

SARAH MITROFF BUSINESS 12.10.12 06:30 AM

HARDWARE, THE UGLY STEPCHILD OF VENTURE CAPITAL, IS HAVING A GLAMOUR MOMENT



THE OLD SAW in Silicon Valley is that venture capitalists won't touch hardware investments. It's not because they hate gadgets and machines, it's that the cost to launch a hardware startup is much higher compared to the price to code a new piece of software. Not only do you have to build it, you've got to find the shelf space (virtual or otherwise) to sell it. All that adds up to a risk most investors don't want to touch.

If you ask Jeremy Conrad, co-founder of hardware incubator [Lemnos Labs](#), he'll tell you that those notions are outdated. "Venture capitalists are starting to look at radically different companies than they used to because the cost to launch a hardware startup has gone down," he says. Conrad hosted the Hardware 2.0 conference in San Francisco, where investors, startup founders, and others in the hardware space challenged the notion that hardware startups are impossible to fund.

Venture capitalists are a bit less optimistic. Kleiner Perkins partner Trae Vassallo says it's still tough to get VCs interested in hardware. "Hardware is hard," Vassallo says. "So when there is an easier way to make money, like software, venture capitalists flock to companies that are taking an easier route."

But hardware is also becoming easier, argues Conrad. Thanks to rapid prototyping and cheaper high-powered computers that can run simulations on your gizmo, getting a product ready for market is cheaper than ever, says Conrad. Yes, you still need to figure out a way to sell it, but the overall cost of launching a hardware startup, whether you're trying to sell a gadget or build a new robotic drone, is dropping.

"You'd be shocked at how little money the startups here [at Lemnos Labs] have needed to design and prototype their products," says Cheryl Kellond, who co-founded the team behind the [Bia](#) sports watch. Kellond attributes the rise of more widely available, and cheaper, 3-D printing for helping keep costs low while designing the Bia.

In explaining why most of Sand Hill Road doesn't invest in hardware, Vassallo points out that there are very few venture capitalists who have experience with manufacturing and selling hardware, since most started their careers in

investors are picking up the slack, because they either have the experience or are more willing to take a risk, Ash Patel, managing director with Morado Venture Partners, says.

Steve Schlafman a principal at Lerer Ventures agrees, saying that seed-level investors are warming up to the idea of hardware, “And that will create a wave of new startups that big, monolithic companies, like Sharp, can’t keep up with,” he says.

The key piece of advice that the three VCs offered founders is to show validation and market demand for their products. Kickstarter and other crowdfunding sites can help with that, because people are committing to a product they want to buy. “Before Kickstarter it was hard to show consumer appetite, that’s changed now,” says Schlafman. “Now, you can show validation for your idea when, historically, that didn’t exist.”

According to Patel, hardware startups don’t need to shoot for perfection in the beginning, but they have to have a clear vision and work out the preliminary problems. “At the seed stage, startups need to think about getting the kinks worked out and find validation for the product,” he says. “That will help with getting a series A.”

Lastly, Vassallo says she’s looking for a particular kind of founder when she takes on a hardware investment. “I need founders to be schizophrenic: One moment they’re a great leader with complete confidence about the product, and then completely paranoid about what can go wrong,” she says.

That might sound, well, crazy, but as Kellond says, “It takes a certain type of person to start a hardware company. They tend to be scrappy and resilient.”

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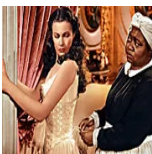
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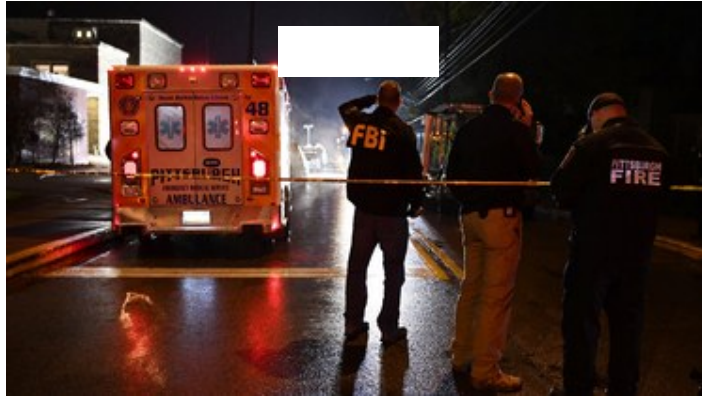
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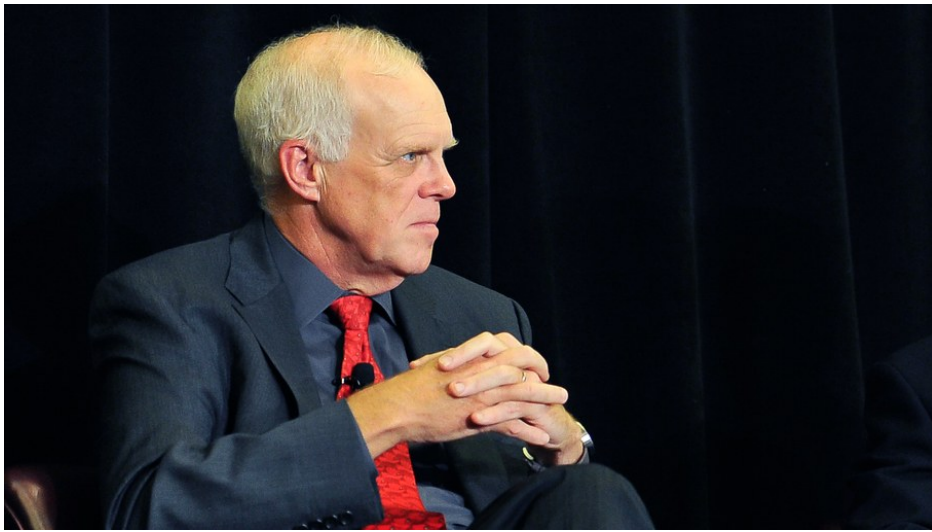
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