Bedy Yang: ‘Corporations often come from a place of fear of being disrupted’

Companies that call themselves global do not always count on multicultural employees in their top leadership ranks. We cannot say that about 500 Startups, one of the most active venture capital firms in the world, whose San Francisco-based managing partner Bedy Yang was born of Chinese parents in Brazil and grew up in the town of Foz do Iguaçu, at the border with Paraguay. Bedy absorbed the three cultures and languages from an early age, and she uses this versatility to her professional advantage in recruiting start-ups throughout the world to invest in. She also plays the roles of global operator of 500 Startups and advisory board member at non-profit organisations such as H2 Global, positions that give her a broad view of the global venture capital landscape. ‘Corporations often come from a place of fear of being disrupted’, she told LSE Business Review’s managing editor Helena Vieira on 7 November, during the Web Summit conference in Lisbon.

You spoke today about the relationship between corporate giants and start-up disruptors. How does that take place?

When you say, ‘I think the entire world is gravitating toward start-ups’, it’s because start-ups actually mean innovation. Maybe the same corporates were present throughout the past 100 years. But in the past ten years, there were so many new, disruptive companies, such as Google or Amazon. They were all born as start-ups, but in ten years, they crushed their entire industry, not only companies, but they are really transforming the entire industry. So, I think a lot of the large corporates now are afraid. They might be afraid of the Amazon effect, or the Uber or Netflix effect, whatever. It’s in their senior managers’ minds. All of a sudden they’re saying, “for the sake of our future, we have to somehow collaborate with the start-ups’. So, very often they come from a place of fear, of wanting to hedge against it. And that’s how they start that relationship. That’s coming from the corporate side. From the start-up side, very often they’re very tiny, very new. It’s just like when that little plant is growing. For them, a potential partnership with start-up capital, with large corporates, can mean clients that can give them credibility. Or maybe down the line, those corporates can acquire them. So, there is a lot of potential into that relationship. It’s really pretty to look at their intention, their imagination. Most of the time the first meetings are great. The problem is really that they speak complete different languages. As you go to the second meeting, the expectations start to set. And then eventually the relationship falls apart.

> ***“When corporations seek partnerships with start-ups, they often come from a place of fear of being disrupted.”***

We wrote a report in together with INSEAD discussing these collaborations. One out of four never worked. And there are lots of reasons for that. The most important component boils down to personal relationships. When you start a relationship, there are a few things that are very important on both sides. The first is, 'are you seeing enough people before the you select?' In our world, we call that the 'deal flow'. Am I seeing enough deal flow? Maybe you see one, but you don't know if there are better things out there. So, you can't decide. That's number one. The second really important point is a little bit of a personality test and match. The corporate sometimes goes, 'oh, I'm afraid of the Amazon or Uber effect, but I don't really know who I am. I don't really know what I want. I want financial return, I want innovation. I want my senior team to be more innovative.' But they don't really know. There isn't an understanding of their personalities. Same thing with start-ups, because they're like, 'I think I want everything'. But if they don't focus their time, they're going to die, right? Because the start-ups are so fragile at that point.

The third very important component is transparency. You might want something, but you need to communicate, tell people, so that if you find a match that works. I think the final, final, final thing is that, especially for the corporates, they should think about the tools around them because they are the ones with a lot more strength, they have the tools around them to run this innovation journey. It's not a silver bullet, it's not like I will find one start-up and it is going to be successful through this method. I think they need to indulge and entertain tools of innovation. That can be corporates at venture capital, that can be pilot programmes, that can be M&A activities, so that they prepare themselves, and they don't crush the tiny start-ups that don't have the same type of resources. The imagination of a beautiful relationship is there on site, and it's great that you can capture people's imagination, but when you start dating, and then maybe prepare for marriage and M&A, a lot of things can fall apart.

Many big companies end up buying start-ups either to kill them or to incorporate them. Is that a goal for many of the start-ups that you work with?

The corporates very rarely will buy a start-up to kill it. They buy a start-up because they think the marriage is going to be great, except that, when they start that relationship, the entire legacy and culture and people are not ready to absorb it. There are cases that they might buy a start-up because it can be a huge competition. Actually, I think it could be smart to do that. But most of the time, I doubt they're anticipating that outcome.

> ***"Now that you have so much private capital going into late stage, there's a lot of value already captured in the private market."***

Can you walk me through the process of how you work with a start-up , from selection to the final stage, and what is the final stage?

We are very used to that framework of start-ups raising funds through multi-stage financing. If you are thinking from that angle, normally they go through several stages. The first round is seed money that they might raise with their friends and family, very often they raise it with us, and we may offer them the first check of their life. In the first six months raising money with 500 Startups, they receive US$150,000, up to half a million at the beginning, and that buys them their first six to 12 months of life. After they've reached that milestone, it's time for them to say, 'all right, maybe it's time to raise funds again'. The next stage can be a series A round. When they do that there are new expectations and milestones and team size that they go through, and often there are series A, B, C, D, E, F, G all the way to the end. For the investors, the exit is very important. The exit can be the company being sold to a corporate, or it could be an IPO. I would say the majority of exits historically has been around M&A. The public markets are still not always available, you need to have certain volume and brands in governance to get to the IPO. So that's a small percentage. I believe the recent data show that less than 20 per cent go through an IPO and the majority goes to exit and M&A.

Are investors a little more averse to IPOs these days because of recent flops?

If the companies don't exit or don't IPO, whatever you have in the company is a theoretical game. So I think it's better to have an IPO. I think the question is, what is the price that you enter with? So for instance, with 500 Startups, when we start investing in the companies in the San Francisco accelerator, the entry point valuations are around US$2.5 million dollars, so when a company has an IPO, normally the market cap is at least a US$100 million. The problem is that when you overvalue them at $10 billion, or $40 billion, that becomes an issue. But if you start investing and when you start investing it's $2.5 million, even when the IPO it's at the lower value you make a lot of money. It really depends on the stage you're in. Now that you have so much private capital going into late stage, there's a lot of value already captured in the private market. There's a disconnection between how much money is going into the private market. So, when they go public, it's very difficult to get an increment because the value has already been captured. When you look at the past five years, like five years ago, or when Amazon did their IPO, there was so much value capture after, but at that time, there weren't large pension funds, or large amount of late-stage capital capturing the value before. So there's definitely a shift in the market on how much money and willingness to put into start-ups or even late stage companies.

"20-25 per cent of the companies we invest in have women cofounders… but (…) 44 per cent of the super successful ones, with unicorn status, have women cofounders."

Is there a specific type of start-up that you're looking for?

We generally invest in tech start-ups. Our investment thesis is really broad. So we don't have a very targeted industry. We could invest technically in any company that has some tech component, tech, mobile, hardware, software components. We have invested in over 2300 companies up to now. What happens often is for instance, a research company comes to the market and says, 'who is the most active investors in financial services?' Actually, that's 500 Startups. We have invested in hundreds of fintech companies. Because our portfolio is so broad, it so happened that we have invested in over 100. The same thing with region. Who's the most active investor in Southeast Asia? They look at our portfolio, and all the time we happen to be it. I think it depends on the angle. We're really broad, but when you start focusing you see strong focus in region, technology, industry, so it can be for financial services, education, health care. We're really active with all of them.

I would imagine the percentage of women among start-up founders is still not very large. Do you have statistics for that?

Of the more than 2300 companies in which we have invested, over 500 have women cofounders, which is probably somewhere around 20-25 per cent. But when you look at the companies that are super successful, the ones with unicorn status, 44 per cent have women cofounders. There's a lot of data that says it's better to invest in diverse founders or diverse teams. But clearly, when one looks at it, it should be the same proportion. We shouldn't have 20 per cent of our portfolio with women cofounders. It should be 44 per cent because it's clearly good for business. We make a huge effort to continue increasing that and finding talented women entrepreneurs in different parts of the world.

So 44 per cent of your unicorns are led by women…

They can be CEOs, sometimes chief product officer, sometimes a chief marketing officer. So they're not always at the CEO position, but definitely in senior leadership, because they're the cofounders of those teams.

"When something is always hard, you don't think it's hard."

Silicon Valley is not the most hospitable industry for women. How has it been for you? You've been with 500 start-ups for seven years?

Almost nine.

Is it hard, or is it getting easier now?

I grew up in a Brazilian culture, raised by Chinese parents, so it has always been hard. When something is always hard, you don't think it's hard. It depends on your starting point and your expectation. I am extremely lucky with the firm that I work at, where, since the beginning, there was a lot of nurturing of underrepresented groups. And it's part of the culture. We discuss internally, 'what are the things that we're doing that can not only bring people in, but have them feel included?', because those are sometimes different things, when you can say, 'I'm going to bring this underrepresented group', but once they join the culture, they might not feel that they belong to it. Since the beginning. I always felt super included into the 500 context. So it has never been difficult for me, but maybe it has always been difficult, but I haven't seen it that way.

500 Startups is spread out in the world, but you don't have a strong presence in Africa. Why?

One problem is that our resources are limited. When I look at the next ten years, I would like to be in East Africa, West Africa, South Africa… But we have relatively limited resources. We have done investments in the region. In South Africa, for instance, we invested in the Savannah Fund, which covers East Africa. So we are present there through our network. But we haven't had a chance to put someone on the ground How come we prioritise being in Southeast Asia, versus being in Africa? There's a strong component of the amount of deal flow that we see. So we need to see a lot of companies that would like to deploy capital at the local level. We have seen deals in which we have invested from global funds, but we haven't raised regional funds so that we can be super active to do hundreds of deals.

Regarding AR and VR, 5G, IoT technology. How far are we from seeing the large majority of start-ups acting in this space?

I think there are two areas to explore. One is deep tech. And another question is, 'is there a potential platform shift?' When we talk about IoT, we need massive adoption of it. Every year, people say, 'next year is the year of VR'. But it goes away. Everyone's talking about 5G. I think that from the trends of technology and platforms, it will happen by aggregating and accelerating the ecosystem around it. Sometimes it's having some corporate, sometimes having some start-ups, and having governments developing policy that can ease out the development of technology, and even all those things come together. Then you will advance platform development.

> ***"Two years ago, if you went to any website of all the major VC funds, you'd find zero women partners. I think all of them now have at least one, the token one, but at least that."***

What is the size of your portfolio?

We have around US$ 500 million in committed capital. And we have invested in about 2300 companies in more than 70 countries.

Do you take on new companies yearly?

We talk to companies every single day, and take them on regularly throughout the year.

How many new companies are you taking on daily?

Probably an average of one a day, at least, but we're structured like a family of funds, so we have the Southeast Asia fund, it's deploying three checks today. And at the same time the Global Fund is deploying one check. And the Mexico fund also does it. So on aggregate, I think that's the average that we have. So we see like 10,000 companies on top of the funnel, and then we invest in just a handful of them.

Are you active in China?

We are not very active in China.

Do you think that the trade war between the US and China made your lives worse in any way?

I think the trade war less so. But the concern about the sharing of data, yes. I think the issue with trade is that it affects the broader relationship between countries, it is not trade itself.

So a lot of your start-ups share data with Chinese counterparts?

Not that a lot of them share but let’s say if we invest in a company that is in China, and maybe their client is in the US, that might be a problem. It’s not that they share but it’s it’s a relationship. That happens organically.

Going back to women. What is the participation of women as venture capitalists?

I think it’s less than 10 per cent. I know the data are out there. I wish had the screenshot here, the main funds’ website for the past two years and today. Two years ago, if you went to any website of all the major VC funds, you’d find zero women partners. I think all of them now have at least one, the token one, but at least that. I think we have to start somewhere. I lead a strong initiative called ecosystem development. I set up an investor training programme in partnership with schools, where we open our playbook of what we learn with all the thousands of advancements that we have. I set up the first programme with Stanford. It was really interesting because people had to apply and I didn’t see a lot of women. And what we did was to set up a scholarship. So in the first class, we had almost half of them. I think with anything you do, you have to start right. If you start right, you can just continue. If you start with no women in the class, you will never bring in more. It’s going to be more difficult because people bring in people like themselves. For the first class that we ran, we had two gigantic successful case studies. One was two women who came out of college and decided to partner and built this fund called SoGal for millennials. Their argument is that old white men don’t know what young women are looking for. So it’s going to be very difficult for them to relate to technology and invest in companies like that, and they were able to raise their fund being super young and they’re amazing. They have now invested in at least like 50 companies, so it’s amazing to see them really shine. Another really successful case in that first class was Arlan Hamilton who built Backstage Capital. She has turned her under representation in the VC industry to her advantage. She will see things that no one else will. At the end of the day, if you want to be a really good investor, you have to find great entrepreneurs and great entrepreneurs don’t all look the same and you want to build your proprietary deal flow.

What makes a great start-up for you, or the other way around, what are the things that make you reject a start-up?

It’s the founders. I know it’s a very broad term, because when we’re investing we’re trying to find out, ‘is this the right team, building the right product, in the right market, at the right time?’ Timing is what it is, you don’t have a lot of control over it, but the team can change the product and navigate into different markets. So at the end of the day, when you look at, ‘is this team going to build the right product-market fit, that’s going to scale?’ The ultimate question is really, ‘is this the right team?’

Do you have social entrepreneurs in your portfolio?

Absolutely, that’s similar to what I mentioned before: we don’t have a social angle. But if you search our portfolio using the social angle, you will find many companies. For instance, we have just launched a programme with the UNDP in Indonesia. When you have the ESG angle [*environmental, social, and corporate governance]* or whichever impact you want to work on, we can apply the criteria of our portfolio. So because we invest in emerging markets, we have a lot of competent start-ups in education, financial services, health, sometimes solutions for cities, sometimes solutions for transportation, a lot of marketplaces that enable farmers. When you put the right angle to it, they actually create those sort of social and environmental impact to that. Most recently, we started to discuss internally, ‘let’s measure and ask the right questions’, not only because we want to say we are active in this area, but because I think we have a lot of room for improvement.

Thank you.

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- *This is the last in a series of four interviews during the Web Summit conference in Lisbon, 5-7 November 2019. The conversation was edited for clarity and brevity.*
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