The Myth

[Image with light bulbs, a person holding a sign saying 'com', a street sign saying 'Sand Hill Rd', a case of money, and a stock market display saying 'IPO']

80 ml ± 5%
New Businesses are Hard

- Thousands of ways to fail
- Few roads to success
- Requires superhuman effort and commitment
- Founders must have unique vision and leadership
- Venture Capital is expensive
- Competition is (or will be) fierce
VC 101

(As of 2005)

- $259.4 billion under management
- 4 states (CA, NY, MA, CT) account for $192.9 Billion
- 866 registered VC funds
- 9,266 Industry Principals
- $165 Million Average fund size
- $300 Million Average firm size

Through Q3, 2006, $19.2 billion was invested by VCs in 2,533 deals
Why use the Venture Approach?

- Best way to attack the innovators dilemma
- An efficient and effective way to productize technologies out of the lab
- Organizes the best talent around the best idea
- A way to manage investments
- A way to integrate external efforts with internal capabilities
- A great way to gain market intelligence
Leveraging the VC model

- Used to augment R&D and BD efforts
- Especially useful for getting to market
- A method to stimulate risk taking
- A vehicle to compensate for success
- A way to challenge corporate CW and stagnate divisions
- A way to reinvent the enterprise
Why most Corporate Venturing Fail

• Wrong investment professionals
• Not strategically aligned with the corporation
• Not important to other divisions
• Inability to take risks
• Cannot compete with existing business units
• Wrong metrics for success
• Little if any reward for success
In the VC’s Mind

- Is this the right team?
- What’s the entrepreneur's motivation?
- Is this a billion dollar opportunity?
- Is it a game changer?
- How competitive is the space?
- How defensible is the product?
- How much is this thing going to take?
- How long to maximize value and exit?
Not all VCs are created equal
Attributes of Great VCs

• Bets on people not trends
• Driven by the big idea
• Looking for the homerun
• Not afraid of failure
• Knows how to thread the needle to get success
• Understand how to develop and manage a portfolio of risk
• Serves as a fantastic coach
• Does his/her best work outside of the board room
• Not waiting for validation from other VCs
VC and Darwinism

- #1 Asset that a Venture Capitalist manages: Time
- Only funds and manages a handful of deals
- Willing to cut their losses and focus on the winners
- Willing to over compensate individuals for success
- Demands that their companies are the best
- It’s all about winning
- Always looking to improve the team
- Holds management accountable
Portfolio Management

- Staged financing
- Concentrate capital on runners
- Invest in people not just concepts
- Focuses on slugging percentage not batting average
Six Factors for Investing

- Size and risk of opportunity
- Quality of entrepreneur
- Uniqueness of technology
- Condition of market
- Strength and speed of competitors
- Existing portfolio mix
Assessing Risk

Portfolio Performance = \sum_{n=1}^{\# \text{ companies}} \left( \text{Probability Of Success} \times \text{Expected Exit Value} \times \text{Ownership} - \text{Cost basis} \right)
Assessing the opportunity

• How big is the market?
• How competitive is the space?
• What’s the average product cycle time?
• Will this define a market?
• Where is the competition heading?
• How hard is it to sell?
Attributes of Great Entrepreneurs

• Tremendous sense of ownership
• Great judgment compass
• Technically skilled
• Something to prove
Assessing the Entrepreneur

- Understanding his/her motivations
- Determining his/her commitment level and willingness to sacrifice
- Gauging his/her ego
- Judges his/her appetite for risk
- Assesses his/her domain expertise
- Appraises his/her leadership abilities and vision
Assessing the Technology

- Is the success of the enterprise dependent on the success or uniqueness of the technology?
- How mature is the technology?
- What’s the time to market?
- What’s the technical risk?
- How easy is it to replicate or substitute?
- Is it protectable?
- Is it a breakthrough or just evolutionary?
Assessing the Competition

- understands where the competition is going, not just where it is today
- Rates how nimble & innovative the competition is
- Predicts how they will respond to your offering
- Compares leadership teams
- Understands second order effects
- Considers switching cost
Defining the Market

• Does it fill or create a need?
• Does it change relationships?
• Have the analysts already defined the market?
• Have the products in this market become stale?
• Who else is chasing this space?
• Is it a basis for a ecosystem?
What VCs are Not Good at

- Long term research investments
- Sustainability
- Evolutionary development
- Asset maximization
- Billion $ capital requirements
Post Investment Challenges

- First 18 months is critical for success
- Team building is the #1 challenge
- Focusing the Entrepreneur
- Customer focus and feature discipline
- Brand positioning and defining mission
Developing the Team

- Build companies and products around entrepreneurs
- Hire complementary skills with diverse backgrounds
- Over hire quality, under hire quantity
- Hire multitalented individuals
- Avoid the B team
- Pay attention to team chemistry
Bringing Products to Market

• Getting the 1.0 product right
• Develop platforms not features
• Focus on reliability and performance rather than features
• Don’t over promise or over sell
• Build a comprehensive Beta and testing program
• Plan for frequent revisions for the first six months
• Be responsive to customer needs
• Take the customer’s point of view
Beating the competition

- Understanding the nature of the competitors
- Develop shorter cycle times than competitors
- Invest in customer support and feedback systems
- Beat the competition on performance of the core features
- Make it a better (and easier) user experience
- Consider alternative revenue and pricing models
What’s Going to be Hot

• Virtualization
• Mobility services
• Location based services
• Enterprise services & software
• Internet gaming and entertainment
• Gen Y lifestyle products & services
Where VCs are Hunting

- United States, China, India, Israel
- Startup venture capital hot zones
- Universities
- Entrepreneur networks
- R&D centers
- Mavericks & geeks conferences
So what’s the Key Secret to Venture Investing...
Take some geeks to lunch...

...and don’t forget to pay!
The Venture Capital Approach to Finding and Driving Innovation

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