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Blockchain and the future of venture capital

The venture capital industry's model has remained the same despite an influx of assets. Could digital currency signify a way around extensive funding rounds, forced exits and unrepaid expert help?

In 1976, the venture capital industry managed about $4B worth of assets. Today, this number is closer to $450B. We now see sector and location-specific firms, as well as VC arms within large corporations like Google. Institutional investor capital has been channeled towards fund managers in pursuit of potentially enormous returns.

The model trusted to generate profits does, however, remain the same: venture capital funds feed money into a large number of startups, in the hope that even a couple of them will hit the big time.

There are several problems with this approach – which impact all parties involved.

Funding rounds: the more funding rounds a company goes through, the more its founders and existing VCs get their equity ownership diluted.

Forced exits: funds have a life span of approximately ten years. At the end of the fund's life, the VC needs to liquidate its investments and return the profits to investors. VCs may find themselves forced to sell portfolio companies when they don't want to, as opposed to holding onto the investment as returns grow.

> Expert help: founders often enlist the help of an expert to help them build their product, under the umbrella of what is termed 'sweat equity'. It's touted as a win-win, because it's costless for the founder and there's potential for a huge payout somewhere along the line for the 'sweat equity' provider. The thing is, very few startups even reach profitability, meaning that the expert – who may have taken on single-company risk by offering their time and effort to support just one company – gets nothing for their efforts.

What are the solutions?

The blockchain has the potential to solve these problems. At Consilience Ventures, we're building a platform that allows founders, investors/venture capitalists *and* experts to benefit. We're using our proprietary digital currency to facilitate this.

Consilience Ventures' Digital Security (CVDS) is the currency we anticipate startups, investors and experts will use to buy and sell. The value of one CVDS in fiat currency appreciates in line with the underlying value of the whole portfolio.

Startups selected to join the Consilience Network can benefit from 'Spring Finance', our own blockchain-based financing solution, straight away. By selling a slice of equity to the Network in exchange for CVDS, the startup avoids copious funding rounds. They buy time, and input from Network experts, and can therefore 'spring' to their next milestone – whether it is an updated version of their service or a new service entirely. Equity will also be cheaper to purchase because of the money saved.

Venture capitalists or any other investors looking to get exposure to startups can exchange fiat currency for CVDS. This allows access to each and every company in the Network, providing immediate diversification.

And when a Network company wants to exit, all proceeds are distributed to all CVDS holders at the proportion of their holding. For example, if an investor owns 0.01% of all CVDS when the startup gets acquired, they will receive 0.01% of the proceeds generated by the exit.

While they can't purchase them, experts can lend startups their time in exchange for CVDS. Lending their time gives them a claim on proceeds, as shown above. Diversification across the entire network also means that the expert is derisking their participation. Experts can be hired by founders, or by investors, and they can sell their CVDS to other network members. It's a 'win-win-win' scenario.

Could this be the future of venture capital?

Blockchain technology tends to cut costs, because there's no need for a middle man to facilitate currency exchange. It eliminates the need to pay fees to, for example, a bank, because it allows for peer-to-peer transactions without requiring an intermediary. In the case of venture capital, the Consilience Network enables investors to sell CVDS, and founders to solicit experts' time, without expensive legal fees.

Money and time is saved by all parties. At Consilience Ventures, we're using the blockchain to save founders' time – because they're not constantly raising capital; investors' time – via our pre-selected portfolio of high-status tech companies; and experts' time – by diversifying the pool of companies they help.

It's time to shake up the venture capital industry, so as to guarantee the best possible results for founders, investors and experts. We think harnessing the power of blockchain is the best place to start.

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