Venture Capitalists Are Taking Gigs To Better Understand The Gig Economy

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As the competition to secure investments with startups continues to increase, venture capitalists are discovering new ways to strengthen their relationships with potential investment partners. In addition to listening to pitches from startup founders and reviewing financial projections, Bloomberg reports that venture capitalists are now immersing themselves in the gig economy by working for the startups that they may ultimately invest in.

Even as startups that rely upon contract staffers continue to reach higher valuations, it is no secret that identifying and securing an investment in the next tech unicorn is extremely difficult and fiercely competitive. In fact, investment activity in 2018 increased throughout the year, and through the first three quarters of 2018, venture capitalists invested over $86 billion into privately held startups.

In an effort to identify, understand, and invest in the startups with the most potential, venture capitalists are now taking the time to perform work for startups in their ordinary course of business. This allows them an opportunity to gain a better understanding of startup's operations and to better understand each company's unique value propositions and risks.

Instead of taking a founder's word for it, venture capitalists are discovering the nuances and potential competitive advantages of startups by performing work on a gig basis. As the competitive landscape for investing continues to increase, investors are also benefiting from strengthening their relationship with founders by working for them in an effort to secure new deals and to demonstrate that they are the best investment partner. This hands-on approach is even more effective for investors who are considering investments in multiple companies competing in the same industry.

By working for gig businesses, investors also might gain a better understanding of the startups' business model and compensation structure. Investors also might be able to identify bottlenecks in performance that are impacting the margins and cost structures of gig businesses. Additionally, investors may be able to identify potential risks that the gig company can focus on mitigating.

For example, by performing gig work, investors might be able to appreciate data privacy risks in addition to classification and wage and hour issues for companies relying upon an independent contractor model. Likewise, startups are also able to get to know their potential partners in a more in-depth way by engaging in additional vetting to determine which investors are the best fit.

In summary, increased competition to secure new investments with the best gig companies has resulted in venture capitalists immersing themselves into the gig economy. This has allowed for potential investors to gain a better understanding of the potential value and potential risks of startups relying upon independent contractors. If investors are seeking assistance analyzing potential labor risks for a gig employer, they can reach out to a member of the Gig Economy Practice Group for assistance with due diligence.

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