

Post funding challenges and opportunities: the value of venture capital

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Introduction

Much of what is presented in this chapter is inspired by experiences from the Draper Fisher Jurvetson fund and its portfolio companies. The chapter outlines the resources, capabilities and knowledge that a good venture capital firm may provide. It also presents some key defining pitfalls and challenges that most academic spinouts face post financing. University spinouts come in many forms in terms of stage, industry focus and goals. The issues discussed here give universities and academic inventors a general overview and will need to be filtered according to each unique business opportunity. Some ideas discussed may be provocative or controversial, but like all interesting topics, they can be treated as one view among many.

Building a business

The real work for a university spinout begins after it has gone through the various stages to secure funding.

In many ways, securing financing hallmarks the transition between the academic and the business world. While the process of financing is a relatively contained and defined process, building a business is not. It is during this phase of a spinout's life that the culture of academia – which rewards rigorous thought, development and reflection – may bump heads with what is required to succeed in business – execution, making tradeoffs and sweat. Academia provides a nurturing environment for cultivating innovative ideas that may result in patents for seeding a business, but business building requires distinctly different skill-sets (see Exhibit 18.1).

There are many good venture capital firms that have already been down the path to financing, and more that will be going down it in the future. These firms should be able to provide resources, networking and advice. Most importantly, the venture capitalist (VC) chosen by a spinout should be someone that the entrepreneur can trust and for whom it will want to make money, and someone who can serve as a mentor.

Draper Fisher Jurvetson believes that great entrepreneurs build great companies. It tries to help entrepreneurs from the earliest stages of a company to build lasting businesses by providing a network of resources, people and support. It backs companies because it wants to see an entrepreneur's vision realised. The firm is vigilant about being supportive, but not controlling. Micromanaging an entrepreneur's vision can often cripple it, especially for the most innovative companies that are disrupting convention.

Exhibit 18.1

The patent is not everything

A patent that may have inspired the start of a company is just that: a start.

- Adrian Tuck, executive vice president of Ember, has a useful points system for putting things in perspective. An entrepreneur gets:
 - one point for having an idea, and one point for the patent;
 - 10 points for articulating an idea and developing a rational business model;
 - 100 points for getting funded; and
 - 1,000 points for landing a customer.
- Landing a customer is the goal – a patent, venture-backing and a great team are only valuable insofar as the business has, or can get, a customer who pays.
- Do not use patents to hold the company hostage if tension arises as a company grows. Make sure there is a ‘no fault divorce’ provision – a type of prenuptial agreement that provides a mechanism for resolving disputes regarding licensing a technology if members of a company decide to go their separate ways.
- It is usually better to take stock instead of a royalty for the patent. Stock puts the founder on the same team as the other shareholders, and can usually make more money in the long run.

Source: Adrian Tuck, executive vice president, Ember Inc, Massachusetts.

Getting assistance with key challenges and opportunities

There are multiple challenges and opportunities post funding. Three that are particularly common and important are highlighted below:

- building out the team;
- acquiring the first customer; and
- raising further finance.

Each challenge is discussed in the same way that a VC would walk an entrepreneur through the options and choices they have.

Building out the team

Receiving funding marks a critical point of change for most academic spinouts. Prior to funding, money is often scarce, but time is ample. Once a spinout is funded, money is available, but time becomes expensive to spend. It is critical to understand this shift, and where this first comes to a head is in building out the team. In fact, building the right team is arguably the most important area on which to focus.

Of course, a team may have been assembled prior to funding, but as the spinout develops it will undoubtedly evolve. Right away, a few key questions need answers.

Who is in and who is out?

Good universities can provide inexpensive resources to companies before they are funded. Once funded, however, it is critical for the company to set up an identity and location outside

of the university. As a general rule, if anything needs to be done that is critical to the development of the business, it has to be done by people who work for the company. It should not be done by people who work at the university.

Having said that, technology transfer outside the university is a contact sport – it occurs through people.² The key technical gurus on the team almost always need to leave academia in order for the spinout to be viable. Professors or university faculty staff involved in the company should think carefully about how interested they are in participating in the company moving forward. If professors are critical to carrying the key technical know-how into the spinout, they will need to be willing to take a leave of absence from the school, and assume the academic career risk that might accompany such a leave.

In the authors' experiences, it is very difficult to straddle both academia and the operations of a spinout company. After the key technical insight has been transferred to other members of the team or embedded inside a developed product, a professor may return to academia. Professors who wish to continue to work in the university generally serve best by playing a consulting, advisory or personal mentorship role to the company or other founders.

However, the university provides a wonderful resource for talent that should not go untapped. The academic network should be leveraged well for hiring other members of the team. It is probably best to bring university talent to the company, as opposed to bringing company work to the university. The culture of the university often runs counter to that of a spinout and the business will be well served to bring the talent in-house – doing work in a location that is physically different from the university can have a significant impact on meeting product development needs.

What is the founder's role?

Assuming the founder would like to commit to the company, he or she next needs to determine what role to play.

The founder's role probably will be defined more by his or her interests than capabilities. Founders of companies have taken on every executive role – CEO, chief technical officer (CTO), and head of marketing, sales or engineering. Although success and failure have been seen in each permutation, an academic founder who can assume the CEO position successfully is a rarity.

The founder should think through what ultimately motivates him or her. The next step is to build a team to complement what he or she does and does not want to do. The founder should seriously consider the implications the new role will have on his or her own life. While challenges in a university can often be overcome with intellect and experimentation, a spinout environment will afford little room for mistakes. After the role of the founder has been determined, several questions should be asked.

- Can the company afford to have the founder in that role?

If one person possesses the core understanding of the technology on the founding team, it may be challenging for the team to have that person not play a technical role in the beginning. CEOs, for example, do not spend the bulk of their time focusing on technology development. If the founder serves as CEO, the team may suffer a huge opportunity cost for not having him or her work on the development of the technology. After the founder has transferred that technical know-how, a transition to the business side may be easier.

- Does the founder know what the role requires? If not, is he or she willing to learn? Does he or she have the desire to do what the role requires?

The skill-sets of each role are very different. A CEO's job, for example, often seems glamorous due to its role in externally promoting the company and internally building morale. First and foremost, CEOs need to be managers and sales people. Is the founder ready to create and be measured by an operating plan and budget, to pitch and close the first few customers, to manage a board of directors, to motivate the team when money is running out, and to make hard cost-cutting decisions when times get rough?

Similarly, a vice president of engineering needs to know how to build a commercial-grade product through a structured development process. This process often has less to do with technical insight and more to do with managing what can go wrong in the pursuit of shipping a product – such as poor testing, feature creep (where additional features are continually added) and not prioritising requirements.

The founder's ideal role more likely will be determined by desire and experience than by intelligence. If the founder finds that he or she is not executing this role well, it likely will not be because he or she is not smart enough, but because he or she does not have a skill-set born out of experience, or is not happy doing what the role requires.

- If the founder realises he or she is not happy in a given role, will he or she be able to get out of it?

It often takes real personal reflection and maturity for founders to admit that they would be more effective in another role. If the founder does make that decision, someone must fill the role fairly quickly, or critical time will be lost. Make sure that there is a plan for assessing the founder's fit and performance in his or her role, and that he or she has the option to move out of it if it does not seem to be working.

- If the founder is not the CEO, who is?

A leader, not just a functional head, should be hired as a CEO. The CEO should be as good at business as the best technical founder is at technology. There is often a temptation to hire a CEO to fill a functional role that the team or investors feel is lacking – for example, a buddy who serves as a sales head. That is not a CEO. The CEO should complement the team in this functional capacity, but should also pass a higher hurdle of being a real leader as the company grows. Specifically, the CEO should be great at understanding the strengths of people and where to place them to lead a team that can execute. He or she may also be a vehicle to establishing trust between the VCs and the founding team in the early stages of a company.

Is the rest of the team well-rounded?

Complement the skill-set between the founders and the CEO (if different from the founders) with a well-rounded team of sales, operations, finance and marketing professionals. Sometimes, the functional roles that academic entrepreneurs often find less intellectually challenging – operations, marketing and sales for example – are the most important for execution. They should not be discounted. Hire the best people possible, and hire very carefully. The founder should never be afraid to hire people better or smarter than himself or herself.

The following case study provides an example of how a VC can work closely with their portfolio company to build out the management team.

Case study

Imago Scientific Instruments

In 1998, Tom Kelly, PhD, Professor of Material Science and Engineering at the University of Wisconsin-Madison, re-mortgaged his house to found Imago Scientific Instruments, a company based on a novel 3D atomic scale microscope he had developed at the university.

Tom Kelly knew he needed business expertise to help him build the company, and initially brought on a business consultant to help guide him on certain issues. His brother, Ed Kelly, was an MBA-educated, 20-year seasoned business executive from the publishing industry, and in August 2000, Ed Kelly came on board as the business head. Tom Kelly maintained the title as CEO, while Ed Kelly served as president.

New investors

In September 2002, Draper Fisher Jurvetson led a US\$7 million financing into Imago. Managing director Warren Packard spearheaded the investment, bringing in two of the other three outside venture funds into the company. Packard was no stranger to university spinouts: prior to joining Draper Fisher Jurvetson, he had co-founded Angara Database Systems, a main-memory relational database company spun out of Stanford University.

The new investors helped build out the Imago team. As part of the financing, Imago was able to bring on Sanjay Tripathi as a full time chief operating officer (COO). Packard also worked with the Imago executive team to revamp and update an antiquated employee stock option plan they had in place to incentivise new and existing hires to come on board.

Ed Kelly had guided the company well, raising US\$5 million in angel funding during his leadership. But Ed Kelly lacked domain expertise in the markets Imago was attacking. Ed Kelly worked with Packard to find his replacement, who would serve as CEO of the company while Tom Kelly assumed the chief technical officer (CTO) role. Packard led the sourcing of a CEO search firm, and along with other board members, interviewed multiple CEO candidates until they found Tim Stultz, PhD, a former vice president of Veeco Instruments Metrology Group.

New CEO

In his previous role, Stultz was instrumental in bringing to market the world's first fully automated Atomic Force Microscope, an analytical tool of similar sophistication and areas of application as Imago's. He brought an instant perspective to many of the core issues Imago was wrestling with, including:

- developing an intellectual property (IP) strategy;
- forging partnerships; and
- developing sales.

Stultz had worked with many of the same companies that Imago was pursuing. He could assess how real their business development relationships were, and also recommend firms that the company had not worked with that they should have. Imago would later secure an additional US\$5 million in financing at an upswing in valuation in February 2004.

Acquiring the first customer

The second key challenge post funding is acquiring the first customer. In most cases, university spinouts start out with solutions in search of problems: highly disruptive innovations looking for a market that rewards them. At the same time, technologists can often become so enamoured with the further development of a technology that they lose sight of a market beckoning for a solution that their technology is already well-suited to address. Finding the niche – the initial market where a technology can gain traction – is often the most difficult task an academic spinout addresses. The problem also needs to be re-addressed as markets shift.

Every spinout differs in nature and development when it comes to finding that niche and acquiring its first customer. Listed below are the milestone events that can be abstracted from the authors' collective experiences with university spinouts. It is assumed that the spinout's innovation is at a proof-of-concept stage when funded. These questions underlie the product development and customer traction milestones that successful spinouts hit in the first 12–18 months of operation. These are not set in stone: a particular business may be further along in development or the nature of the business may prioritise certain milestones over others.

What is unique and who wants to buy it?

The innovation being spun out from the university may be a novel proof-of-concept at the funding stage, for example, an elegant algorithm, a new process or a material with compelling properties. It is now important to determine where the uniqueness of that innovation may be most relevant for someone to pay for it.

The company should seek smart people outside the core founding team who can position the technology relevant to the landscape of innovations and markets they see.

- A VC, for example, often sits between technologies and markets and can facilitate matching the two.
- Smart people at the nexus of business and technology are most relevant here, such as:
 - technology decision-makers within leading corporations;
 - professors serving as consultants or board members of leading corporations;
 - technology market analysts; and
 - other market-savvy technologists with creative bents.

Try to have multiple conversations quickly, but be wary of prolonging or over-structuring this process. The business's positioning will most likely change, and the best insights will often come from unexpected places. It is most important to iterate: develop a perspective on where the business would like to head, but remain flexible as new insights are gathered.

How quickly can a prototype be built?

The next goal is to build out a prototype to engage prospective customers. The prototype

does not need to be, and should not be, flawless. The incremental time spent on perfecting the prototype at the expense of not being in front of a prospective customer sooner likely will not be worth it. In fact, presenting an imperfect product to a prospective customer will force the customer to prioritise how important the flaws are, or to think creatively about ways to fix them.

Development time of the prototype should in general be on the scale of months, not years. A good prototype is one that gives the team credibility in the eyes of a customer prospect, and makes the product just real enough for customers to be willing to pay for further development of it or to think about where it would be most useful to them.

Track who buys into the vision of the prototype and why, but, more importantly, track who does not buy into the vision and why. There is a tendency to view those who agree with the vision of the prototype as successes and those who do not as failures. However, many new markets can be found by discovering why the prototype did not resonate. Is there another point of pain that the prospective customer faces that the technology can address? A greater point of pain means more dollars – if the real point of pain can be found, see if the business vision can be adjusted accordingly.

Who will step up first to pay for the product?

The next critical goal is to find the initial customer who will pay for the product and over-deliver in servicing them. The most relevant customer is someone who will move the fastest in closing a deal, pay the business to cover its costs and evangelise the successful product. The initial customer does not need to be in the ultimate target market, or even a big brand name. What is far more critical is a proof point where the business can demonstrate early on the uniqueness of the technology that has been articulated. The business can then parlay this success into other markets.

Treat this first customer as a partner. The business and its customer are going to work together in building out the first product, and the customer is going to give the business credibility to the market. Having said that, it is critical that the first customer pays the business, and ideally enough to cover both material and labour costs, as well as the overhead associated with the product. The business may not achieve a profit on the first customer, but should expect to cover its costs. Adequate payment will ensure that each party has a continuing interest in the product, and also can provide a good litmus test to decide who the initial customer should be.

The following case study provides an example of how a VC can work closely with their portfolio company in the stage prior to securing the first customer.

Case study

Ember Corporation

In February 2001, MIT graduate students Rob Poor, PhD, and Andy Wheeler moved their nascent company Ember into the Cambridge Innovation Center, an office suite designed for startups, located across the street from the Massachusetts Institute of Technology (MIT) campus in Kendall Square. They were attempting to build a business around an embedded wireless networking technology that they had developed at MIT's Media Lab.

Housed on their floor at the Cambridge Innovation Center was Draper Fisher Jurvetson New England, the Boston-based affiliate fund of Draper Fisher Jurvetson. Managing director, Todd Hixon, became friends with Poor and Wheeler at the coffee machine in the community kitchen, and soon Poor and Wheeler shared their plans and ideas with Hixon.

Excited by Poor and Wheeler's vision, Hixon teamed with Bob Metcalfe at Polaris to put together a term sheet that led to a US\$3 million seed round, with an initial anchor investment in July 2001. In the process of fund raising, Poor and Wheeler were introduced to Adrian Tuck, whom they brought in as an interim CEO, while Poor and Wheeler assumed responsibilities as CTO and vice president of engineering, respectively.

Hixon would work with the team daily in their first seven months post funding. A former senior vice president of the Boston Consulting Group, Hixon helped craft and continually revise the initial go-to-market strategy. He interviewed almost every new hire the team brought on board, and mentored the team on the key milestones they needed to achieve prior to achieving their subsequent funding.

Some 13 months later, in October 2002, Ember would secure US\$20 million of additional funding with a significant increase in valuation, impressive referenceable customers, a strong pipeline and many industry accolades. How did they do it? Below are some comments from Adrian Tuck.

Keep the whole company focused on a few key goals

- In the beginning, it is the really simple things that need to be executed: find a happy customer, ride that customer and get five more.
- Ember kept one wall in the company with a very detailed project plan with every task that they needed to achieve over the following six months listed out, as you would in a Gantt chart. Everybody could see their tasks and how they had an impact on those of everybody else.

Set expectations with the board on what 'success' means for the next funding event and exceed them

- Ember's board reports were simple: they focused on the five key areas to the business with traffic light signals for how they were tracking.
- Business plans continually evolved, and were never more than 10 slides.

Do not get stuck in analysis paralysis: find someone who wants to buy what the business has and move fast

- Initial market analysis had Ember looking at markets as diverse as home networking, health care, agriculture, automotive and construction. Ember landed their first customer eight months post funding by cold calling a list of contacts and finding a water filtration plant with a need that fit.
- Do not underestimate the power of a story in closing the first customer. People love a story on how the technology will change the world, and how they will contribute to that evolution by being the first adopter.

Over-deliver to the first customer, and parlay that to success with others

- Although water filtration was not necessarily Ember’s target market, their first implementation proved the technical capabilities of the product to help them sell into other markets.
- Their first customer paid them to cover their costs, and more importantly, provided fantastic quotes for future sales.

Raising further finance

The third key challenge post funding is raising further finance. The initial venture investment will typically provide capital to fund 12–24 months of operations. The business might need to start the process of acquiring more capital fairly soon. If the business decides to pursue another round of venture funding, as opposed to debt financing, federal grants or revenue from customers and partners, the following questions should be asked.

What is the founder and the board interested in?

Prioritise what is important to the founder and the board. Is the business just seeking new capital, a specific addition to the investment team (a corporate investor, for example) or a certain valuation? The board will have to approve the new financing, but, more importantly, they can set a floor for an acceptable valuation – they may opt to internally finance a company for any valuation that comes below a certain price.

What are the target investors looking for?

Series B (second round funding) investors are different from Series A (first round funding) investors – they will expect more progress along product development, customer traction and revenue visibility than their earlier peers. Also, Series B investors will differ among themselves in terms of industry preferences, risk preferences and investment appetites.

- Begin by having a list of who to target and what their expectations might be. Work with the Series A investors on fine-tuning the pitch to be presented.
- In the process of presenting, ask for feedback and listen carefully, especially to those firms who decline funding. Is the business at a fundable stage for that investor? If not, what would they like to see before they invest?
- Make sure there is enough cash in the bank to bring the company to a point in its development where it is fundable. If, in order to receive funding, the business needs to hit milestones that were not anticipated, the business plan must be readjusted and the cash burn rate (the month-by-month rate at which the remaining cash within the company is used) reduced to give the business time to hit those milestones.
- It is wise to err on the side of starting the process earlier to reality test assumptions on where the company needs to be to receive Series B funding.
- If the business is capital intensive, Series B may be the first time that the business requires cash to build significant facilities or capital expenditures. Those expenditures need to be justified to the Series B investors.

- Be opportunistic in fund raising. If there is interest from others to put more money into the business before it had planned to solicit funds, think about terms that would be attractive to the business. Conversely, if the capital markets are cold despite the progress the business is making, reduce the cash burn rate until the situation turns around and focus on executing in the business.
- Cast a wide net, but prioritise who to speak to. Fund raising can be a time-consuming process. It may be useful to keep an updated list of the business's top 10 investor prospects and only add a new investor prospect to the list when one of the original 10 ends their interest.

The following case study provides an example of how a VC can work closely with their portfolio company to help with fund raising.

Case study

ZettaCore

In 1999, Randy Levine, PhD, founded ZettaCore, a developer of next generation electronic memory based on research from the University of California Riverside and North Carolina State University. ZettaCore garnered US\$5.55 million in Series A funding in December 2001; Draper Fisher Jurvetson was the largest investor.

In May 2003, ZettaCore aimed to raise Series B funding, giving themselves a nine-month timetable to raise the funds. Levine's board had helped him to put together an initial list of venture funds to contact, and helped with the initial fine-tuning of the pitch he would make.

A year earlier, ZettaCore board member and Draper Fisher Jurvetson managing director Steve Jurvetson had highlighted ZettaCore to Vinod Khosla, a general partner with Kleiner, Perkins, Caufield and Byers, at a conference. Now that the company was fundraising, Steve took the opportunity to re-introduce the company to Kleiner Perkins, one of the initial target firms.

Core team and milestones

In the course of presenting the company to the Series B prospects, it became clear that the Series B investors wanted to see the company complete its next milestone in an aggressive development programme (a compelling prototype). The company focused its efforts on completing that prototype prior to returning to the group of investors who were most interested in the company.

In the meantime, ZettaCore rounded out its team of directors. After an introduction from Jurvetson, Levine invited and brought on Herb Goronkin, a vice president of Motorola Labs, to the board of directors. Jurvetson also provided an introduction to Les Vadasz, one of the founders of Intel, who joined the board as well.

With an aggressive milestone schedule on track, and an impressive board of directors filled out, ZettaCore re-visited its most promising Series B prospective investors. In

December 2003 – six months after having begun their push for Series B funds – ZettaCore secured over US\$17 million in financing, led by Khosla at Kleiner Perkins, at a significant upswing in valuation from their Series A price.

The value of venture capital

Given the post funding challenges presented above, what value can a venture capital firm bring? Academic studies have shown that venture-backed companies (regardless of the firm) bring products to market faster, attract management talent more easily and receive financing more quickly than non-venture capital backed startups.³ If the growth of the business is constrained by a lack of cash, resources or advice, venture capital can often provide an injection to catalyse its growth.

Venture capital firms provide financial support, mentorship and resources to the entrepreneurs they champion. They help their entrepreneurs focus on a strategy and operating plan, provide a rolodex of contacts to help build out the business, and serve as a sounding board for issues that young spinout companies wrestle with, based on their experience of seeing early stage companies grow. A good firm will often challenge an entrepreneur's assumptions to help them think critically, but will rarely dictate what they have to do.

Beyond advice and mentorship, venture capital firms can often provide an entrepreneur with the following key resources to overcome key challenges and build the business.

Capital

If the business is constrained in developing the product, pursuing customer leads, or exploring new opportunities, the most immediate relief that a venture firm will provide is the capital itself. More importantly, the firm should have additional capital reserved for follow-on investing in later rounds. Indeed, the business should know how large a fund the venture capital firm is investing out of, and how much additional capital the fund might have in reserve for follow-on investing.

A venture capital firm will also have relationships with other institutions to help with the capital needs of the business. These should include other venture funds for future private equity rounds, commercial banks that can provide debt financing, and investment banks that can provide liquidity and public financing when the business is thinking about a public offering. A good VC cannot get the extra money, but they might get the business better terms, better rates or a more successful initial public offering (IPO).

Credibility

Receiving financing from a brand name venture fund can provide a powerful signal of the viability of the business. Leading venture capital firms receive a plethora of business plans for every company they back. Venture capital backing can serve to differentiate the company from the rest of the startup pack, indicating to others that this business has deep-pocketed financiers behind it who see huge potential.

Access to the Global 2000 Major Corporations

Venture capital firms often have strong connections with the Global 2000 corporations of major corporations. These connections can help secure an introduction to a large enterprise that may become a customer, channel partner, system integrator, value-added reseller, original equipment manufacturer (OEM), original design manufacturer (ODM), or other partner in developing the technology.

There are multiple ways that a venture capital firm may have a relationship with a large enterprise.

- Large enterprises are often limited partners in venture capital firms.
- For many of the top venture capital firms, individual partners may serve on the boards of public companies they financed when they were private, or they may have sold a previous company to a Global 2000 player in the past.
- Large corporations with their own venture capital arms often maintain tight relationships with independent venture capital firms, since the independent funds lead financing rounds that the corporate funds participate in.
- Often, venture capital firms serve as hubs for large corporations that want to reach out to emerging companies.

In short, a good venture capital firm will usually have at least an initial contact into a major corporation that can be helpful to a business.

Access to other portfolio companies of the VC

A venture capital firm's portfolio of companies can be a rich source of resources as well. For companies building businesses in novel areas, the most important suppliers and partners to the business may be other emerging companies in the venture fund's portfolio. The fund's portfolio can also serve as a network of best practices for emerging companies and technologies. Once funded, the business team joins an instant community of executives building out businesses, who may serve as sounding boards for various operational, strategy and technology development areas being faced.

Access to providers

Many venture capital firms are natural hubs for industries that support emerging company operations – legal support, financial accounting, information technology infrastructure, human resource benefits, consultants, real estate brokers and so on. Indeed, the venture capital firm may not only be able to provide an introduction, but may even provide a discount to some of these services.

Acquiring talent

Building out a team with the right people is arguably the most important task that a founder will undertake. Good VCs can provide a rolodex of contacts who can serve as key management hires, potential members of the boards of directors and advisers, and other staff. A firm's website often serves as a résumé-generating source – a business may post openings on the venture firm's website or the firm may forward on résumés submitted to its site by those seeking to join the company.

Promotion

A good portion of some VCs' time is spent in educating and promoting new industries. The press often courts VCs to obtain emerging-technology stories. A VC may spend significant time at conferences, serving on panels or delivering keynote speeches about emerging-technology areas. A firm cannot only be a hub to direct media inquiries towards a business, but individual VCs are natural spokespeople as well who can promote the company to others (assuming this is desired).

Exploiting an investor's resources, networks and knowledge

All venture funds will trumpet at least a subset of the above resources. However, VCs will not build a business for the founder – he or she and the team are ultimately responsible for that (and deserve the recognition when the company is successful). The VCs investing in a business want to see it succeed – indeed, both the founder and the VC will have a significant stake in the company and their incentives should be aligned.

Getting the most from investors

Entrepreneurs should be proactive about exploiting their investors' resources once funded.

- Do not be shy about asking for introductions in areas you are seeking.
- Bring VCs into your problems, and do it early. VCs do not expect you to be 'all knowing'. Do not be scared that the board will fire you if you need help. In fact, the board will be far more disappointed if you bring them into your problems too late. The board would much rather help you, and indeed will respect you more, for pointing out issues early than for confronting them with surprise issues that have been ballooning in the background without their knowledge. Being viewed as cautious is always better than being viewed as incompetent.
- VCs tend to be social beasts. Even if a business's VCs cannot come up with the critical insight into a problem, they probably know someone who can. Brainstorm with them so they can effect an introduction to someone who can help, if they cannot help directly.
- Develop individual relationships with each board member outside of the board meeting. The board meeting itself is sometimes a legal formality – individual interactions will allow you to see another side of your board member. Ask if you can come over and meet them for breakfast or lunch, especially if there is an issue brewing. Sometimes, you can set up regular individual meetings outside the board setting. Especially target individual meetings with board members that are not always around for the meeting itself.

Getting the most from your board

Serving as a CEO can be a lonely job. The CEO has to make decisions to ensure the viability of the business with an objectivity that often separates the CEO from the rest of the company. The board can serve as a source of mentorship and coaching for the CEO.

At its most basic level, the board of directors keeps the company honest. The discipline of presenting to a board every four to six weeks can be a worthwhile exercise in and of itself. A great board, however, possesses the quality of a great team. It will not only keep a company honest, but also push the company in new directions using the combined experience, knowledge and guidance of the board members.

Surrounding yourself with the right people on your board will make a real difference to achieving your goals. A well-rounded board with complementary skill-sets will best serve spinout companies.

- Choose members who can serve not only as mentors you trust, but also as representatives of different skill-sets and experiences.
- Bring in people with domain expertise, strategy and operations experience to the table.
- Get a VC, but also get someone who has run a similar company before (if the VC has not). It may also be beneficial to have a customer or supplier on the board (unless the business wants to keep its margins secret from them).
- Finally, don't be scared to go outside your comfort zone and bring in people who look at the world differently.

Tips for entrepreneurs

- Venture capital can serve as a shot in the arm to catalyse the growth of your business. Look for a firm that has the resources, advice and money you need to build out your dream, and an individual VC you trust and want to work with.
- Build out a well-rounded board that you trust. Communicate with them both in and outside the boardroom to make sure that you are getting what you want from them, and that they will not feel surprised when problems occur. Set realistic expectations for them to judge you by, and hit or exceed those expectations.
- Once funded, focus on landing the first customer. Determine what is unique with the product, build out a prototype quickly, and over-deliver to the first customer who will pay for the product.
- Use the VCs on the board. Have them help build out the team by introducing and interviewing candidates or executive search firms. Leverage their expertise and network in fine-tuning the pitch and determining the audience for subsequent rounds of funding.
- Finally, none of these are hard and fast rules. In fact, often the best successes use approaches that are entirely new, and break all the rules and norms. Entrepreneurs, by their nature, are agents of change. Go out and change the world.

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² Special thanks to Michael Sheridan from Mohr Davidow Ventures for providing this analogy.

³ Hellman and Puri, 1999 & 2001, Stanford Graduate School of Business.