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## Funding Gap Boomerang

Whenever there's a shortage of capital, economists and VCs argue that market efficiencies will kick into gear and fill the gap. Others disagree.

The problem is that those small chunks of capital—\$100,000 to \$500,000—that can be critical to very early startups and spinoffs are in short supply, as the venture industry moves increasingly to larger fund sizes, shorter investment cycles and later-stage deals.

It wasn't always so. In 1997, for example, an average VC fund hovered around \$50 million. Nearly 10 years later, the average fund size has quadrupled, to \$200 million. Six years ago, seed and early-stage funding represented 54 percent of venture deals. That number is now around 30 percent.

Recently, though, some of those aforementioned market efficiencies appear to be kicking into gear. In the past few months several new seed-focused funds have been announced, including Moshir Venture Partners in Scottsdale, Arizona, and Provenance Ventures in Los Angeles. Moshir is planning to invest in wireless and mobile startups. Provenance is planning to invest in a broad range of seed stage startup opportunities.

Another recently announced funding initiative is aiming to help fill the cash gap that challenges university spinoffs. This program, called SURAFund, is a collaboration of the Southeastern Universities Research Association and multiple VC firms across the U.S. "There's a lack of early-stage capital for spinoffs," says Matt Thomas, director of business development at SURA. "We're simply trying to fill the gap with smart money from private equity investors."

Thomas says SURA recently ran a pilot project to test the concept with one VC firm, DFJ Mercury, a Draper Fisher Jurvetson affiliate in Houston, Texas. Early-stage spinoffs and startups submitted a five-page business plan describing their business model, technology, market opportunity and capital requirements. To date, SURA has received more than 40 submissions from 25 different universities in 15 states. Technologies range from IT to biotech to nanotech.

Among the ideas are RFID tags for managing cattle herds, non-toxic nanoparticle emitters, and crop management via RNA-based biotechnology. Out of the 40 business plans submitted, three are still getting serious consideration.

Will targeted early-stage funding initiatives like SURAFund be enough to bridge the gap? It's important that they do. Without a strong pipeline of young startups there will not be many opportunities for those VCs looking to fund later-stage deals in the future.

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