

WetFeet.com's Industry Insider Guide

The Inside Scoop on the Job You Want

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Chapter 30: Venture Capital

Venture Capital

Meet the new Masters of the Universe. What Tom Wolfe's suspenders-clad bond traders were to the 1980s, venture capitalists are to the 1990s: a well-educated group of relatively young hotshots making an astronomical amount of money. VCs, who invest in start-up companies in return for a piece of the profits, have been behind some of corporate America's greatest success stories—Compaq Computer, FedEx, Intel Corporation, Sun Microsystems, and Apple, to name a few. The risks are enormous, but for legions of brilliant young people with MBAs—yes, you'll probably need one, and from a top school—the potential rewards are even bigger.

Essentially, venture capitalists raise money from other investors such as corporations, financial institutions, private foundations, university endowments, and wealthy individuals and families and then sort through stacks of business plans before deciding which lucky companies to invest in. After investing in a company, venture capitalists are usually involved in important business decisions and often take a seat on the company's board of directors. The goal of venture capital is simple: to make money for the fund by investing in promising companies early. VCs make their money by helping the company grow and then selling it to a larger company or taking the company public in an initial public stock offering (IPO).

As the 1990s draw to a close, the venture capital industry is exploding. According to PricewaterhouseCoopers, in 1998, 2,856 companies received venture-backed investments. These investments were up 24 percent from 1997 and 78 percent from 1996, for a total of \$14.3 billion. Blame technology: To meet their lofty return on capital goals (many venture firms aim for ten-to-one returns on investments and 20 to 30 percent average annual rates of return), venture capitalists have focused increasingly on high-tech companies, which in 1998 accounted for 76 percent of total VC investments. Not surprisingly, many of the top funds (including Institutional Venture Partners, the Mayfield Fund, and Sequoia Capital) have headquarters in Silicon Valley.

Does the enormous growth in the venture capital industry mean that the industry is hungry for fresh hires? Unfortunately, no. In general, venture capital funds are extremely flat organizations, often consisting solely of partners and low-level support staff (secretaries, office managers, and receptionists). Even the largest funds have only a handful of professional positions. Kleiner Perkins Caufield & Byers, which has raised more than \$1.2 billion and been involved in over a hundred IPOs, has only seventeen partners.

Established funds generally hire people with proven entrepreneurial backgrounds, high net worth (William Randolph Hearst III is a partner at Kleiner Perkins), or MBA degrees from either Harvard or Stanford, both of which offer specialized venture capital tracks. Even then, the competition is intense. Draper Fisher Jurvetson, a venture capital firm based in Redwood City, California, interviewed more than 250 prospects before hiring a

new partner candidate. Not surprisingly, the successful hire had an MBA from Stanford.

But don't despair if your last name isn't Hearst or if you don't have an MBA from Harvard or Stanford. As the industry matures, opportunities for graduates from other business schools and even for undergraduates will increase. TA Associates, a Boston-based fund that also has offices in Menlo Park, California, hires undergraduates with some business experience as associates and fresh B-school grads as vice presidents. Additionally, some high-tech companies, notably Cisco, Microsoft, and Intel, have started their own internal venture capital operations, as have many financial-services firms.

How It Breaks Down

There are many kinds of players in the VC world, from traditional VC firms to funds operated by publicly owned corporations. Some are tightly focused-by stage of investment, region, or type of industry-but most have a much broader focus. Here's a rough breakdown of the industry:

Private VC Firms (Early- to Mid-Stage)

Firms in this segment follow the classic VC model: Find an entrepreneur with a great idea and business plan, sprinkle with cash, bake for several years, and sell to someone else for a hefty chunk of change. Early-stage (or seed) investments are the riskiest, as many start-ups tank. Still, they often provide the highest returns because investors coming in early can demand a lower price for equity. As many traditional VC firms raise larger funds and start to focus on middle- and late-stage investments, seed financing has increasingly become the province of newer firms and angel investors-entrepreneurs who've made it big and have money to spend. Some firms known for seed and early investing are Altos Ventures, Onset Ventures, and Hummer Winblad Venture Partners.

Private VC Firms (Mid- to Late-Stage)

These firms, many of which also operate at the seed level, provide funds to companies that are already established-those that have a product, sufficient employees, and perhaps even revenues. At these stages, firms inject more capital into the company to help it become profitable so that it will attract enough interest to either be acquired by a larger company or go public. The trend is for VC firms to make larger investments in more-stable firms, reducing risk and shortening payoff time.

Growth Buyout Funds

Some VCs have moved into growth buyouts of larger private companies or divisions of public companies. These funds invest larger amounts of capital-up to \$100 million-in exchange for a significant minority or majority position in the company. By focusing on stable, growing (and often profitable) companies, buyout funds don't have to wait long before they can cash in on the company's IPO or sale. There's less risk-unless market factors cause the delay of an IPO, for example. The funded company and its earlier investors benefit from having a prestigious late-stage investor add credibility on Wall Street come IPO time. Some firms that specialize in growth buyouts are Summit Partners, J.H. Whitney, Housatonic Partners, and Chase Capital Partners.

Financial-Services Firms

Where there's money, of course you'll find I-bankers. Banks such as Morgan Stanley Dean Witter, and Citicorp will invest in the later stages. Their aim is pretty much the same as those of the VCs: to make a killing through either an IPO or an acquisition.

Corporate Funds

As opposed to private funds, whose primary goal is monetary gain, corporate funds have

the added goal of strategically investing in companies whose technology relates in some way to the corporation's business. For example, Microsoft invested in Qwest Communications, a telecom company that is building a fiber-optic network, to help it deliver NT-based software. Other companies with similar strategic investment funds include Intel and Hewlett-Packard.

Venture Capital-Related Companies

The tremendous growth in VC has resulted in a number of companies that serve to support, facilitate, and otherwise make a buck out of VCs and entrepreneurs making a buck out of each other. Myriad consultants help entrepreneurs develop eye-catching business plans and flashy presentations; one, Garage.com, goes one step further by matching entrepreneurs with investors at the seed level. There are also numerous research companies that help investors learn about hot industries and promising young companies. PricewaterhouseCoopers does a quarterly survey of the industry, as does Venture One.

What's Great

The Green Stuff

Put quite plainly, venture capitalists make more money than just about anyone else excepting, perhaps, entrepreneurs. Even better, unlike entrepreneurs, venture capitalists don't run the risk of personal bankruptcy if a company fails.

Cherry-Picking

What could be better than getting a sneak peek at the business plans of the brightest and most motivated businesspeople and investing in only the best? Many corporate venture funds, such as those run by Microsoft and Adobe Systems, exist primarily to give them first dibs on the next hot technology.

On a Mission

Maybe it's just guilt over those seven-figure paychecks, but venture capitalists will often tell you that they have a mission. For some it is to build a better, electronic world—Microsoft cofounder Paul Allen, who invests in start-up companies through his Vulcan fund, sees himself helping create a "wired world." Others want to bring breakthroughs in medicine to market. Still others claim that venture capital is the lubricant powering our entire economy.

What's to Hate

Workin' Nine to Nine

Being a venture capitalist is by no means a nine-to-five job. Depending on the fund and the deals that are currently active, you can expect to put in your fair share of eighty-hour weeks. That said, the hours aren't as consistently brutal as those in other elite industries such as law, management consulting, or software programming.

Risky Business

One of the reasons venture capital investing is growing at an exponential pace is the sky-high valuation the current bull market is putting on technology companies. This won't last forever—and a venture capitalist's compensation is directly tied to the performance of the fund, and indirectly to the market as a whole.

Always the Bridesmaid ...

Venture capitalists are always one step removed from being the CEO of a successful public company. In terms of excitement and prestige, would you rather be the guys who founded Yahoo (Jerry Yang and David Filo) or the guy who invested in it (Michael

Moritz at Sequoia Capital)? key jobs

Staffing needs and titles vary greatly from one venture capital firm to the next. Many funds consist solely of partners and support staff. Others hire a limited number of undergraduates and MBAs as analysts and associates, with the expectation that most will return to get their business degrees or join start-ups within a few years. (Keep in mind that while the terms "analyst" and "associate" usually refer to undergrads and MBAs or experienced hires, respectively, at some firms the titles are reversed.) Even at the lowest professional levels, compensation is tied to the performance of the fund. If the fund is performing poorly, the partners suffer along with it. But because of built-in fund-management fees, no one ever starves at a venture capital firm-and as a rule, venture capitalists do very, very well for themselves. Top-tier partners at major funds are worth many millions of dollars. Lower-level professional staff and junior partners can expect total compensation exceeding (often vastly exceeding) \$250,000 per year. Compensation at corporate venture funds is lower.

General Partner

These are the guys with their names on the door. General partners raise the money for the fund and make the final decisions on which companies to invest in. General partners are expected to provide a wealth of business advice and industry contacts to the entrepreneurs they back. They often sit on the boards of many companies and are deeply involved in decisions about "exit strategies"-that is, when to cash out by taking the company public or selling it. Salary range: \$150,000 to \$200,000 and up, plus the potential of millions in profits.

Limited (or Junior) Partner

Junior partners are just that: junior versions of the general partners. Usually, junior partnerships are viewed as training for general partnerships and junior partners perform similar duties albeit on a reduced scale. Also reduced is their personal stake in the fund itself. Salary range: \$100,000 to \$130,000, plus a limited amount of carry, or percentage of profits.

VP or Associate

Some firms hire MBAs or people with business experience (usually in leveraged buyouts or investment banking) as vice presidents or associates. Associates screen business plans, make cold calls on prospective investments, and on occasion make on-site visits to portfolio companies. At this level, compensation, while still tied to the overall performance of the fund, can take the form of a flat bonus rather than a percentage of the fund. Salary range: \$50,000 to \$100,000, including bonus; VPs earn at the higher end.

Analyst

A very few venture capital funds-generally those that are more established or are later-stage investors-hire undergraduates as analysts. Analysts screen business plans before passing them on to senior staff and do due diligence, or research, on promising industries and entrepreneurs. A background in finance and some outstanding college internship or business experience are musts, but venture capitalists also stress the interpersonal and networking skills that are essential to anyone working in VC. The typical stay for an analyst at a VC firm is three years, after which most get an MBA, work for a portfolio company, or move over to another VC firm. Salary range: \$30,000 to \$70,000, plus bonus.

Getting Hired

As mentioned earlier, this is not the easiest industry to get into. VCs don't recruit on campus, and they don't put out ads in the newspaper or online. As a rule, you have to

have a top school and relevant industry experience on your rsum to get a shot at a coveted spot at a VC firm. Even then, you'll have a lot of competition. Here are a few things you can do to improve your chances:

- Work at a start-up. After college, while your friends are trekking in Nepal on \$20 a day or sucking it up on Wall Street for \$100,000 a year, you could be working for a sexy cutting-edge company for not much money but a lot of responsibility. Oh, and did we mention exposure to the company's investors? Maximize that-and the experience you've gained-and you could actually become a blip on a VC's radar screen. One insider says that his experience interning at a failed start-up helped him get a job at a VC firm. Operating experience and a sense of reality are prerequisites to a VC career.
- Become an expert. If you're already working in an industry VC likes, you may be able to turn your experience into a VC job. Physicians can evaluate health care and biotech start-ups, and software engineers can evaluate high-tech start-ups, for example.
- Start networking. That's really what this business is all about, anyway. Classmates, friends, acquaintances-ask whoever you know who might know someone in VC. There are also a number of formal and informal professional organizations. And don't forget your company's investors; they may have contacts in the VC community or may be VCs themselves.
- Aim small. If you don't mind working for a smaller regional firm-say, in Texas or Illinois-you might be able to shift over to a bigger firm after a few years and a good track record. One thing to remember: Industry knowledge is very important to most VC firms. If you know all about cutting-edge oil-extraction technologies from your stay in a Dallas VC firm, don't expect to get hired by a Silicon Valley firm that focuses on the Internet or health care.

Vikram Agrawal

occupation: Associate at a venture firm

years in business: 6 months

age: 26

education: BS in business administration, Georgetown University

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

size of company: 18 professionals

certification: None

annual salary: \$70,000, 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.

8:30 Arrive at the office, then check e-mail and voice mail and surf the Web for business headlines relevant to my research.

10:00 Call companies I've heard about or that have been referred to us. Explicitly, I'm trying to find out from CEOs about what their product is, who's on their team, what the market opportunity is, and how much they're trying to raise and the terms of the deal. Implicitly, I'm trying to learn about the market they're in so I'll be more intelligent for the next call I make.

12:00 Lunch meeting with a couple of members of a company that I'm interested in. I try to see if there's as much of a fit between my firm and their company as I initially thought.

2:00 Do some due diligence on a company we're already talking with. This mainly consists of calling customers and industry analysts.

4:00 Spend some time going over other deals with other associates or partners. We talk about what stage the projects are in and what needs to be done.

6:00 Try to catch up on voice mail and e-mail messages, and plan my day for tomorrow.

7:30 Head home.

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.

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 importantly, you have to be very good at talking and listening to people to draw out 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. You often have to pass up opportunities that 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, sometimes. Find opportunities to meet VCs either through personal introductions or at VC events. VCs often talk about possible hires to other VCs, so the important thing is to meet some and network from there.

Rick Bremmer occupation: Managing partner of a venture capital company

years in business: 7

age: 36

education: BS in electrical engineering, UC Berkeley; MS in electrical engineering and MBA, Stanford University

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: 7

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 of 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.

6:30 On the way to work I check voice mail and call the Boston office if there's any

urgent business. Get to work about seven, check e-mail, check my calendar for the day and respond to e-mail, and read the Journal and other papers.

8:00 Phone starts ringing. Have a conference call discussing the budget for the next twelve months with a portfolio company.

8:45 Send some more e-mail: to portfolio company CEOs, entrepreneurs looking for capital, and investors.

9:00 First appointment. An entrepreneur comes in to tell me his story. I've reviewed his business plan and have invited him in. One of my partners in the San Francisco office joins me for the meeting.

11:00 On the phone working down my list of calls-the oldest calls are backlogged three or four days. Urgent matters include a portfolio company CEO who wants advice on finding a new VP of sales. Another CEO wants to discuss an acquisition that the company is working on. Call one of my Boston-based partners to catch up with him.

11:45 Head for a restaurant three blocks away to meet with an I-banker who wants to learn about my firm to figure out how we can do some business together.

1:15 Back to the office. Check voice mails that I know I have since my pager's been vibrating me all through lunch.

1:30 Interview a CFO candidate for a portfolio company.

2:15 Go to a portfolio company board meeting.

6:00 Meet with the same company's CEO one-on-one to see how he's doing.

6:15 Back to the office. Process e-mails and respond to voice mails. Add the ones that aren't urgent to my to-call list to be followed up on in the next few days.

7:00 Head to the East Bay and home.

7:30 Dinner and family time.

9:30 Put the kids to bed and then go to my home office. Prepare term sheets for two opportunities which look promising. Send and respond to e-mails and faxes and leave voice mails for people who need info. I do talk to people in person when possible to maintain relationships, but leaving voice mails is more time efficient.

11:30 Lights out.

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 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, 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 side is the financial side. Spend a couple 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.