

How to be a Venture Capitalist when you grow up...

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The entrepreneurial ecosystem, as with any healthy ecosystem, is full of diverse players and interdependent systems. Among all the complexities, one of the fundamental components that make this ecosystem work is the financing system, as nearly all start-ups need outside capital to grow. However, this ecosystem is rife with risk so bankers are seldom seen, especially right now. And the pockets of your friends and family are only so deep. So who is there to really bankroll a company when it is poised to “hockey stick?” Well, there are angels floating around—literally— but they are a disparate bunch. The answer is Venture Capitalists (VCs), who not only have the risk tolerance to tolerate the unknown frontier, but also have the uncanny ability to find the pioneers out there that are destined for greatness, and help them forge ahead.

This paper looks at this small group of investors that nurture the entrepreneurial elite by taking big risks and writing big checks. More specifically it focuses on just who these VCs are and how they earned their stripes. It attempts to identify attributes that successful VCs share and provide some insight that you can share with your son or daughter if they tell you they want to be a VC when they grow up...

PART I: FROM THE HORSE’S MOUTH

Based on my conversations with a handful of local VCs and the blogs of several dozen, there seem to be a couple trends among VCs when it comes to becoming one of them. First, when asked how they became a VC, the mention of luck somehow fits into their answer. When I was a kid, I was sent away to tennis camp during the summer and there was a sign in the dining hall that read: “Luck is what happens when preparation meets opportunity.” And that tends to be my reaction anytime someone tells me they were lucky. Certainly luck of the dumb variety exists out there, but I believe the vast majority of luck is of the former kind. So, further below I will delve into that preparation component and see if there are indeed shared experiences or attributes that led them to the opportunity of becoming a venture capitalist.

Next, when you ask a VC “how can *I* become a venture capitalist?” many have a similar response: “That is the second most asked question I get, the first being ‘how can I get you to fund my company?’” The reality is that there is no linear trajectory to become a VC. There is no ladder to climb within most firms because the VC model relies on being minimalistic. For most firms, there is really only room for the top tier position of partner, which is due to the structure that covers compensation and overhead expenditures. Additionally, the real value of a firm comes from the partners, as they are the ones that create the deal flow and have the capabilities and connections to help their portfolio companies thrive. For the most part, it seems to be an all or nothing kind of business.

Seth Levine, a local VC with the Foundry Group actually has one of the most referenced blogs regarding this conundrum of how to become a VC. In fact, the most popular VC blog according to the New York Times¹—www.avc.com— essentially references Seth’s blog when it comes to this topic².

Seth has two very insightful posts that speak specifically to this question that he is so often asked. In the first post³ from 2005, he makes five recommendations that he lists as steps. Many eager VCs-to-be are surely disappointed to see that the first step is to come to the realization that you will most likely never become a VC. The harsh reality is that the VC community is very small in numbers and there is a long line of very talented candidates at the gate.

Seth’s second step speaks to the point made above about the structure of VC firms. They run lean for a reason and if you think you are going to be an associate at a small firm, you better be “significantly impacting their lives in a positive way that makes the trade-off worthwhile for them (you cost less than the marginal life benefit they get from having you around) and/or you will help create more carry (i.e., they

¹ http://www.nytimes.com/2008/09/22/technology/22venture.html?_r=1&pagewanted=2

² http://www.avc.com/a_vc/2005/05/getting_a_vc_jo.html

³ <http://www.sethlevine.com/blog/archives/2005/05/how-to-become-a.php>

can manage more deals with you around and therefore deploy more capital; you have a skill set that will positively affect the portfolio, etc.)” If you think this sounds doable, think again. You basically have to be able to do something the partners cannot. That is a big challenge, and even if you land a job as an associate doing tasks the partners don’t have time for, the chance of making the jump up to the top is minimal. According to John Nesheim, “attempts to become a partner by climbing up from an associate position have mostly resulted in departure from the VC firm within two years.” They realize the odds they are up against and move on to more realistic opportunities, often with a hot start-up they have identified.⁴

Seth’s third and fourth steps are all about immersing yourself in the entrepreneurial ecosystem where VC sightings most often occur. Traditionally it is hard to get face time with VCs, as they are both very busy and highly sought after by start-up suitors. Living in Boulder and being an MBA student, my situation has been atypical. I have been very fortunate to have an adjunct professor (Jason Mendelson) that is a full-time partner at the Foundry Group and also have access to other VCs through extracurricular activities (VCIC) and other local meet-up events. I think the accessibility of the VC community in Boulder is pretty special and one that can’t be taken for granted. Regardless, you have to make the effort to wade into their waters and create a valuable and long-term network. If a rare opportunity does arise, I am willing to bet it won’t be posted on Monster.com. If you aren’t on the radar, you are lost at sea.

The last of Seth’s five steps is to come full circle back to step one and remember the odds you are up against. Don’t get discouraged, just be realistic...

In Seth’s second post from 2008,⁵ he revisits the topic of becoming a VC and lists actual actions that can be taken to increase your chances. In doing so, he highlights some traits or experiences he thinks many VCs share, for better or worse. In fact, he

⁴ http://nesheimgroup.typepad.com/my_weblog/2007/02/to_be_a_vc_or_n.html

⁵ <http://www.sethlevine.com/blog/archives/2008/04/how-to-get-a-jo.php>

makes it pretty clear in his responses to the folks that have commented on his post that just because these similarities exist doesn't necessarily mean that they equate to being a great VC.

The first action item is get an MBA, but not just any MBA. In fact my soon-to-be alma mater doesn't make the grade. His point is that many VC firms filter their applicants based on where they got their diploma. If your resume lacks proper nouns like Harvard, MIT, or Stanford, you may not even be picked up on their radar. In fact he goes on to write that it can actually be detrimental if you get an MBA but don't go to the top tier schools. The logic for this being that the VC firms see your inability to attend a top tier school as the first sign of your ineptitude. While others will argue that these top tier students have other issues like ingratitude and a sense of entitlement, Seth is just telling it how it is, not how it should be.

The next two action items are either go work for a start-up or start your own. To be a VC, you need to know the entrails of a young business, and some people think the more festering the entrails, the better. Guy Kawasaki said one of the best things you can do on your path to be a VC is work for a start-up that fails because you see the mistakes made and what you did wrong⁶. As a VC, knowing the telltale signs of sickness is just as important as knowing those of success. Seth points out that working for a start-up, you will likely have interactions with the hand that feeds the company and begin to develop powerful relationships that could serve you well into the future. Furthermore, if you indeed start a company and knock it out of the park, you are better positioned to become a VC, either because you now have the cash or have established great rapport with the firm that funded your company.

The next action item— go get a job at a bank or consulting firm— is the most disputed within the blogosphere and among others in the field. It follows the same logic as getting an MBA from Harvard: it validates you are smart and will work hard, and it makes it easier for VC firms to slim down their mountain of resumes. Many

⁶ http://www.youtube.com/watch?v=gYNyvP_hz2U

people, including Mr. Kawasaki would argue that going this route is the worst thing you can do. It will “fundamentally corrupt you and eat your brain out.” Again this comes back to the difference between *becoming* a VC and *being* good at it. Seth is speaking to the former. He may very well agree with Guy on the latter.

Finally, Seth urges people to put themselves out there. Make your mark where you want to play. If you want to work for a firm that invests in web2.0 start-ups you better be on the forefront of it all as an active participant. Chances are that if you do get a break at a firm, it won't be from you reaching out to them, but rather someone they respect reaching out to them on your behalf. And that only comes from earning the respect of your peers.

PART II: SURVEY SAYS...

After getting the VC perspective, I thought it would be best to take an objective look at the VC industry and see if their assumptions are correct. The National Venture Capital Association (NVCA) has a 2008 Census of the VC industry⁷ that reveals some trends, but I wanted to dive a bit deeper and also look just at top tier firms.

However, I quickly became aware that there is not a publicly available “list” of the top firms out there. Many firms claimed to be in the top quartile of performance, but didn't reference anything to back it up. I imagine they used some average performance based on a fund's vintage, but that is subject to different interpretation. So I turned to my professor and local VC who provided me with a short list of his top firms: Kleiner Perkins (KPCB), Sequoia, Benchmark, Bessemer, Union Square, Accel, NEA, Matrix, Mayfield, First Round, and Alsop Louie. And of course I had to throw in the Foundry Group to add some spice. This generated 151 partners and was a good base to get a feel for the industry.

Next, I had to determine which attributes to identify and record. After reading several bios, I got a feel for what information I could feasibly extract. I also wanted

⁷ http://www.nvca.org/index.php?option=com_docman&task=doc_download&gid=344&Itemid=93

to see if I could get the necessary information to validate or debunk Seth's claims from his second blog post about attributes many VCs share. Below I discuss the information I gathered and digested.

First and Foremost...

Statistically you are at a major advantage if you are vying to be a VC and possess two things: a Y chromosome and a set of Caucasian parents. I imagine Seth didn't mention these two most significant characteristics because he wasn't addressing things out of people's control. However, it must be mentioned that 92% of the partners in my survey were male and 85% were Caucasian. Digging a bit deeper, I also discovered there are major discrepancies between firms. In fact, KPCB accounted for 7 out of the 12 female partners in my survey. So while nearly a quarter of their partners are female, this means that several firms had zero female partners. The NVCA Census has a gender ratio that is a little less extreme but their percentage of Caucasian partners is actually higher at 88%. I don't intend to explain why this imbalance exists, but I do want to point out one last observation. Of the non-male, non-Caucasian partners, most tended to be on the younger end of the age spectrum, which may mean this industry is slowly becoming more diverse.

Speaking of age, this was the most subjective (and entertaining) part of this survey. I really had to guess the ages of the partners based on their picture and perhaps a few dates in their bios that helped my approximation. Based on my estimates, the average age of a partner is 46 with the range being 31 to 70, give or take 5 years. These figures revealed to me that earning your stripes as a VC comes with at least a decade of previous experience, but is also a job that many do until they throw in the towel. The average number of years that partners had been at their respective firms also confirmed this. At 7.9 years, this actually shows two things. One, that being a partner is longer-term commitment; and two, that the industry is likely not significantly growing in size. If it were, the new partners would certainly be driving this average down.

So what to do in the meantime?

If the average age of a VC is around 46, then it is important to see what they were up to in the interim before they joined the club. I thought it would be worthwhile to go back to where venture capitalists earned their undergraduate degree and go from there. At this stage of a VC's development, there is no overwhelming trend. Harvard and Stanford stand out as coastal breeding grounds (12% and 8% of total), but not nearly at the level I will discuss below with regard to advanced degrees. The top 12 schools represented over half of all the VCs' undergrad degrees in my survey.

Moving on to advanced degrees, the trend that Seth wrote about in his second blog was clearly revealed. 73% of the VCs surveyed had at least one advanced degree with the following breakdown:

Advanced Degree	#	%
MBA	79	53%
PhD	11	7%
MD	4	3%
JD	9	6%
Masters Engineering	8	5%
None	41	27%

One interesting point when looking at individual firms was that Sequoia had a high number of partners— nearly 50% — without an advanced degree.

The most notable trend with regard to VC's advanced degrees was the seal on the diplomas. As Seth correctly pointed out in his blog, brand seems to be very important, with Harvard and Stanford being the Coke and Pepsi of academia. Of the 109 advanced degrees earned amongst the VCs in my survey, nearly 60% came from those two schools alone.

With regard to the MBA degrees earned, 35% came from Harvard, 25% came from Stanford, and 90% came from the top 12 business schools in the US.⁸ And of the remaining 10%, nearly all were in the top 30. These numbers make it indisputable

⁸ <http://www.businessweek.com/bschools/rankings>

that if you want to be a VC when you grow up *AND* plan on going to graduate school, you better ace the GMAT, LSAT, MCAT, or GRE and earn the proper “seal” of approval. The sheer fact that there are nearly no MBAs from second tier schools may even validate Seth’s more provocative statement that getting a tier two (or lower) degree may actually be more detrimental than not getting one at all. Not great news for many of the folks reading this with aspirations of being a VC. But there are always outliers...

“Real World Experience”

Moving down the narrowing road to becoming a VC, you essentially have four options on how to continue: 1) leave the road and blaze your own path (be an entrepreneur); 2) merge onto the fast paced freeway (work for a big corporation); 3) become a tollbooth operator (work for a big bank); or 4) become a traffic director (work as a consultant). Looking at how the VC’s in my survey pursued these options, some notable trends are revealed.

Trailblazers

Approximately 50% of the VCs surveyed had at some point ventured off the path to be an entrepreneur. A few were full-on machete-wielding pioneers (founders) that forged their way into the unexplored, but most were part of an expedition team (C-level crew). While most reemerged out of the woods to try the other options listed above, 8.6% never pursued the other options and remained in the woods until they ultimately became partners at VC firms. Of these select few, none were woman and most had made a fortune along the way.

Cruising in the Fast Lane

As I alluded to at the beginning of this paper, VCs hang out in uncharted territories looking for the next trailblazer. However, based on my research, a large percentage of them (58%) had to take the freeway at some point to get to there. This isn’t a big surprise as this is where you can most quickly advance your career and vie for position in the fast lane. The only other thing worth noting is that there were a

handful of trailblazers that overtime created a freeway of their own by taking a start-up all the way to an IPO.

Tollbooth Operators

Money flows into and out of the tollbooth and all that coin seemed to attract about a quarter of the VCs into banking at some point. Most of them worked for the biggest tollbooths, like the ones to get into the Bay Area or Manhattan, where there was major traffic and a high volume of money changing hands.

Traffic Directors

The final option, directing traffic, exposes you to the complexities of the free market and ultimately provides you with the power to influence how well all this traffic flows. 33% of the VCs surveyed opted to take on this role—usually earlier in their careers. This high stress occupation seemed to burn most of them out over time. However, there was a small percentage (8%) that only served as traffic directors before they became VCs. They were the all-star directors that managed to turn a cacophony into a symphonic masterpiece.

At the end of the day, the majority of VCs pursued some sort of combination of the four options listed above. Seth's point about being a banker or consultant wasn't as significant as one's alma mater, but still seemed relevant. It is surprising to me that only half of the VCs ever ventured off the trail, especially considering that this is where they have to spend so much time as VCs. Just knowing whether you have the risk tolerance needed to survive in this environment seems critical. The skills learned within corporations, banks, and consulting firms must be of value within the entrepreneurial ecosystem. I think the more important factor is that you prove to be exceptional at what you do, regardless of the options you pursue.

Other Notables...

While reading through the 151 bios, I also kept tabs on interesting accolades, community outreach activity, family, and quirky facts about the VCs. Individual

firms had different styles on how they presented themselves on their websites. Some were more succinct while others were more personal. With regard to accolades, it was no surprise that this group is adorned with awards and recognition. For me, it made the pursuit to become a VC seem even less attainable. Heck, Al Gore had to serve as VP, win an Oscar, and then become a Nobel Laureate before he was asked to be a partner at KPCB!

Community outreach involvement and mentioning that you have a wife and kids seemed to be brought up by the only the most successful of the VCs, particularly the founding partners. It was almost like you can't mention that you actually spend time doing anything else other than wearing your VC hat until you have had a dozen IPOs under your watch or have your last name mentioned in the name of the firm.

Finally, the quirky facts were more or less sprinkled throughout the bios and may have only been quirky to me. The Foundry Group probably had the most and I found it to be a nice touch. It made them seem more "real" and memorable. After reading 151 bios, the VCs that stuck out weren't the ones that sat on 12 boards, but the ones that mentioned they also are BBQ judges or part-time rock stars.

PART III: STILL INTERESTED?

After listening to what VCs have to say and taking an objective look at the bios of some of the most successful VCs in the country, it is certainly apparent that it is no easy feat to earn the title of partner at a reputable venture capital firm. While there are many pathways that lead to becoming a partner, all of them are extremely challenging routes in their own right. The reality that there are major disparities in race and gender makes it even more daunting for those that are currently underrepresented. If you are still motivated at this point, you are either a Caucasian male MBA student at Harvard, or have the ambition and risk tolerance to not be deterred by the numbers and heavy competition. Either way, I would say get into the game, roll the dice, and see what happens when preparation meets opportunity.