CHAPTER 1

The Venture Capitalist: Funder of Dreams

At the center of the venture capital playing field is the venture capitalist. The practical knowledge needed by both investors and aspiring entrepreneurs begins with a general understanding of this strange and extremely small population of individuals.

This chapter will get into a general description of our unique breed. Chapters 4 and 8 will then get into the distinguishing characteristics that investors and entrepreneurs, respectively, should consider in deciding which ones to invest with or to seek out for funding.

There are many ways to think about the venture capitalist. One is to liken him or her to a marriage broker. At its most basic level, the venture capitalist's reason for being is to bring together investors' dollars with entrepreneurs who need their money. Of course, the investor has to want to invest in that entrepreneur's venture, and the entrepreneur has to be willing to accept the investor's terms. The venture capitalist as marriage broker needs to sell both sides.

The venture capitalist is also like a marriage counselor. The "VC" helps the two sides—investors and entrepreneur—communicate with one another, often counseling the entrepreneur to enhance his or her venture's success odds. After all, the venture's continued progress and potential for ultimate success along with its attendant rewards are what will keep the relationship between investor and entrepreneur together.

Of course, one could describe the venture capitalist in other ways, too. The venture capitalist is part riverboat gambler, part security analyst, part trader, and part entrepreneurial voyeur.

Venture capital is a high-risk/high-potential-reward endeavor, so not surprisingly, venture capitalists are calculating gamblers, instinctively balancing the risks and rewards. No venture capitalist can win every time, but the successful ones' winners will handily compensate for the losers.

Successful venture capitalists have intuitive and analytical skills. They must be able to assemble and digest large amounts of data—some precise but some pretty vague and incomplete—and integrate all that information in order to make seriously consequential decisions.

The venture capitalist must be an astute trader and negotiator, the kind of talent Donald Trump would admire. To succeed, he must figure out what he can sell to whom (like deal potential, deal terms, and ultimately the successful venture he has funded and nurtured) and what he can buy from whom (professional services, shares of high-potential ventures) at a favorable price.

Even the successful venture capitalists, though, will lose more often than they win, so they must have confidence and strong egos. While recognizing that reality—that they'll lose more often than they win—they still must be able to state unequivocally that they believe in this entrepreneur and his or her venture, and to back that stated conviction with theirs and others' money.

The venture capitalist must often be a skeptic, as he is likely to reject a hundred deal opportunities for every one in which he invests funds. He also must temper the optimistic fervor of the entrepreneur. That's important at the start in order to negotiate a good deal and then later to foster the entrepreneur's management discipline and ensure the entrepreneur recognizes key risks and addresses them thoughtfully. At other times, he must be a business romantic, recognizing and accepting his limited control over the entrepreneur's operations and therefore often having to suspend lingering disbelief.

Venture capitalists must be extraordinary at living with and managing through ambiguity.

- Ambiguity in that not much can happen before he or she has investor money in hand, and often that money must be secured before he can even tell the investors the deals he has to offer.
- Ambiguity in that he or she must read between the lines, as investment decisions must be made before much of the information one would like is available.

- Ambiguity in that the investments are usually highly illiquid; most must be held for 5–10 years, through good times and bad, before success or failure can be known.
- Ambiguity in that entrepreneurs may love him as their essential source of money and yet hate him because of the controls and limitations he may insist on imposing in exchange for that money.
- Ambiguity in that investors must think enough of him to invest with him, may then grow impatient and displeased, waiting so many years for a return, and then love him dearly for the stellar returns he may ultimately deliver.

Venture capitalists must also have the confidence to live with frequent adversity. Almost all ventures in which he or she invests don't go quite as planned at the start. Most go through the valley of death at least once. Buckminster Fuller once wrote, "Sometimes I only find out where I should be going by going somewhere I don't want to be."

Most of all, the venture capitalist needs to be a business generalist. He or she is often required to provide not only know-how but also "know-*who*," to know the resources that the entrepreneur needs to best solve specific problems. Often the venture capitalist needs to know a lot about the particular industry, market, or technology in which he is investing his investors' funds.

Importantly, the venture capitalist must be highly knowledgeable about business development. That means sometimes being a patient nurturer of growth, but at other times being the impatient, sharp prod pushing the entrepreneur. Most people involved in business creation create just one business in a lifetime; the venture capitalist is involved in building many.

The venture capitalist must be an astute strategist. The ventures in which he invests are inevitably on the cutting edge of markets and technologies, so often those ventures need to make sharp strategic turns as more is learned. The successful venture capitalist must be able to participate in driving the venture's strategic path. Both investors and entrepreneurs need such VC skill.

Perhaps surprisingly, the successful venture capitalist must sometimes display exceptional operating acumen as well. While in most cases the venture capitalist will not get heavily involved in portfolio companies' day-to-day operations, there are times when the VC must step in, right an errant venture ship, and spearhead the turnaround of a venture that still has valuable potential but has lost its way.

There aren't many individuals who have all these tendencies and skills, and even fewer who want to live life on the edge like this. There are only about 500 active venture capital firms in America. Given all the aspiring entrepreneurs and ambitious startups vying for the support of so few VCs, the entrepreneur needs to understand the time pressures they face and the schedules they juggle. Don't lose faith if the call you made or the documents you sent don't receive responses for several days. The message you get that the VC is out of town or in meetings and can't get back to you right away is likely the truth, so don't despair.