Insider Guide

The WetFeet Insider Guide to Careers in Venture Capital

2004 Edition

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Opportunity Overview

- The venture capital industry is small and hires only a select few each year. Traditionally dominated by seasoned executives, many firms consist only of general partners and an administrative staff. In the active market between 1997 and 2000, VC firms increased hiring at junior levels; but there is far less new investment activity now, resulting in fewer employment opportunities.
- A bleak picture for undergrads, though a few larger firms hire young people to do some of their basic legwork and analysis.
- Not much better for MBAs, though a few recent MBAs have been recruited right out of business school or have even started their own funds.
- Some opportunities for mid-career professionals with an excellent track record in operating environments, since venture capitalists want seasoned industry veterans with bulging Rolodexes (nowadays Palm Pilots) and specialized knowledge.

Major Pluses about Careers in Venture Capital

- Work with some of the smartest people in business.
- Witness the formation of cutting-edge businesses and technologies.
- Be relatively sheltered from politicking and favoritism—it's the bottom line that counts.
- Over the life of a fund, make potentially dizzying amounts of money.

Major Minuses about Careers in Venture Capital

- Sink or swim. If you don't produce, you'll be kicked out, with skills that are hard to transfer.
- Little upward mobility. Advancing to partner level is difficult.

- Not a popularity contest. The entrepreneurs will not always love you.
- VC can be a lonely business. Many insiders miss the sense of teamwork within their companies.

Recruiting Overview

The basic idea: "Don't call us; we'll call you." Firms rarely interview on campus but will occasionally go through business schools' resume books. However, your resume alone won't be enough. Venture capital firms are reluctant to hire someone they don't know from previous business dealings unless they have a strong recommendation from a trusted business associate. The industry is small and firms are very choosey.

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Overview

Sand Hill Road, a sedate four-lane suburban byway, climbs from the Stanford University Golf Course into the coastal hills. On either side, low office buildings cluster behind signs that read The Mayfield Fund, Sequoia Capital, and Kleiner Perkins Caufield & Byers. These inconspicuous offices are the heart of the venture capital industry, where companies like Apple, eBay, Sun Microsystems, and Yahoo got the start-up money and advice that helped make them Silicon Valley legends.

The industry is a major shaker in the U.S. economy, funding companies developing technological and service innovations long before they become mainstream. A 2002 study by DRI-WEFA, an economic consulting firm, showed that from 1970 to 2000, venture capital-backed companies had approximately twice the sales, paid almost three times the federal taxes, generated almost twice the exports, and invested almost three times as much in R&D as the average non-venture capital-backed public company, per each $1,000 of assets. These are impressive results indeed for what insiders describe as a "cottage" industry.

While VC firms are major shakers in the economy, they aren't major recruiters. General partners within the VC industry garner wealth and satisfaction funding companies in nascent industries and watching them grow up, but breaking into the industry is notoriously difficult. This guide provides a roadmap for those who choose to try.

How Venture Capital Works

Underneath their moneyed mystique, venture capitalists are essentially glorified middlemen, and their modus operandi is easily explained. In a nutshell, a VC firm acts as a broker for institutional or "limited partner" investors such as pension funds, universities, and high-net-worth individuals, all of whom pay annual management fees to have their money invested in high-risk, high-potential-yield start-up companies.

After amassing a certain sum from the limited partner investors—usually between $10 million and $1 billion—the VC firm parcels out the fund to a portfolio of fledgling private companies, each of which hands over an equity stake in its business. In other words, the VC industry is predicated on a simple swap of the VC's financing for an ownership stake in the company's success, often (but by no means always) before the company has begun generating revenues.

Since the VC firm has a vested interest in its start-ups' success, partners will generally sit on several boards of directors, offering advice and additional resources to help businesses grow. In the event that one of its start-ups merges with or is bought out by a larger company or goes public, any windfall is divvied up between the company, the VC firm, and the limited partner investors. Typically, the VC firm distributes 70 to 80 percent of the return on its investments to the various limited partners and keeps the rest for itself.

A Game of Risk

Aside from the prospect of stumbling upon the next eBay, what makes venture capital so exciting is that it comes with no guarantees. Venture capitalists, institutional investors, and entrepreneurs must all be wary of the risk incurred by investing in start-ups. Although it's not unusual for limited partners to double their money through venture investments, they generally entrust only a small portion of their total assets to the VC firm, so that if the fund tanks, they'll remain solvent.

On the other end of the deal, entrepreneurs who accept venture capital often have to contend with pressure from their VCs, who have their own ideas about what's best for the start-up. VC-funded companies that manage to get off the ground must go through several grueling rounds of fundraising to make it to an IPO. Even then, there's a chance that they'll flop. The savviest venture capitalist must be patient if he or she hopes to turn a couple of entrepreneurs in a garage into a publicly traded company. VCs can generally expect to stick around for four to seven years before realizing a return on their investment.

Venture Capital from the Entrepreneur's Perspective

Even though VCs like to imagine themselves as the heroes of the entrepreneurial world, entrepreneurs often have a different view. To give you a feel for this love-hate dynamic, we interviewed an entrepreneur about her experience working with VC investors. This is her story:

Shelly (her name has been changed) thought up a great idea for a business, put together a business plan, borrowed some money from her family to get the business going, and worked with contract employees and suppliers to develop a prototype product. She quickly realized she would need more capital.

Using contacts she made in graduate school, Shelly sought advice and potential investors. She originally targeted private investors, but a VC who was reviewing her plan called her out of the blue and said he would match any private financier's offer. Shelly quickly went for the VC money because she knew the firm would bring prestige and credibility and make it much easier to raise future rounds of financing.

Why did the VCs select her project out of the thousands of proposals they received that year? According to Shelly, they believed she had the skills and personality to make it as an entrepreneur. Also, she was introduced to her investor by a very credible source, probably someone well known to the investor. (A note of caution: Shelly says that just sending in a proposal to a venture capital firm is the kiss of death.)

Negotiations over terms went very smoothly, except for a small wrangle over dilution of stocks. She said that the lesson here is that, once the initial terms are laid out, VCs will try to do anything to protect their price.

As soon as Shelly got her money, she began hiring. The company started getting good press and was putting its product development into high gear. The VCs were pleased and kept pushing her to hire faster and grow as quickly as possible. Shelly saw that she was going to run out of money growing at this rate, so she got a bridge loan to last her the several months until the next valuation.

Nine months after the first round, Shelly's board decided that they needed a new round of venture investment. This time, they got offers from multiple firms, but all at the same low valuation, suggesting to Shelly that VC firms talk to each other when bidding on the same company. She chose firms that were allied with strategic partners and closed a deal with the partner at the same time that she closed the financing.

Armed with more money, the business started growing, and hiring continued; but problems cropped up. Many of the early employees hired by the board didn't work out, and turnover increased. Meanwhile, the company's management thought that the VC firm's attention was directed elsewhere. Indeed, they complained that the VC's added value was limited mostly to headhunter introductions.

As the company raised an additional and substantially larger round of funding from an outside group of companies, at a much higher valuation, relations with the management team worsened. Despite the fact that these companies had provided so much more funding, the original VCs held the balance of power on the board (a common frustration at many VC-funded companies).

When sales for the next period came in below forecast, things turned ugly. The company cut staff, and after a period of contentious wrangling between the senior management team (which included a number of people brought in by the board) and Shelly, she gave an ultimatum: "Get rid of some of the executives, or I'm out." The board backed the other executives, and Shelly left but retained her seat on the board.

When the company was flying highest, it looked as if a public offering or acquisition was on the horizon. These opportunities disappeared when the company ran into problems, but the game is not over yet. The firm may still reach liquidity if it is able to retrench.

Shelly offers the following advice for others working with venture capital firms:

- It's a great way to go, but make sure you research your VC firm and board members carefully. Conduct due diligence on them the way you would with top hires.
- Understand that there are times when you and your VCs will have different motivations. VCs are happy only if the company goes public or is acquired;

but for an entrepreneur, not selling out to another company can produce very significant returns. VCs have a portfolio strategy and want to increase their stake by growing very quickly so that winners will pay off in a big way.

- Don't let your VCs push you around. In the end, the company is your creation—and your responsibility.

A Contemporary History of VC

From 1980 to 1995, VCs raised from $2 billion to $4 billion a year. In the late 1990s, the number and size of venture-backed IPOs soared, reflecting the tremendous performance of the Nasdaq. Rates of return, which had quadrupled for venture-backed companies, seduced even the top VC veterans into a gold-rush mentality. In 2000, some 20 firms were raising $1 billion funds, thinking the Internet bubble would not burst. There was competitive pressure to do more deals, grow portfolio companies fast, and get them to market as quickly as possible. Suddenly, an industry that had been small for years was huge.

In December 1999, Geoff Yang, a VC from Redpoint Ventures, said this about VC investments: "What risk? If the company doesn't work out, we'll sell it for $150 million. If the company kind of works out, we'll sell it for $500 million. And if it really works out, it'll be worth between $2 billion and $10 billion." In 2000, VC investments reached a peak of $68.8 billion, up 80 percent from the $35.6 billion in investments in 1999. VCs seemed constitutionally unable to do wrong. From 1996 to 2001, the number of venture capital funds grew nearly 60 percent, from 422 to 669. In 2000, the year in which the industry peaked, more than 8,000 companies divided more than $106 billion. Then the bubble popped.

In Q4 2000, VCs saw the first negative quarterly return for the industry (negative 6.3 percent) since 1998. Then, between 2000 and 2001, venture investments dropped 65 percent as the stock market downturn slammed the lucrative IPO window shut and slashed the valuations of both public and private companies. In 2002, VCs made 3,042 deals compared to 4,643 in 2001; this number was barely more than half ($21.2 billion) as much as was invested in 2001. "The industry has gone through a painful contraction during the past few years, and it's not over," says an insider.

The effect of this shift on the industry as a whole has been profound. "Opportunists are out of the market. It's back to the way [VC business] was done in 1997," says an insider. Another insider adds, "It's going back to what VC used to be, the get rich slowly plan. Now that the time horizon for investments has been expanded, when you join a fund you've got to be a part of that fund for the next five to seven years."

The State of Venture Capital

According to the Q1 2003 MoneyTree Survey (www.pwcmoneytree.com), total investments during the first quarter of 2003 were $3.8 billion, down from $4.3 billion in Q4 2002. Six hundred and twenty-three companies received funding compared to 726 the prior quarter. The dollar amount invested was the lowest since the third quarter of 1997, and the number of companies that received funding was the fewest since the third quarter of 1996. Software was the leading industry in terms of investment, with $790 million going to 166 companies, but that was down 13 percent from the prior quarter. Biotechnology came in second place, with $490 million going to 49 companies, and telecommunications was number three, with $485 million divided among 67 companies. Meanwhile, 22 VC funds raised just $996 million.

Despite this poor news, insiders are optimistic. "There's some interesting dynamics going on. Certainly some funds with a long track record of being successful may be raising smaller funds, but they won't have any trouble doing it. There are relatively fewer firms raising funds, which makes it easier to do," says an insider. "At my firm and speaking to my colleagues at other firms, we see now as a great time to be investing in start-up companies. Our fund companies are charging more, sales cycles are shrinking. There's a lot more optimism for growth in the future. There's not so much money out there that when somebody comes up with a good idea, there aren't ten companies that kill each other."

"I think the important aspect is that while there's still too much money, which causes over-funding, our industry is back to work this year. People are investing in new and exciting technology run by seasoned entrepreneurs. I think if you were to look at our industry, we're cautiously optimistic. I think the real barrier continues to be corporate capital expenditures. In effect, for our industry to grow, large companies need to do well. We're just starting to see that. My best companies are starting to do well," says an insider. "The quality of everyone in the food chain has gone up dramatically. Management teams are better. Entrepreneurs are better. Venture capitalists are consolidating their positions. I think it's really important today to be connected with a top-tier firm."

The Bottom Line

Finding a job in VC isn't hopeless, but it will be hard. "It's hard to target. There isn't a formula you can control. It's more ambiguous than getting a job at Procter & Gamble or in management consulting," says an insider. Firms are selective, and finding a job requires good luck. "The way to gain access to this industry is to do something great that is visible to people in this industry," says an insider. "There's not a lot on your resume that will tell whether you will do well in venture capital." Operating experience at a technology company is a must in today's environment. "Go somewhere where you can build a base of judgment and behavior in business, and excel in some capacity," says an insider. "Be the product manager of the best, newest PDA. It doesn't have to be a small company. Interact with thought leaders, take risks, and succeed where there is something to be gained." Finally, if you're hell-bent on a career in VC, don't give up. "If you strategize, are smart about looking for the opportunities, there will be some amount of opportunity for you to get in there," says an insider.

How Firms Differ

The venture capital world is made up of only a few hundred small partnership firms, usually employing between two and 40 people. These firms include the famous players—Kleiner Perkins Caufield & Byers, The Mayfield Fund, Bessemer Venture Partners—and many others, some of which are listed in the "Industry Lineup" that follows this section. At first glance, these firms appear to be remarkably similar. They have few employees, lots of money to invest in entrepreneurial ventures, and they want to be part of the next phenomenally successful start-up. Though the firms compete aggressively for deals, they also often combine into syndicates and invest in favored start-ups as teams.

Despite these shared characteristics, each firm has adopted its own approach to succeeding in the competitive and risky world of start-up financing. Firms differ in fund size, regional focus, industry focus, and stage of investing. These differences are noted in the listing that follows this section.

You can find venture capital firms in cities as varied as Kirkland, Washington; Austin, Texas; and Fort Lee, New Jersey. But Northern California (Silicon Valley) VC firms have been responsible for the greatest number of investments, followed by those in greater New York and New England.

Although some firms specialize in low-tech investments, in recent years most VC firms have focused on technology-intensive fields such as software, biotechnology, and telecommunications, foregoing traditional investment areas such as manufacturing.

Divisions of large corporations, affiliates of investment banks, buyout firms, venture leasing companies, small-business investment companies, and other wealthy private investors also evaluate, fund, work with, and sell entrepreneurial organizations looking for capital. During the bubble years, an increasing number of nontraditional venture investors joined the start-up funding wagon, though some, hurt by poor returns, have reduced their commitments or gotten out of the business entirely.

Venture Capital Industry Lineup

Here's a list of some of the hottest VC firms and their basic differentiators. More detailed information on some of the major players follows in "The Firms." For a complete list of VC firms organized by state, see *Pratt's Guide to Venture Capital Sources*, available in most business school libraries.

Apax Partners

212-753-6300 (NY)
www.apax.com

Locations: New York City, Silicon Valley, Europe, Tokyo, Israel

Stage: All stages

Industry focus: Consumer/retail, health care, telecommunications, information technology, services

ARCH Venture Partners

212-944-2400 (NY)
www.archventure.com

Locations: New York City; Albuquerque, NM; Chicago; Seattle; Austin

Stage: Seed, early

Industry focus: Life sciences, information technology, physical sciences

Advanced Technology Ventures

650-321-8601 (CA)
www.atvcapital.com

Locations: Silicon Valley; Waltham, MA

Stage: Early

Industry focus: Information technology, Health care, Communications, Software services

Accel Partners

650-614-4800 (CA)
www.accel.com

Locations: Silicon Valley, London

Stage: All stages

Industry focus: Networking, software

Advent International

617-951-9400 (MA)
www.adventinternational.com

Locations: Boston, Silicon Valley, Europe, Mexico, Asia Pacific, South America

Stage: All stages

Industry focus: Considers all industries, business services

BancBoston Capital & Ventures

617-434-2509 (MA)
www.bancboscap.com

Locations: Boston, Silicon Valley, Hong Kong, London, Latin America

Stage: Early, late

Industry focus: Technology, media, communications, health care

Battery Ventures

781-577-1000 (MA)
www.battery.com

Locations: Wellesley, MA; Silicon Valley

Stage: All stages

Industry focus: Communications, software, infrastructure, media

Benchmark Capital

650-854-8180 (CA)
www.benchmark.com

Locations: Silicon Valley, London, Israel

Stage: Early

Industry focus: Enterprise software & services, communications & security, semiconductors, mobile computing, consumer services, financial services

Bessemer Venture Partners

781-237-6050 (MA)
www.bessemervp.com

Locations: Wellesley, MA; Silicon Valley; Westbury, NY; Larchmont, NY

Stage: All stages

Industry focus: Network security, multi-enterprise software, financial software, storage, wireless data, components & semiconductors, network systems

Brentwood Venture Capital

650-926-5600 (CA–Silicon Valley)
www.brentwoodvc.com

Locations: Silicon Valley, Los Angeles, Orange County

Stage: Early

Industry focus: Internet/e-commerce, communications & data networking, information technology, health care

@Ventures

978-684-3600 (MA)
www.ventures.com

Locations: Andover, MA; Silicon Valley

Stage: Early

Industry focus: Information technology

Crescendo Ventures

650-470-1200 (CA)
www.crescendoventures.com

Locations: Silicon Valley, Minneapolis, London

Stage: Early

Industry focus: Communications, enterprise infrastructure

Crosspoint Venture Partners

650-851-7600 (CA)
www.cpvp.com

Locations: Silicon Valley; Irvine, CA

Stage: Early

Industry focus: E-business services, broadband infrastructure

WetFeet®

Draper Fisher Jurvetson

650-599-9000 (CA)
www.drapervc.com

Location: Silicon Valley

Stage: Seed, early

Industry focus: New technologies, internet applications & infrastructure, software, communications & networking, semiconductors

Foundation Capital

650-614-0500
www.foundationcapital.com

Location: Silicon Valley

Stage: Early

Industry focus: Enterprise software, semiconductors, telecommunications & data networks

Great Hill Partners

617-790-9400
www.greathillpartners.com

Location: Boston

Stage: All stages

Industry focus: Communications, information technology, media, business services

Greylock

617-622-2200 (MA)
www.greylock.com

Locations: Boston, Silicon Valley

Stage: Early

Industry focus: Communications, information technology

Hummer Winblad Venture Partners

415-979-9600 (CA)
www.humwin.com

Location: San Francisco

Stage: All stages

Industry focus: Software

Institutional Venture Partners

650-854-0132
www.ivp.com

Locations: Silicon Valley, San Francisco

Stage: Early, Select late

Industry focus: Application software, IT infrastructure, tech-enabled services

Intel Capital

408-765-8080 (CA)
www.intel.com/capital/index.htm

Locations: United States, Asia, Europe, Tokyo, Latin America, Israel, Australia

Stage: All stages

Industry focus: Communications, computing

J.H. Whitney & Co.

203-973-1400 (CT)
www.jhwhitney.com

Locations: Stamford, CT; New York; San Francisco; Tokyo

Stages: Mezzanine, late

Industry focus: Communications, financial services, information technology, health care, growth industrial

JP Morgan Partners

212-899-3400 (NY); 415-591-1200 (CA)
www.jpmorganpartners.com

Locations: San Francisco, New York, Europe, Latin America, Asia, Australia

Stage: All stages

Industry focus: Consumer, retail, services; financial services; life sciences & health care; industrial growth; technology & telecom

Kleiner Perkins Caufield & Byers

650-233-2750 (CA)
www.kpcb.com

Locations: Silicon Valley, San Francisco

Stage: All stages

Industry focus: Financial services, communications, semiconductors, software, medical devices, health care

Lightspeed Venture Partners

650-234-8300 (CA)
www.lightspeedvp.com

Location: Silicon Valley

Stage: Early

Industry focus: Infrastructure software, enterprise software, networking systems, networking software, semiconductors, services

Mayfield Fund

650-854-5560
www.mayfield.com

Location: Silicon Valley

Stage: Early

Industry focus: Semiconductor, networking, enterprise computing

Menlo Ventures

650-854-8540
www.menloventures.com

Location: Silicon Valley

Stage: All stages

Industry focus: Communications, internet infrastructure, software, semiconductor, data storage, computer hardware

Mobius Venture Capital

650-319-2700 (CA)
www.mobiusvc.com

Locations: Silicon Valley; Superior, CO

Stage: Early

Industry focus: Communications systems, software & services, infrastructure software & services, professional services, enterprise applications, health care informatics, components

Mohr, Davidow Ventures

650-854-7236 (CA)
www.mdv.com

Locations: Silicon Valley; Seattle; Reston, VA

Stage: Early

Industry focus: Software & services, networking & communications, semiconductors

New Enterprise Associates

650-854-9499 (CA)
www.nea.com

Locations: Silicon Valley; Reston, VA; Baltimore

Stage: Early

Industry focus: Health care, technology

Norwest Venture Partners

650-321-8000 (CA)
www.norwestvp.com

Locations: Silicon Valley

Stage: Seed, early

Industry focus: Enterprise software, communications

Oak Investment Partners

650-614-3700 (CA)
www.oakinv.com

Locations: Silicon Valley; Westport, CT; Minneapolis

Stage: All stages

Industry focus: Enterprise software, telecommunications, data storage, health care services, retail

Polaris Venture Partners

781-290-0770
www.polarisventures.com

Location: Waltham, MA

Stage: Seed, early

Industry focus: Information technology, medical technology

Redpoint Ventures

650-926-5600 (CA)
www.redpoint.com

Locations: Silicon Valley, Los Angeles

Stage: Early

Industry focus: Communications & infrastructure, enterprise & infrastructure software, storage, mobile & wireless

Sequoia Capital

650-854-3927 (CA)
www.sequoiacap.com

Location: Silicon Valley

Stage: All stages

Industry focus: Components, systems, software, services

Sevin Rosen Funds

972-702-1100 (TX)
www.srfunds.com

Locations: Dallas, Silicon Valley, Austin, San Diego

Stage: Early

Industry focus: Communications, software, semiconductors

Sierra Ventures

650-854-1000 (CA)
www.sierraven.com

Location: Silicon Valley

Stage: Early

Industry focus: Communications, software, internet

Sprout Group

212-538-3600 (NY)
www.sproutgroup.com

Locations: New York City, Silicon Valley

Stage: All stages

Industry focus: Communications, health care technology, software

St. Paul Venture Capital

952-995-7474 (MN)
www.stpaulvc.com

Locations: Minneapolis, Silicon Valley, Boston

Stage: Early

Industry focus: Communications, health care, software & services

Summit Partners

617-824-1000 (MA)
www.summitpartners.com

Locations: Boston, Silicon Valley, London

Stage: Late

Industry focus: Software, communications, semiconductors & electronics, information services, business services, health care & life sciences

Sutter Hill Ventures

650-493-5600 (CA)
www.shv.com

Locations: Silicon Valley

Stage: Early

Industry focus: Information technology, medical technology, networking, software

TA Associates

617-574-6700 (MA)
www.ta.com

Locations: Boston, Silicon Valley, Pittsburgh, London

Stage: All

Industry focus: Technology, financial services, business services, consumer

Texas Growth Fund

512-322-3100 (TX)
www.tgfmanagement.com

Location: Austin

Stage: Late

Industry focus: Manufacturing, distribution, service

Trident Capital

650-289-4400 (CA)
www.tridentcap.com

Locations: Silicon Valley; Los Angeles; Lake Forest, IL; Westport, CT

Stage: All stages

Industry focus: Information technology, infrastructure, marketing services

U.S. Venture Partners

650-854-9080 (CA)
www.usvp.com

Location: Silicon Valley

Stage: Early

Industry focus: Internet, semiconductors, health care, software, communications, consumer branded

Venrock Associates

212-649-5600 (NY)
www.venrock.com

Locations: New York City; Silicon Valley; Cambridge, MA

Stage: Early

Industry focus: Information technology, health care/life sciences

Versant Ventures

650-233-7877 (CA)
www.versantventures.com

Locations: Silicon Valley; Newport Beach, CA

Stage: Early

Industry focus: Medical devices, health care services, health care info tech, life sciences

Top VC Investment Sectors in 2002

Industry	Amount ($B)	% of VC Invested
Software	4.3	20
Telecommunications	2.9	14
Biotechnology	2.8	13
Networking	2.2	11
Medical Devices	1.9	9

Source: WetFeet research.

When it ranked the top ten venture capital players in 2001, *Red Herring* put Kleiner Perkins at the top of the list. The firms are rated by ten factors including disbursements, longevity, experience, and IPOs/Sales. While *Red Herring*'s ranking is a bit dated, the reputations of these firms remain strong.

Ten Major Venture Players

Rank	Firm
1	Kleiner Perkins Caufield & Byers
2	Accel Partners
3	Matrix Partners
4	Sequoia Capital Partners (tied)
	Oak Investment Partners (tied)
	Mayfield (tied)
7	Greylock
8	Menlo Ventures
9	North Bridge Venture Partners
10	Benchmark Capital

Source: *Red Herring*, 4/16/01.

Industry Trends

The Age of Limits Redux

Last year, the big trend was the downtrend. Fund reserves were at record levels, fundraising had slowed considerably, M&A and IPO activity had dropped, and several firms had returned money to limited partners in order to reduce fund size. In short, the industry was overextended, with more money than could be productively deployed. "Yesterday's market could absorb a lot of mistakes," according to one insider. "You just went out and raised more money. Now that isn't possible." We wondered, "Who will be the winners, and who will be the losers?" We continue to wonder. Mid-2003 is as tough to call as mid-2002, though the signals are more mixed and insiders more hopeful. More than $80 billion of the $252 billion in venture capital under management remains unspent, though insiders indicate that much of this will most likely go to support and rescue sunk investments rather than create new ones. It takes three to six years for funds to be deployed and yield results. Investors don't know how the funds they've invested in are doing until the fourth, fifth, or sixth year, though so far, the average 1999 venture capital fund is showing a negative 16.2 internal rate of return, according to Venture Economics. "It could be five years before you know whether a fund's going to be good or not. Therein lies the problem in how to burn off the capital," says an insider. However, those firms with a track record, historically speaking, are the ones most likely to survive. "The people who are going to face the brunt of the pain are those newcomers and new entrants."

Fundraising

A number of VCs are raising or planning to raise new funds. These will be much smaller than the mega-funds of 1999 and 2000. Sequoia, which raised a $385 million fund in 2003, was the first veteran firm to raise a fund since the bust. Arch Venture Partners, Kleiner Perkins, and Silver Lake Partners all plan to raise funds soon, too. "The funds of 2003, 2004, and 2005 are being right-sized to the size of the opportunity. And I think that's incredibly healthy. If you're not following the same capital strategy [Sequoia, Arch, and Kleiner] are, you are going to be called out," says an insider. "The way you beat the average is to be small, quick, and nimble. If you've got too much money you can't deploy, it's going to drag your firm down."

Consolidation

The number of professionals within the industry shrunk between 2002 and 2003, with a number of firms cutting staff and closing offices. Investment banks, including Goldman Sachs, Deutsche Bank, and Banc of America Securities all shuttered their Silicon Valley offices between 2002 and 2003. ("For three years entrepreneurs have trekked to this set-back strip of glass-and-dark-wood-hued buildings in Menlo Park, Calif., to pitch ideas, only to walk away empty-handed," wrote Adam Lashinsky in the May 26, 2003 issue of *Fortune*. "Many of the investment bankers who set up shop in the late 1990s to feed off the deals have left town. If Sand Hill Road wore a mood ring, it would surely be glowing black.") VC firms, including Accel Partners, Atlas Ventures, Mohr Davidow, and Redpoint Ventures, continued a trend of reducing the size of their funds, with several reducing their funds twice. All this has reduced the size of the industry and trimmed some of its fat. While the process may take more time, insiders indicate the industry is moving back to the fundamentals that have sustained its success.

Clawbacks

In 2002 to 2003, thanks to the industry's poor showing, clawbacks started making the news. Clawbacks are a contractual obligation that requires the venture capitalists to pay back an investor's principle before the VC can keep any of the fund's profits. Funds raised in 1998, 1999, and 2000 all started strong, but fell on tough times. Many paid profits to general partners on a deal-by-deal basis. Instead of putting the money in an escrow account, these partners put it into the stock market. When the market crashed, they lost the distribution that legally belonged to limited partners. A clawback requires these VCs to write personal checks from the vanished distributions. Firms may have to turn to the courts to get money back from partners who have left, while other partners may claim personal bankruptcy to protect their assets. Several firms have already taken steps to avoid clawbacks. TA Associates, for instance, returned $38 million in August 2002 (an average of $2.4 million per partner). Battery Ventures, Meritech Capital Partners, and Spectrum Equity all reduced or waived management fees. Experts anticipate more clawbacks, with one suggesting as many as 20 firms will be facing them. "The mechanisms [of clawbacks] are fairly complicated," says an insider, who indicates they affect partners, not associates or analysts. "For the positions people are being hired into, compensation is not relevant to that."

Regulation

There's been some talk about regulating venture capital, where information is almost never made public. Pension funds, for instance, have been pushing for disclosure of financial information from venture funds. VCs typically don't disclose information from their private companies; they say it can damage the companies and innovation. "Right now, there aren't a lot of apples to apples comparison," says an insider. "We as a venture fund are unwilling to share financial information. As far as the regulation goes, I think that will sort itself out. I think what's going to happen is the funds that don't perform well are going to disappear." That could drive down management and carry fees. "In my mind, the market mechanisms will take care of the regulations."

Hot Sectors

Several sectors have been getting press at mid-year 2003. Venture Economics reports that VCs invested $850 million in 110 new and existing Internet companies in 2002, compared to $13.1 billion among 750 companies in 2000, at the boom's peak. The hot companies were transaction-based with revenues, such as Fandango and Fresh Direct. Pharmaceutical, medical products, and biotech are all strong candidates for funding as venture capitalists try to capitalize on the country's aging population. Security has also been big, as VCs fund companies seeking to fund companies that can take a share of the $98 billion to $114 billion that will be spent on Homeland Security in 2003. (Jack Hitt's "The Business of Fear" in the June 2003 *Business 2.0* details this sector in detail.) Information technology and telecom, particularly wireless, continue to attract VC dollars. ("We have yet to hit the knee of the curve in terms of making things easier to use," says an insider. "We've forever been introducing more and more complexities into systems.") "People are focusing on hard-to-replicate, disruptive technologies. It's a classic venture play. It's always in vogue. It's a technology developed in a university lab or within government that's truly a breakthrough in end-customer benefits," says an insider. "Some are better, faster, and cheaper; others are brand new things that couldn't be done before because there wasn't an enabling technology."

Glossary

Angels. An important alternative to VC for start-up financing. Angels have typically made a killing somewhere or other and are now investing in seed-stage entrepreneurial ventures, typically at $25,000 to $250,000 a pop. Note to entrepreneurs: Before you jump on the VC bandwagon, consider angels. They offer a very attractive alternative for many funding needs.

At the end of the day. Venture capitalists love this expression, because at the end of the day they are judged on bottom-line results. For example: "At the end of the day, it doesn't matter that Rex is a college buddy of Carter's. We'll still take a big hit on that one if the supercomputer market is as dead as I think it is."

Bandwidth. An obsession for VCs who are investing in companies that are trying to speed up the Internet. Its bastardized use is as follows: "Genex's CEO needs to focus better. His people just don't have enough bandwidth to implement all of his crazy ideas." In other words, Genex's people don't have the time or capacity due to workload or other constraints to carry out his ideas.

Burn rate. How fast a company is using up its capital. "They've got $2.4 million cash in the bank and no more coming in the near future. At their current burn rate of $800,000 per month, they've only got three months left."

Carry. The portion of returns from an investment fund that is distributed among the general partners (non-VCs would probably use the mundane word "profits" instead). Possible usage: "When you are interviewing for an associate position, find out if you will get any carry in the fund."

Cash-on-cash return. The total cash return from a fund. If a $50 million fund returns $75 million, then the cash-on-cash return is $75 million. (See Internal Rate of Return.)

Check if the dogs will eat the dog food. Determine whether customers will actually buy a start-up's product or service. An ironic phrase, given that in reality dogs will eat pretty much anything.

Clawback. A clause often buried in the contracts investors and venture capitalists sign that require VCs to give back past profits if a fund loses so much money the investor's original investment is jeopardized.

Deal flow. Venture capitalists and serious private investors love to talk about deal flow, meaning the number of deals/business plans they are regularly seeing. "Since I funded Yahoo, I've had more Internet deal flow than I can handle."

Deliver against. What venture capitalists want their start-ups to do. When talking to a CFO, you might say: "Well, Bill, do you think your team can deliver against those projections?"

Dial for deals. Some larger venture capital firms have been hiring young sharpies to do a lot of the initial scut work in order to get an edge on the competition. One of these tasks includes calling up hundreds of start-up companies in order to discover potential winners. A partner might say: "I heard that Summit just hired four more 23-year-olds away from McKinsey so they can dial for deals."

Doesn't move the needle. An opportunity that can't generate sufficient play to make it worth spending time on. For example, "Strangely enough, Company X didn't even move the needle—we sold it for only $50 million."

Due diligence. The research that must be done to fully understand and determine the worth of any investment opportunity. Critical factors include the state of the industry (including competition) and the strengths and weaknesses of the management team. VCs will sometimes hire consultants to conduct due diligence, but it is also a routine internal function.

Exit. VC firms (and investors in general) tend to fixate on a company's exit, or "liquidity event." This event, typically an IPO or acquisition, allows the VC to realize a return on investment.

General partners and limited partners. General partners, the professional members of a venture capital firm, are usually required to contribute a small amount of their own money to their fund. They manage the fund's investments and generally take a 20 to 30 percent cut of the carry from the fund. Limited partners are the passive investors in a venture capital fund who ante up the cash. They often include wealthy individuals and organizations such as pension funds and universities. Prohibited from playing an active role in the management of the fund, they generally get 70 to 80 percent of the carry.

Getting traction. Generating ideas for good investments and then successfully executing them; generally used as a term of praise. "She's only been at Smith Ventures for eight months, but she's been getting good traction. One of the companies she brought to us had a fantastic IPO, and we're excited about two others she's brought to our attention."

Hockey stick. What the graph of projected revenues looks like in most business plans submitted to venture capitalists, with initially flat revenues (the blade of the hockey stick) suddenly enjoying a sustained, sharp rise (the handle). "Have a look at this business plan. This company's hockey stick is supported by both existing sales and a strong management team."

Internal rate of return. IRR is the most common measure of the success of a fund or a partner. It's the discount rate at which the present value of future cash flows of an investment equals the cost of that investment. More simply, think of it as the profits of the fund or investment expressed in percentage terms.

Kick the tires. Perform due diligence. The implication being that performing due diligence is as routine as buying a Mercedes. A partner might say to an associate: "I'll need you to really kick the tires on this prospect before I present it to the rest of the firm."

Liquidation/liquidity. How fast you can get the cash. Even if you own 40 percent of a company worth $100 million, it doesn't mean much until you can get somebody to pay for it. From the VC perspective, liquidity usually comes from going public with an IPO or being acquired by a third party.

Living dead. Companies in which VCs have invested that don't have a chance of going public or being bought out, but which won't die, either.

Mezzanine (or bridge) financing. The kind of financing for companies with imminent IPOs, usually within six months or a year, the proceeds of which may be used to repay it.

New money. In the second and subsequent rounds of investment, an entrepreneurial firm will often bring in new investors, generally referred to as "new money." Keep in mind that new money generally hates to buy out the shares of old money (early-round investors) because doing so doesn't contribute to the financing of the business itself.

Over the transom. The generic arrival route of all unsolicited opportunities. For instance: "Usually I get my leads from my friends, but Philinx came in over the transom and turned out to be one of the greatest deals I ever made." Most venture capitalists are not interested in information that comes in over the transom; they'd rather get referrals from their network of contacts.

Paradigm shift. You'll hear this term in many business contexts, but it's particularly overused in venture capital, because it's what all venture capitalists yearn to recognize and exploit. For example: "The movement to direct sales of memory upgrades represents a paradigm shift in distribution for this industry." The idea here is that companies that successfully anticipate a paradigm shift will reap exceptional financial rewards.

Preferred stock. Corporations have several types of stock, referred to as classes, with different rights attached to them. From the investor's perspective, the most significant group is the preferred stockholder class, which has higher-priority claims on a company's assets, both at dividend time and in the event of a bankruptcy. Venture capitalists almost always take their equity as preferred stock.

Pre-money and post-money. Let's say a company is valued at $4 million and you invest $1 million for a 20 percent share in the company. The pre-money valuation would be $4 million, and the post-money valuation would be $5 million.

Rounds. Financing for start-up ventures usually comes in rounds. "I hear that Network Devices is having trouble raising its third round, because its second round lead investor is balking at the new valuation." It's not unusual for an entrepreneurial firm to raise several rounds of capital before reaching profitability or going public.

Seed investment. An investment in the early stages of a start-up, typically when the company is little more than an entrepreneur with an idea and a plan.

Source. Used as a verb: To find likely candidates for investment. Methods include wading through piles of business plans submitted by entrepreneurs, devouring stacks of trade journals, scouting trade shows, and scouring your Rolodex for brains to pick.

Type 1 errors. Investments a VC made that don't pay off.

Type 2 errors. Investments a VC passed on that hit the jackpot.

Valuation. The dollar value of a company, as determined by the price investors are willing to pay for the stock. Assigning a value to a start-up is a notoriously subjective process. "I hear that Zipdot raised its valuation from $5 million to $10 million in six months. That shows you what the addition of a marketing guy on the investor relations team will do!"

The Firms

There are a lot of VC firms out there; the ones listed here are merely representative. For information on other firms, see *Pratt's Guide to Venture Capital Sources* at your school library or visit www.nvca.com.

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Company Overview

With offices in Albuquerque, Austin, Chicago, New York, and Seattle, ARCH goes where few venture firms dare to tread: the ivory towers of academia and the cluttered realms of national laboratories. The firm, which was spun out of the University of Chicago, builds companies on ideas that emerge from universities. The firm has also been successful doing deals with research programs at large corporations, such as Array BioPharma, which ARCH helped spin out of Amgen. ARCH currently manages five funds totaling more than $700 million, with investments in some 90 companies. The firm launched its fifth fund, the $380 million ARCH Venture V, in 2000. In 2003, it is raising a sixth fund of between $250 and $350 million; as of May, it had closed on $75 million. ARCH counts among its success stories Web shopping agent NetBot, Inc., enterprise application company New Era of Networks, Inc. (NEON), and chip maker Caliper Technologies Corp. Adolor Corp, which went public in fall 2000 and paid off 13 times, had a business plan written by the ARCH team.

Key Facts

- Targets companies focused on information technology, life sciences, and the physical sciences.
- Has a female African American managing director, noteworthy in the white male-dominated world of VC.
- Ninety-five percent of investments are at the seed or start-up stage.

Key Financial Statistics

Capital under management: $700 million
Minimum investment: not available
Preferred investment: expects to commit $10 million to $15 million to a company over the life of a deal

Personnel Highlights

Number of professionals: six managing directors, one partner, three associates, five venture partners, one CFO, and one technical advisor

Accel Partners

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Company Overview

With Jim Breyer leading the way, Accel Partners has enjoyed spectacular returns with several successful IPOs, including that of UUNet, a Web service provider that was among the venture community's first forays into the Internet arena. Accel has been in business for more than 20 years and boasts investments in more than 100 companies. With investors that include prominent companies such as Microsoft, Lucent, Dell, and Disney, it has backed a variety of information technology start-ups, including RealNetworks and enterprise software players such as Agile Software and Remedy. Accel's software portfolio includes BB&T, Lightspan, and Walmart.com. In 2001, Accel Partners closed its Accel Europe Fund of $500 million and, with Kohlberg Kravis Roberts & Co., formed a venture to focus on telecommunications industry investments called Accel-KKR Telecom. In 2000, Accel Partners raised a $1.4 billion fund, but reflecting the challenging environment, wanted to split it into two $700 million funds. Investors rebelled, and Accel instead reduced the fund by about 32 percent to $950 million in 2002. The firm plans an additional reduction in

2003, with plans to reduce Fund VIII 28.5 percent to $679 million. Accel isn't expected to raise an additional fund until 2004.

Key Facts

- Focuses on only two sectors: networking and software.
- Jim Breyer, managing partner, made *Forbes* 2003 Midas List of top tech VC investors.
- Accel has voluntarily taken more committed capital out of its funds than any VC fund in history; if limited partners agree on the reduction to Fund VIII, the Fund will have been reduced from $1.4 billion in 2000 to $679 million.

Key Financial Statistics

Capital under management: more than $3 billion

Minimum investment: less than $100,000

Preferred investment: no preference

Personnel Highlights

Number of professionals: 13 managing partners, three partners/venture partners, and five venture consultants

Battery Ventures

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Website: www.battery.com

Company Overview

Battery is a medium-size firm that dates back to 1983. The firm handles a full menu of technology deals, currently specializing in application software, communications services, e-commerce products and services, semiconductor and related products, and infrastructure technologies. Unlike some of its major competitors, who rely heavily on partners for deal flow, Battery Ventures has an active group of associates and analysts pounding the pavement to generate and evaluate a large number of investment leads. It has more than 130 companies in its portfolio and has invested in Allegiance Telecom, Akamai Technologies, Infoseek, FORE Systems, and Nextel. The firm's fifth fund closed August 2002 with $450 million, but the prospect of a possible clawback led the firm to reduce fees, costing it $51 million; in exchange, limited partners eliminated the clawback provision. The firm laid off nine employees in December 2002, including two general partners, reflecting the tough climate for VC firms.

Key Facts

- Relatively large staff gives it greater depth of experience and allows a team-based approach towards due diligence.
- Recent investments include Netezza, Corrent, and ProfitLogic.
- Historically, two-thirds of all Battery investments have yielded profitable returns, resulting in a record of consistent top-quartile performance within the VC industry.

Key Financial Statistics

Capital under management: $1.8 billion

Minimum investment: $1 million

Preferred investment: more than $5 to $35 million

Personnel Highlights

Number of professionals: staff of 37 includes 11 general partners, two venture partners, one entrepreneur-in-residence, one principal, 16 investment professionals, and six operations professionals

Benchmark Capital

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Website: www.benchmark.com

Company Overview

One of a new breed of VC firms, Benchmark was founded in 1995 to challenge the industry status quo. Among its founders are Andy Rachleff, a veteran VC of AOL and Nortel Networks fame, and Robert Kagle, who made $170 million on eBay. The Benchmark partners work as a team, rather than in the typical model in which partners invest and operate independently. Benchmark immediately hit the big time with eBay, Scient, and Ariba. In 2000, it raised a $220 million Israeli fund and a $750 million European fund. It has since reduced the amount of its European fund to $500 million and, in October 2002, added $40 million to its Israeli fund, through which it has committed $20 million to seven start-ups. In 2002, Nordstrom bought the minority state from Benchmark and Madrona Investment Group for $70 million.

Key Facts

- Benchmark maintains a high partner-to-capital ratio by limiting the number of companies in which it invests.
- The firm's portfolio includes eBay, Handspring, Juniper Networks, and Red Hat Software.
- Five partners—Robert Kagle, Andy Rachleff, Kevin Harvey, David Beirne, and Bruce Dunlevie—made the *Forbes* 2003 Midas List of the best tech investors.

Key Financial Statistics

Capital under management: $2 billion

Minimum investment: $100,000

Preferred investment: $3 million to $5 million initially; $5 million to $15 million over the life of a company

Personnel Highlights

Number of professionals: 17 partners (including three in Israel and four in Europe), two entrepreneurs-in-residence

Bessemer Venture Partners

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Company Overview

Comfortably ensconced in the leafy suburb of Wellesley, Massachusetts, Bessemer traces its roots back to 1911, when steel titan Henry Phipps founded the Bessemer Securities Corporation. Phipps, Andrew Carnegie's business partner, left behind a sizable stash of money that needed to be invested. Today, the partners don't have to spend any time raising money, since funds come from the Phipps family's endowment. The firm added a Larchmont, New York office in 2000. Successes include Ciena, Gartner Group, Mindspring, Staples, and VeriSign. Currently, the firm specializes in communications and infrastructure. In late 2002, Bessemer came away with a $9.1 million take after selling nearly 700,000 shares in the Dick's Sporting Goods IPO.

Key Facts

- One of the longest-standing VC firms in the country, Bessemer has invested in a wig company, a French-fry company, and the Lahaina, Ka'anapali & Pacific Railroad.
- The firm also played a role in establishing or building such heavyweights as W.R. Grace, International Paper, and Ingersoll-Rand.
- Rob Soni, number six on *Forbes* Midas list for 2003, left Bessemer in January.

Key Financial Statistics

Capital under management: more than $2 billion

Minimum investment: $100,000

Preferred investment: $4 million to $10 million

Personnel Highlights

Number of professionals: six general partners, 13 partners and principals, and five associates

Brentwood Venture Capital

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Company Overview

Founded in 1972, this Los Angeles-based firm has established itself as a major player in the information technology and health care sectors. In 1999, Brentwood joined Institutional Venture Partners and Crosspoint to form two industry-focused funds: Redpoint Ventures, which invests in information technology, and Versant Ventures, which specializes in health care. Apple Computer, Cirrus Logic, Sybase, and WebTV are among the 300 companies that Brentwood has helped grow.

Key Facts

Much success with computer networking, including investments in Wellfleet Communications, SynOptics, and Xylan.

Key Financial Statistics

Capital under management: $1 billion
Minimum investment: $1 million
Preferred investment: more than $5 million

Personnel Highlights

Number of professionals: nine partners, with six on the technology team and three on the health care team

Crosspoint Venture Partners

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Company Overview

Crosspoint was founded by John Mumford in 1970, while he was still in business school at Stanford, and has had a hugely successful run—in 2002, *Forbes* cited Crosspoint as the best performing fund in the industry, having paid investors $29.60 for every dollar invested in 1996. The company saw major profits from many of its Web-related ventures, including Juniper Networks, though unlike many other funds it had the foresight to stay away from consumer e-commerce companies. In 2000, the firm made news when it suspended allocation of a new fund so it could focus on working with its existing portfolio rather than on funding new companies, and then gave back $1 billion. In general, Crosspoint prefers to invest in early stage start-ups, making initial investments of up to $40 million. It has founded, managed, or invested in more than 200 companies, including DemandTec, ProactiveNet, and Wherenet. Mumford is on record saying he hopes to retire soon, and there have been some questions about the firm's succession planning.

Key Facts

- Crosspoint's values include "seek the truth no matter how painful," "do something inspiring," and "our dreams are ridiculous, so laugh and enjoy them."
- Three partners, including Mumford, Richard Shapero, and Seth Neiman, made the *Forbes* Top 100 Midas List of the best tech venture investors in 2002, but only Neiman made the list in 2003.
- With offices in Northern and Southern California, the firm concentrates its investments on the West Coast.

Key Financial Statistics

Capital under management: $2 billion

Minimum investment: not available

Preferred investment: up to $40 million

Personnel Highlights

Number of professionals: five partners, chief administrative partners, and general partner emeritus

Greylock Management Corporation

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Company Overview

Greylock was founded in 1965 by Bill Elfers and Dan Gregory. Initially, six prominent families and seven universities, including Dartmouth, Duke, Harvard, MIT, Princeton, Stanford, and Yale, committed $9 million. Now the firm is on its 11th fund (a $1 billion fund), and no new investors have been added in years. Portfolio successes include DoubleClick, Red Hat, Xros, and Vertex Pharmaceuticals. The firm takes an approach in which the entrepreneur is the "star" and the firm is the "invited guest," focusing on capital-efficient businesses. Greylock's current focus is on early stage investments high-tech content, security, and storage. In 2001, the firm went international, investing in partnerships with Pitango Venture Capital in Israel and Fidelity Ventures and Accel Partners in Europe. In 2003, it named Moshe Mor, its CEO-in-residence, a general partner; Mor had intensified the firm's focus on Israeli and European companies. Recent investments include HyperRoll, an Israeli developer of processors for storage network applications, and Cape Clear, an Irish software firm.

Key Facts

- Three of Greylock's investments, Acta, Cape Clear, and Seven, are on *Red Herring*'s list of 100 companies most likely to change the world for 2002.
- Greylock has supported 250-plus companies, more than 120 of which have become publicly held and 80 of which have merged with other companies.
- Three partners, Roger Evans, David Strohm, and William Kaiser made the *Forbes* Top 100 Midas List of the best tech venture investors in 2003.

Key Financial Statistics

Capital under management: $2.2 billion

Minimum investment: not available

Preferred investment: not available

Personnel Highlights

Number of professionals: 11 general partners, one venture partner, one principal, one administrative partner, one executive-in-residence, one entrepreneur-in-residence, and one administrative partner. The firm also has four founding partners and three members of its "fast forward group," which helps entrepreneurs in the firm's portfolio companies.

Hummer Winblad Venture Partners

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Company Overview

Established in 1989 by John Hummer and Ann Winblad, Hummer Winblad Venture Partners was the first venture capital firm to invest solely in software companies. Yet, in addition to working with many companies that develop applications, infrastructure, business and consumer networks, retailers, and utility software, Hummer Winblad joined the e-commerce rush as well. Though the firm suffered some highly visible failures, such as Gazoontite and Pets.com, e-commerce comprised only 20 percent of the firm's investments, and cofounder Ann Winblad reported that, despite the dot com losses, in 2000 Hummer Winblad made the highest amount of distributions to its investors in the firm's history. In early 2001, the firm closed its fifth fund with $450 million raised, up from $315 raised for Fund IV in 1999.

Key Facts

- Cofounder Ann Winblad was recognized by *Upside* as one of the 100 most influential people in the digital age; *Vanity Fair* called her one of 50 leaders of the so-called "New Establishment."
- Portfolio companies include Homes.com, Extensity, Dean & Deluca, Liquid Audio, and Wind River Systems.
- Universal Music Group and a unit of EMI Group sued Hummer Winblad and two partners, claiming they contributed to copyright infringement by giving Napster financial support.

Key Financial Statistics

Capital under management: $700 million
Minimum investment: $100,000
Preferred investment: $100,000 to $5 million

Personnel Highlights

Number of professionals: seven partners and one principal

Institutional Venture Partners

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Phone: 650-854-0132
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2 Embarcadero Center, Suite 1680
San Francisco, CA 94111
Phone: 415-765-9393
Fax: 415-434-1903

Website: www.ivp.com

Company Overview

Back in 1952, after receiving his MBA from Stanford, Reid Dennis invested $20,000 in Redwood City's Ampex Corporation. Twenty-two years later, Dennis raised $19 million from six institutions and formed Institutional Venture Associates, which later became IVP. Now on its tenth fund, IVP has backed more than 200 companies, including more than 75 that have completed IPOs and 25 that have been successfully acquired. During 1999, several of the firm's partners left to team up with partners from Crosspoint Ventures and Brentwood Venture Capital to form two new firms: Redpoint, which focuses on early stage information technology companies, and Versant Ventures, which focuses on early stage life sciences companies. IVP boasts a historical portfolio of successes like the chip companies MIPS and Cirrus Logic, the hard-drive company Seagate, and the networking company Wellfleet Communications. More recently, IVP hit it big with Excite, and has backed start-ups that include Ask Jeeves, Bay Networks, LSI Lolgic, Seagate, Transmeta, and Biopsys.

Key Facts

- The firm's portfolio companies have revenues of more than $25 billion, a market value of more than $75 million, and employ more than 150,000 people.
- IVP has funded more than 200 companies, with more than 75 IPOs.
- Entrepreneur-in-residence program has hosted more than 26 participants.

Key Financial Statistics

Capital under management: more than $1.3 billion
Minimum investment: not available
Preferred investment: $5 million to $10 million

Personnel Highlights

Number of professionals: four partners, one principal, two directors, and one analyst, plus 13 past partners managing portfolios of previous funds

Intel Capital

2200 Mission College Blvd. RN6-37
Santa Clara, CA 95052-8119
Phone: 408-765-8080
Fax: 408-765-1399

Website: www.intel.com/capital/index.htm

Company Overview

Intel Capital, Intel Corporation's investment arm, has developed into a powerhouse in technology investment since the 1990s. Originally backing only companies that would create demand for Intel processors, Intel Capital has taken on a broader purpose—to grow the Internet economy, and in particular technologies that provide rich content, such as gaming deals, optical components, network management, and Web services. Intel Capital has investments around the world in more than 500 companies. Investments include Consystant, located in Washington State, providing network processor application development software; MobileAware, which is based in Dublin, Ireland, providing mobility solutions for operators and corporate enterprises; and China TMN Corporation, a specialist in telecommunications management and distributed network management software located in the Chengdu High Tech Development Zone in China. While Intel Capital has had consecutive years of write-downs in 2001 and 2002—totaling $841 million for bad deals—Intel Capital continues to make investments. In 2002, Intel Capital invested $200 million in 100 companies, and it plans to invest $200 million again in 2003, with more new deals and a focus on LANs. Intel's CFO says the company will most likely continue to write-down the value of many investments. In 2002, Intel Capital also became responsible for overseeing development and growth of new businesses within Intel.

Key Facts

- Invests just about everywhere: the United States, Asia, Europe, South America, and Israel.
- Two-thirds of Intel's investments in 2002 were follow-on deals; $57 million was divided on three new investments.
- Intel intends to invest $150 million in 2002-2004 in startups working on technologies that use the 802.11 wireless standard; wireless networks will support its wireless processor platform. (802.11 is also called WiFi.)

Key Financial Statistics

Capital under management: $5.9 billion

Minimum investment: not available

Preferred investment: not available

Personnel Highlights

Number of professionals: not available

JP Morgan Partners

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New York, NY 10020
Phone: 212-899-3400
Fax: 212-899-3401

125 London Wall
London, EC2Y 5AJ
United Kingdom
Phone: 44-207-7777-3365
Fax: 44-207-7777-4731

Suite 3003, 30/Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong
Phone: 852-25331818
Fax: 852-28685551

90 Collins Street
8th Floor
Melbourne
Australia 3000
Phone: 613-9631-8300
Fax: 613-9631-8333

Av. Brigadeiro Faria Lima, 3729
andar 15
04538-905 São Paulo – SP
Brasil
Phone: 5511-3048-3700
Fax: 5511-3048-3888

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San Francisco, CA 94111
Phone: 415-591-1200
Fax: 415-591-1205

Kardinal - Faulhaber-Strasse 10
80333 Munich
Germany
Phone: 49-89-24-26-89-0
Fax: 49-89-24-26-89-90

Avda Corrientes, 411
1043 Buenos Aires
Argentina
Phone: 54-11-4325-7292
Fax: 54-11-4348-7238

Yamato Seimei Bldg. 12F
Uchisaiwaicho, Chiyoda-ku
Tokyo 100-0011
Japan
Phone: 813-3504-2888
Fax: 813-3504-2823

Website: www.jpmorganpartners.com

Company Overview

In 1984, 28-year-old Jeff Walker talked his superiors at Chase Manhattan into starting a private equity fund. Once described by a colleague as one of the "smartest, most productive people on Wall Street," Walker then immediately made a cool $6 million by buying and selling a radio station. Over the past 16 years, Chase Capital Partners has become one of the largest and most powerful players in the venture capital field. In early 2001, when Chase Manhattan (CPP's sole source of financial support) and JP Morgan merged, so did their private equity divisions. Chase Capital Partners became JP Morgan Partners, with offices across the globe in more than 50 countries, and some 150 professionals. Specializing in mezzanine investing, JP Morgan has closed more than 1,000 deals in an unusually wide range of industries in more than 30 countries, and currently maintains more than 500 portfolio companies. However, in 2001, it took it on the chin, reporting a $1.18 billion loss in the VC portfolio, and in 2002 it got hurt, too, with $789 million in losses. In the fourth quarter of 2002, it wrote down $91 million on the value of its (then) $24 billion portfolio. It also closed an $8 billion fund, which had originally been targeted for $13 billion; 50 percent will be allocated for capital buyouts, 30 percent for growth equity, and 20 percent for venture capital. Write-downs are expected to continue.

Key Facts

- Aside from venture capital, provides services in real estate, management buyouts, recapitalizations, and growth equity.
- The firm invests in consumer, retail and services; financial services; life sciences and healthcare infrastructure; industrial growth; real estate; technology, media, and telecommunications.
- Portfolio companies include 1-800-Flowers, American Tower Systems, Edison Schools, iXL, Nationsrent, Packaging Corporation of America, and Wild Oats Markets.

Key Financial Statistics

Capital under management: $23 billion
Minimum investment: $5 million
Preferred investment: more than $10 million

Personnel Highlights

Number of professionals: staff of 150 investment professionals

Kleiner Perkins Caufield & Byers

2750 Sand Hill Road
Menlo Park, CA 94025
Phone: 650-233-2750
Fax: 650-233-0300

4 Embarcadero Center, Suite 3620
San Francisco, CA 94111
Phone: 415-421-3110
Fax: 415-421-3128

Website: www.kpcb.com

Company Overview

Established in 1972 by Eugene Kleiner, a founder of Fairchild Semiconductor, and Thomas Perkins, a Hewlett-Packard veteran, Kleiner Perkins Caufield & Byers (KPCB) emerged as the premier name in venture capital during the tech boom at the end of the 20th century, when it racked up annualized returns of more than 30 percent for some two decades. With early investments in Genentech and Tandem, it has shown a knack for picking winners. Over the years, its portfolio has included just about every marquee name in technology, including Lotus, Compaq, Intuit, Macromedia, Sun Microsystems, and Netscape. Today, three of the founding partners have retired to partner emeritus status, while VC heavyweights Vinod Khosla (founding CEO of Sun Microsystems) and John Doerr (the hyperactive presence behind Netscape and many other Silicon Valley companies), ranked one and three on the *Forbes* 2003 Midas list, have easily picked up the slack. Other partners include Brook Byers, founder of the first life sciences practice in the VC industry, and Will Hearst, former editor and publisher of the *San Francisco Examiner*. A very big fish in the VC pond, KPCB has scored with such high-profile IPOs as AtHome, Amazon.com, and Netscape, as well as Juniper Networks, Extreme Networks, Cerent, and Handspring. In 2002, Kleiner reduced the size of its most recent fund by 25 percent, from $630 million to $470 million; the firm (and John Doerr) has also been sued by investors for allegedly misleading them before dumping shares of Martha Stewart Living Omnimedia.

Key Facts

- Believes its Keiretsu, or network of more than 100 companies and thousands of executives who share resources and knowledge, distinguishes it from other VC firms.
- Portfolio companies include Segway, Electronic Arts, Flextronics, Genomic Health, Google, Echelon, myCFO, and 360networks.
- Four partners named to the 2003 *Forbes* Midas List including the number one and three VC, Vinod Khosla and John Doerr, respectively (Kevin Compton and William Hearst are the other two).

Key Financial Statistics

Capital under management: $2 billion

Minimum investment: $500,000

Preferred investment: $1 million to $5 million

Personnel Highlights

Number of professionals: 16 professional staff plus six partners emeritus

Matrix Partners

Bay Colony Corporate Center
1000 Winter St., Suite 4500
Waltham, MA 02451
Phone: 781-890-2244
Fax: 781-890-2288

2500 Sand Hill Road, Suite 200
Menlo Park, CA 94025
Phone: 650-854-3131
Fax: 650-854-3296

Website: www.matrixpartners.com

Company Overview

Founded in 1977 by Paul Ferri and Warren Hellman, the firm had early success with a late-stage investment in Apple that returned $16 million. In 1982, it opened a Silicon Valley office and became Matrix Partners. In the 1990s, Matrix narrowed its investment focus to technology, including software, communications equipment, semiconductors, storage, Internet, and wireless. In May 2001, the firm closed a $1 billion fund, Matrix Partners VII. Portfolio companies include Aruba Wireless Networks, Bowstreet, Empirix, TeaLeaf Technology, and Tivoli Systems.

Key Facts

- Matrix was one of the most profitable VC firms through the 1990s; only six of the 60 companies it backed were losers; its 1997 fund produced a 516 percent internal rate of return.
- Matrix paid 20 cents a share for the optical networking company Sycamore Networks, then sold it two years later at $107 a share—a 53,400 percent gain.
- Four Matrix Partners—Paul Ferri, Timothy Barrows, Andrew Verhalen, and Andrew Marcuvitz—were named to the *Forbes* 2003 Midas list.

Key Financial Statistics

Capital under management: not available

Minimum investment: $100,000

Preferred investment: from $100,000 up to $10 million

Personnel Highlights

Number of professionals: nine partners and two principals.

Mayfield Fund

2800 Sand Hill Road, Suite 250
Menlo Park, CA 94025
Phone: 650-854-5560
Fax: 650-854-5712
Website: www.mayfield.com

Company Overview

Founded in 1969 by the late Tommy Davis, the Mayfield Fund has invested in more than 400 health care, Internet, and communication companies, taking more than 100 of them public. Mayfield has strong ties to universities, including Stanford, UC Berkeley, MIT, CalTech, and Harvard, and through the Mayfield Fellows program at Stanford and Berkeley it selects engineering students to learn about entrepreneurship and leadership through coursework and internships with Silicon Valley start-ups. The firm has made successful investments in Advent, Broadvision, Citrix Systems, LSI Logic, Millennium Pharmaceuticals, Redback Networks, Silicon Graphics, 3Com, and Quantum, among others. Recent investments include Cemaphore, Hammerhead Systems, Packet Design, and Scalix.

Key Facts

- *Forbes* ranked partners Todd Brooks and Yogen Dalal among its Top 100 Best Tech Venture Investors in 2003.
- Mayfield founded the Entrepreneur's Foundation, which helps entrepreneurs develop a plan to give back to their community; has contributed more than $250,000 to the community since its inception.
- Four women hold top positions.

Key Financial Statistics

Capital under management: $2.5 billion
Minimum investment: not available
Preferred investment: $4 million to $7 million

Personnel Highlights

Number of professionals: eight general partners, ten partners

Menlo Ventures

3000 Sand Hill Road
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Menlo Park, CA 94025
Phone: 650-854-8540
Fax: 650-854-7059

Website: www.menloventures.com

Company Overview

One of the original Sand Hill venture firms, Menlo Ventures has invested in close to 250 companies in its 25 years. It closed its $1.5 billion Menlo Ventures I, in July 2000, with plans to target communications, Internet, and software companies. Successful investments include LSI Logic, UUNET, Hotmail, and Ascend. Its new investments include Covalent, Finaplex, IronPort Systems, Questra, ProfitLine, and Vocent Solutions. Currently the firm focuses on communications, Internet infrastructure, software, semiconductor, data storage, and computer hardware companies.

Key Facts

- Limited partners include corporate and public pension funds and university endowments.
- Takes pride in being active with its portfolio companies, serving on 80 percent of the companies' boards.
- Managing partners Thomas Bredt and Douglas Carlisle were named to the *Forbes* 2003 Midas list.

Key Financial Statistics

Capital under management: $2.7 billion

Minimum investment: $1 million

Preferred investment: $5 million to $10 million at startup stage, $10 million to $25 million at later stages

Personnel Highlights

Number of professionals: seven managing directors, four associates, a CFO, a controller, and two investment analysts

Mohr, Davidow Ventures

2775 Sand Hill Road, Suite 240
Menlo Park, CA 94025
Phone: 650-854-7236
Fax: 650-854-7365

Website: www.mdv.com

Company Overview

Mohr, Davidow Ventures is a prominent Silicon Valley venture capital firm focused on early stage investments, primarily in IT start-ups. Mohr, Davidow prefers to take an active role in the companies in which it invests. After investing in a company, Mohr, Davidow provides it with hands-on help in three main areas: strategy development, management-team recruiting, and strategic-partner development. The firm also offers its portfolio companies workshops in areas such as marketing, product design, and employee benefits. Two of the firm's partners are well-known authors of business books. Bill Davidow wrote *Marketing High Technology* and cowrote *Total Customer Service* and *The Virtual Corporation*. Geoffrey Moore wrote *Crossing the Chasm*, Inside the Tornado, and *Living on the Fault Line*. The firm raised $850 million for the MDV Fund VII, then reduced it to $650 million in 2002. In 2003, the firm announced plans to reduce the fund $200 million more and also to close its Seattle and Reston, Virginia offices. Successful investments include Agile Software, Brocade, Critical Path, Datasweep, and Onvia.com.

Key Facts

- Comanaging partner is a woman: Nancy J. Schoendorf.
- Partner Geoffrey Moore named by *Upside* as one of the Elite 100 leading the digital revolution.

- The first firm to shrink its funds, setting off a wave of similar activity among other firms, made it the recognized leader in the move back to boutique investing.

Key Financial Statistics

Capital under management: $1.3 billion

Minimum investment: not available

Preferred investment: not available

Personnel Highlights

Number of professionals: seven general partners, four venture partners, one principal, two directors, one associate, one founding partner, one administrative partner

New Enterprise Associates

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Phone: 650-854-9499
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1119 St. Paul St.
Baltimore, MD 21202
Phone: 410-244-0115
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11911 Freedom Dr.
Reston, VA 20190
Phone: 703-709-9499
Fax: 703-834-7579

Website: www.nea.com

Company Overview

Founded in 1978, New Enterprise Associates (NEA) has established itself as a major player in health care/life sciences and information technology. Some 135 NEA companies have gone public, and 150 have been successfully acquired. The firm counts among its success stories multimedia software vendor Macromedia, workstation manufacturer Silicon Graphics, Internet service provider UUNet, Juniper Networks, Ascent Communications, and TiVo. In September 2000, NEA closed its tenth fund at $2.32 billion, the largest early-stage investment fund ever raised. NEA X invests primarily in technology start-ups. Portfolio companies include Boingo Wireless, Salesforce.com, and Scalix.

Key Facts

- Unlike many VC firms, NEA has been known to give associates who have spent a few years at the firm 15 to 20 percent of a partner's share of the proceeds from a deal.
- Typically invests in 20 to 30 companies per year.
- Partners Frank Bonsal, Richard Kramlich and Peter Morris were named to the *Forbes* Top Midas List of the best tech venture investors in 2003.

Key Financial Statistics

Capital under management: $5 billion

Minimum investment: less than $200,000

Preferred investment: more than $200,000 to $20 million

Personnel Highlights

Number of employees: 24 partners, one associate, one CFO, one administrative partner/COO, one CFO, four principals, one technical advisor, and one general counsel

Norwest Venture Partners

525 University Ave., Suite 800

Palo Alto, CA 94301

Phone: 650-321-8000

Fax: 650-321-8010

Website: www.norwestvc.com

Company Overview

Since its inception in 1961, Norwest Venture Partners has raised more than $1.4 billion for more than 300 companies. The Wells Fargo affiliate invests primarily in emerging-growth information technology, including enterprise software and communications technologies. Successes include Brocade Communications, Siara Systems, and PeopleSoft. In 2000, the firm launched a $315 million fund, Venture Partners VIII, followed by a $400 million fund in 2001. The firm invested $143 million in 2001, with $43 million going to new portfolio companies and $100 million to follow-up investments with existing portfolio companies. Recent investments include CollabNet, Ironhide, and Megisto.

Key Facts

- In 2002, NVP added five companies to its portfolio and made follow-on investments to 19 of its current portfolio companies, while seven companies were acquired or merged.
- General Partners Promod Haque and George Still were named to *Forbes*' 2003 Midas List.

Key Financial Statistics

Capital under management: $1.8 billion
Minimum investment: $3 million
Preferred investment: $10 million to $15 million

Personnel Highlights

Number of professionals: 16 professionals

The Firms

Oak Investment Partners

525 University Ave., Suite 1300
Palo Alto, CA 94301
Phone: 650-614-3700
Fax: 650-328-6345

One Gorham Island
Westport, CT 06880
Phone: 203-226-8346
Fax: 203-227-0372

4550 Wells Fargo Center
90 South Seventh St.
Minneapolis, MN 55402
Phone: 612-339-9322
Fax: 612-337-8017

Website: www.oakinv.com

Company Overview

Oak Investment Partners has invested in more than 350 companies since it was founded in 1978. The firm started investing when integrated-circuit and office-automation technology were hot, taking stakes in companies like Parametric, Synopsis, Compaq, and Seagate. In the 1980s, the firm invested in Genzyme, Viro Pharma, Office Depot, and PetSmart. Today, Oak Investments focuses on enterprise application and infrastructure software, telecommunications equipment and services, data storage, financial services technology, outsourced services, health care services, and retail. Portfolio companies include Avici Systems, Baja Fresh Mexican Grill, Genzyme, Inktomi, and Qpass.

Key Facts

- Oak has a network of 250 affiliates, including entrepreneurs and technical and industry experts.
- Bandel Carano, Ed Glassmeyer, and Frederic Harman were named to the *Forbes* Midas List of the best tech venture investors in 2003.

Key Financial Statistics

Capital under management: $4.2 billion

Minimum investment: not available

Preferred investment: $10 million to $60 million, depending on stage

Personnel Highlights

Number of professionals: six general partners, one technology partner, one COO/CFO, four investment professionals, four venture partners, and seven consultants

Redpoint Ventures

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Menlo Park, CA 94025
Phone: 650-926-5600
Fax: 650-854-5762

11150 Santa Monica Blvd., Suite 1200
Los Angeles, CA 90025
Phone: 310-477-7678
Fax: 310-312-1868

Website: www.redpoint.com

Company Overview

Though Redpoint Ventures is among the newer VC firms on the block, its founders are anything but inexperienced. Redpoint was started in 1999 by three partners (including industry heavy hitters John Walecka and Geoff Yang), each from two of VC's most respected firms: Institutional Venture Partners and Brentwood Venture Capital. This was an important merger of the Internet infrastructure departments of two firms that between them backed 30 of the 1990s' top 50 infrastructure deals, such as 3Com, Juniper, and Avici. Rather than investing in companies that develop niche products that can be sold to Intel or Cisco, Redpoint seeks the next blockbuster start-ups. Portfolio companies include BigBand, Danger, Metatv, Movaris, and Polaris Networks. With its first fund, Redpoint invested in 38 companies. Portfolio companies completed 25 IPOs or acquisitions in 1999, and 14 more did so by August of 2000. In August 2000, the firm raised Redpoint II, a total of $1.25 billion, to invest in broadband technology. The slowdown in the market, however, led

Redpoint to reduce its fund $312.5 million in 2002 and again, $187.5 million, in 2003. The fund is now at $750 million, down 40 percent from its initial size.

Key Facts

- Founding partners John Walecka and Geoff Yang appear on the *Forbes* Midas List of the best tech venture investors in 2003.
- In 2003, Alcatel announced its intent to purchase TiMetra, and Tellabs announced plans to acquire Vivace Networks; Redpoint funded both targets.

Key Financial Statistics

Capital under management: not available

Minimum investment: $100,000

Preferred investment: $100,000 to $20 million

Personnel Highlights

Number of professionals: 16 professionals

Sequoia Capital

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Menlo Park, CA 94025
Phone: 650-854-3927
Fax: 650-854-2977

50 Ramat-Yam St.
Okeanos Hotel, Herzelia
Israel 46851
Phone: 972-9-957-9440
Fax: 972-9-957-9443

Website: www.sequoiacap.com

Company Overview

Founded in 1971 by Don Valentine, one of the fathers of VC, Sequoia established itself by backing Apple Computer, Cisco Systems, and Oracle. Partner Michael Moritz raised the profile of the firm by backing Yahoo, which used Sequoia's offices as its original headquarters. Having financed more than 350 companies, including Google, MP3.com, and PayPal, Sequoia is one of the Sand Hill Road mainstays. Along with Matrix and Kleiner, it is one of three firms that produced two funds boasting an internal rate of return in excess of 100 percent—its 1992 fund returned 110 percent and its 1995 fund, earned 175 percent, according to information released by the University of Michigan. (The firm's 1999 fund did poorly, with an internal rate of return of –11 percent in early 2003 thanks to investments in eToys, Scient, and Webvan.) In 2003, Sequoia was the first veteran VC firm to raise a fund since the tech bust, with the $385 million Sequoia XI fund. While the fund is much less than the

$695million raised in 2000, it's bigger than the $250 million raised in 1998. Sequoia plans to cut the number of start-ups it funds and has halved the amount of its initial investments to around $3 million. Recent investments include Infoblox, Allocity, Next Estate, and NetScaler.

Key Facts

- Partners Michael Moritz, Pierre Lamond, Douglas Leone, and Michael Goguen made the *Forbes* Midas List of the best tech venture investors in 2003.
- Cutting the amount of its initial investment from $6 million to $3 million and reducing the number of start-ups it funds to about 15 a year in 2003.
- Sequoia keeps 30 percent of a fund's profits, the most in the industry.

Key Financial Statistics

Capital under management: not available

Minimum investment: $50,000

Preferred investment: $50,000 to $10 million

Personnel Highlights

Number of professionals: 16 partners and five other professionals

St. Paul Venture Capital

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Minneapolis, MN 55344
Phone: 952-995-7474
Fax: 952-995-7475

3 Lagoon Dr., Suite 130
Redwood City, CA 94065
Phone: 650-596-5630
Fax: 650-596-5711

Westboro Office Park
1700 West Park Dr.
Westboro, MA 01581
Phone: 508-475-2300
Fax: 508-475-2399

Website: www.stpaulvc.com

Company Overview

St. Paul Venture Capital raises all of its funds from St. Paul Fire and Marine Insurance Company, a corporation with more than $20 billion in assets. Since the firm spends no time raising funds, it can invest in a wide range of high-growth prospects without being limited by the need to realize an immediate return. Over the past decade, St. Paul Venture Capital has invested more than $3 billion in nearly 3,000 companies. Its current investment focus is on communications technology, software and services, and health care. Roughly 80 percent of its investments are in early stage start-ups. The firm closed its current $1.3 billion fund in the fall of 2000. Investments include Aegis Semiconductor, Evalve, and Voyant Technologies.

Key Facts

- Offices in Minnesota, Silicon Valley, and Massachusetts promote regional diversity of investments.
- Rewards outstanding companies each year with its Hall of Fame award; past winners include Sylvan Learning, Spine-Tech, Advanced Fibre, and Biosys.

Key Financial Statistics

Capital under management: $3 billion

Minimum investment: $1 million

Preferred investment: $2 million to $40 million

Personnel Highlights

Number of professionals: nine partners and eight investment professionals

Sutter Hill Ventures

755 Page Mill Road, Suite A-200
Palo Alto, CA 94304
Phone: 650-493-5600
Fax: 650-858-1854

Website: www.shv.com

Company Overview

Sutter Hill brings a dignified presence to Silicon Valley venture capital, having invested in more than 250 companies since 1962. Though Sutter Hill likes early stage start-ups, it takes a decidedly conservative approach to investing. The firm took only 12 companies public in 1999 and 2000, when the rest of the industry was IPO crazed. Sutter invests in information technology, medical technology and services, networking, and software and application services. The firm's partners have engineering backgrounds and significant industry experience. In 2003, Sutter Hill's investments include Threshold Pharma and Xoft microTube.

Key Facts

- Four partners made the *Forbes* Top 100 list of the best tech venture investors in 2003: Jim Gaither, Tench Coxe, David Anderson, and Bill Younger.
- Paul Wythes, founding partner of Sutter Hill, received the Venture Capital Association's Lifetime Achievement Award in 2003.

Key Financial Statistics

Capital under management: not available
Minimum investment: not available
Preferred investment: not available

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Personnel Highlights

Number of professionals: seven managing directors, two venture partners, one special limited partner, and one CFO

On the Job

- The Work
- What Does an Analyst Do?
- Analyst Profile
- Partner Profile

The Work

Venture capitalists' work can be broken down into three different phases:

1. Sourcing and picking the investments
2. Doing the deals
3. Managing the investments

Finding potential investments has never been a problem for venture capitalists; most firms are constantly being approached by entrepreneurs trying to raise capital. Finding the best investments before your competitors do, however, is much trickier. That's why venture capitalists must have an especially strong web of contacts. When the VP of engineering at a big Silicon Valley firm leaves to start her own company, the best venture capitalists know about it before the entrepreneur's family does.

Picking the best investments is what separates the wheat from the chaff among venture capitalists, according to industry insiders. "There's no limit to the number of great ideas VCs hear about every day," one insider says. "The question is: Are you the person or company that can execute to build the great idea into a great business? VCs choose the plans they do because of the team and the validation of the company's ability to execute."

Unlike investment bankers, venture capitalists do not spend a lot of time building complex financial models to assess potential investments. After all, for those who are investing at early stages, revenue estimates are guesswork at best. But, in order to make their picks, venture capitalists must know everything about the market, the technology, and the entrepreneurs. One of the most important aspects of due diligence is uncovering the emotional and intellectual makeup of the people in whom the venture capitalist is investing.

Doing the deals is a tricky, complicated process, but it can be learned without too much difficulty. That's why partners will allow up-and-coming associates to do deals with supervision (or support, depending on your viewpoint). There are many different ways to structure deals. Venture capitalists learn how to negotiate things like the percentage of equity they get, antidilution clauses, and number of board seats, with an eye on protecting their investments and preserving win-win propositions with their entrepreneurs.

Managing their investments is the stage where venture capitalists can sometimes make the difference between the success and failure of a start-up. Venture capitalists with years of experience and a stable of investments can create relationships among companies, help start-ups find professional management, introduce companies to large potential customers, and help companies raise further financing. Having a John Doerr sitting on your board of directors is somewhat akin to having a wise uncle to help you along the road to a successful IPO.

What Does an Analyst Do?

Most venture capitalists have advanced degrees. However, some VC firms now hire young, hungry folks just a couple of years out of college to be analysts. Analysts do a lot of the background work on potential investments. According to one insider, there are two paths for undergrads. Most typically focus on sourcing, but those with some consulting or I-banking experience may add duties related to those of their previous jobs. That said, keep in mind that VC firms tend to be small, so you can expect to wear a lot of hats. As one insider says, "At the end of the day, venture capitalists back management and back markets. The responsibility of an analyst is to evaluate markets both quantitatively and qualitatively."

Undergrad Hires

As they learn the VC business, people straight out of college typically focus on deal sourcing. They attend trade shows such as Comdex, the Consumer Electronics Show, or Internet World, to search out new companies or meet with prospective entrepreneurs. In addition, they often attend investment bank-sponsored industry conferences, which are a good way to stay ahead of industry trends. Analysts read industry journals to learn about markets and possibly discover new companies. Working from lists of start-ups gathered from a wide variety of sources, they also cold call and screen potential investment targets before passing them on to higher-ups. As analysts become more experienced, they also start performing due diligence and working more closely with portfolio companies.

I-Bankers

In addition to the previously listed analyst responsibilities, people coming from I-banking put their analytical skills to work crunching numbers for partners in preparation for deals. At the later stages of investment, they might gather Dun & Bradstreet data on private companies and do some basic financial modeling.

Consultants

Former management consultants have problem-solving skills that may be used when a portfolio company needs advice. They also focus on due diligence to gauge an investment opportunity's industry position. Naturally, they also do many of the deal-sourcing activities that other analysts do.

Analyst Profile

Occupation: Associate

Years in business: Six months

Age: 26

Education: BS in business administration

Hours per week: 55, 8:30 a.m. to 7:00 p.m.; working lunch

Size of company: 18 professionals

Certification: None

Annual salary: $75,000 plus deal bonuses

How did you get your job?

While I was in I-banking, I told a friend at another private-equity firm that I wanted a job in VC. He told me about an opening at this firm, and I sent in my resume.

Describe a typical day.

7:15 Take the T from my one-bedroom in Harvard Square to downtown Boston, where I walk past the Freedom Trail on the way to the office. I try to slam through back issues of *Fast Company* and *Business 2.0* on the way.

8:00 Get into the office and check e-mail to see what the partners have in store for me today. Messages include a new cold-call list from one of the partners, a request from another partner for a Comdex write-up by the end of the day, and a note from my father asking how my business school applications are going.

9:00 Take a 15-minute break to check out People.com.

9:15 Work my way down the latest cold-call list. I need to leave a message at about half of the firms. At three of them, I talk to one of the founders, but I rule out these companies' potential ten minutes into each call. Finally, I have a breakthrough: I talk to the CEO of a new start-up that has a compression technology that lets a user download software off the Internet exceedingly quickly. This has been a holy grail for a while, and I decide to follow this lead after lunch.

10:30 Secretary brings in five FedEx packages. They are filled with new business plans that I will not get to until tomorrow, so I toss them into my in-box and keep calling.

12:00 Head down to the building cafeteria and grab a turkey sandwich and a low-fat brownie for lunch. I head back to my computer and spend some money on Amazon.com while eating lunch at my desk.

12:30 I call everybody I know who might know about compression technologies: MIT classmates, my next-door neighbor's dad, a guy I got drunk with at Comdex. I then go to the library and search the online databases on this company and its technology to see what I can bring up.

2:30 Run downstairs again to get a latté before the cafeteria closes.

2:45 Knowing that I have a deadline, I put aside research and get to work on that Comdex report. I gather up the huge folder of brochures I collected and pull out my detailed notes. I try to bring all of the information together in some kind of coherent fashion.

6:30 I finish a draft of my Comdex report. I spend the next 90 minutes finishing up the Comdex report, then e-mail it to the partner who is waiting for it. At the end of my e-mail, I attach a reminder that the recommendation he is writing for me is due at Stanford Business School by the end of next week.

8:00 Trudge back to the T. The wind has picked up now and is blowing the red and orange leaves around. On the train, I wonder what microwave masterpiece I can pull together tonight.

What are your career aspirations?

Either to become a partner in a venture firm or to take the knowledge that I've learned through my involvement at a VC firm to get involved with an early-stage company.

On the Job

What kinds of people do well in this business?

You have to marry three abilities: You have to know the tech and business side to evaluate new technologies; you have to have a basic understanding of how financing and growing a company works; and most important, you have to be very good at talking and listening to people to draw on their knowledge to increase your own. You can't hope to learn everything by reading things off the Web or in magazines.

What do you really like about your job?

The very high level of independence. I am really responsible for a lot of what happens to get deals in front of the partners. The only thing I'm judged on is whether I'm bringing quality deals to the partnership. How I do that and how I spend my time day to day is completely up to me. I also like the number of incredibly intelligent and motivated VCs and entrepreneurs I get to talk to at every turn.

What do you dislike?

There are not enough hours in the day. It can be very hectic, especially when there's travel. Honestly, there can often be many more things to do than you have time for, and that causes you to pass up opportunities you don't have the time to devote enough attention to.

What is the biggest misconception about your job?

That every deal you do is a winner, and that it's easy to get good deals. There's a lot of hard work and dumb luck that goes into making an Amazon or an eBay. It's not easy to take an unpolished start-up and have it turn into a big name. You can't just throw money at a start-up and expect it to succeed.

How can someone get a job like yours?

There are two tracks. First, the analytical side: Get experience at an I-bank, a top-tier consulting firm, or a research firm like Gartner or Yankee. Then there's the industry side, especially technology. A lot of VCs have experience in industry, either at a start-up or a big player. Most hiring is done by personal introduction and on a case-by-case basis. VC openings are few and far between. Find opportunities to meet VCs either through personal introductions or at VC events. VCs often talk to other VCs about possible hires, so the important thing is to meet some and network from there.

What does an associate/partner do?

New MBAs often start as associates with the goal of moving up to partner. The work of an associate can vary; in some firms associates do the kind of work described above for analysts. In other firms, associates do work similar to that of partners, only they don't make the final decisions or take a major share of the carry. "Some associate roles are explicitly not partner track. You should be clear on whether it is or not before moving in," counsels an insider.

The work of a partner depends very much on the phase the investment fund is in. When a fund has just been raised, partners spend most of their time trying to track down and analyze new investment opportunities. When most of the fund has been invested, partners will spend well more than half their time managing portfolio companies. Our industry insiders break down the workload of a partner who is at a steady state (some funds invested, but still actively seeking other investments) as follows:

- **Managing existing portfolio (50 percent).** Talking to other potential investors, interviewing potential executive staff hires, studying company financials, talking to customers, discussing IPO timing with I-bankers, and attending board meetings. A heavy load of boards for a partner would include six to seven early-stage companies that require more oversight, or ten to 12 later-stage companies.

- **Sourcing and doing new deals (30 percent).** Reading business plans, doing background research on the entrepreneurs, visiting the companies, socializing with the company founders, listening to pitches, and putting together syndicates for investments.
- **Keeping abreast of industry (10 percent).** Attending industry conferences, keeping up with trade publications, and talking to experts in the field. This is good weekend work.
- **Firm administrative work (10 percent).** Working on quarterly reports to the limited partners (investors), working on the firm website, or attending partners' meetings.

Partner Profile

Occupation: Managing partner

Years in business: Seven

Age: 36

Education: BS in electrical engineering, MS in electrical engineering, MBA

Hours per week: 75, 7:00 a.m. to 8:00 p.m. at office and 9:30 p.m. to 11:30 p.m. at home; working lunch

Size of company: Seven

Certification: None

Annual salary: Total compensation of $185,000

How did you get your job?

I worked at a consulting firm that catered to private-equity firms. I developed a lot of relationships there, and eventually went to work with one of my clients. From there, I transferred to a VC firm as a principal. Finally, a B-school classmate at my current partnership called me to join him and his partners in raising a new fund. He and I have known each other for several years and had worked together on a couple of transactions while I was at my first private-equity firm.

Describe a typical day.

6:00 Put on my new running shoes and run the Dish behind Stanford. As I reach the top of the hill and look back toward the smog hovering over the Valley, my mind becomes clear, and I start sifting through potential deals.

7:00 Breakfast meeting at Hobee's to interview a marketing VP candidate for Pheremonix, my latest project. The guy is late and half asleep. I'm not impressed.

8:00 Hop in my Lexus and drive down Sand Hill to the office. I call my voice mail from the cell phone as I am driving. There are four messages from Jim, the CEO of Acute, begging for help rounding up some new financing. I figure that Acute has finally run its course, and Jim had better understand that the well is dry.

8:20 Pull out my Pilot to check my appointments for the day. Plug it into my PC and update my schedule. Then I check e-mail. I plow through the usual messages until I get to one titled, "Danger, Danger," from the CFO of Amaze, the Internet game company that I am encouraging to go public in three months. I read through her worries about cash flow and am not alarmed; I've been in this situation countless times before. I give her a call and calm her fears.

9:00 Pitch meetings. The first pitch is a dud. Strong engineers, but their business plan has no barriers to entry, and they have never done a start-up before. Lack of experience can be overcome, but a weak business plan spells doom. The second pitch is more promising. An intranet service firm started by some ex-IBMers. They will need help refining their plan, but they have some promise. The third is compelling: a cellular phone combined with a PDA. Not an original idea, but these ex-U.S. Robotics guys spelled out in excruciating detail how they were able to get their cost of goods down enough to hit a consumer price point and still return the required margins. The best pitch I've heard in three months.

12:00 I rush out of the pitch meeting and head over to the Woodside Bakery for lunch with Pheremonix's CEO. Before the board meeting this afternoon, I want to put some ideas in his head about slowing down his growth and his burn rate.

1:00 Drive over to Mountain View for the Pheremonix board meeting. On the way, I'm paged by one of my colleagues who wants to get my reactions to the pitch meetings. I call him back and tell him to wait for the partner meeting on Friday, though I can't help but express some enthusiasm for the cell phone/PDA.

1:30 Pheremonix board meeting. The meeting starts with the engineering VP conducting a demo of the prototype. He walks in wearing cut-offs and Birkenstocks. He looks exhausted, but rises to the occasion and gives an energetic demo. I am pleasantly surprised with how much progress they have made in just three weeks. I realize I had better get the marketing VP on board fast, as the product is on schedule and the marketing and selling effort must begin.

4:00 Drive back to the office. Spend an hour on the phone returning phone calls from management of my portfolio companies.

5:00 Leave early today in order to catch my daughter's soccer game.

What are your career aspirations?

To be a great investor. If I had as much money in the bank today as I could ever spend in my life, I would still do what I'm doing today. I might be getting more sleep, but I'd be doing exactly the same thing. Now I just focus on building great companies. Most of this is finding great entrepreneurs who need and want my help and with whom I would enjoy working.

What kinds of people do well in this business?

You've got to be a team participant. If you're going to help companies through your advice, you've got to be good at delivering that advice in such a way that they'll listen. You can't be driven to have your name plastered all over the *Wall Street Journal*. Ninety-nine percent of the people in this business you've never heard of. Your job is to help make CEOs become heroes. You're not the hero. You've also got to be inspired by the whole notion of capitalism, because what we're doing is at the very root of what makes this whole system work: The American dream. If you're not excited by that merging of great people, great ideas, and growth capital, then it'll never get your juices flowing.

What do you really like about your job?

The best part about it is the people you get to work with—from CEOs and management teams to other investors to very bright and creative lawyers and other service providers.

What do you dislike?

The travel can sometimes be difficult. So is removing somebody who has put their heart into a business but who isn't suited to lead it. That's the worst. Even when everyone agrees that it's the right thing to do, it's not easy.

What is the biggest misconception about your job?

People outside of the money world sometimes use the phrase "vulture capitalist" to describe us. This implies that we're stealing businesses away from entrepreneurs. Nobody is ever going to agree to sell a company or a portion of one unless they want to. Our firm doesn't do turnarounds or bankruptcies or other distressed investment situations. In 95 percent or more of the investments by private-equity firms, both sides are dealing from a position of some strength in order to reach a reasonable deal. Portrayals like *Barbarians at* *the Gate* just make us all look like idiots in private-equity, like it's all about ego and doing the biggest, highest-visibility deal and treating people like they don't mean anything. If we find people like that, we don't ever do business with them. For bankers, the common misconception is that the principal people like me don't work a lot of hours. Sure, I don't have the stresses of a client hanging over me, but I don't get any extra sleep.

How can someone get a job like yours?

I think there are two common routes. One is a consulting or operating background. Figure out how businesses work, how to improve them, and how to recruit and motivate management teams. The other is the financial side. Spend a couple of years as an analyst at an investment bank. In either avenue, try to begin developing your relationships with people in the private-equity world. Get to know other entrepreneurs' investors. If you're in I-banking, get to know the private-equity firms that your bank does business with. Plan on getting an MBA if you don't already have one. Consider it a long-term job search process. It's probably going to take you years before your contacts and an appropriate opening come together.

The Workplace

- Lifestyle and Culture
- Hours
- Workplace Diversity
- Travel
- Compensation
- Career Notes
- Insider Scoop
- How VC Stacks Up

Lifestyle and Culture

The lifestyle of venture capitalists varies widely. The industry is filled with workaholics who toil around the clock to stay ahead of fast-changing technology industries. "Your calendar is a slight representation of what you end up doing. My entire day is interrupt-driven," says an insider. "My time is my most valuable asset. You've got to switch contexts, issues, and frameworks all the time. Some people like that; some people hate it." Insiders say that once a venture capitalist is established, the lifestyle can be better than in similar hard-driving, high-paying industries.

The VC culture is much harder to peg. Since most VC firms are small, the partners really set the tone, so culture at firms varies widely. Partners more focused on doing deals will take a hard-line, almost I-banking approach. Partners who spend more time working with entrepreneurs might have a more informal attitude. However, since there is so much competition—and since moving to another firm isn't the easiest thing to do—one associate says, "Get to know the culture and make sure you fit. If people like you, you'll do well."

Hours

Hours are completely self-determined, and are based on what you think you need to do to bring in a good IRR on your investments. Some VCs work as much as 20 hours a day managing their portfolio companies and staying ahead of the industry. Others lead a more sane life, fitting in lots of golf, tennis, and skiing. In general, the junior members of the firm work more hours than the partners, although there are plenty of workaholic partners. Industry insiders tell us that if there were a "typical" workweek, it would be ten to 12 hours per day on weekdays. One partner calls time management the most challenging aspect of venture capital, saying, "VCs are barraged with e-mail, voice mail, and business plans. You can't be completely reactive. You have to manage the flow of business plans and requests."

Another insider calls the hours manageable for anyone who can thrive in a cyclical, multitasking work environment. "Unlike investment banking and business consulting, where you're more or less working on a single project but the work is heavy, in a VC firm you're working on several projects. With start-up businesses, there are certain times when they need lots of attention and lots of help, and other times where you don't hear from them for a week or two. The phone doesn't turn off; your e-mail doesn't turn off."

On weekends, you are likely to work at home reading business plans and industry publications. Sometimes you may need to spend a half-day of your weekend traveling to or from an industry conference. However, in most cases, your work life will leave some room for a personal life. You'll just have to make the latter fit around the former.

Workplace Diversity

VC is one of the WASPiest of industries. Says one partner in Silicon Valley, "There are not that many minorities. I don't know a single black venture capitalist." Another insider agrees: "African Americans and Latinos are largely absent." In fact, the only minorities that seem to be even nominally represented are Asians and Indians. One partner blames an educational system that fails to give minorities the tools they need to make it into the MBA club in numbers sufficient enough to have an impact on the rarefied VC industry: "We're at the end of the pipeline."

Opportunities for Women

Women make up about four percent of the professional staff in venture capital firms, but their numbers are growing. This is perhaps due to some pressure from institutional investors, who are 20 to 30 percent female in make-up. But VC is still a predominantly white, male industry. That said, the female insiders we interviewed reported that they felt little or no discrimination working in this field. "In general, I don't feel like it's a disadvantage or an advantage to be a woman," says one. Some female venture capitalists, including Anne Winblad of Hummer Winblad, Ruthann Quindlen of Institutional Venture Partners, and Jennifer Gill Roberts at Sevin Rosen, are major players in the industry. In Silicon Valley, we've heard of a regular lunch for women in VC.

Travel

Travel is the one area where venture capitalists have a large advantage over other hard-driving businesspeople such as management consultants. Many firms restrict their investments to a regional area near their offices. Silicon Valley VC firms, for instance, generally only invest in Silicon Valley or the Pacific Northwest. Other regional firms, like the Texas Growth Fund, are chartered to invest in a given region. East Coast VC firms tend to spread out investments more, because the opportunities in their region are not so geographically concentrated. When firms decide to invest in new locations, they often open new offices in those areas, alleviating the need for partners to travel. Firms also often invest in tandem with other firms; the firm closer to the portfolio company generally takes a more hands-on approach so the other firm needn't make the trek to the company's offices.

That said, partners often spend their days moving among their portfolio start-ups in their given regional areas. One insider says that a typical day might involve six meetings in different locations. Although you won't spend four days each week living out of a suitcase, you may spend four hours a day in your car.

Compensation

The salary range for analysts varies from $55,000 to $150,000 per year including bonuses, averaging north of $100,000 in a good year. Associates are likely to make from $75,000 to $250,000, including bonuses, averaging $180,000 in a good year. A junior partner averages around $300,000 a year. Good money, but poverty wages compared to what partners can make.

Compensation for partners is fairly standardized in the venture capital industry. Partners split an annual management fee paid by limited partners equal to two to three percent of the assets of the fund. They also split 20 to 25 percent of the returns on their investments. (The limited partners or investors get the rest.)

Let's work out some of these figures to see how much a venture capitalist can make. Take a firm that has six partners and $200 million under management. The 2.5 percent management fee amounts to $5 million. Let's say expenses of $1 million are paid out of that $5 million, leaving $4 million to be split among the six partners. That works out to $667,000 in annual salary per partner, regardless of how their investments perform.

Venture capitalists make their really big money in the profit-taking from successfully performing funds. This compensation is cyclical and not spread evenly from one firm to another, but let's take a look at what an accomplished partner can make in carry. Again, assume our firm has six partners and $200 million under management. A successful fund might return three times the investment, so let's say that our fund nets $400 million. Our firm takes 25 percent of $400 million, or $100 million, and returns the other $300 million to the investors. Let's assume that the $100 million is paid out over six years, an average fund length, so profits work out to $16.7 million per year. Finally, we need to divide up the carry among our six partners, so they each get $2.8 million annually. That's a nice chunk of change.

Of course, a firm's profits can swing wildly depending on how well the investments do. "In pre-Internet days, three to five times was a good return [on a fund]," one insider says. "In the Internet time, it was sometimes 20 to 30 times." As a general rule today, VCs are looking at a returnt ranging from three to ten times the original investment.

Career Notes

Special Information for Undergraduates

Working at a venture capital firm as an analyst can be a great way to get a toehold in the industry. You will get to learn from extremely smart, experienced business people in a smaller, more humane work environment than you would on Wall Street. Insiders tell us that you shouldn't expect to stay more than a couple of years, but it's a good way to learn about entrepreneurship from the financing side before you go back to business school or into industry.

Special Information for MBAs

Venture capital has become a much-sought-after career for MBAs, especially those who already have industry experience. The intellectual challenges, the mixture of financial and strategic skills practiced, and potential financial rewards have made this a top job choice for the few who are lucky enough to get in. Having an MBA is a must to get a partnership in venture capital, unless you have a proven business track record in a specific industry. Insiders tell us that you can expect to make partner in three to five years. If you don't, you'll have to either take another associate position at another firm or move on to a different career.

Insider Scoop

What Employees Really Like

Intellectual stimulation. Industry insiders tell us that they love working with some of the smartest people in the world. Not only are your colleagues going to be the best and the brightest, but so are some of the entrepreneurs. "It's capitalism at its purest," says one insider. "I run around finding great people to hitch my wagon to. I'm not making a widget or writing software. I work with people so passionate about a vision that they're not going to put up with failure." Another says, "You're exposed to a greater range of ideas. There's never a dull moment."

Bottom-line aspect. Venture capitalists, unlike management consultants, have a financial stake in the success of the companies with which they work. There are no gray areas in determining the IRR of your investments, so there's less room for politicking and favoritism. As one insider says, "It's an individual effort in a team context. VC firms tend to be small and have tangible goals. There's a lower degree of politics: They tend to be meritocracies." At the same time, though it may be hard to get a venture capitalist to admit it, there seems to be a good deal of satisfaction that comes from telling entrepreneurs how to run their businesses.

Cutting-edge exposure. In venture capital, you see the formation of cutting-edge businesses and technologies on a daily basis. And if you're lucky or good at what you do, you get to play a role in making them successful. "The best part of the job is working with the companies that we have funded," an insider says. "I am always learning new things."

Helping build firms. The greatest feeling for a venture capitalist is to see a firm that he or she has backed for years complete a successful IPO or grow into a thriving company. Not only does this confirm that you backed the right horse; it is also exciting to be around a start-up when it takes off. One insider speaks for many when he says, "I get to observe and participate in the growth of start-ups, the excitement of watching one get its first customer, make its first million, have a successful IPO. All along, I can make a meaningful impact."

Industry bird's-eye view. Since you don't have to deal with the operational details of running a business and since you are constantly evaluating new business proposals in a given industry, you really get a broad view of how an industry is changing and developing. As one insider says, "You come out of business school thinking that running a business will be your main function in the business world. In venture capital, that's not the case."

Money. Though the income can be more deferred than in other industries, it's pretty darned good. One insider says dryly, "It might take a few years before a venture capitalist gets wealthy." Successful venture capitalists can make huge amounts of money with less risk, and less chance of burnout, than entrepreneurs can.

Smart people. You work with smart, successful, driven people. "The people at the firm have great experience, are incredibly smart, have great insights, or they wouldn't be here," says an insider. "Across the board you're dealing with really intelligent, high-caliber people."

Watch Out!

Not Melrose Place. As one partner put it to a group of starry-eyed MBAs, "Many of you will choose not to believe me, but I assure you that VC is not a glamorous industry. We watch our own costs closely; unlike investment banks or consulting firms, we have no clients to whom we can pass on travel and entertainment costs. So if creature comforts are what you crave as a sign of success, there are alternatives, but VC is not one of them."

No vacancy. It's really hard to break into the VC industry. Although MBAs can and do find homes in venture capital, and although there are more openings than ever, many people spend a lot of time chasing jobs that never materialize. If you don't have some stellar credentials to begin with, you might be better off pursuing other career opportunities.

Concrete ceiling. Venture capitalists are measured by the return on the investments they back, and may find themselves out of work if they don't produce in the early years. "If you don't have the returns, you'll totally disappear," one insider bluntly says. Furthermore, the skills picked up in VC are not easily transferred to other industries. "It's difficult to go on and take an operational role [after leaving VC]. There's a fork in the road, and you have to be confident that you want to take [the VC] path," says one insider.

Necessary evils. It's hard to find a venture capitalist who doesn't firmly believe that he has "added loads of value" to entrepreneurial start-ups and to the world at large. But it's relatively hard to find a true entrepreneur who doesn't look at venture capital with some significant reservation, if not worse. Starting and funding companies is a high-stakes business. Venture capitalists are often criticized for pushing companies too hard to grow too fast and go public at the earliest possible date. It's not uncommon for them to step on toes and use their ownership stake to force a company to make controversial moves.

In a lonely place. Many insiders report that this can be a lonely business, not unlike sales, where it is up to you to discover and nurture new investments—sometimes in competition with your partners. One insider says that, even at portfolio companies where you'll expend a good amount of your energies, "you won't directly witness success. You're in a sense, an outsider." One insider says that he and his partners are all individual practitioners: "You take care of your own board seats, and you don't get pats on the back. It's like we're all coaches on staff at Stanford. But we each coach a different sport—one coaches swimming, one tennis, one basketball, and so on."

It's a man's, man's, man's world. A haven of diversity VC is not. Although some firms do have women partners, venture capital has traditionally been a club for white males. As one insider says, "There are a lot more women in VC than people might expect. But lots of them are associates. It's not going to change too quickly."

Not every idea flies. VCs have a real financial stake in their business. And among the many start-up successes, there are always going to be failures. "People are less aware of it in the good times," says one insider, "but losses are a reality of this business. There are painful stories of layoffs and dreams that didn't work out. They're the ones that keep you up at night."

A different kind of operator. As a venture capitalist, you're advising companies, but you're not operating them. Some people may prefer the hands-on work that goes on within an organization. "People with operating backgrounds may not be satisfied in the role. They may miss working on products and having an impact. You're not in there running the company on a day-to-day basis," says an insider. "If you like to have that impact, it might not be as satisfying [to go into venture capital]." It's an interesting quandary for VC associates, because you'll need that operating background to break in.

How VC Stacks Up

Industry insiders say that what they like about venture capital is that it combines the financial analysis of the investment banking industry with the consulting industry's knowledge of a company's inner workings. Most of our insiders compared venture capital favorably to management consulting, stressing that your financial rewards are directly linked to the success of the companies that you work with. And the travel burden is considerably lighter than in consulting.

Although investment banking and venture capital may seem fairly similar, insiders tell us that they are really very different. In investment banking, a premium is placed on the number of deals made, whereas in VC choosing the right deals is the key. In investment banking, companies are judged mostly on the numbers, and financial modeling skills are key. In venture capital, it is more important that you understand the key changes in a given industry and that you're able to read the entrepreneurs. Financial analysis mostly comes into play when the deal is actually being cut. The financial rewards in venture capital are more delayed and more dependent on the success of the fund, but can be larger in the long run. Here's a tongue-in-cheek breakdown of the three careers:

VC versus Consulting versus I-Banking

Venture Capital	Management Consulting	I-Banking
Work with entrepreneurs	Work with clients	Work with numbers
Make the right deals	Don't make any deals	Make a lot of deals
Work alone or in partnership	Work in teams	Work late
Satisfaction: Growing companies	Satisfaction: Promoting change	Satisfaction: Finding time for a nap
Work five days a week	Work seven days a week	Work 24/7
Little travel	Lots of travel	Don't budge
Work with young companies	Work with struggling companies	Work with numbers and lawyers
Learn about several industries	Learn about several industries	Learn about I-banking
Reputation develops over time	Quick impression, then move on	Don't screw up
Compensation deferred	Compensation great	Compensation mind-blowing
No time for lunch or dinner	No time for lunch	No time to go to the vending machine
Exit at age 56	Exit at age 49	Exit at age 28
Check to see if the dogs will eat the dog food	Suggest the dog eat different dog food	Dog eat dog

Getting Hired

- The Recruiting Process
- What It Takes
- Interview Tips
- Getting Grilled
- Grilling Your Interviewer

The Recruiting Process

Venture capital firms' hiring needs, unlike those of investment banks or consulting firms, are so specialized and limited that VC firms don't really have to do much recruiting. When they are looking to hire, they often keep it quiet so they won't be bombarded with resumes. A few of the larger firms may show up at a specific campus (Stanford, Harvard) and do some interviews; but generally, VC firms will approach people with the specific skill sets they want, based on referrals from sources that they trust. Remember that in many ways the venture capital business is all about networking, and this applies as much to the firms' hiring procedures as to their business methods.

That said, insiders report getting venture capital jobs through a few different methods. One insider with a pre-business school venture background had a fortunate meeting with a private investor who was looking for some MBAs to start a firm and manage a fund he was putting together. Another insider reports that a Silicon Valley VC firm called her based solely on her resume, which it had gotten from her business school's job office. She also mentioned that the firm hired her after interviewing more than 200 people over a five-year period. "It has a lot to do with relationships," says an insider.

One person we talked to started as an analyst only a couple of years out of college and then was promoted to associate. Another insider moved up from the minors to the majors, starting right after business school as an associate with a smaller, less elite firm in New Jersey, then moving to Texas to become a partner in a new fund, then getting hired by one of the elite Boston firms. An executive we spoke with in a technology law firm was offered a partnership without any previous experience in VC. Another insider used an old-fashioned method to land a Silicon Valley position: He sent out cover letters that included a credible reference known to the firm's partners, and followed up with a series of phone calls. "A lot depends on the specifics of the venture firm," says an insider. "Every venture firm is different. There's definitely a track going into consulting, getting an MBA, getting into start-ups, and jumping in on the associate track. That's one way to do it."

"If you're in a position that's not a partner track, and the vast majority are not partner track, then you need to figure out where this is a stepping stone to. And it's either a stepping stone to a big corporation, a start-up, or another role in private equity," says an insider. He adds, "Down cycles have been a good time, albeit with a rare set of opportunities, to enter this business. If asked to grow in a partner direction, you learn all the right skills at the right time."

Special Information for Undergrads

None of the venture firms we contacted reported hiring undergraduates right out of college. Instead they tended to poach their analysts from consulting firms, brokerage houses, or investment banks that do work in the area in which they were trying to hire.

Special Information for MBAs

It's possible to get a venture capital job right out of business school. But don't be too picky; it's almost unheard of to get multiple offers from VC firms. An insider notes that all the firms are interested in the same five to seven resumes—specifically, those that show strong technology operating experience with clear progress and success. If you desperately want to get into the industry and you get an offer from a second-tier firm, take it. Another option is to get an operating role and excel. "You need either a lot of years of experience with private equity, or you need a lot of start-up experience, or a senior role in a large corporation," says an insider. "If you're in business school today and you're a year or two from graduating, find a firm that just raised a new fund. There's always going to be a need for associates, analysts, even a principle, depending on your background. The time to join a fund is soon after it's raised a new fund. That's when partners leave and firm's hire." In other words, start planning now by tracking where firms are in their fund cycle—and start building the relationships that will get you a shot at a job.

What It Takes

The bad news is that venture capital isn't the type of industry that hires a slew of college grads each year, knowing that turnover will be fairly high. Rather, most firms are top-heavy. Many have only general partners and administrative staff, though some larger firms also have associates and analysts. However, even large firms may have only one associate for every three partners.

Traditionally, the venture capital industry has been open only to people with certain elite characteristics: A technical BS, an MBA from Harvard or Stanford, ten or more years of high-tech or other industry experience, and previous business dealings with the VC firm that hires them. If you have an MD or PhD, combined with high-level industry experience, you might also be able to get your foot in the door.

VCs looking to take on new people also look for a host of personal characteristics. "The requirements are intelligence, good judgment, the quality of your network, and your ability to promote yourself," one insider says. "Credibility comes from your educational background and track record, as well as from the person who's championing you." Intuition is a key skill. "When you look at venture capital, the base material that it shares is people who are trying to do something very hard," says an insider. "Venture is a craft business." You want to learn from people who know how to do it well and have a track record to prove it.

A few larger firms, such as Summit Partners, TA Associates, General Atlantic Partners, and Bain Capital, have in the past hired folks without an advanced degree and with little industry experience, but with impressive pedigrees, to do some of their basic legwork and analysis. Ultimately, who you know matters. "This is a relationship business," says an insider. "It's knowing entrepreneurs, it's knowing venture capitalists so that when something interesting comes along, you're in the deal."

Remember that there are opportunities beyond the top-tier private Silicon Valley and Boston funds. New York, Chicago, Philadelphia, Los Angeles, and many small cities also offer opportunities in venture capital. Don't forget to look in areas with high entrepreneurial growth, such as Minnesota, North Carolina, Texas, Utah, Colorado, and the Pacific Northwest. Also, your horizon will broaden if you include university funds, SBICs, and venture divisions of corporations in your job search.

When breaking in, target the firms with a track record. "What history says is that people who have been successful in our business will continue to be successful," says an insider. Firms that have closed new funds and are deploying money are the best bets for jobs. Study the websites of the firms and the backgrounds of the partners. One entry strategy is to identify firms that lack the specific expertise you can bring them, such as optical networking or biotech, and sell them on how you can fill this hole.

Once in, people skills are paramount. VC is a service industry. "Where most people make the mistake is confusing our industry with other industries. We are a high-touch, high-service craft. It takes years to learn the business," says an insider. If you lack the ability to schmooze, you'll have a hard time convincing investors to put their money where your mouth is. As one VC puts it, "I know a lot of VCs who aren't gregarious, but they must be real go-getters. You can't take 'no' for an answer. VCs tend to be impatient."

"Young people going into VC require a special attitude," says a VC veteran. "You either have it or you don't. It's not something that can be taught. In this business, you take a lot of hits. You need a certain emotional maturity or stability to take a hit. It's like rock climbing. You can't let your emotions get in the way of the tactical and strategic decisions to be made."

Almost all of the venture capitalists we interviewed for this guide had the same piece of advice for people who want to get into VC: "Get some specific industry experience before you try to work in venture capital." It is the web of contacts and the insider's knowledge of technology trends that really make the difference in being a good venture capitalist. If you can't get a job in venture capital, go work for a venture-backed start-up. You'll get great industry experience and get to know some VCs in the meantime.

Interview Tips

Venture capital firms don't hire many people, so you'll really have to be a standout or have exceptional connections. Insiders who did found their way in offer the following suggestions:

- A lot of the work at a venture capital firm involves gathering information about companies and industries. Show off your research abilities. At a minimum, know the VC world's terrain like the back of your hand, and nail the characteristics that distinguish the firm with which you are talking. You should also have a compelling story about why you want to work there.
- Since VC firms don't hire many people on a full-time basis, you might try to get your foot in the door by doing a project for one of them. Alternatively, you might use a class project as a pretext to get an interview.
- There are certain skills that you will be expected to have. These include a strong ability to work with numbers and a thorough familiarity with financial models. You should be able to understand and work with IRRs, ROIs, and NPVs without batting an eye.
- The best way to get into a VC firm may be to have a meaningful experience in a specific industry. Insiders tell us that people at middle or senior levels in high technology firms, usually with engineering backgrounds, are the most attractive candidates.
- Since VC involves a lot of long-term projects with not much close supervision, you need to impress upon your interviewer that you are a very independent self-starter.
- Being liked can be a big factor in getting a job at a VC firm. To save yourself the trouble of having to fake it, make sure you choose firms that are genuinely interesting to you. Chances are you'll get along better with people with similar interests. Having a passion for whatever the firm's focus is will come across in an interview and make you someone they'll want to have on their team.

Getting Grilled

Venture capitalists hire people who will make good investing decisions. Unlike consulting interviews, which focus on seeing how your mind works, venture capital interviewers want to find out how well you understand a particular industry, how good a judge of people you are, and what your instinct is for picking the right horses. Expect very specific questions about your opinion of particular start-ups and about the industry in which you have expressed an interest. Here are some samples:

- Tell me about the industry segment or segments on which you would like to work and what your background is in this industry. (The key is specialization. Rather than saying "communications," zero in on optical switching technology or something equally arcane. The theory is that you can always broaden, but true depth is more useful and more difficult to obtain. Depth is knowing a field inside out: key players, historical developments, products and customers, informed theories on the future of the business, pets owned by industry leaders . . . You get the idea.)
- I've got people from the best business schools in the country who want to work here. Why should I hire you? (This question is from a venture capitalist who made $7 million one year.)
- What has your reaction been to the other people who have interviewed you so far? (Remember that being a good judge of people is an important VC skill.)
- What will your sources of deal flow be? (More than any other industry, VC thrives on connections. If you can bring in networks not already available to the firm but within the appropriate lines of business, your value to the firm skyrockets. Your sources can be relatives, friends from your MBA program, or customers and suppliers from previous jobs.)
- Where is the best place to invest right now? (That's the bottom line.)
- What do you think about X company, Y company, and Z company? (Shows how up to date you are on start-ups.)

- How many deals do you expect to work on during the first six months you would be working here? What do you expect your level of responsibility to be? (They want to make sure you have realistic expectations—don't expect to make big investment decisions right away.)
- Why do you want to work in venture capital? Why do you want to work at this firm? (In venture capital, as in other industries, enthusiasm goes a long way.)
- Give me an example of a team on which you have served and the role you played. (VC firms are small, so team chemistry is key.)

Grilling Your Interviewer

The following are good generic questions that will fit most venture capital interviews. However, you'll want to think of additional ones that specifically pertain to the company with which you're interviewing. A word to the wise: We have grouped our questions according to risk. Those in the Rare section are meant to be innocuous (if boring), while the Well Done ones will put fire to your interviewer's feet.

Rare

- What are the most successful investments you have personally been involved in, and why do you think they succeeded?
- Where are you in your fund cycle currently?
- What do you like best about your job, and what do you dislike?
- When you decide to back a company, how much are you backing the industry opportunity, and how much are you backing the track record of the founders?

- Which do you enjoy most: picking new investments, doing deals, or managing your portfolio?
- How often are you the lead investor vs. the follow-on investor?
- Is the fundraising duty shared by partners or carried out by one person?

Medium

- If you were competing with three other firms to be the lead investor in a hot deal, how would you pitch yourself to the entrepreneurs?
- How many boards does each of the partners sit on?
- Has your firm shifted its strategy since 2000?
- How often do you need to replace company founders with professional management?
- If you hire me as an associate, what are the chances I'll ever make it to partner?

Well Done

- Will I get any partners' carry?
- What are the chances your limited partners will invoke a clawback?
- What is the worst investment decision you have ever made, and why do you think it worked out badly?
- Have you ever invested in a firm and discovered that the pressure for them to return your investment caused them to act against their own long-term interests?

For Your Reference

- For Further Study
- Online Resources
- The Final Word

For Further Study

Pratt's Guide to Venture Capital Sources

The bible of the industry, this guide is not far from the fingertips of anyone seeking or providing VC funding. *Pratt's* contains a series of essays by industry experts on various VC-related topics: identifying a good business plan, the VC role after financing, investor relations, and mezzanine financing, among others. Even more important than these pearls of wisdom are the names and addresses of VC firms throughout the United States. The tome also provides the names of partners and staff and the type of financing the firm typically provides (seed, second-stage, LBO). A caveat: Since *Pratt's* surveys a broad range of firms, each of which measures its business differently, its quantitative analysis of industry trends is not as meaningful as it might be. For instance, when asked by *Pratt's* which industries it invests in, a VC firm may list a dozen or more, even when the majority of its investments are concentrated in only one or two sectors. *Pratt's* is available in most business school libraries and is updated yearly.

The Entrepreneur's Guide to Business Law

Constance Bagley and Craig Dauchy (International Thomson Publishing, 1998) This book, primarily aimed at informing budding entrepreneurs of the myriad legal issues they may face, contains a chapter on venture capital useful for entrepreneur and VC alike. The chapter details the legal considerations specific to the negotiation process, as well as the rights and protections afforded the venture capitalist obtaining equity through preferred stock. These protections include liquidation preference, antidilution provisions, redemption rights, and others. One venture capitalist is quoted as saying, "It is extremely rare for people looking for positions in the industry to have any grasp of the legal issues of VC. Being able to talk intelligently about some of the important issues could be a big leg up in an interview."

The MoneyTree Survey

(www.pwcmoneytree.com)
PricewaterhouseCoopers/Venture Economics/National Venture Capital Association puts together this quarterly survey of the national VC industry, the only one endorsed by the industry. Check out www.pwcmoneytree.com for the most comprehensive and up-to-date firm rankings and industrywide statistics.

Venture Capital Journal

(www.venturecapitaljournal.net)
This monthly industry journal published by Securities Data Publishing can be found in most business school libraries. It takes a slightly more academic view of the industry.

Online Resources

www.nvca.org

The National Venture Capital Association lobbies Congress on legislation pertinent to the VC industry and hosts a variety of networking events around the country (and the globe). This site provides an excellent overview of the VC industry; it should be your first stop online. It also provides news updates on VC-related legislation and links to firms and resources.

www.ventureone.com

VentureOne is an online resource for information on and analysis of the VC industry. The company provides a free statistical overview of venture investments and other industry news. For a substantial fee, VentureOne also offers data of interest to venture investors, including a searchable database of companies seeking venture capital.

www.vfinance.com

vFinance provides a listing of business plans and various links and resources for VCs and entrepreneurs.

www.vcapital.com

The website for Venture Capital Online was originally started by Batterson Venture Partners and spun off as a separate, venture-backed company in 1998; so its people know a lot about the venture world. Although the website aims to bring VCs and entrepreneurs together, it seems more aimed at the entrepreneurs. Still, it has some good links and articles for job seekers interested in the Chicago VC scene.

www.nasvf.org

The National Association for Seed and Venture funds has an excellent news section that collects articles on the industry every week. Also hosts and annual conference, which is a great place to network.

www.thevc.com

Subtitled "Tales from the Internet Era, 1997–2000," this online comic is a great place to stop for a little history of venture capital's bubble days.

The Final Word

The venture capital industry offers wonderful rewards for those who can get jobs in it: a hand in building some of the most innovative start-ups, a bird's-eye view of an industry, and rich financial compensation. But it's a very hard industry to get into and not easy to succeed in, either. For every eBay, there are a lot more flops that nobody ever hears about. But if you can get in and succeed, insiders say that venture capital is some of most exciting and stimulating work anywhere. "You're really at the front edge of turning a vision into a company," an insider says. "You're working with extremely bright, incredibly motivated, driven people. You're not going to find that in the masses of the Fortune 500." If you fit the profile that VC firms are looking for and are not scared to live in the up-and-down world of high-risk investing, then venture capital just may be for you.

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Who We Are

WetFeet is the trusted destination for job seekers to research companies and industries, and manage their careers. WetFeet Insider Guides provide you with inside information for a successful job search. At WetFeet, we do the work for you and present our results in an informative, credible, and entertaining way. Think of us as your own private research company whose primary mission is to assist you in making more informed career decisions.

WetFeet was founded in 1994 by Stanford MBAs Gary Alpert and Steve Pollock. While exploring our next career moves, we needed products like the WetFeet Insider Guides to help us through the research and interviewing game. But they didn't exist. So we started writing. Today, WetFeet serves more than a million job candidates each month by helping them nail their interviews, avoid ill-fated career decisions, and add thousands of dollars to their compensation packages. The quality of our work and knowledge of the job-seeking world have also allowed us to develop an extensive corporate and university membership.

In addition, WetFeet's services include two award-winning websites (WetFeet.com and InternshipPrograms.com), Web-based recruiting technologies, consulting services, and our exclusive research studies, such as the annual WetFeet Student Recruitment Survey. Our team members, who come from diverse backgrounds, share a passion about the job-search process and a commitment to delivering the highest quality products and customer service.

About Our Name

One of the most frequent questions we receive is, "So, what's the story behind your name?" The short story is that the inspiration for our name comes from a popular business school case study about L.L. Bean, the successful mail-order company. Leon Leonwood Bean got his start because he quite simply, and very literally, had a case of wet feet. Every time he went hunting in the Maine woods, his shoes leaked, and he returned with soaked feet. So, one day, he decided to make a better hunting shoe. And he did. And he told his friends, and they lined up to buy their own pairs of Bean boots. And L.L. Bean, the company, was born . . . all because a man who had wet feet decided to make boots.

The lesson we took from the Bean case? Lots of people get wet feet, but entrepreneurs make boots. And that's exactly what we're doing at WetFeet.

"I found the WetFeet guides very handy for getting up to speed a week before the interviews and I've landed multiple summer internships with your help. Go WetFeet!"

— Wharton student

"WetFeet offers job seekers convenient and highly comprehensive resources for gathering current information on the job market. Their publications are superior assets in the job search arsenal."

— Don Brezinski, executive director, Corporate Relations, Bentley College

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— Jacqueline A. Wilbur, director, MBA Career Development,
Sloan School of Management, MIT

WetFeet has earned a strong reputation among college graduates and career professionals for its series of highly credible, no-holds-barred Insider Guides. WetFeet's investigative writers get behind the annual reports and corporate PR to tell the real story of what it's like to work at specific companies and in different industries.

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