper explores how founders should think about selecting a VC and whether or not VCs are net valuable on the founding journey. We introduce the concept of "Value Neutral Money" and propose an equation that determines a VC's true value. For an industry that backs the most innovative new technologies and companies, venture capital fails to innovate on itself in any real terms as a whole and rarely looks in the mirror to figure out what's working and what's not. As a founder taking money for the first time, it's often tempting to choose a brand or someone with deep expertise in your space. Like anything, there are phenomenal VCs out there, and also a lot of bad behavior, so I'd argue if you optimize for value neutral money or better, you are already ahead of the pack.

#### 1. Introduction

As an Industrial Engineer by degree, it's taken me awhile to reconcile how I can hold two very divergent views/hypotheses as correct. The fact that VCs can be extraordinarily valuable and also that they just don't matter and founders/teams really drive all the value.

To illustrate this point, let's take the ability of VC to help a company as a function. Let VC refer to a function that increases or decreases the probability of success of a company X, and let Y equal the probability of success as a company in reaching a huge outcome (however that might be defined).

 $H_0$ : p(success| VC, company X)  $\geq$  p(success| company X)

Said plainly, VCs increase the probability of success (VCs can truly be value additive)

 $H_{A1}$ : p(success| VC, company X)  $\leq$  p(success| company X)

VCs don't matter (the best founders succeed regardless)

I realized both these hypotheses can simultaneously be truly, only because there is a second alternative hypothesis I believe to be true for a subset of VCs.

 $H_{A2}$ : p(success| VC, company X) < p(success| company X)

VCs are value destructive/decrease the probability of success of a company. I'm not here to bash on the industry as there are great VCs as well, but the truth is that some subset of VCs are value destructive.

# 2. Background

Let's look at the factors that lead to VCs being value additive and breakdown the VC function into an equation. Consider the following:

To understand what makes VCs truly valuable or destructive, we break down the VC equation into its constituent variables. These variables include a VC's brand (a), their helpfulness (b), their involvement in your company (c), and a drag coefficient (d). There are obviously more factors but these are the main ones.

### A = a VC's brand

A VC's brand is often irrelevant but where it's a truly magnificent brand, it does have an amplifying effect for founders, from many that I've spoken to. Having a "Tier One" brand in your cap table, especially as you scale from Series A and beyond, can really attract talent, customers and follow on funding.

B = a VC's helpfulness tangibly (intros/hiring help etc)

This is a VC's actual ability to help – from making customer intros to helping you close key hires etc. Sometimes this is correlated to your VC's understanding of the space you operate in and sometimes it's not. This also includes being there for founders on the emotional journey that it is to start and build a company and how willing they are to say the hard truths that sometimes trajectory change the course of a company.

C = how a VC shows up for you intangibly— on your board, how much of your time they take etc

This is one of the most underestimated factors and one should always cold-reference VCs by their founders (current and former) before taking money from any individual VC. This is the way they show up for you as a human on the journey – do they listen to your problems, roll up their sleeves to help or get out of your way if you don't want their involvement? The usual litmus test for the right relationship here is what happens when shit goes wrong. Can you call them right away and tell them what happened because you know they will help or just listen/make you feel better? Or do you feel like you have to hide it and fix it and then tell them in a pretty Power Point or update weeks/months later, or even worse do they make you feel worse/smaller if something happened? (you know what I mean here if you have had that bad relationship). This dimension really separates great VCs from destructive ones.

## D = drag coefficient

D needs a bit of an explanation. It's a term the VC industry likes to use a lot these days. We like to "reduce the drag coefficient." What this means is minimizing things that don't matter on your precious time as a founder. Things like asking for less reporting, requiring less board prep and less asks for things that VCs want that Founders aren't already producing as something useful to run their own businesses. While there is a lot of talk about "reducing drag coefficient for founders" I often see little of that reduction in practice.

#### 3. Bad Behavior in VC

The world of venture capital is not without its tales of turmoil. As stated, there are many phenomenal VCs, but there are also a healthy amount of VCs who don't show up well, and not just in the hard moments where VCs and founders may be naturally misaligned. In my relatively short time in the industry (almost a decade), I've personally seen a VC try to put a company into administration/bankruptcy for an ego trip, seen someone push a founder to do something they didn't feel was right for the company for a political motivation, seen a VC tell a company they wouldn't give them a cent in a horrible market backdrop only to later come back (after that team had gone on to secure a great VC term sheet) and try to block an outside round and force their hand on their own term sheet once they decided the market valued it. And let's not forget the daily grind of tardiness and unpreparedness many founders have to put up with on a regular basis. Then you factor in diversity and inclusion, the lack of liquidity that has been seen in the industry for the past decade and other aspects of the industry, and you realize that while a lot does still work, a lot is also broken.

## 4. Good Behavior Is A Competitive Advantage

The opportunity created by this reality is that if you are a great VC to founders, it pays off in dividends. As I was reminded recently, even basic professionalism pays off. Just showing up on time, having read the deck/thought about the business, asking good questions and being quick and honest if you pass still set you apart from the average in the industry. If you have ever been on the operating side as a founder or otherwise, you know how stressful fundraising is and appreciate anyone with an empathetic and respectful approach to that. Being a VC is not as hard as being a founder, but it's not as easy as it appears from the outside either. The self-doubt that comes with this job is real, and success often seems elusive. But for those of us fortunate enough to work with remarkable founders on their quest to turn audacious dreams into reality, let's keep pushing the bar for excellence and founder experience higher as this journey is incredibly rewarding and impactful.

#### 5. Results

Going back to our VC equation, for the ultimate success of a company, the VC equation is actually made up of all the key variables above across each firm you bring into your cap table. The truth is that if any of the variables becomes negative, the overall probability of success of your outcome gets dragged down with it, even if you have other great firms on the cap table. Equations aside, speak to enough founders out there and you will find that the value destructive VCs took so much more mindshare and headache that it may not be made up for by value additive VCs.

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Y = VC \text{ (Firm 1)}+VC \text{(Firm 2)}+VC \text{(Firm 3)}... \text{ or } Y=\text{abcd (Firm 1)}+\text{ abcd (Firm 2)}+\text{ abcd (Firm 3)}...
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But I'd argue it probably feels more like this:

Y=abcd(Firm1)\*abcd(Firm2)\*abcd(Firm3) where the magnitude of a negative variable in any sense really drags down the entire equation.

#### 6. Follow the Talent

As a VC my job is often to follow the talent and see where great founders lead me. I'd recommend for founders to do the same when figuring out who you should take funding from. Look to the founders ahead of you on the journey – see who they took money from and go out and ask them what that experience looked like to inform your own view of funds. Also, you don't need to have the network. Many founders will respond to cold reach outs on Linkedin, *especially* if they had a negative experience with a fund and want to spare future founders from the same

#### 7. Conclusion

"Value Neutral Money" may be the elusive answer to the question of who to take money from. The very fact that some subset of VCs are value destructive means that as a founder you need to choose a VC that is value neutral to value additive. The reality in most cases is that you don't have a choice and need to take VC money, so in that case optimizing for the right thing is certainly a critical choice. Historically I think founders optimize for value-adding VCs (and probably should) but you are probably already in a great place if you just avoid the value destructive ones. For as much as I do believe great VCs add a lot of value, the opposite extreme is far more harmful to a founder's journey. And then we should remember that it's always about the people so the journey will be way more enjoyable if you like the people you have around the table as you build.

P.S. I wrote this myself but did obviously consult Chat GPT and before I prompted correctly got this parody below which I found entertaining so thought I'd include:

Title: "Hype is All You Need: An Ode to the AI Revolution"

Abstract: In the grand tapestry of artificial intelligence, where breakthroughs are as common as unbroken dreams, we present a paper that truly matters – "Hype is All You Need." For all you AI enthusiasts out there, get ready to be simultaneously amazed and baffled as we explore the captivating world of inflated expectations, over-the-top marketing, and the perennial search for that elusive AI singularity.

- 1. Introduction: In a world where every algorithm promises to revolutionize everything from breakfast cereals to interstellar travel, we embark on a journey to demystify the art of AI hype. We explore the cutting-edge concept that the secret ingredient behind AI's success might just be a dash of hubris, a sprinkle of buzzwords, and a pinch of overstatement.
- 2. The Hype Mechanism: Let's delve into the intricacies of hype-generation in the AI domain. Discover how we've mastered the art of creating anticipation levels that defy Newton's laws of motion. We'll also discuss the quantum superposition of

- 'state-of-the-art' and 'game-changing' two phrases that never seem to coexist in a linear reality.
- 3. The Attention Layer: Just as the original paper introduced the self-attention mechanism, our masterpiece unleashes the 'attention to attention' layer. Because in the AI universe, what's more important than attention is the attention you receive for your attention. It's a meta-meta-meta mechanism that'll make your head spin faster than a GAN on a caffeine binge.
- 4. Results: We present empirical evidence that the louder you shout, the more likely your AI model will get noticed. We'll also uncover the hidden truth that, in the AI community, it's not the error rate but the 're-tweet' rate that defines success.
- 5. Conclusion: In conclusion, we propose that "Hype is All You Need" should be every AI developer's bible. In an era where tech giants, startups, and toasters alike embrace the cult of AI hype, remember that it's not about what you've built, but how incredibly you can exaggerate its potential. Welcome to the new world of AI, where the future is not just bright, but blindingly luminescent.

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Disclaimer: This paper is intended purely for satirical purposes. Please don't take it too seriously, or your AI models might suffer from overfitting to sarcasm.