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With summer winding down, advocates of a simplified Series A term sheet all hold hands and mostly agree - like a summer romance, will it last? How much travel time should a VC should be willing to spend to visit their portfolio companies? And an article on the remarkable mess of success that is craigslist.

The Future of Term Sheets

The predictable pendulum swing of harsher terms during a buyer's market lead to a lively online discussion on the future of the term sheet. A dialogue between influential bloggers -- entrepreneurs and venture capitalists alike -- including Chris Post, Fred Wilson, and the eponymous Brad Feld extol the benefits of a simple, standardized, Series A term sheet (see posts by Chris, Fred 1, Fred 2, and Brad). A couple of law firms all have their own versions, as do one or two incubators and, perhaps smelling controversy, even The Funded got into the act. With legal fees for a Series A investment running around $40,000 - $50,000, plus the considerable time spent in negotiations and impact on investor and management goodwill, the benefits for a standard term sheet are numerous.

Most prominent is the suggestion - endorsed by nearly everyone -- that most Series A terms should be standard (liquidation preference, type of security, pro rata rights, founder vesting, etc), leaving only two terms left to haggle: investment size and valuation.

Personally I think a standard term sheet would make the venture market more efficient, but I'm doubtful of wide adoption. The most important metric to a VC - what ensures their continued survival and prosperity - is their rate of return. Sadly, the more initial deal terms favor the VCs, the higher their potential return. If your business model is based partly on selling high, it sure helps to buy low. Some VCs will hopefully follow the standardized term sheet model, but summer romances usually fade, and the overall industry benefits are unlikely to overcome simple agency conflict, particularly as the VC industry contracts.

And while on the subject, two different analyses of Q2 venture term sheets battle for the last weekend of beach reading. Although there are some notable difference between them (one from Cooley Godward, and one from Fenwick), both saw signs of increased confidence in venture funding. Even with different data sets (Cooley looked at 75 financings nationally; Fenwick 89 financings in just Silicon Valley) the studies agreed that down rounds are still prevalent, but also noted that a number of the most aggressive terms – that skyrocketed after the credit crises -- are slowly falling back to earth.

Location, Location, Location. *Not.*

Investing locally is a mantra of many venture firms. The desire to conveniently monitor, interact, and network with their portfolio companies has lead to some long return trips for out-of-town entrepreneurs. Now a recent working paper suggests that the *Think Global, Invest Local* view is bunk. Among the findings: investments in regions where a venture firm has no presence outperform investments in regions where they have an established office. Nor is there any difference by stage - despite the general belief that a Series A round demands more consistent monitoring, the adverse effect of local investments was the same for both early-stage and growth companies.

As the paper points out, a possible suggestion for this data is the higher hurdle rate required for an out-of-region investment. For a venture firm, the Partner's willingness to endure some travel hardship often indicates a higher attraction to a company then just stopping by the CEO's office on the next Starbucks run. Consistent with this thesis, the study also found that once a venture firm has made an investment in a region, future investments in the same locale have lower returns. Once the marginal cost of monitoring has dropped (2 birds, one flight), returns follow suit.

But before advising an entrepreneur to set up shop in a remote location, the paper also notes that venture firms located in the traditional VC centers (San Francisco, Boston, and New York -- which together host over half of all firms in the study, and a substantially higher percentage of dollars) still outperform their fly-over-country peers. Paradoxically, the superior returns are primarily due to non-local investments in peripheral locations. So the next time a venture professional tells you he wants to stay local, ask him about the best vacation he's ever had, if it was worth the trip to get there -- and if he'd do it once very few weeks.

The Mess of Success

To end: a fascinating Wired magazine article about craigslist. Everyone one knows craigslist - it is the lead suspect in the death of the newspaper industry, has more job postings that Monster, CareerBuilder and HotJobs combined, and gets more online traffic than eBay or Amazon, all with just 30 employees.

Highly successful, except truth be told, the site soft of, um, **sucks**. Craigslist is one of the least innovative and user-friendly sites on the web - using it (which I still do) is sort of like listening to long-wave radio in the days of HDTV. As the article notes:

> *With more than 47 million unique users every month in the US alone - nearly a fifth of the nation's adult population - it is the most important community site going and yet the most underdeveloped. Think of any Web feature that has become popular in the past 10 years: Chances are craigslist has considered it and rejected it.*

The craigslist user experience is so bad, about a year ago, an incubator once included it on their list of *Startup Ideas We'd Like To Fund* (#25) - so far no apparent takers. Craigslist has conveniently

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ignored or intentionally destroyed most of the basic advice offered to any new business, yet they have been one of the most disruptive innovations on the web. Apparently even the internet gods have a sense of humor.

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