

THE NEW FULL-SERVICE VC



Venture capitalists are rethinking portfolio services as they race to catch pioneers Andreessen Horowitz and First Round Capital

Mark Boslet
Senior Editor

The definition of a venture firm is being re-examined like never before as **Andreessen Horowitz**, **First Round Capital** and a handful of other innovative partnerships pioneer big changes to the way firms work with portfolio companies.

These upstart firms, typically formed in the past 10 years, are experimenting with new approaches to delivering hands-on assistance to young companies that haven't yet developed recruiting, marketing, business development or engineering departments.

The more active services represent a significant shift in how venture capital is practiced and come at a time when entrepreneurial activity is on an upswing from a sharp drop in the cost of starting companies and an explosion in the sources of investment capital, particularly for Internet startups.

The resulting attention these firms are receiving is threatening to upset the long established order of the industry, where partnerships such as **Kleiner Perkins Caufield & Byers** and **Accel Partners** have typically captured the best deal flow and the greatest allegiance from entrepreneurs.

"The bar is being raised," says **Byron Deeter**, a partner at **Bessemer Venture Partners**. For entrepreneurs, "it's sharpening their decision process and criteria to make sure they have the people and the global platform to be successful."

While it is too soon to say whether the efforts will trigger big shifts in the deal stream and ultimately lift fund performance, many established firms are urgently plotting their response. That's because entrepreneurs are reacting favorably so far to the new help and suggesting they may look in new directions when raising a next

round or seeking money for a new company.

What's different about the new approach is that it is more formalizing and structured than the ad-hoc services typically provided by this boutique business, where GPs often work as lone practitioners or in loose-knit, less systematic partnerships.

At Andreessen Horowitz, the firm at the center of the services trend and the one that has trumpeted its offerings the loudest, 50 people now work on portfolio services in five groups that sit at the foundation of the firm's organizational structure.



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Byron Deeter
Partner
Bessemer Venture Partners

Google Ventures has more than 40, and a separate **Startup Lab** that links portfolio companies with experts from among the more than 53,000 employees at its corporate parent.

A second key innovation is the advent of community. For pioneers such as First Round, the goal is to connect founders, CEOs, sales executives, engineers and other portfolio company staff into broad job-related networks where they can trade

best practices and personal experiences.

(Please see the sidebar "How They Do It" for a detailed account of the services offered by top firms.)

These advances are fueled by improvements in social media and peer-to-peer software that allow people and data to be networked rather than siloed. Some firms take on the technical work themselves, others rely on products from **Salesforce.com**, **LinkedIn**, **Yammer** and **Box**. At First Round, in-house engineers have built a platform that includes a **Yelp**-like system for finding service providers, such as accountants and lawyers.

What the changes boil down to is differentiation, or standing out in a crowd, and few venture capitalists want to risk not being noticed. Accel Partners has been hiring on the operations front and recently added **Stephanie Ichinose**, who came from Yelp, as its marketing partner. **Greylock Partners**, which already has well-established recruiting support, is also looking to ramp up its operations services.

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How They Do It: A Look at Services Pioneers

A deep dive into what five innovative venture firms are doing to provide more than just capital to their portfolio companies

Mark Boslet
Senior Editor

Andreessen Horowitz

The firm at the center of the services trend is **Andreessen Horowitz**, in part because the nearly four-year-old firm has been the loudest to tell its story.

The firm's operational staff is now at 50 people, up from 45 not long ago, and is divided into five teams focused on market development, research, corporate development, the recruiting of executives and engineers, and marketing and PR. Every Monday a meeting is held to discuss not deals, but

industry, says Partner **Margit Wennmachers**. "We do this to get deal flow."

Andreessen Horowitz plays a hands-on role generating research for portfolio companies on topics as varied as overseas business opportunities and average revenue per mobile user, and it identifies investors for future rounds. The market development team hosts meetings with big corporations, such as **Nike** and **Sprint**, where small groups of portfolio companies can pitch products and develop business relationships. This means doing a lot of preparatory work ahead of time to understand the needs of the corporations. It is an identification process the firm is trying to streamline and automate with technology.

The firm is on pace to do 1,200 of these meetings a year, Wennmachers says.

The operational staff doesn't directly recruit for portfolio companies or handle PR events, but it does identify job candidates, offer advice on compensation and think through marketing strategies with companies.

integration brings benefits. When a portfolio company holds a board meeting, for instance, the attending partner is handed a report with quarterly updates on the company from across the operational groups, pointing out, for instance, that it hired a VP of sales, or didn't.

Of course all this costs money. This is why the firm diverts most of its management fees to operations and away from partner salaries. Partners make up for smaller salaries with the potential for extra carry. The spending makes the system hard to copy, Wennmachers says.

First Round Capital

Another firm with strong mindshare is **First Round Capital**, where Partner **Josh Kopelman** likes to contrast his efforts to those at Andreessen Horowitz. "We think of ourselves as building a community and we think that's very different," he says.

In lieu of an extensive operational staff, "we have built an online network where our CEOs are all connected with one another, our CTOs are all connected with one another, our CFOs are connected with each other," he says. CEOs post topics for other CEOs to chime in on, such as how to motivate a distracted founder or assess the benefits of raising venture debt.

The network continues deep into portfolio companies, all the way to engineers and division heads. Every time a new investment is added to the portfolio, the value of the network grows.

At the foundation of the community is a multi-purpose software platform built by in-house First Round engineers. As a result, "First Round has its own internal **Yelp**," for finding service providers such as lawyers, accountants, etc., explains Kopelman. "If



"We need to market ourselves pretty aggressively" as an upstart in an established industry. "We do this to get deal flow."

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Partner
Andreessen Horowitz

PHOTO COURTESY OF ANDREESEN HOROWITZ

operational issues.

"We need to market ourselves pretty aggressively" as an upstart in an established

At the core of the effort is a **Salesforce.com** implementation that helps consolidate and share information across departments. The

SoftTech VC, a seed investor, has ramped up its efforts to build a community among its portfolio companies. "We have recently invested in a set of tools to make it more systematic, and with about 80 active companies, it is welcome," says Managing Partner **Jeff Clavier**. "That will allow founders to share and support each other without us in the middle all the time."

At **Draper Fisher Jurvetson**, "we view our role as a coach" to portfolio companies, explains Managing Director **Josh Stein**.

"We want them to develop their own muscles rather than rely on us."

Yet, the firm recently hired Director of Marketing **Shari Foldes** and Director of Talent **Katie Hughes**. DFJ also has begun to use Box—one of its portfolio companies that Stein sits on the board of—to share items among partners, such as **Goldman Sachs** reports, and is thinking about developing technology that can connect entrepreneurs with the resources of all its partners.

Another firm paying close attention is Bessemer. The firm has provided services such as in-house financial support and recruiting, but recently hired ex-Oracle CFO **Jeff Epstein** as an operating partner to work with portfolio company CFOs. Epstein provides guidance on best practices and has created CFO advisory boards.

Bessemer also recently brought on **Tiffany Spencer** as vice president of marketing and communications to work with portfolio companies on PR activities.

you're looking for a PR firm, don't call me. Go to this network and look for recommendations."

The firm also generates research on topics, such as compensation, and has a venture concierge to answer questions much like a consultant. Two people on staff assist with recruiting, though only for specific position types.

The firm also schedules a variety of events, including one-on-one meetings held monthly where portfolio companies can pitch to corporations, such as Comcast and Unilever.

Google Ventures

Another firm with a rising profile is **Google Ventures**, which also has a substantial operations staff of more than 40 people.

One high-profile focus is the design team, where five people work with portfolio companies, sometimes offering advice, other times embedding themselves with a portfolio company for weeks at a time. A separate engineering team collaborates on technical issues, such as scaling a data center or developing an algorithm.

Google Ventures also has a marketing and PR team that helps portfolio companies with product launches and crisis management. A final team focuses on recruiting, particularly key engineering positions.

The firm's Startup Lab takes the additional step of helping startups connect with the more than 53,000 employees at Google proper.

True Ventures

True Ventures also is a services pioneer, and its True University is one highlight. The two-day program draws five to 10 people from each portfolio company for sessions not just covering technical, operational and financial issues but providing the opportunity to build relationships.

Another effort to unlock the talent and potential of portfolio companies is the

founders' list, where founders can send group emails seeking advice and solving problems.

True also addresses entrepreneurial best practices by hiring what it calls special advisors to work directly with portfolio companies on sales and marketing issues, such as building enterprise sales teams.



The venture industry has "had very little innovation in a long time." In the future, innovative firms will get the lion's share of the best deal flow.

Jon Callaghan
Founder
True Ventures
PHOTO COURTESY OF TRUE VENTURES

When True began in 2005, "what we really saw was a venture industry that had very little innovation in a long time," says **Jon Callaghan**, one of the founders of the San Francisco-based firm. In the future, innova-

Kleiner Perkins, which has had a recruiting staff for years, brought on marketing and communications partner **Christina Lee** in 2011, and **Sequoia Capital** added communications staff later the same year and ex-*Wall Street Journal* reporter **Ben Worthen** this year.

Still, criticism persists. Some general partners and investors wonder whether services are a core skill for venture firms. Wouldn't a career headhunter at a top-name recruiting firm be a better resource

that someone hired by a venture outfit, they ask? Or, for that matter, is Google Ventures really best in class at design, even if its design service is a lure few entrepreneurs can resist?

"I don't know it's necessarily what VC firms are good at," Stein says. "I'm not sure those are core functions a venture firm should be doing for its customers."

Others GPs question whether the services can scale as portfolios grow and whether multi-stage investors can tailor

their services to the differing needs of early stage and growth-stage companies.

OpenView Venture Partners

Another firm with lots of experience providing formalized services is **OpenView Venture Partners**.

"We're in a services industry," says Managing Director Adam Marcus. "We have to provide services to our customers."

Among OpenView's offerings is a recruiting service with six full-time recruiters. It placed 100 people last year, including engineers, customer support reps and vice presidents.

The Boston-based firm also has a four-person research and analytics group that generates market research on topics as varied as product pricing and finding opportunities in vertical markets, such as financial services.

Another three-person group works on sales and marketing, addressing sales execution, lead management and sometimes stepping in to recruit and train a sales team. Startups are charged a quarterly fee for the services to make sure they really want what they request.



Adam Marcus

Expansion-stage needs are different than early stage needs, says Marcus: "What they don't need is community. What they care about is hiring engineers and sales people."

—Mark Boslet

their services to the differing needs of early stage and growth-stage companies.

"In the end I don't know whether it matters or not," says **Greg Bohlen**, a managing director at **Morgan Creek Capital Management**, who plans to study over the next six to nine months whether services make a difference to company performance. "It's a market gimmick to set yourself apart."

At the same time, services are something many firms value enough to already pro-

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vide in some form. Services efforts began during the dot-com bubble, when incubators such as **CMGI** took root. Today many firms have recruiters on staff and top firms provide financial back-office assistance to startups.

“The fundamental services haven’t changed as much as the perception,” Deeter of Bessemer says.

Still, old ways seem to be evolving. The



PHOTO COURTESY OF DRAPER FISHER JURVETSON

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Draper Fisher Jurvetson

venture capitalist who goes to six or eight board meetings a year, helps companies make key decisions, provides key introductions outside the board room and relies on **Stanford University** professors to keep tabs on the latest student entrepreneurs seems to be becoming a thing of the past.

“I think when we look back 10 years from now there will be few traditional venture firms,” says **Jon Callaghan** at services pioneer True Ventures. “Everyone of those firms will be providing services to their portfolio companies.”

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Josh Kopelman on Building Community

The First Round Capital GP says the venture industry over the next few years will focus on transforming a portfolio into a community and building a platform so entrepreneurs can network



Josh Kopelman

First Round Capital’s Josh Kopelman has been a pioneer at building community among his portfolio companies. In an interview with *VCJ*, he offered his perspective on venture’s growing interest in services.

Q How do you view the venture industry’s recent interest in value-added services?

A Over the last few years we’ve seen the rise of the “agency model” of value add. **Andreessen Horowitz** has been among the leaders in this area. Their portfolio companies need PR and they hire a great PR team and build an in-house agency. They see that their companies need talent, so they build an in-house recruiting agency. This approach has begun to take hold in the industry, and many other firms are moving in that direction.

Q But that is not you?

A We’re pursuing a different strategy of value-add than the agency, or services, model. The challenge with those models comes down to scarcity of resources. Say a fund has 30 portfolio companies. Then three years later it has 60 companies. If a recruiter could spend one day a week at your company when there were 30 companies, now he or she can spend one day every other week. In these models, with each new investment you make, you are reducing the level of services and value you provide to your existing portfolio.

Q What is your solution to this quandary?

A We have a different model. We don’t think of ourselves as building a portfolio, we think of ourselves as building a community. We think that’s very different.

Q What do you mean by community?

A Historically, value-add was primarily delivered by a VC partner interacting with a CEO. We think far more value can be delivered by creating a community of founders, where each CEO in our portfolio can help the others, and each CTO, each CFO, each recruiter, each engineer.

We have a team of six people focused full-time on building products, events and services to help connect our companies with one another. If you are the SEO person at a startup, your job is pretty lonely, and you don’t have many peers to ask for help and advice. But we have over 30 people focused on SEO in our portfolio, and are building software—including an extremely active online network tool—to help them interact with each other.

Now every time we invest in a company, it actually adds value to our prior investments because there are new smart people who participate in the dialog, rather than subtract.

Q What impact will this concept of community have on the venture industry?

A From 2005 to 2011, the most disruptive concept in venture was the rise of the “micro VCs.” You saw dozens of new firms with a new perspective on the asset class. If you ask me where the focus from 2011 to 2016 will be, it’s going to be on transforming a portfolio into a community and building a platform.

We’re investing pretty heavily here, and I think First Round Capital is a pioneer in this area. —Mark Boslet