



Navigating Sand Hill Road

The road to making it in the VC world is far steeper than it looks.

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Even by the standards of business school, the lecture belabored the obvious. As the Northern California springtime sun washed over the Stanford University campus, two dozen students were in a classroom learning that people tended to associate with people similar to themselves. According to the professor, this trait brought both risk and rewards to venture capitalists, raising questions for VC firms looking to recruit new talent.

But instead of dozing off, or bolting, the students sat attentively, waiting for the man to exhaust his supply of Power-Point slides. A guest speaker sitting at the front was generating excitement, and little wonder everyone stayed awake long enough for him to take his turn: Less than a decade ago, he had been sitting where these students were now sitting, and today his last name was the third name on the letterhead of a legendary Silicon Valley venture capital firm.

- ADVERTISEMENT -

As the beginnings of a boom brightened the world of high technology, Steve Jurvetson was going to explain how one becomes a venture capitalist. The answer is not the same as it was only 10 years ago

when Mr. Jurvetson made the jump from B-school to VC.

Venture capital is not the gated community it seems, but for maybe 40 years membership has been largely restricted to the entrepreneurial set: engineers, inventors, and deep-pocketed investors who preferred to sink money in technology rather than real estate or racehorses. That has been changing and so it seems fair to ask, what are the paths one takes to a lucrative career in venture capital—and what do VCs look for when they hire?

Had there been any African-Americans in the classroom when Mr. Jurvetson offered an answer, the news might have been disappointing. Mr. Jurvetson, a lanky man in his early 30s, put it bluntly. Ask a venture capitalist what sort of person makes the best VCs, and the venture capitalist will describe someone remarkably like himself, Mr. Jurvetson said.



But Draper Fisher Jurvetson maintains a hiring philosophy that runs counter to the prevailing wisdom of Silicon Valley. DFJ actively seeks to roil its talent pool with young, risky hires, or so Mr. Jurvetson told the class. The firm looks for people who may have personal and professional histories that differ from the firm's top partners, he said. But that is rare.

Capital of Venture Capital

DFJ is located on Sand Hill Road in Menlo Park, which abuts Palo Alto, the home of Mr. Jurvetson's famous alma mater. Sand Hill Road, of course, is to venture capital what Madison Avenue is to advertising, or Savile Row to tailoring, and on Sand Hill Road it is a conceit that venture capital is a meritocracy where ideas and creativity trump pedigree.

A decade ago, most VC partnerships managed anywhere from \$50 million to \$100 million in assets, a big one perhaps \$250 million or more. Then came the bubble: New VC firms and their funds multiplied rapidly, as did the amount of money raised. In 2000, 195 first-time funds showed up at the party. Managed capital mushroomed to \$223 billion in 2000 from \$142 billion in 1999. To put that last number in perspective, from 1983 to 1998, double-digit billions were the order of the day, with 1999 being the first year the industry had broken into the hundreds of billions.

In 2001, the number of VC funds peaked at 1,892, with 21 of those raising over \$1 billion, a figure some saw as one more sign of the excesses of that era. Many funds died off, and some of those billion-dollar babies, including Charles River Ventures, Accel Partners, and Mohr Davidow Ventures, shrank their fund sizes. When Mr. Jurvetson was a freshman at Stanford, billion-dollar funds didn't exist, and 163 funds controlled \$12.1 billion in assets.

Calling venture a cottage industry seems a little quaint now that it is professionalizing, but how about its claim to being a meritocracy? How does one become a VC in 2006? Mr. Jurvetson was unusual in going nearly straight from business school to apprenticing with his mentor, Tim Draper, whose father, Bill Draper, and grandfather, Gen. William Draper, were both VC pioneers.

Today, the paths to employment are more varied, as are the types of people seeking positions with them, but only to a degree.

As Venky Ganesan, a partner at Globespan Capital, says, "Venture capital as an industry seems to have some kind of sex appeal." Given venture's paucity of women, you'd probably be right in guessing the appeal is more venal than carnal. Payoffs for VCs can be enormous, and a full partner can become very rich indeed.

Typical salaries for GPs fall in the \$200,000 to \$500,000 range, with a shot at a chunk of the carried interest on top of that. That's the carry on a portfolio: while 70 to 80 percent goes to the LPs, there usually remains a multi-million-dollar chunk to be divvied up among general partners. And if you have a Baidu or a Skype in your portfolio, as Mr. Jurvetson does, an initial investment can end up being worth over \$1.5 billion.

But it's a slippery gravy train. There are nail-biting lock-in periods lasting months when promising market exits can suddenly turn dismal—and there are plain duds that end up losing money and bringing the portfolio down. Still, with average starting salaries of up to \$175,000, it's easy to see why venture is attracting younger, more diverse faces.

Discomfited by Differences

As an Indian-born VC, Mr. Ganesan is an exemplar of Silicon Valley's meritocracy, the son of a man who made car radiators near Chennai for India's once ubiquitous Ambassador. ("Everything in it makes a noise but the horn," goes an old Amby saw.) Would an Indian with that background be as welcome joining the ranks of a white-shoe law firm, or a top-drawer investment bank? Probably, if like Mr. Ganesan, he had degrees from Cal Tech and Reed College, plus a couple of years with McKinsey under his belt.

Mr. Ganesan contends that venture capital is "not clubby," but he has not forgotten the role luck played in building his fortune. Even though he was armed with impressive degrees, and a résumé that included selling a company he helped found to IBM for \$200 million, Mr. Ganesan counts himself among the fortunate few allowed to participate in, and profit from, one of the largest creations of wealth the world has witnessed.

Still, he allows that the definition of minority in Silicon Valley is an odd one when you consider that it usually means Indian or Chinese males. Leaving women of all colors aside, Hispanics and African-Americans are rarely found in VC circles. "Getting into a partnership is sort of like getting into a family," Mr. Ganesan concedes. "There is a subtle discomfort with people who are different."

Mr. Ganesan parcels the history of venture into four chapters, although one could as easily call the last two Parts I and II of the same chapter: pre-1972, 1972-1996, 1996- 2000, and the present. The first saw venture capital rise up in the postwar boom and establish itself as an asset class.

Georges Doriot, considered the founding father of venture capital, created American Research and Development Corp. in 1946; just over 10 years later, it backed Digital Equipment Corporation founder Ken Olsen, turning its original \$70,000 investment into \$37 million when DEC went public in 1968. A patient man, Mr. Doriot waited until 1972 to exit, when his shares were worth \$350 million. But the idea of a venture-backed startup was already gaining traction long before he could even contemplate the possibilities. By 1959, just two years after Mr. Doriot put his money down on Ken Olsen, Venrock Associates funded [Fairchild Semiconductor](#).

Gentlemen Prefer Gentlemen

The second chapter comprised the age of the "Gentleman VC," the successful Valley entrepreneur who stood between the halcyon days of his innovation and retirement in his splendid, wooded redoubt in nearby Woodside or Atherton. Before taking to the links full-time, he worked as a VC. But it was a time marked by rough patches, as Private Equity Analyst Publisher Steven Galante notes in a potted history of the industry.

Adding to the miseries of a market slump in the first half of the 1970s, federal legislation was enacted to curb pension fund mismanagement, turning fund managers away from riskier investments—until the rules were "clarified" in 1978, a year that turned out to be an excellent one for Gentlemen VCs: the federal capital gains tax was rolled back from 49.5 percent to 28 percent. Less than three years later, [Apple Computer](#) and [Genentech](#) went public, the first of a new breed of venture-backed companies that would become pillars of the information age.

Gary Morgenthaler was a Gentleman VC, before leading his firm into the modern era. A successful CEO of a database company in the 1980s, Mr. Morgenthaler eventually joined the venture capital firm his father founded in 1968. He says today that his profession is one of apprenticeship, and that most of the partners in his firm have been CEOs themselves. "They have been there, and done that," he says. Investment discipline—the ability to recognize market cycles and stay cool when the pack is chasing The Next Big Thing—only comes with experience and the seasoning of age, Mr. Morgenthaler says.

How can someone with a new MBA pick the right CEO to run a company, stay loyal to that CEO up to the moment it's clear that the CEO is wrong for the job, and then send the CEO packing as painlessly as possible? "It sounds easy, but it is really hard when you come right down to it," he says.

Mr. Morgenthaler also thinks he is lucky. After graduating from Harvard University's Kennedy School of Government, where he learned realpolitik from none other than Henry Kissinger, Mr. Morgenthaler found himself at Stanford in the early 1970s instead of the U.S. State Department, at a time when Washington was as bleak as Silicon Valley was promising. As a student of operating systems at Stanford, and then as the CEO of Ingres Corporation, Mr. Morgenthaler learned the tech trade.

The Tech-VC Switch

Vinod Khosla, of Sand Hill Road firm Kleiner, Perkins, Caufield & Byers, was a classic exponent of the tech-to-VC switch. Before moving into venture, he earned his tech stripes as a co-founder of **Sun Microsystems** with, among others, Scott McNealy and Bill Joy, who himself left his position as Sun chief scientist in 2003 to join Kleiner Perkins. After nearly 20 years with the VC, Mr. Khosla switched gears and dropped his general partner title last year, freeing him to invest in his own and other funds, in addition to ones managed by Kleiner Perkins.

But in Mr. Morgenthaler's case, it wasn't until his father, David Morgenthaler, dragged him "kicking and screaming" into the family business that he made the switch. And it wasn't until changing careers that he learned the hardest truth about venture capital: Fewer than 10 percent of VC firms walk away with more than 90 percent of the industry's profits.

Mr. Morgenthaler's firm is in that club, as it happens, and he counts his hiring policy as a contributing factor. Betraying his Gentleman VC-era roots, and a cautiousness that comes of age, Mr. Morgenthaler allows that his firm maintains only a fraction of the portfolio of companies it should have invested in, but passed on instead. While he won't mention their names, he says that Morgenthaler Partners might have acted differently if it had younger partners. Still, with \$2.5 billion in investments and \$450 million in his most current fund, Mr. Morgenthaler's musings are more speculative than pained.

Like Mr. Morgenthaler, Mr. Ganesan bridged the old and modern eras—watching average deal size soar into the many millions, and deal flow turn into such a torrent that firms recruited new associates faster than what was good for some. It was a time of excess, when VCs were minted who probably should not have been. All was proof that the age of the Gentleman VC was finished, and the modern period of exuberance, calamity, and recovery was phasing in. And in that mix came a move to professionalize the industry, best evidenced by the flood of business school grads.

Money—more specifically, management fees—led indirectly to the need for associates armed with MBAs. As fund sizes soared, venture firms stuck to their traditional 2 to 2.5 percent fees for running the funds. Limited partners putting up the money started to chafe. A \$2-million fee for a \$100-million fund may have seemed a bit steep. A \$20-million charge to manage a \$1-billion fund was outrageous, especially when all the money went to a handful of general partners.

To justify their fees—and to vet the growing numbers of deals they needed to invest their vast pools of funds in—VC firms turned to business school grads. Unlike their predecessors, the MBAs often had no operating or investing experience, but they could crunch the numbers and provide the due diligence the LPs wanted.

For Mr. Jurvetson and his partners the difference between old hands and young blood is not just academic, it's what makes the industry interesting. Like Mr. Morgenthaler, Mr. Jurvetson's views are shaped by his own experience. He describes countless interviews with stodgy VC firms as a graduating Stanford Business School student in 1996. But all that was before he interviewed with Tim Draper. During the interview, Mr. Draper took Mr. Jurvetson to a hockey game. Not one to stand on ceremony, the VC slid down one of the arena banisters, a feat that seemed to dazzle his young guest. "That's when I knew I found the perfect firm," he says.

Fresh Perspectives

In keeping with that quirky tradition, DFJ hires so-called associates and analysts whose job is to offer fresh perspectives on deals. "In many cases their backgrounds are very different and they push out the matrix," says Mr. Jurvetson. The analyst positions are meant to be two-year stints to glean some real-world experience before business school. The associate positions at DFJ are, at least in theory, partner

track, but in today's chastened environment, associate positions are harder to come by.

Lucinda Stewart, 36, a partner at OVP Venture Partners of Seattle, knows about being an associate from the distaff side. A partner since 2001, she got her start in 1997, in investment banking at Donaldson, Lufkin & Jenrette in New York City where, she remembers, there were four women and 50 men in the associates' pool.

Ms. Stewart may be too young to know that she is retracing an earlier VC career path. In the early 1990s, a number of men with backgrounds in traditional Wall Street finance moved into venture capital. One of the best known is Steve Lebow, co-founder of GRP Partners, with offices in Los Angeles and London. Mr. Lebow first made his name at DLJ, which pioneered junk-bond financing and backed **Starbucks** and Costco.

From DLJ, Ms. Stewart went to Frazier and Associates in Seattle in 1999, and moved to OVP two years later. "There are almost no chicks in this industry," she says, only half-joking. Yes, there's a bunch at the associate level, she says, but after they do their two years, they're gone in all but a few cases. "There are just a handful of women at the partner level." And that's the industry's loss, she reckons, because women bring special skills when it comes to relating to entrepreneurs.

"I think only the most competitive, passionate individuals actually make it to partner, and to make it at a young age—having devoted the key years of your career to this—you think 'this had better work out,'" she says. "I think that's making for a new generation of motivated, success-driven VCs, which is good, because I think venture is harder now than it's ever been."

When Ren Chin was offered an associate's spot at Partech Ventures two years ago, the engineer went straight to his mentor and asked him for advice. At 31, with two startups behind him—though at neither one was he CEO—Mr. Chin wanted to know what would make sense for him to do. Mr. Chin was told to take the offer if he wanted to continue being an entrepreneur, but to run the other way if he wanted to be a VC. Mr. Chin took the job. He loved seeing the tech business from the VC perspective, the excitement of Silicon Valley was just as palpable on the money side of the table.

Mr. Chin's tenure at Partech coincided with getting his MBA at the University of California's Haas School of Business. The program ended this spring, along with his position at Partech. Again he weighed his options—would he stay in venture capital or return to a startup? He chose the startup realm. Now an entrepreneur-in-residence at Storm Ventures in Palo Alto, he hopes to become a founder of an Internet security firm.

"I never went into it with the intention of making partner," Mr. Chin says. "It was more to learn the dark arts of venture capital."