

RGM NEWSLETTER

RITA GUNTHER | MCGRATH

Venture Capital 2.0: This Time, It's Different?

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Dear colleagues,

Venture capitalists are partying as if it's 1999—and we know how that went.

The Money Keeps Pouring In, But It Keeps Pouring Out, Too

Investment in venture capital in 2018 [surpassed \\$100 billion](#) for the first time since 2000. With all that money sloshing around, the deals are getting bigger. In 2018, deals worth more than \$25 million accounted for nearly 13% of all investment. And mega-rounds (funding rounds worth more than \$100 million) accounted for 47%.

In the midst of all this exercising of free-flowing pens, I have to wonder whether all those people putting all that money into so many me-too, growth-at-all-costs-we'll-worry-about-profits-later ventures are a tad delusional. Some of the assumptions that

would have to be true for so many businesses to become profitable, self-standing enterprises without continuous infusions of cash are truly heroic.

Consider the case of Moviepass, the long-struggling venture that hoped to “disrupt” (oh, that word) the conventional movie business by allowing customers to go to the movies in theaters for a fairly low subscription price. Majority owner Helios & Matheson, who bought into the company in 2017, went for subscriber growth by offering virtually unlimited access to movies for a monthly subscription price of \$9.99. And if subscriber growth was what the company wanted, this strategy succeeded wildly—going from 20,000 users to over three million users at its peak. But the economics of this proposition simply didn’t work. The company paid full price for every customer ticket, so it lost money on every transaction. It was never able to persuade theaters to share concession revenue and the hoped-for play of being able to sell consumer data gleaned from customers never worked out, either.

Too Many Unicorns

In VC 1.0 founders and employees had the same horizon for a liquidity event six to eight years from startup. Today, as companies can capture \$50 million-plus funding rounds, they can put off going public for a decade or more. This fundamentally changes the entrepreneurship game. It puts early employees at a disadvantage. It encourages sloppiness. It leads to company valuations that have nothing to do with profitability and everything to do with hyper-growth. And it can’t last.

One “what were they thinking?” example: e-cigarette maker Juul. With investments from Big Tobacco (already a red flag) and a [ticked-off FDA disputing its claims](#) that its products are healthier than regular cigarettes, its path to profitable growth doesn’t look like the smooth sailing someone must have thought it would have, since it has [raised \\$14.4 billion](#) over eight funding rounds. It’s also brazenly taken pages out of cigarette marketing of yore—trendy models, lax enforcement of age restrictions, seductive flavors, and a shimmering sense of being cool—many of which are today illegal. The backlash among regulators and policymakers is just beginning.

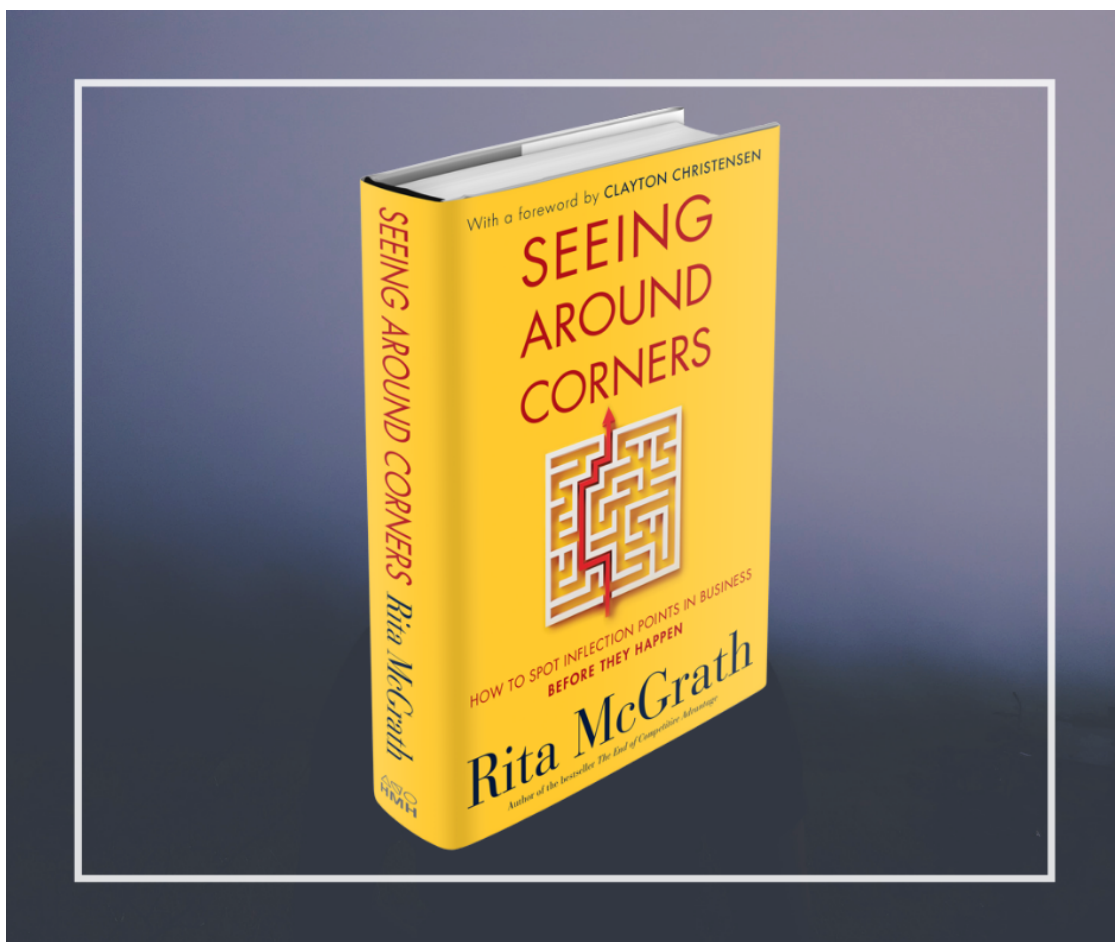
Still Very Much a Boys Club

So here’s an interesting irony. Despite the enormous sums in play, very little goes to female and minority founders. In 2018, all female founders put together received \$10 billion less in funding than Juul took in by itself. The amount that went to female founded companies was 2.2% of the total invested.

If you assume that entrepreneurial talent is evenly distributed across the population, this seems like a glaring blind spot. A Harvard study found [systemic differences in how venture capitalists talked to female vs. male founders](#). The men got asked mostly about their vision and the upside of their businesses. The women? Only the pitfalls and risks. And funding follows this defeatist impulse. A [study by Morgan Stanley](#) blames a lack of familiarity, as most investors have little to do with non-male, non-white founders. The cost? \$4.4 trillion in missed opportunities.

It's time for a rethink.

[Read more](#)



My new book is now available! Earlier this month, I was so thrilled to finally release [Seeing Around Corners: How to Spot Inflection Points in Business Before They Happen](#). This book is a guide for how to anticipate the strategic inflection points upending industries—and then capitalize on them to give your business a competitive advantage. If you haven't picked up your copy yet, I'd be honored if you gave it a read—and let me know what you think! Visit [SeeingAroundCornersBook.com](#) to learn more.

[Order now](#)

Reading List

A curated roundup of interesting books and articles to get you thinking:

- **Arenas, Not Industries, Are the New Business Battlegrounds.** To compare your business to its immediate peers is to use the broken tools of the past. Your competition might well come from another industry invading yours. ([Dialogue](#))
- **How GE Invested in Fossil Fuels and Missed the Opportunity to Be a Clean Energy Giant.** Missing the renewable energy inflection point is a cautionary tale about not "seeing around corners." ([Fast Company](#))
- **DataStory: Explain Data and Inspire Action Through Story.** This fascinating new book from Nancy Duarte unpacks how to communicate compelling, persuasive, and actionable data using storytelling techniques. ([Duarte](#))
- **Why the "Spotlight Effect" Stops Us Getting Over Setbacks at Work.** We all make mistakes—it's critical that we shake off the embarrassment and learn to treat ourselves with some compassion. ([Financial Times](#))

Upcoming Events

September 26: [KPMG Innovation Book Launch](#) (Boston)

In a fireside chat with Kevin Bolen, KPMG's national leader for Strategic Growth Initiatives, we'll share how you can help your company stay one step ahead of the disruption curve.

October 6-8: [ExecConnect](#) (New York)

Join me at the premier event dedicated to learning and development, where thought leaders will explore what next-gen leadership and leadership development looks like.

October 8: [Women in Innovation Summit](#) (New York)

I am excited to be speaking at this inspiring one-day conference hosted by my tech innovation partner, Robots & Pencils. Please join us in celebrating how women, their teams, and their companies are shaping the world of innovation.

October 10: [Degreed LENS](#) (Austin)

Join 400+ of the most intelligent leaders in technology, business, and learning for an exploration of how the most advanced talent development teams are harnessing data and AI to help their people and their businesses respond to constantly shifting demands.

October 24: [Strategy@Work](#) (New York)

A new era of strategy brings many intricate problems with no easy way to solve them. Leaders across business and policy will gather at the Strategy@Work conference to shed light on some of the most urgent and important issues of our time.

Interested in having Rita speak at your organization or event?

[Learn more](#)

In the Press

- Achieving Strategic Agility By Seeing Around Corners ([Forbes](#))
 - Digital Leadership Series: Seeing Around Corners ([Momenta](#))
 - Winning In The Transient Advantage Era ([Business World](#))
 - WeWork Valuation, Starbucks CEO, Cost of New Elements ([Bloomberg](#))
 - Rita McGrath: Inflection Spotting ([Outside In](#))
 - Banks Must Be Ready to Handle Disruption ([BusinessLine](#))
 - Rita McGrath: Inflection Points ([Disrupt Yourself](#))
 - How to Start Seeing Around Corners ([Coaching for Leaders](#))
 - Eight Practices to Ensure You Are Never Netflixed ([Thrive Global](#))
 - The Keys to Managing Business Inflection Points ([Techonomy](#))
 - Thinking Innovation. Driving Growth ([BrandKnew](#))
 - FT Business Books of the Month: September Edition ([Financial Times](#))
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Where there is uncertainty, there is also opportunity.



Here's to your next advantage! - Rita

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