

MASTERING THE VC GAME

A Venture Capital Insider Reveals
How to Get from Start-up to IPO
on **YOUR** Terms



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PORTFOLIO / PENGUIN

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PREFACE

Since the publication of *Mastering the VC Game* in 2010 I have received wonderful feedback from the entrepreneurial community. In fact, I have been blown away by the response from such a diverse population of entrepreneurs and would-be entrepreneurs around the world. One twenty-something entrepreneur working at a non-profit in Australia wrote me:

Thank you for writing this book. It was a captivating read that gave me the basics of how the industry looks. I loved it. My only problem was feeling inspired to action, which made me put the book down to send emails to friends and look up companies, which was a great problem to have.

Inspiring entrepreneurs into action was my original goal for the book. Now, as the global economic crisis recedes in

the rear view mirror, policy makers and business leaders have both come to recognize that the capacity of human beings to innovate is our best hope for addressing and ultimately solving society's thorniest problems. It has never been more critical that we brew up that magic elixir that comes from mixing entrepreneurs, who are the source of innovation, with investors, who are the source of capital to fuel that innovation. I wrote *Mastering the VC Game* to inspire, in some small way, entrepreneurs around the world to arm themselves with the knowledge, skills, and tools they need to take action and to succeed in their endeavors and attract investors, the sources of capital that fuel their innovation.

It turns out that I was fortunate in the choice of companies and founders profiled here. When I began writing, four of them—Baidu, LinkedIn, Twitter, and Zynga—were relative unknowns outside the insular start-up community, but have since become household names with multi-billion-dollar valuations. Their success further validates the lessons included in the book, although there is also much to be learned from the failures that those early founders suffered (and openly discuss here.)

Since publication, a few significant trends have emerged. One of the most important has been the rise of angel investors as an influential source of capital for entrepreneurs. This has come about through the confluence of two forces: the rapid reduction in costs required for a lean start-up to initiate operations and achieve early success—thanks to cheaper infrastructure, cloud computing, social media marketing, and more sophisticated techniques for getting initial customer feedback; and the return into the start-up ecosystem of dollars and talent from

successful entrepreneurs at start-up companies like Google, Paypal, and others.

Interestingly, these developments have been disruptive to many early-stage venture capital investors who have focused on consumer Internet and mobile start-ups, particularly in Silicon Valley. Many VCs find themselves competing with their former entrepreneur friends who have made enough money that they can afford to invest in young start-ups themselves. In response, VCs have adjusted their model by participating alongside angels in “seed” rounds that are often less than \$1 million or focusing on later stage investing. Further, successful angels have attracted enough interest and capital that they have become more institutionalized (earning the nickname “super angels”) or raised outside capital and hired young associates to scale their model into something that looks remarkably like a small VC fund. Entrepreneurs that can successfully navigate this new landscape have more funding choices than ever, especially at the earliest stages when they seek only a modest amount of capital. By and large, I believe that it’s a good thing for us all that entrepreneurs have these new options from which to choose.

We have witnessed some important new technological trends in the past few years, particularly the launch of the iPad and tablet computing, the continuing explosion of smart phones and applications, and a massive cost reduction in the mapping of the human genome, which has the potential to change the game in health care and a broad range of industrial fields. Not surprisingly, most of the companies leading the way in these exciting areas are VC-backed.

These trends and others like them have further fueled the need for the kind of cooperation between VCs and entrepreneurs I

describe in the book. When entrepreneurs and investors align and work in harmony, the long odds for start-up success are greatly improved and real magic can happen. If you can master the VC game, you might be the one to create the next Google, Facebook, or Twitter!

Happy reading and good luck.

Best,
Jeff Busgang

P.S. Visit my blog to keep the dialogue going—www.seeingbothsides.com.

INTRODUCTION

I was born to be an entrepreneur. Becoming a venture capitalist (VC) was never part of my life plan.

Reid Hoffman, founder of LinkedIn, observed that an entrepreneur is someone who will jump off a cliff and assemble an airplane on the way down. This is certainly an impulse to which I can relate. I credit my father with sparking my entrepreneurial drive. He was a Holocaust refugee and survivor, who came to America, penniless, in 1949 and earned his master's in engineering from MIT and PhD in applied physics from Harvard. He then started a successful high-technology company the old-fashioned way—living hand to mouth, operating with customer revenues only, and without benefit of any outside capital. Watching my immigrant father embrace entrepreneurship inspired in me a passion for the field and an unyielding belief in its power to effect change.

Armed with a “kitchen table” MBA, as well as the real thing from Harvard Business School, I set out many years ago on

my own entrepreneurial journey. During the ten years I spent making my way as an entrepreneur and executive team member of two venture-backed start-ups—Upromise (which I co-founded in 2000) and Open Market (IPO 1996)—I interacted with and pitched to many VCs and became fascinated with the VC game. So, after a decade of scratching the entrepreneurial itch, I went over to the “other side” and became a VC myself. I joined a new VC firm, called Flybridge Capital Partners, that a couple of friends had just started.

I initially both revered and feared VCs as powerful, intimidating characters in possession of the one thing entrepreneurs are desperate to get access to: capital. As I spent more time with VCs as my partners and co-investors, I learned what made them tick and how entrepreneurs can be most effective in pitching them, managing a VC-led board of directors, and successfully navigating an exit.

I wrote this book to demystify the VC world for entrepreneurs, having seen both sides as an insider, and to help entrepreneurs level the playing field when pursuing venture capital so that they can secure the resources necessary to achieve their vision. In this book, I reveal industry insights drawn from my experience as a practicing VC. I also include the perspectives of partners from some of the leading VC firms around the world who were kind enough to divulge their own secrets about their approach to the business.

I was also fortunate enough to be able to convince some of today’s most successful entrepreneurs—including the founders of Constant Contact, LinkedIn, Sirtris, Twitter, Zynga, and others—to talk from their deep knowledge and experience about how to work with VCs to shape a young company and

help it grow. The purpose of this book is to share the magic formula of how great entrepreneurs team with VCs to create valuable companies from raw start-up. Whether you are the next Mark Zuckerberg (the Harvard student who started Facebook) or Jim Barksdale (the seasoned Fortune 500 executive who became CEO of Netscape), *Mastering the VC Game* will provide you with an insider's guide to the world of VC-backed company formation, growth, and exit.

In the book's first two chapters, I will explore the psyche of the two protagonists in the start-up game: the entrepreneur and the VC. In Chapters 3 and 4, I turn to the process of raising money ("the pitch") and negotiating the deal. Chapters 5 and 6 provide insight into the company-building process and the way entrepreneurs and VCs make money by selling their companies ("the exit"). After a profile of the VC business outside the United States in Chapter 7, I conclude with a few observations about the industry's future direction.

I have written this book not only to share this knowledge so that others can pursue their dreams—and, if things go well, turn their investments into handsome returns—but also because I strongly believe in the positive impact the venture-backed start-up can have on our economy and our society as a whole.

VCs acting in concert with entrepreneurs function as an essential and powerful engine of the U.S. economy. In the more than forty years since the very first venture-backed start-up—Digital Equipment Corporation (DEC), which was founded by Ken Olsen with a \$70,000 investment in 1959 and went public in 1968 with a market value of \$37 million, a 528-fold return!—VCs have invested more than \$450 billion in some 57,000 companies in the United States. More than 12

million people (about 12 percent of the U.S. workforce) now hold jobs and make careers at venture-backed companies, and those businesses have combined sales of \$2.9 trillion or over 20 percent of the total business revenues in the United States. And the VC game has led to the creation of some of the most iconic of American companies: Amazon, Apple, eBay, Facebook, Google, Intel, LinkedIn, Microsoft, Staples, Starbucks, Twitter and YouTube.

The venture-capital-driven entrepreneurship model has also become one of America's most influential and important exports. Increasingly, the venture-backed start-up is becoming a key driver of growth and innovation in countries around the world. In the rapidly developing countries, venture capital investment is spreading like wildfire—up from zero just a few years ago to \$4 billion in China and nearly \$1 billion in India in 2009, and those numbers are expected to grow rapidly in the next few years.

Both in the United States and abroad, the venture-backed start-up plays an important role beyond innovation and wealth creation: changing the world for the better. Entrepreneurs and VCs alike invest in dreams—from new sources of energy to curing cancer to revolutionizing education—that have the potential to benefit society as well as themselves. Although the majority of entrepreneurs do *not* go the VC route to raise money to fuel their businesses, for many reasons that we'll discuss, all can benefit from learning how the VC-backed start-up formula works.

Over the next decade, hundreds of billions of dollars will be invested in new or young companies and it is critical that this capital be invested wisely. With the accelerating devel-

opment of technology, widespread digitalization, broadband Internet, environmental and energy breakthroughs, and medical advancements, the stakes are getting higher and the potential for world-changing opportunities is greater than ever before. *Mastering the VC Game* will help entrepreneurs be more effective in financing and launching start-ups and in creating companies that benefit us all, while also providing insight into the critical role these enterprises play in the global economy.

THE ENTREPRENEURIAL ITCH: CHANGE THE WORLD

To truly understand the world of VC-backed start-ups, it is necessary to first delve into the psyche of the entrepreneur, because it is fundamentally different from that of the conventional businessperson.

I have had the entrepreneurial drive for as long as I can remember. I was fascinated by technology as a kid. I tease my parents that my love for computers originates from all the video games I played while hanging around ice rinks waiting for my older sister, then a competitive ice-skater, to finish practice. When the Apple II came out, I begged my parents to buy one for me, and I gladly invested the earnings from my paper route in the purchase.

I got my first crack at working in a start-up during the summer of my first year in business school. I became a member of the “executive team” of a software start-up. The entire staff of ten worked out of an apartment in Boston, located in an alley behind a Chinese restaurant. I can still remember the smell—and

not fondly. The vice president of marketing usually brought her dog to the “office,” and she (the dog, that is) always seemed to bark loudly when I was just about to close a deal on the phone.

This first start-up experience proved to be great fun. It was a sandbox where I learned about the real-world pressures of operating a small software company: shipping products, working with partners, meeting payroll, and doing deals.

From that first experience of the entrepreneurial life, I was hooked.

The nature of the entrepreneur hasn’t changed much, if at all, since I was a student. This is very evident at a networking event that our firm, Flybridge Capital Partners, holds every year for graduating students of Harvard Business School and MIT Sloan School of Management. We invite dozens of young men and women who are thinking about becoming entrepreneurs.

What always strikes me about the event is that the students seem almost completely unaffected by the economic ups and downs raging around them. For example, in 2009—one of the worst years for the economy in decades—they were unfazed by the collapse of the credit markets, the destruction of trillions in stock market and real estate value, and global recession. In fact, those topics didn’t even come up.

No, they wanted to talk about clean technology and sustainability, the rise of Facebook, novel medical devices and sensors, Google versus Microsoft, the opportunities represented by the emerging mobile generation, and the shift of the hundreds of billions of dollars in global advertising to the Web. Many were focused on opportunities in developing countries, the emergence of a global perspective on venture capitalism and entrepreneurship, and all kinds of other fascinating topics.

In short, what continued to drive them was the entrepreneurial itch. Yes, they were concerned about landing a job somewhere after graduation in a few short months, but they were much more focused on ideas, innovations, and opportunities. It is no coincidence that the MIT \$100,000 business plan competition, and dozens like it around the country, has a steadily growing number of entrants each year. Student-led entrepreneurial teams clamor to submit business plans in the hopes of winning a little seed money and a lot of notoriety.

I can only conclude that, in the minds of the graduates of American business schools, it is always “morning in America” (thank you, Ronald Reagan) and that our entrepreneurial economy is forever a city on a shining hill (thank you, John Winthrop), even when there is economic upheaval. In fact, now more than ever, the entrepreneurial economy is an appealing destination for top talent around the world.

IT'S NOT (PRIMARILY) ABOUT THE MONEY

One thing you do not hear these graduates talk about, at least not directly, is the money. Of course, they want to make money—and being optimists, they assume they will—but that is never their focus.

I completely identify with this point of view. As a kid, when listening to my parents discuss the work of my father's company, I was surprised that they talked mostly about people and relationships rather than technology and money. How could the vice president of engineering communicate better with the vice president of marketing? Is the technical team getting along

as well as they should on the new project? It was then that I learned the centrality of human relations in business, a theme that has guided my career and a theme that plays out over and over again in this book in the stories of the entrepreneurs and VCs that I interviewed.

That influence is probably why I made decisions to prioritize pursuing my intellectual interests over money, especially early in my career, preferring instead to focus on the thrill of playing the entrepreneurial game. The first time was in early 1995, not long before I graduated from HBS. I was invited to dinner with several members of a prestigious Boston-based venture capital firm. The dinner went well and the partners asked me to fly to Silicon Valley and meet with some other members of the firm. Long story short, I received an offer to join the firm.

I had been so focused on becoming an entrepreneur, however, that I didn't know how to evaluate the opportunity. I didn't even really know what the VC industry was all about and how it worked. I consulted with some friends, and they told me to consider two factors. First, the money. They said that senior partners at top-tier VC firms earn a staggering amount of money over the course of a long, successful career (one of my friends referred to the VC world as a "get rich slow business"). Second, the nature of the work itself. As one of the firm's partners put it, the work was "a mile wide and an inch deep." You could work across many different arenas but never get to dig in and actually build something of your own.

Tempting, but after some soul-searching, I decided I preferred to follow my passion for entrepreneurship. I concluded that I didn't care about the raw economics of the opportunity as much as the nature of the opportunity. I *wanted* to get

my hands dirty and build new products and lead teams. So I declined the offer, expecting that would be the end of the relationship with the VCs.

Not so. They graciously offered to introduce me to a few of their portfolio companies. One of them was Open Market, a Boston-area Internet start-up whose mission was to develop the infrastructure software that would help turn the Internet into a safe business environment—exactly my area of interest. I jumped at the chance to join the company as an entry-level product manager with a salary of \$65,000 a year, more money than I had ever made, but still a fraction of the average starting salary for a Harvard MBA at the time.

My classmates thought I was crazy, but I couldn't resist the allure of a start-up—it was simply in my blood.

Fortunately, my instincts proved right.

Open Market was an incredibly exciting company. We hired two hundred people in the year after I arrived and quickly grew to over five hundred employees. I was fortunate to rise swiftly through the ranks and soon joined the executive team. Twelve months after I came aboard, the company went public. Although we had just \$1.8 million in revenue, we achieved a market capitalization (total value of all outstanding stock) of over \$1 billion. At age twenty-six, I had become a paper millionaire. More important, to me anyway, I had learned a lot and had a tremendous ride.

But like all addicted entrepreneurs, I wanted more. I wanted another ride.

THE SIREN SONG OF SERENDIPITY

I have a strong belief in the power of random connections—the siren song of serendipity. I have always admired the way successful entrepreneurs put themselves in a position to “get lucky” by developing relationships with relevant people and taking advantage of promising opportunities. So, in 1999, while still at Open Market, I accepted, for no particular reason, an invitation to meet with Michael Bronner, one of Boston’s most successful entrepreneurs (founder of the leading interactive marketing firm Digitas). Michael wanted to start a company that would help parents set aside money for college tuition and also enable large consumer companies to create strong customer relationships through loyalty programs.

Over breakfast, Michael described the idea in great detail and the unique culture we could create by building a company that would do well by doing good. I have to confess that he had me at “hello.”

It wasn’t that I wanted out of Open Market. I was perfectly happy there. Once again, however, the siren call of starting a new venture and the appeal of the mission were so strong that I decided to pursue my passion and joined Michael to help start the new company, becoming its founding president.

We called the company Upromise.

We initially worked out of Michael’s house in a suburb of Boston and made plans for global domination. We hired twenty people in the first three months of the venture and rapidly built out our team and infrastructure. The technical team began developing software in the spare bedroom. The

living room was taken over by marketing and the dining room by business development. When the trucks and crews rolled through this exclusive neighborhood, hauling computer equipment or installing high-speed lines, we became very unpopular neighbors. First, the speed bumps arrived. Then, a town zoning inspector paid a visit. Eventually, we were chased out of Michael's house and had to find proper office space.

In our first year, we raised nearly \$100 million in two rounds of financing from several blue-chip venture capital firms, hired fifty more employees, and signed a flurry of business partnerships. After many twists and turns, including surviving the bursting of the technology bubble, Upromise became a successful company. Sallie Mae acquired it in 2006, a few years after I had left, and by 2011, the firm administered \$35 billion in college savings plans and had 12 million households using the service.

AN ENTREPRENEUR'S MAKEUP

Although I spent the first ten years of my professional life as an entrepreneur, I didn't fully understand the entrepreneur's mind-set—my own mind-set, that is—until I went to the other side and became a venture capitalist. (More on how *that* happened in the next chapter.)

As I listened to pitch after pitch and watched as some venture-backed start-ups took off and others didn't, I became much more aware that the successful entrepreneur is built, in fact, *has* to be built, in ways that are fundamentally different from other businesspeople.

Many start-up entrepreneurs would simply hate being a

big company executive. The conventional wisdom is that they just don't have the management skills necessary to run a large company. Although it's true that most entrepreneurs could not successfully manage thousands or even tens of thousands of people in a complex organization, there are exceptions. Bill Gates is the best example of a brilliant entrepreneur who has succeeded along the whole arc—starting from scratch to leading one of the world's largest and most important companies.

I think the difficulty that start-up executives have in fitting in comfortably into a big company is more about what drives an entrepreneur and what satisfies him or her—both in the long run and in the day-to-day work. It comes down to an essential character trait that I observed in myself: the entrepreneurial itch. When you have it, you just have to scratch it. You really can't help yourself.

Being an entrepreneur may be something deep in the genes. John Doerr, the venture capitalist, described some of the greatest entrepreneurs he had invested in—including Sergey Brin and Larry Page (Google), Jeff Bezos (Amazon.com), and Steve Jobs (Apple)—as “geeks who couldn't get dates.” Although I don't know if that is actually true about those four guys, the spirit of the comment resonates. The world of the entrepreneur, even when they are teenagers, is typically not defined by being cool and fitting in but rather by their passion for technology, innovation, change, and a particular idea.

Genetic or not, there are certain classic characteristics of the entrepreneur. The most important of these are a certain kind of visionary optimism; tremendous confidence in oneself that can inspire confidence in others; huge passion for an idea or phenomenon that drives them forward; and a desire to

change the game, so much so that it changes the world. Below I'll introduce three entrepreneurs (Flybridge is not an investor in any of them) that fit this model. They may not be household names like Bezos and Jobs, but each of their companies is well on its way: Sirtris, Twitter, and LinkedIn.

**VISIONARY, PASSIONATE OPTIMIST:
*A DRUG THAT KEEPS YOU YOUNG***

Entrepreneurs tend to genuinely believe that their brilliant vision can make the world a better place. What else would you expect from a person who works—typically day and night and often for a relatively low salary—to create something that does not exist and for which there is not even a model? If the entrepreneur isn't optimistic, isn't a true believer in his own vision, who will be?

However, I've found that although the entrepreneur displays these positive traits to the outside world, more negative concerns may also be driving him. For example, the entrepreneur's incredible optimism that everything will go right is often accompanied by a raging fear that, in fact, everything will go totally wrong. Strangely, many venture capitalists respect and respond as much to the paranoia as they do to the optimism, perhaps because they, too, can be ambivalent in their outlook.



Christoph Westphal

Take, for example, Dr. Christoph Westphal. Here's his audacious belief: that his company, Sirtris

Pharmaceuticals, can create a drug that will keep you thin and help you live forever—well, at least for a substantially longer time, perhaps ten or twenty years, than you would live without the drug.

Of course, that's not exactly how Sirtris describes its product. The company's research focuses on developing drugs to target enzymes called sirtuins, including resveratrol, a naturally occurring compound found in the skin of red grapes (as well as in many plants). When activated, these enzymes produce an effect similar to calorie restriction, a proven way to extend life. Sirtris hopes they can develop a drug that will effectively combat diseases of aging, including diabetes, Alzheimer's, and cancer.

A weight-reducing, life-extending medicine is about as bold a vision as can exist. "At the beginning, we didn't really have anything to prove it," Christoph told me, when we met at his modest, even drab office nestled in the heart of life sciences innovation, Cambridge, Massachusetts. "We had a little data and a few yeast cells. So, the odds of making it happen were maybe a one percent chance. But, look, there are six billion people on the planet. Everyone is getting older. Nobody wants to die. The science looked real. And, if we're right, if there really are genes we can identify that control the aging process, and we can ultimately get a drug to market, it could be a game changer. I saw this as the kind of opportunity that would be pretty hard to find again."

Actually, it was as much a *story* as it was a vision, a story that Christoph had first glimpsed in 2003. At the time, he was a general partner at Polaris Ventures, a well-regarded venture capital firm in Boston, and had already co-founded five companies, having served as founding CEO at four of them.

In the fall of 2003, he happened upon an article in *Nature*

magazine co-authored by Dr. A. David Sinclair, a researcher at MIT, and several colleagues. “In diverse organisms, calorie restriction slows the pace of aging and increases maximum lifespan,” Christoph read in that journal. “In the budding yeast *Saccharomyces cerevisiae*, calorie restriction extends lifespan by increasing the activity of Sir2, a member of the conserved sirtuin family. . . .” To the normal person, even to most entrepreneurs, that paragraph may not have jumped out—assuming, that is, they had been reading *Nature* in the first place. To Christoph, son of two doctors and the holder of an MD/PhD from Harvard Medical School (earned in a near-record six years), it made for compelling reading.

Christoph reached out to Dr. Sinclair and went to meet with him. They hit it off. After six months of discussion, they decided to found a business together with the mission of developing a drug out of Dr. Sinclair’s research that could help patients live longer, healthier lives. Hundreds of thousands of *Nature*’s readers probably read Dr. Sinclair’s article. A true entrepreneur, Christoph was the one who took action.

Christoph left his life as a general partner at a VC firm, took an 80 percent cut in pay, and became founding CEO of Sirtris. “Everyone thought it was a pretty big mistake, including my wife. We had just bought a new house and had a third kid on the way. I had never made much money in venture capital. So, financially, we were exposed.” Christoph’s VC friends told him he was not behaving rationally. (That sounded very familiar to me.) But, he said, “I was excited about Sirtris in a way I had not been at my other companies.”

During the spring and summer of 2004, Christoph and Dr. Sinclair went on a road show, presenting their plan to a

number of VC firms. Christoph displayed his boundless optimism, presented his extraordinary vision, both tempered with what proved to be a disarming paranoia. “I’m incredibly paranoid,” Christoph confessed to me in one of those genuinely self-effacing ways only extraordinarily successful people can pull off. “I assume that everything is going to go wrong. Paranoia is part of what drives a lot of entrepreneurs in a positive direction, just worrying that everything is going to go wrong and trying to mitigate every possible risk. As Intel’s Andrew Grove said, ‘Only the paranoid survive.’” The VCs bought the story and appreciated Christoph’s candor. He raised \$5 million in initial financing, co-led by his former firm Polaris, to kick-start the company and recruit a team to pursue the opportunity.

CONFIDENCE THAT CREATES CONFIDENCE FROM OTHERS

An entrepreneur must be a confident person, of course, but it is not enough to be confident in oneself. The entrepreneur has to inspire confidence in others, which is a wholly different challenge. Much of entrepreneurship is making people feel confident about something in which they really have no basis to believe, because it doesn’t exist, and for which there is no proof that it will succeed. To achieve this, entrepreneurs need to demonstrate passionate, authentic leadership, not simple bravado or good salesmanship.¹

1. Bill George of Harvard Business School and former CEO of Medtronic wrote an excellent leadership book, *Authentic Leadership*, that expands on the nature of passionate, mission-driven leaders that lead from the heart, something many great entrepreneurs do with gusto.

Entrepreneurs have to persuade investors to risk capital in a concept that is often little more than a glimmer of an idea. They have to persuade talented professionals to become employees in a company that is not yet a company and has no guarantee of growth or longevity—and often the people the entrepreneur wants most are ones who are already successful and have high-paying jobs and secure positions in well-established companies. Entrepreneurs must also persuade early customers to take a risk on an unproven product or service that may not work, and could even have some unexpected, possibly unwanted, results.

Christoph's Sirtris is a remarkable case study in entrepreneurial power that inspires confidence in others. Even as he was raising capital, Christoph went about instilling enough confidence in others that he was able to build an incredible organization.

He started with what's known as a scientific advisory board, essentially a group of advisers with expert knowledge and world-class networks. An advisory board is a useful mechanism to attract outstanding people with deep domain knowledge to your company. In creating a strong advisory board, an entrepreneur can create a self-fulfilling prophecy, giving the company an aura of success even before it has proved anything. Christoph is a master at this, and other entrepreneurs can follow his lead. In Christoph's case, he wanted a pedigree-rich SAB. It included Nobel Prize-winning biologist Philip Sharp from MIT and gene-cloning researcher Thomas Maniatis, a former senior executive from Merck, as well as MIT professor Robert Langer.

Langer is one of fourteen Institute Professors at MIT, the

highest honor awarded to a faculty member. He holds more than 760 issued or pending patents worldwide (believed to be second only to Thomas Edison, who had 1,093 patents) and has



Bob Langer

licensed or sublicensed many of his patents to some 220 pharmaceutical, chemical, biotechnology, and medical device companies. He has published over one thousand articles and is both the most cited engineer in history and the most prolific inventor in the history of medicine. He has garnered some 180 major awards and, in 1999, was named by *Forbes* magazine as

one of the twenty-five most important individuals in biotechnology in the world. One of my partners likes to refer to Langer as a national treasure, and, in the opinion of many, that is no exaggeration.

Of course, one does not inspire confidence in people like Bob Langer through bluster or bravado. Remember, Christoph had the medical and scientific chops to speak with conviction and in detail to people operating at the highest levels of scientific inquiry and invention. He could also do the talking in French, German, or Spanish, if required.

To me, one of the most striking demonstrations of Christoph's confidence—and his ability to inspire confidence in others—came during the early trials of the drug formulations. There are strict regulations on how and when natural substances like resveratrol can be formulated and tested on humans. Typical practice is to conduct a clinical trial using the services of a partner or subcontractor, many of which are

based in India; this requires approval of the Food and Drug Administration (FDA), which can take months or even years.

The senior team at Sirtris decided to test the drugs on themselves, which involved injecting the formulations. “It was in 2004–05 and we were raising our Series B financing,” Christoph said. Series B simply means a second round of financing, usually sought after achieving some tangible and positive result following the first round of financing, known as Series A. “We tested six different formulations in me, Peter Elliot, our head of development, David Sinclair, and a few others. So we had track marks on our arms and it’s summer and we’re in our T-shirts or have our sleeves rolled up. We’d be making a pitch and our arms were all black and blue. The VCs would say, ‘What’s that?’ And we’d say, ‘Oh, we’re just doing our clinical studies.’ They’d think we were a little crazy, but it’s okay to be a little crazy. We shaved six months off the development time.”

There’s a saying that technology companies should eat their own dog food—that is, use their own technology for the purpose it was developed (for example, Microsoft running its internal systems on Microsoft software). But Christoph was taking the concept one step further—he wasn’t just eating his own dog food, he was injecting himself with it! It is this kind of confidence and personal commitment, sprinkled in with a dash of what seems like insanity, that builds an almost equal amount of confidence from venture capitalists. VCs like to see entrepreneurs who are committed to their venture. And here was an entrepreneur who had quit his comfortable general partner job at a venture capital firm, recruited some of the top minds in the country to his advisory board, and believed

so much in the compound he was developing that he injected himself with it.

Christoph's fund-raising proved to be successful. In March 2005, Sirtris secured \$27 million in Series B financing, which would be used to finance further R&D efforts, conduct clinical trials in India, and run lab experiments. Their studies showed that rats that were fed high-calorie diets with resveratrol could run farther, stayed leaner, and lived 30 percent longer than rats that were fed the same diet but without resveratrol.

Sirtris published many of its findings in academic journals or shared them with the popular press. This was a gamble. On the one hand, positive exposure in the academic literature might attract the attention of a potential partner, preferably a large pharmaceutical company that would have the clout to help Sirtris commercialize its drug—which is an expensive, complex, and time-consuming process that requires expertise and resources that Sirtris could not match.

On the other hand, such publicity might simply give away the company's secrets and encourage competitors to develop their own drugs. But Christoph had sufficient confidence that other companies would not be able to capitalize on their findings more successfully, or faster, than Sirtris could. Sure enough, the big pharmaceutical companies took notice. Throughout 2006, Christoph had conversations with several that wanted to form some kind of partnership or make some kind of a deal. "A certain large pharmaceutical learned everything about us and started calling. In fact, they went all the way to the altar with us [i.e., went far down the path in trying to purchase the company], before changing direction and starting their own

program. My team got angry. But I said, ‘Look, they are a huge company. It’ll take them five years to get organized.’”

The exposure in the press and the interest from industry giants further fueled Christoph’s confidence, if it needed any more fueling. Soon, it was not even necessary to take the Sirtris show on the road, because so many people came to them. Not long after the *Wall Street Journal* story appeared, Christoph received an email from John Henry, hedge fund mogul and owner of the Boston Red Sox, asking to meet. “After we presented the company, John Henry says, ‘How can I be helpful to you?’ And I looked at him, and I said, ‘I think you could invest fifty million dollars in the company.’ And he said, ‘I don’t think I can do fifty million, but I think I can do twenty million.’ And I asked, ‘Can we close in two weeks?’”

It took a little longer than that, but not much. In February 2007, Christoph closed on a round of \$35.9 million, including contributions from John Henry and Peter Lynch, the legendary Fidelity Investments Magellan fund manager. “Everybody wanted in after that,” said Christoph.

Anyone who invests in a biotech firm knows that drug development takes a long time, and payoff can be several years out, if it comes at all—in fact, the majority of new compounds developed by biotech start-ups fail to earn FDA approval. Christoph had sufficient confidence in his idea, his research, and his team to go for the big win. But he was also realistic enough to know that to take the long journey toward uncertain reward might try the patience of even his most committed venture capitalists. So, in 2007, Christoph took Sirtris public.

The IPO enabled his investors to realize a return on their investment (if they chose to sell in the public offering—many didn't), and it raised about \$63 million that Sirtris could invest in further research and development.

Then, less than a year later, Christoph and his management team sold their newly public company to its most attractive suitor, GlaxoSmithKline (GSK). GSK had been in conversation with Christoph—just as others had—for several years. In April 2008, GSK acquired Sirtris for \$720 million. With GSK's continued support, various drug compounds from Sirtris are in clinical trials for diabetes and diseases of aging, and initial results appear promising.

The acquisition was notable not only for the large amount of money that GSK invested but also because of the confidence the company's leaders felt in Christoph and Sirtris to bring change to the parent company. "When you make an acquisition of a company like Sirtris," said Andrew Witty, CEO of GSK, "you are making a value equation on a belief more than anything else, but hopefully a well-informed belief, based on evidence. The belief is that the platform is going to be a potential fertile ground for a portfolio of products."

In other words, Sirtris was built on Christoph's confidence, sold on his confidence, and brought confidence to those around him—even the leaders of a much older, larger, and more established company than his own. For an entrepreneur, being able to project and inspire confidence is critical.

However, more than confidence is required. Another element that is critical for successful entrepreneurs is an unwavering passion for what they're doing. In the face of obstacles, distractions, and naysayers, great entrepreneurs follow their

passion no matter what the odds. The founding of Twitter, an emerging worldwide phenomenon, brings those lessons out in spades.

PURSUING YOUR PASSION: *WHY COURIERS ARE SO COOL*

Jack Dorsey (a.k.a. @jack in the lingo of the Twitterverse) founded Twitter, the social networking and microblogging site where users—Twitterers—post very short (140 characters, tops) updates known as tweets. Twitterers follow other users' tweets and create online communities based on one simple question: "What are you doing?" Although Twitter does



Jack Dorsey

not release company metrics, public data suggest it has over two hundred million users as of early 2011 and is growing rapidly. According to the Web-tracker Hitwise, Twitter traffic jumped 43 percent in one day alone after Oprah Winfrey posted her first on-air tweet on April 17, 2009.

The concept for Twitter came out of Jack's lifelong fascination with mapping the real-time movements of people and things within complex environments. "Since I was very small, I've been fascinated by how cities work," Jack told me in his typically straightforward way. "I always got really excited when I thought about visualizing them, specifically around maps. What would you place on a map to show how a city worked?"

In St. Louis, where he grew up, Jack first noticed the

existence of something he found magical: couriers. “I loved couriers. You had this transfer of physical information happening throughout the city and the world. Someone picking up the package, putting it in a bag, going somewhere, taking it out of the bag, giving it to someone else. I thought that was so cool. I wanted to map it, to see that flow on a big screen. When I did some research into how courier systems worked, I found that there was a parallel information transfer that was digital, and it was called ‘dispatch,’ which was just a coordination effort.”

Jack so loved the idea of digitally mapping interactions around a city and the notion of couriers as a physical manifestation of these interactions that he decided to start a bicycle courier service of his own at the age of sixteen. “I put my brother and me on bikes, just so I could write the dispatch software. [A self-proclaimed computer geek, Jack taught himself to code software at a young age.] We quickly found out that St. Louis had no need for bicycle couriers at all. But I really enjoyed writing the software and getting to the point where I could map and visualize the work.”

The rapid demise of his teenage start-up did not deter Jack. While in the second year of an engineering program at the Missouri University of Science and Technology, he came across a New York City–based company called Dispatch Management Services Corporation (DMSC), which managed dispatch centers for couriers—on foot, bicycles, and motorcycles.

“I had to get into that!” Jack enthused, as our conversation took him back in time. “I got in contact with the chairman, Greg Kidd, the guy who had built the company and taken it public. I said, ‘I’m writing some dispatch software, and I’d

really love to come to New York and work with you all.’” Jack pursued Greg hard, and within a couple of weeks, he moved to New York, transferred to NYU, and started writing dispatch software for DMSC.

At DMSC, Jack delved deeper into his fascination with dispatch and couriers. “There was an essence of communication there,” he described to me. “An abstraction. You have all these entities roaming about, and they’re all reporting what they’re doing in real time over a variety of different devices. We had couriers on CB [citizens band] radios, on PDAs [personal digital assistants], and on cell phones. We had taxis and emergency vehicles with GPS. They’re all reporting constantly where they are and what work they’re doing, and it’s all flowing into this one system that a dispatcher can view in real time on a map. That’s what’s going on in the city! I thought that abstraction was so cool that I wanted that same thing for my friends.”

Jack and Greg decided they could improve on the DMSC dispatch system. In 1998, they moved to the West Coast and raised enough money from the Band of Angels (a group of current and former Silicon Valley executives who provide seed financing to technology entrepreneurs) to found dNET, Dispatch Network. “We wanted to do a Web-centric dispatch system that would essentially provide an ATM for couriers, most of whom don’t have bank accounts, so they could easily draw their commissions through the Web.”

While he was working to get dNET off the ground, Jack discovered Instant Messaging (IM). “IM is interesting because you look at your buddy list and, at a glance, see what your friends are listening to, what they’re working on, what they’re doing.

The problem was that you were bound to the computer keyboard. I was fortunate enough to have a RIM 850, the predecessor to the BlackBerry. It was this squat, little email device. One night, I couldn't sleep, I just had to write a prototype script. It would sit on a server, take incoming emails, broadcast them out to a list, and also record them in a database that I could view on the Web." That was the first glimmer of Twitter.

But for a variety of reasons, dNET did not get traction in the market, and so Jack embarked on a period of freelance programming before joining a podcasting start-up called Odeo, primarily to work with Evan (a.k.a. @ev) Williams, formerly of Google. But Jack's brief foray into podcasting didn't squelch his passion for brief status messaging. "At that time, one of my co-workers introduced me to SMS (short message service), which I had never seen before. She used it all the time. Once I saw that, I'm like, 'Whoa, this is awesome!' This communication blew my mind, and the way she was using it blew my mind. I thought, What if we simply set status, archive it on the Web, use SMS to do it, and it all happens in real time? We all kind of went into a corner, wrote out a bunch of user scenarios, and started inviting co-workers in. They fell in love with it. We knew we had something."

Thus, Jack and his team developed the service we now know as Twitter. They called it "Twtr" at the time and launched it in July 2006. The very first tweet was an internal one that Jack sent out at 12:50 P.M. on March 21, 2006: "just setting up my twtr." A few minutes later, he tweeted innocuously: "inviting coworkers." This was the beginning of the Twitter revolution.

Interestingly, Jack pursued a strategy very similar to Christoph's strategy with Sirtris: Don't hide what you're doing and worry about operating stealthily. If you think you're doing

something interesting, get it out in the open, shout it out from the rooftops, and solicit as much feedback and input as possible. This strategy was particularly relevant for an Internet-based consumer service like Twitter.

The initial reviews after the launch were mixed. One blogger reacted negatively, calling it “the dumbest thing ever! Who would want all their personal text messages on a public website for anyone to read and track?”² Despite such skepticism, the service began to gain momentum and a grassroots following while still hidden inside Odeo. “We knew it was getting big and were just waiting for a trigger. That turned out to be South by Southwest, in 2007.”

South by Southwest is a festival and conference—replete with panels, book readings, conversations, and parties—hosted in Austin, Texas, each year. It has three parts: music, film, and interactive. The interactive track focuses on emerging technology and is particularly popular with entrepreneurs and technologists. Jack and his colleagues lugged big plasma screens across the country and set them up in the hallways of the conference to display the live Twitter chatter about the conference sessions in action, one at the registration desk and one at the exit from the main conference room.

“We were really good at getting the right friends in. We had a lot of high-powered, vocal bloggers using Twitter at South by Southwest. They were talking about it non-stop at the conference. And the press happened to be watching, too. And it just blew up.”

“Twitter, a simplified blogging service, is hot at South by

2. Comment posted on TechCrunch, July 15, 2006: “Odeo Releases Twtrr.”

Southwest,” wrote *InformationWeek* reporter Mitch Wagner in his March 13, 2007, blog post. “Twitter is a service that lets people post one or two short sentences, using phone texting, the Web, email, or chat, and read updates from others through the same channels. You can subscribe to networks of friends or like-minded people; there’s a Twitter group set up for South by Southwest. John Edwards, a Democratic presidential candidate, seems to have a Twitter account.”

Jack was confident that Twitter would take off, but even he was surprised by the enthusiasm it generated. “This very simple message and subscriber model worked for everything I was interested in. I thought it could be massive. But, as a consumer application, I was really surprised by the velocity and by the patience that our early users had to get it right.”

While Twitter was gaining momentum, the start-up that owned the company, Odeo, wasn’t. In fact, Odeo had run out of money and didn’t have additional funding support from its venture capital investor. Odeo’s CEO, Evan Williams, decided to buy the assets from the investors, taking Jack, another co-founder, Biz Stone (@Biz), and many of the employees with him. Jack became Twitter’s founding CEO, and thirty days later the team started thinking about raising capital and spinning out as a separate company. “We weren’t really ready to take money right away, but we got a note from someone. We went to meet them for breakfast at the top of this hotel in San Francisco and had a pretty good conversation. We were still kind of forming the company and whatnot. When we got back to the office thirty minutes later, we found a scanned image of a check for half a million dollars in our inbox.”

The instant offer of funding prompted Jack to think through what he really wanted in an investment partner. “The way the company and the product gained traction was that we got the best people we could think of and we worked with them. And we wanted the same thing from our VC. We wanted the best person across the table from us. It was not where he comes from, but ‘Is this guy fun to work with? Is he going to challenge us? Is he smart?’ This person was going to take a seat on the board. I viewed it as a hire that we could never fire.”

As it turned out, Twitter went with a VC who found the Twitter concept just as fascinating as Jack did. Who was this VC and how did Jack react to him? That’s a story for Chapter 4.

The lesson for me as I reflected on the Jack Dorsey story is the power of passion. Jack didn’t start Twitter to make money. He had a passion for electronically tracking the activities of his friends and other people. As of 2011, Twitter has raised over \$400 million in capital and is valued at over \$8 billion. This blindly simple service has taken the nation by storm. Celebrities from Oprah to Shaquille O’Neal to Senator John McCain are active twitterers. And all because a kid and former bicycle courier from St. Louis wanted an easy way to keep track of his friends, ignoring the doubters who said it wouldn’t amount to anything.

**CHANGING THE GAME TO CHANGE THE WORLD:
*MAKE MONEY SO YOU CAN DO GOOD***

When I was a kid, listening at the kitchen table, my parents never talked about money. In my conversations with Christoph

Westphal, Jack Dorsey, and the dozen other entrepreneurs I spoke with for this book, the subject of money was always in the background, of course, but never the most important factor in their deciding to become an entrepreneur. “I think it’s very interesting to learn about the human body,” Christoph observed. “I’ve always been fascinated by how cities work,” Jack told me.

So, the entrepreneurial drive usually stems from something quite personal and individual.³ But look a little deeper and you’ll find that the really successful entrepreneurs, no matter how large their egos may be, are not usually in the game just to follow their interests. They also want to change the game in their industry and disrupt the status quo. And, more often than not, they want to fundamentally change the world for the better, at least as they interpret what “better” means.

Even those entrepreneurs who are focused on money (and many are) still think of their entrepreneurial journey as a means to make a big impact on the world. King C. Gillette, one of America’s earliest and most famous entrepreneurs, didn’t particularly care about shaving. He wanted to develop a product with a disposable component—in this case, the blade—that would ensure a continuous stream of revenue. What Gillette really wanted to do was use his money to create a gigantic utopian community—a glass-domed, pollution-free beehive perched at the brink of Niagara Falls and powered

3. The individual, personal motivations of an entrepreneur play a huge role in whether they are even comfortable taking VC money in the first place. Harvard Business School Professor Noam Wasserman’s research in this area is very illuminating. His course, “Founder’s Dilemma,” explores what he calls the “Rich versus King” choice, where entrepreneurs must decide whether they care more about money or power when launching and financing their venture. See www.founderresearch.blogspot.com and his *Harvard Business Review* article.

by the flow of its cascade, where sixty million people would live in peace and harmony. Talk about an audacious visionary seeking to change the world.

Reid Hoffman is one of those kinds of entrepreneurs. He is the founder and chairman of the ubiquitous business utility LinkedIn, with one hundred million users, and one of the



Reid Hoffman

most extraordinary and prescient of Silicon Valley’s entrepreneurs—and also an angel investor in Facebook, Flickr, Zynga, and many others. Reid is also a “public intellectual” (his own term) and a dozen other things, including a blacksmith and movie maven. For Reid, the driving force behind entrepreneurship is to do good for the world.

Reid had a particular view about how he could and would do some good. Although he is an intellectual with ample credentials (he studied symbolic systems at Stanford and earned a master’s of philosophy [MPhil] at Oxford on a Marshall Scholarship), he knew that academia would not be his calling. “Entrepreneurship was my preferred angle of attack,” he told me, “because I could impact millions of people that way.”

He also believed that academia was out of touch with the way the world was changing. “Today, every individual is a small business,” Reid told me. “The idea that you will work for one company for forty years is dead. It’s even dead in Japan. It’s dead everywhere. Now, you’re your own small business charting your own path, and there are entrepreneurial aspects

to that. How do you get your next gig? How do you manage the brand of yourself?” As Reid sees it, educators don’t understand that the world has changed in this way. “Our educational curriculum has not been updated for a long time,” he told me. “If you think about how fast modern life is accelerating, academia is getting more and more out of date.”

Knowing he aspired to be an entrepreneur, Reid returned from Oxford to California and took a job at Apple. “To prepare to start your own company, I thought you should go and learn how to ship a software product. Then, you’re ready.”

In 1997, Reid founded Socialnet, one of the earliest social networking sites, and quickly discovered that he was in over his head. “I realized that I wasn’t ready at all,” Reid said. “Starting from scratch, building something, a whole company and product, is a very different experience than iterating on something that’s already there. The whole entrepreneurial thing is that you kind of jump off a cliff and assemble your airplane on the way down. And financing, by the way, is a thermal draft, right? You’re a little further away, but the ground’s still coming at you if you can’t build an airplane.”

While Reid struggled to construct the Socialnet airplane, he kept talking with a close friend, Peter Thiel, who invited Reid to join him in a new venture called PayPal. PayPal’s mission was to leverage the Internet as a mechanism to transfer money between consumers. It represented the potential for electronic commerce at its best—helping facilitate payments in a cheaper, more convenient manner. In December 1998, Reid joined the board. “In November 1999, I decided that I was going to leave Socialnet. I helped them hire a new CEO and raise another round of financing, because I thought that was all kind of in

the honor category, and then I was going to go start another company. And when I told Peter that, he said, ‘No, no, no. Don’t do that. Join us here at PayPal.’ And so, in January 2000, I joined the company full-time.”

The plan was to sell PayPal within six months, but it ended up taking three years. During that time, Reid began to realize that in order to have the freedom to make a major impact in the world, he needed some real money. “I needed a ‘ransom’ that would let me say, ‘Now I can choose how I want to spend my time, with no impediments.’ I needed not to have to earn a salary.” In 2002, eBay acquired PayPal for \$1.5 billion and Reid had his ransom. “Because of PayPal, I could live comfortably for the rest of my life, take care of my kids and everything else. So I was, like, ‘Okay, now what do I care about?’ Well, ultimately what I care about is making a big, scalable impact on the world. And I realized, ‘All right, I don’t have enough money to create big, new non-profit institutions. I only have enough money for me. So why don’t I go and do a really good thing on the for-profit side?’”

That was LinkedIn. Reid felt he could make an impact by helping people easily connect with friends and colleagues to improve their lives and professional activities. “LinkedIn had something to do with how I think the Internet works, how it changes people’s lives.”

In order to raise money, Reid had to provide more than just a “change the world” mantra, but also a business pitch. In his early discussions with VCs in early 2003, they pressed him for more specifics. “Investors said, ‘Okay, great, we see that big vision, but what’s the specific thing?’” Reid recalls. “And I said, ‘The specific thing starts as a way of connecting with

other professionals, establishing a profile, and communicating with them.’ But you need to be a lot more specific in order to raise money. So, I just said, ‘Forget it, I’ll finance it myself. I’ll get the first specific thing up. And then I’ll use that as a basis for financing and everything else.’” Starting small, Reid felt he could build momentum without spending a lot of money, simply by building a great product that had real utility. It’s a lesson I like to cite for aspiring entrepreneurs who want to raise money before they’ve proven anything out. It is always more impressive to investors when you are so confident in your idea and your ability to build it that you just go ahead and do it on a shoestring budget and have something tangible to show investors.

Reid was right to be confident in his abilities and the intrinsic value of the service he was building. He launched a beta version of the service in May 2003 and began to see initial traction as he and his founding team invited their own personal networks to join the community. LinkedIn grew rapidly and virally, doubling in size every six weeks, as members joined and then invited their professional colleagues to “link” with them. The company did eventually attract VC money and grew in value. In its first round of financing, led by Sequoia Capital in October 2003, the company raised under \$5 million. Since then the company has raised approximately \$120 million, has filed to go public, and is valued at three billion dollars. The company has been profitable since 2006 and is an important part of the connective tissues for businesspeople around the world.

But for Reid, it has never been about stacking up money or showing it off. Until the summer of 2008, Reid and his wife lived in a small two-bedroom apartment. He prefers books to

clothes. “Money is nice, right?” he confessed to me. “Money gives you good things, it gives you a power that you can go do other things with. But it’s not a meaning of a life in itself. Money is a motivator, but it’s not the motivator that I wake up in the morning thinking about, it’s not the motivator that I go home thinking about, it’s not the motivator that gets you an obituary. It’s the enabler of a large variety of other things. LinkedIn can have a big positive impact in itself and will also generate money that I could use to do other things. Things that enable you to say, ‘Yes, the world is a better place because I was here.’”

That’s how the great entrepreneurs think. The money is nice and appreciated, but, as mentioned before, it’s almost never about the money. It’s about passion, following a dream, and changing the world (with plenty of craziness along the way). And to help them along with advice and capital, many entrepreneurs turn to the venture capitalist.