

**Kauffman Fellows Program  
Class 16 Session Guide  
Module V**

Dear Kauffman Fellows Class 16,

This module – Running the Firm as a Business – is the culmination of all of the content and best practice discussions you’ve been exposed to thus far. Together with your classmates, you will explore all aspects of the business of venture, with the emphasis squarely on understanding and evaluating it as a business. From partner dynamics and firm operations to raising money and maintaining good relations with LPs; from marketing yourself and your firm in a competitive industry to managing cash in lean times; from courting entrepreneurs to finding exits and banking returns.

Across all of these topic areas you will scrutinize the business. Why is it done this way? How well does the model work? What holds the business back? What causes it to thrive? What is the historic story that led to the current practices? What are the trends for the future? How do things look from the perspective of entrepreneurs? LPs? Corporates, governments, foundations, public market investors?

This year we have brought the Program to New York City. Our hope is to prompt an ongoing, two-way dialogue with the local eco-system, as well as to better understand how our body of expertise in capital formation can benefit local innovators. In addition, we wish to incorporate the best local expertise into our global community and to reinforce the presence of Society of Kauffman Fellows members in the region.

The hoped-for result is that you come away with a greater appreciation for all the dynamics that bear on the venture business. With these patterns firmly in mind, you should feel empowered to make improvements – in your own practices, in the practices of your firm, and across the entire industry. To the extent you do, entrepreneurs will be better served and new companies will have the best opportunity to succeed.

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## **Session 1: Investment Models Respond to the Sophisticated Entrepreneur**

*Facilitator:* Jorge Torres (Class 16), Silas Capital  
*Speakers:* Jordan Cooper, Lerer Ventures  
Owen Davis, NYCSEED  
Roger Ehrenberg, IA Ventures  
Scott Levine, Time Warner Investments  
David Tisch, TechStars

### *Session Goals:*

While Mark Zuckerberg of Facebook and Mark Pincus of Zynga are legend for ensuring that their capital structure enabled them to retain control after going public, most entrepreneurs that we encounter are generally more sophisticated than those of ten or fifteen years ago. How have investors evolved to engage and interact with these better educated innovators to ensure mutual success?

This session will discuss how the different models of early-stage investing have emerged in response to entrepreneurial demand and/or unforeseen opportunity. We will begin to understand how – if at all – the various players work together to support entrepreneurship while, at the same time, gaining a broader view of how the capital food chain that has evolved in New York City operates.

### *Questions to Ponder:*

- Who is the venture capital investor's customer?
- What are the two most important innovations you've seen in the last year that change the ways venture capital investors raise money, deploy capital, source deals, or manage funds?
- How has each speaker used his entrepreneurial/operational background to win?
- What are the unique ways in which the various players collaborate? Where is there room for improvement?
- How are the demands entrepreneurs place on investors forcing investment models to change in the region(s) where you live and work?

Notes:

## Session 2: First Deal to Franchise

*Speakers:* Susan Mason (Class 2), CVE BoD, Aligned Partners  
Brent Ahrens (Class 5), Canaan Partners

*Session Goals:*

To understand that while Principals can do a *deal*, GPs build and execute a *franchise*. To formulate a market analysis and positioning of a new strategy and to understand the steps that are required to execute the strategy. And finally, to present this strategy to your partnership in a way that meets their objectives, and those of the firm's LPs.

*Questions to Ponder:*

- What does it mean to build a franchise in the context of the venture business? In what ways is it more difficult? In what ways is it easier?
- What traits enable a firm to adapt and re-invent itself in the face of changing markets and new leadership?
- What gaps, shortcomings, or contradictions can thwart even the best laid franchise plans?
- What are examples of well-executed, successful, and enduring franchises? Why have they been effective?

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### **Session 3: The Burgeoning NYC Ecosystem**

*Facilitator:* Lisa Skeete Tatum (Class 4),  
*Panelists:* Maria Gotsch, New York City Investment Fund  
Seth Pinsky, NYCEDC  
Danny Schultz (Mentor, Class 16), DFJ Gotham

#### *Session Goals:*

New York City has rapidly become one of the most active and robust innovation and entrepreneurship hubs in the world, both in terms of numbers of entrepreneurial start-ups and amount of venture capital invested. With an aggressive private/public partnership forming the new multi-billion dollar university Cornell NYCTech, NYC looks to become the leading 21-century tech powerhouse. Leaders in venture capital, entrepreneurship, academia and government will discuss how this burgeoning innovation ecosystem is being created.

#### *Questions to Ponder:*

- What have been the key components of NYC's success?
- What resources were used to achieve their goals?
- What role have 'champions' played in this success?
- What problems/missteps have occurred?
- How can you utilize their experience to build or strengthen your innovation ecosystem?
- If in Silicon Valley, is NYC a competitor or a potential collaborator, and how should you respond?
- What are the threats to the future for NYC in technology, innovation & entrepreneurship and how does this apply to your innovation ecosystem?

*Notes:*

## **Session 4: Breakout Panel: How Institutional Investors are Evaluating Smart Connected Capital**

*Facilitator:* Bruce Upbin, Forbes  
*Panelists:* Mel Williams, TrueBridge Capital Partners  
Rick Slocum, The Johnson Company  
Doug Coyle, The Rockefeller Foundation

### *Session Goals:*

Varying opinions abound on venture capital as an asset class today and in the future. Is venture capital irretrievably broken or is it 'morning for venture capital'? Is it back to the fundamentals or are there new venture capital models that are attracting the interest of limited partners? How are limited partners evaluating emerging markets, emerging funds? This panel of top limited partners will share their views on venture capital as an asset class, discuss how they consider investment opportunities, and provide their view of the future.

### *Questions to Ponder:*

- What are the greatest concerns identified by Limited Partner 'customers' of venture capitalists, that apply to you or your organization?
- How could the opportunities that Limited Partners see now or in the future provide a strategic opening for you or your organization?
- What new models in capital formation could meet the needs of the different strata of limited partner investors
- What are the most important trends surfaced by the panelists?
- How can you impact the future of capital formation in your environment or globally?



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## **Session 5: Breakouts: Focusing Innovation Talents Beyond Venture Capital**

*Facilitator:* Jens Eckstein (Class 10), SR One

*Panelists:* Thomas Darden (Charter Class), School District of Philadelphia

Peter Krawiec (Class 6), Amazon.com

Dan Malven (Class 4), Analyte Health

Winslow Sargeant (Class 11), Small Business Administration

### *Session Goals:*

Kauffman Fellows innovators and investors are focusing their talent beyond the traditional venture capital path with great impact. Panelists discuss their respective career paths within corporate organizations, entrepreneurial ventures, high level government and policy, and within one of the largest public school systems in the world. This session is especially focused for Kauffman Fellows who wish to leverage their background and expertise toward broader innovation opportunities.

### *Questions to Ponder:*

- What are the various ways that you can impact innovation?
- What determinants go into your career decisions now and for the future?
- How do you measure your personal impact

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## **Session 6: Fireside Chat with Benno Schmidt, Kauffman Foundation**

*Speakers:* Benno Schmidt, Interim CEO, Kauffman Foundation & Phil Wickham, CEO, Kauffman Fellows

*Session Goals:*

Benno Schmidt will share his views on entrepreneurship, venture capital, and innovation. In addition, Benno's father was the co-founder of J.H. Whitney & Co, one of the nation's first VC firms, providing an interesting insight into the early years of venture investing to the present.

*Notes:*

## **Session 7: Keynote: How Networks are Transforming our Economy & Society (and How We Invest in Them)**

*Keynote Speaker:* Fred Wilson, Union Square Venture Partners

*Session Goals:*

Fred Wilson, co-founder of Union Square Ventures and one of the leading venture capitalists in NYC, focuses his investments in internet networks that have the capacity to transform the global economy. The firm's investments include Twitter, Tumblr, Foursquare, Lending Club, Zynga, 10gen & Etsy. His blog, A VC, is one of the world's mostly widely read business blogs and features MBA Mondays and Skill Share classes for entrepreneurs. As well, Fred is a thought leader in social innovation, convening groups to focused on "Hacking Education" and "Hacking Society." Fred will discuss his venture investing practice in internet networks as well as how networks are transforming our economy and society, and what this means for the future of innovation, regulation, advocacy and politics.

*Questions to Ponder:*

- How does Fred's investment thesis impact your view of investment and/or innovation opportunities?
- Fred is consistently defined as an entrepreneur's VC. What practices does he utilize with entrepreneurs that you can adapt in your investing/innovation practices?
- Where do you agree/disagree with Fred's view of the transformative nature of networks?
- How will use networks to enhance and transform society?

Notes:

## Session 8: Managing the Firm

*Panelists:* Paul Cleveland, Mohr Davidow  
Matt Harris, Bain Capital Ventures

*Session Goals:*

Venture capital funds are more than just teams of individuals making investments and sharing a copy machine and coffee maker. Any new firm enters the business with at least three funds in the plan, and thus a minimum twenty-year commitment for the partners and the LPs that invest in them. We will explore what kind of operating infrastructures are required to ensure maximum investor return over that period, considering that partnerships evolve with regard to industry sector, geography, and stage.

*Questions to Ponder:*

- What are the typical operational priorities of a venture fund?
- What role does culture play in the successful operations of a venture fund?
- Who typically drives culture in the fund?
- What are the hidden landmines that firm members need to be aware of?
- When do members typically get themselves in trouble?
- What screening and filtering processes work best to protect the firm operationally?
- What issues do managing partners worry about that are off the radar screens of junior members?
- What are the steps required to expand a partnership into a new office and region?



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## **Session 9: Lunch Keynote: Building Entrepreneurial Ecosystems**

*Speaker:* Brad Feld, Foundry Group

*Session Goals:*

To gain familiarity with the frameworks of investor, entrepreneur, and author, Brad Feld, and to test his theories against the New York dynamic, as well as your own. The thesis of Brad's new book, *Startup Communities*, is that entrepreneurs lead a startup community while everyone else feeds that community. Feeders include the government, universities, investors, mentors, service providers and large companies. He will discuss the characteristics of regional entrepreneurial leaders, the engagement catalyst provided continuous, local activities and events and the appropriate roles that incubators, accelerators, universities, and government can (and should) play. Lastly, he will lead a conversation on how a strong community culture can help define and sustain entrepreneurial communities.

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## Session 10: Navigating Firm Dynamics

*Speaker:* Alan Patricof, Greycroft Partners

*Session Goals:*

Navigating the fairly opaque realm of firm group dynamics is a skill without much prior art or best practices yet to be passed down. As a junior person in the firm, you are fortunate if you have a mentor that overtly teaches you the basics of the business, firm operations and expected behavioral norms. At some point, however, you are left alone to fend for yourself through these murky waters.

Alan Patricof is rightfully considered a venture capital legend, having invested several billion dollars globally, across multiple industries, in his now 40+ years in the venture industry. Alan's experience spans the earliest days of VC, where funds consisted exclusively of high net-worth family money, through his founding and management of Apax Partners from 1969-2004 (formerly Patricof Ventures), now with \$40 billion under management, to his 2006 founding of Greycroft, LLC, a \$200+ million firm focused on digital media. His investments include America Online, Office Depot, Cadence Systems, Cellular Communications, Inc., Apple Computer, FORE Systems, NTL, IntraLinks, Audible, and New York magazine. Alan's depth of experience and context will provide a rare and valuable picture of firm dynamics.

*Questions to Ponder:*

- What is the array of human dynamic situations that I have encountered personally, or have observed others cope with during my tenure at the firm? How do I optimize this navigation process?
- What holds me back from understanding situations from another's perspective?
- How do I go from a senior person in industry to becoming a promising mentee who, all of a sudden, has to work for someone else? How do I help others make that transition?
- What happens when I have a difference of opinion with the senior partner that I have worked most closely with and who has mentored me along the way?
- What are the typical sources of conflict within a venture firm and what skills do I need to develop?
- How do I develop a healthy way to deal with conflict within the firm? Are there ways of dealing with problems that help avoid conflict? What is the culture that I am trying to espouse here? Does it blend with the existing firm culture?
- How might I work my promotion through the ranks with very little attribution (if any)?
- How do I navigate the transition to from mentee to colleague (or as I bypass my mentor over time)?
- How do I help deal with generational transitions as I take more senior roles within the firm? How do I assume more leadership and take my role without causing unnecessary disruptions?
- What don't I understand, or why might I have repeated difficulty with in these areas?
- What might be some emerging best practices in these areas?
- You've always wanted to be a venture capitalist and you have an offer from a corporate VC arm (or a smaller VC fund). Do you jump or do you wait until you get an offer from a top tier fund?
- It's your lucky day, you get an offer from two top tier funds. Which do you choose? How do you choose?
- You're now an Associate or venture partner or partner, how do you make your mark so you can become a GP?
- Now you're a GP, what's next?

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## Session 11: Raising a Fund

*Facilitators:* Liam Donohue (Mentor 13), .406 Ventures

*Session Goals:*

To understand the necessary preparation, time, and financial costs of a new fund start-up, and to understand how to raise Fund II and III.

*Questions to Ponder:*

- What factors should be in place before you decide to raise your own fund? How do you know when you're ready?
- Besides luck, what are the key factors to successfully raising a first-time fund?
- What unique risks do LPs perceive in first-time funds?
- Why would anyone want to be your first LP?
- From an LP's perspective, what are the primary differences in raising Fund II, Fund III?
- What are the ways that first-time funds differentiate?
- What are the characteristics of the ideal LP and LP syndicate?
- Under what conditions would you decide not to take money from an LP?
- How do you sequence the LP pursuit?
- What should you know about a prospective LP before approaching them?
- What are the benefits and challenges of using a placement agent?
- How has the market for raising an emerging fund (Funds I, II & III) changed in the wake of the global financial correction?

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## Session 12: Fund Economics Case: Accel

*Facilitator:* Steve Kaplan (KFP Dean), University of Chicago

*Session Goals:*

Fellows should learn and understand: (i) the economics that both LPs and GPs face in investing in venture capital; (ii) the economics and reasons for the variety of compensation terms in a GP-LP agreement; and (iii) how to think about raising a fund, both strategically and in concrete terms.

*Questions to Ponder:*

*Economics/Quantitative:*

- What are the economics of the venture capital business?
- What will the cumulative paychecks and distributions to the LPs and GPs be over the life of the fund?
- What is the present value of this amount using a 10% discount rate?
- What is the IRR to the LPs?
- How do the payoffs and net returns vary if the carry is increased from 20% to 30%?

Assume:

- The fund has a 10 year life, with committed capital (total amount of funds including fees that the investors have promised to provide) of \$500 million
- The funds are invested in 4 equal installments in each of the first 4 years
- The management fee is 2.5% of committed capital for the first 5 years, payable in advance at the beginning of the year. The fee declines to 1.5% of committed capital for the final 5 years.
- Each of the annual investments is held for 5 years and then sold/distributed. Assume that the investments earn the same annual gross rate of return of 25%.

*Incentives/Covenants:*

- Why are incentives to Private Equity Partnerships (PEPs) structured the way they are?
- Why are the incentives so similar across different PEPs? How do these incentives compare to those for money managers?
- What covenants or restrictions are placed by LPs on PEPs?
  
- Overall, what are the key considerations an LP weighs in evaluating a venture fund investment?



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## Session 13: Field Project Clinic

*Facilitator:* Phil Wickham, Kauffman Fellows

*Session Goals:*

While the field project is a requirement for graduation from the program, it should be viewed as a powerful and unique opportunity that has a measurable window of opportunity. Your field project should be an extension of your personal journey – the same story that got you into the program. It should reflect your personal and career interests, as well as those of your firm or organization. In this session, we will dig deeper into the field project process and explore areas for further investigation.

*Questions to Ponder:*

- What ideas or opportunities close to your expertise can the Society help you explore more deeply?
- What do you want the brand of “you” to be when you graduate from the Program in July?
- How does this project impact that brand?
- How can you leverage the work of those Fellows before you?
- How might your work inspire those who come after you?
- Who else besides your firm will care about your insights?
- Who else might you get involved in the project early on?
- How else might your insights get distributed?

Notes: