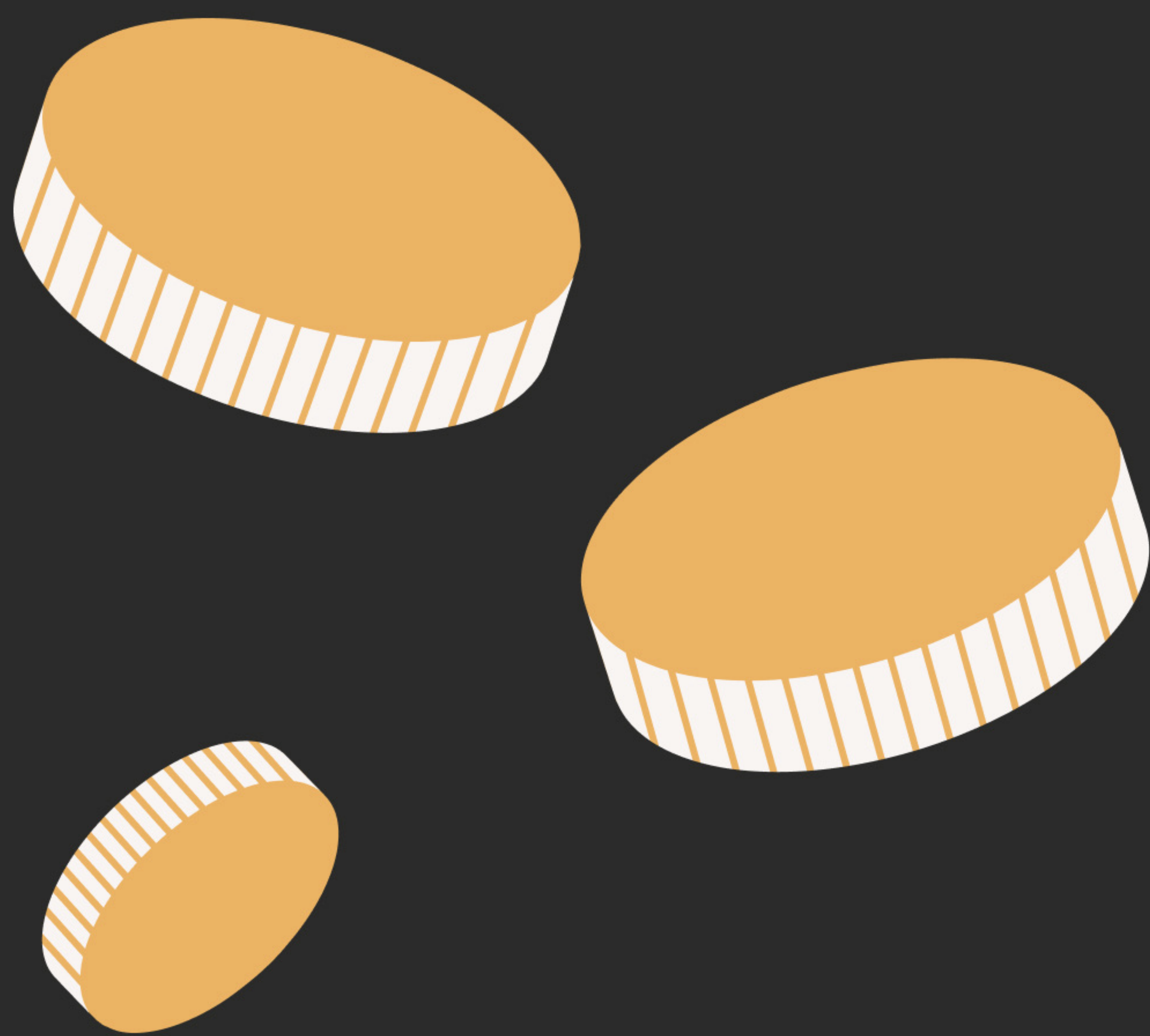
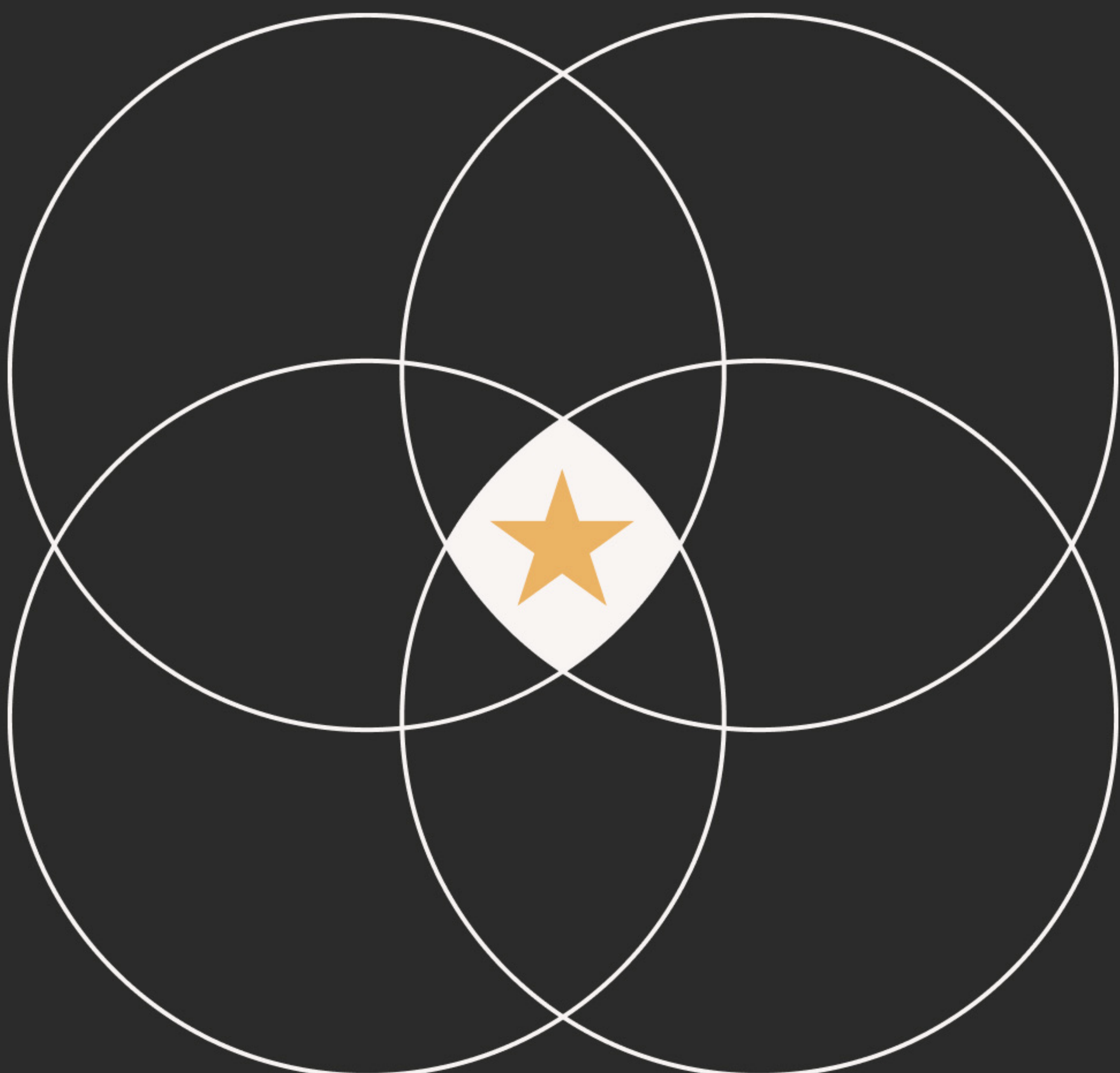
Why do Venture Studios have such high operational costs?

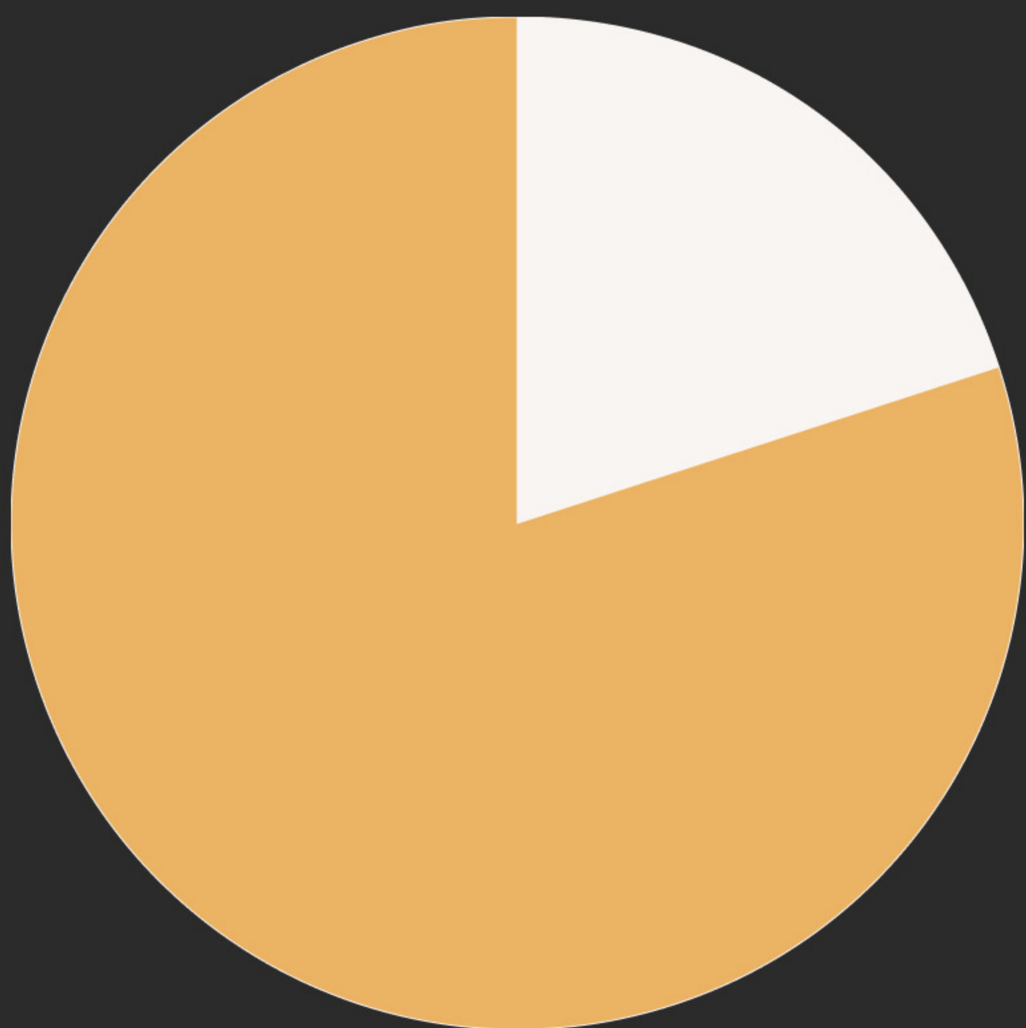


It's simple:

they're not just investors like traditional funds.



In a normal investment fund, 20% of the total fund size goes to operational costs.



This 20% is typically called the "management fee."

But a Venture Studio isn't just an investor.

It's also a co-founder and an operator of the companies being built.

Because of this, operational costs for Venture Studios can be **40-60%** of the fund size.

That's 2-3x higher than a traditional VC fund.

This freaks out investors. It raises red flags and makes it harder for Venture Studios to raise capital.

Why?

It breaks all industry and investment vehicle norms. The 2&20 model has worked for decades across venture capital, PE, and more. Why would studios need more than 2%/yr for 10 years?

Because of this:

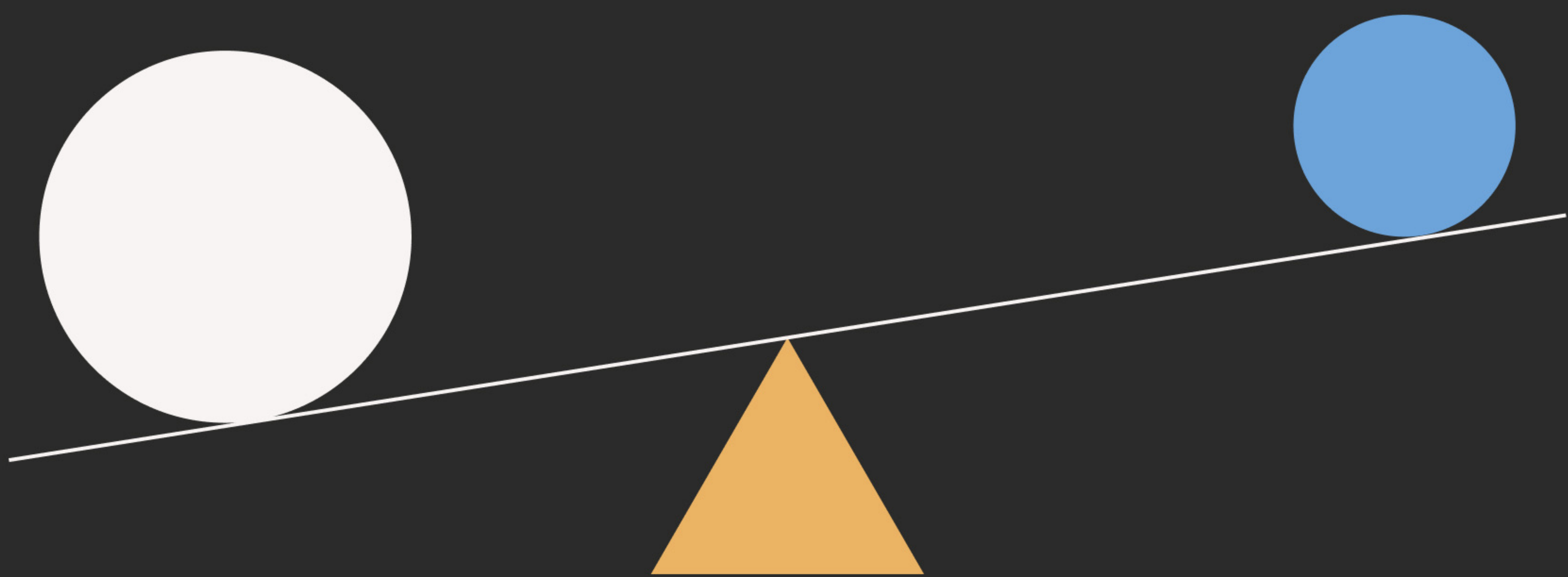
Venture Studios try to force the 2&20 model to fit so investors see a 'normal' investment.

For example, some studios:

Take a 20% management fee from the fund.

Then they have the fund pay the studio to build investable deals.

By “hiding” operational costs this way, the real cost of running the studio can total 40% or more.



This bending of traditional fund structures works.

It's called the Dual Entity Model.

We need to stop hiding the true cost of the studio model and just be upfront:

- Venture Studios are more expensive to operate.
- LPs are paying for the venture studio to be entrepreneurs, operators, and Investors. That comes with a cost.

And that’s okay.
It’s a feature, not a bug, of the studio model.

Investors should clearly see:

- How much is being spent.
- Where the money is going.
- Whether those costs are adding real value.

This is why holding companies often work better for studios. They offer more transparency for investors.

Because here's the reality:

No money for operations

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No functional studio

Interested to read more about this topic?

- Check the link in the comments