

# Managing the Firm

## Kauffman Fellows Program

March 13, 2012

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# Managing the Firm

- Risk Management
  - Permanent Establishment
  - Foreign Corrupt Practices Act
  - Registered Investment Advisors ('40 Act)
  - Other Best Practices
- Fundraising
  - Process
  - Terms
- Portfolio Management
  - Forecasting and Metrics
  - Diversification
- Scalability
  - Systems
  - Decision Making
  - Performance Review
- Full Service Model
  - What Is It?
  - Why Do It?
- Long Term Success in VC

# Risk Management

- Permanent Establishment

- Organization structure set up in advance
- Near and long term view of expansion efforts
- Know the dos and don'ts

- Foreign Corrupt Practices Act

The anti-bribery provisions of the FCPA prohibit:

- making use of interstate commerce corruptly, in furtherance of an offer or payment of anything of value to a foreign official, foreign political party, or candidate for political office, for the purpose of influencing any act of that foreign official in violation of the duty of that official, or to secure any improper advantage in order to obtain or retain business.
- Law with criminal implications
- Impacts firm operations and board seats

- Registered Investment Advisors ('40 Act)

- Brings rules and discipline to an "art" business
- Meaningful compliance burden

- Other best practices

- Insurance – GPL coverage
- Computer system redundancy/disaster recovery
- Employee background checks

# Fundraising

- Keys to Success
  - Start early – it takes much longer than before
  - Create binder of all key information
  - Honesty and transparency go a long way
  - Know your own data
  - Strategy = Execution
  - Team, Team, Team
- Terms
  - Understand the drivers to LP returns
  - Investment limitations – don't get too cute
  - Complexity of LPA = extended negotiations
  - Don't manage around GP tax optimization
  - Key Man

# Portfolio Management – Forecasting and Metrics

- Cash is king – don't run out
  - Review cash needs on routine basis
  - Track cash burn
  - Know cash needs
  - Look to fully invest the fund – recycling is an art as much as science
- Dashboards & Metrics
  - Know where your dollars are going
  - Know the valuations you are paying
  - Track the progress of your companies
  - Routinely assess the exit potential of each company
- Exception & Benchmark Reporting
  - What key metrics do you need – who is not providing them to you
  - Are you seeing the best deals? Are you winning them?

# Portfolio Management -- Diversification

- Diversification is essential to reduce risk
  - Early vs. late stage
  - Large vs. small
  - Across industries
  - Over time
- This is the job of the firm as a whole – almost impossible for individual investing GPs
- Ties into recycling and cash forecasting

# Scalability

Overriding message – whatever you do...  
Don't take the “craft” out of the business

- Systems
  - Deal Log
  - Financial Reporting
  - Investment Analytics
  - LP portal
- Performance Review Process
  - Formal review process that covers
    - Career progression
    - Alignment of interest & goals with staff member AND Firm
    - Assessment of portfolio
    - Scorecard of investment performance
  - 360 Reviews
- Firm Decision Making
  - Investment Decisions
    - Documentation
    - Milestones
    - Risk/return
    - IRR and multiples
  - Firm Decisions/Strategy
    - People
    - Investment Focus
    - Succession Planning
  - When is a COO needed?
  - When is a management committee needed?

# Full Service Model - What

- Talent/Recruiting
- Network Building
  - BD/Customer intros
  - Segment experts
  - Best in class service providers
  - Investors
- Marketing/PR support
- Analytic Support



# Full Service Model – Why?

- How does this impact firms drivers?
  - Deal Flow
  - Winning Deals
  - Supporting Portfolio
- “Table stakes” or “Strategic”
- Who has access?
  - All portfolio or “winners”
  - Exclusive to portfolio or broader

# Long Term Success in VC

- Combination of many factors, but you need...
  - Trust
  - Core values
  - Transparency
  - Agreement on strategy
  - Environment that promotes teamwork
  - Always be in mode of adding great people
  - Every team needs Hunters and Cooks
  - Different skill sets that can work together
  - $1+1=3$