

Cost of Experimentation and the Evolution of Venture Capital

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# Cost of Experimentation and the Evolution of Venture Capital<sup>☆</sup>

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## Abstract

We study how technological shocks to the cost of starting new businesses have led the venture capital model to adapt in fundamental ways over the prior decade. We both document and provide a framework to understand the changes in the investment strategy of venture capitalists (VCs) in recent years — an increased prevalence of a “spray and pray” investment approach — where investors provide a little funding and limited governance to an increased number of startups that they are more likely to abandon, but where initial experiments significantly inform beliefs about the future potential of the venture. This adaptation and related entry by new financial intermediaries has led to a disproportionate rise in innovations where information

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