Venture Capital Funding by Phase of Technology is Increasingly Focusing on Later Stages

Venture capitalists have been affected by the dot-com bubble burst and recession of 2000-1. Because VCs are financiers, who expect a return of 25-35% per year over the life of their funds\(^1\), they are increasingly focusing on lower-risk activities. The following graph from Ernst and Young and VentureOne confirms this trend:

The amount of seed funding is so relatively small, to see the declining trend at this early stage, it is necessary to view this portion of the data separately.

While the absolute amounts of seed stage funding has steadily decreased, the amount of seed funding as a percent of total VC investment has also decreased, from 1.6% in 1997 to 0.53% in 2004. The average for this period was 0.78%.
While seed stage funding has seen a declining trend, late stage funding is increasing (as a percent of total investment).

The data in columns refer to the total amount of funding (in $millions) in the later rounds by VCs.

The data in the line shows the increasing trend in later stage funding as a % of total VC investment for that year. This figure has steadily increased from a low of 35 % in 1997 to a high of 45% in 2004. The average for this period was 38%.
Funding the “Valley of Death”\(^2\), the metaphor that characterizes the chasm between the funding of basic research and applied research, is the critical bottleneck in the innovation cycle. An analysis by the Council on Competitiveness, the National Innovation Initiative Final Report\(^3\), shows that the “capital chasm” is in the early stage: right where ATP focuses, and where VCs do not.

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\(^2\) Term that is often attributed to Congressman V. Ehlers, Ph.D (R-MI)