marking them as firmwide initiatives and having everybody in the firm working on these areas. I shouldn't be the only one doing this. I should have gotten everybody else working on it because it was a really fruitful area.

If I could do it again, I would say, "The Internet is a huge initiative. We're going to do content deals, we're going to do commerce deals, we're going to do membership deals, and we're going to do networking deals. We need to get the whole firm moving as a group, because if you believe in this notion of investing in big markets, and investing in initiatives—and the fact that one person can no longer carry a firm as they used to with small funds—the whole firm has to act together."

Today, venture capital is much more of a team business than it was ten years ago. Ten years ago, it was a business of individuals excelling, and I think today it's much more about teams having to excel because that's the only way you can multiply these huge funds we have. $350 million. I've got to return $1.4 or $1.5 billion. A single person can no longer carry funds, whereas before, if you had a $100 million fund and one person has a good investment, you could carry the whole fund. So I think that part of the business is really changed.

At the end of the day, entrepreneurial teams are the ones that will make this all happen. As venture capitalists we're in a support role. But having said that, if we can help shape the thinking of entrepreneurs—like shaping an arrow or moving the aim of an arrow—we can have a lot of impact early on. I don't want to forget the fact that the entrepreneurs are the people who really make this happen. They're the ones that have to execute, and they're the ones that have to own the vision.

MITCH KAPOR
Accel Partners

Mitch Kapor founded Lotus in 1981, which went on to become the first software company to succeed in the PC marketplace and the first to prove that software companies were deserving of venture capital. On leaving Lotus in 1987, Kapor started ON Technology, a developer of GroupWare systems. Kapor left ON, saying he didn't have the heart and the energy to run another start-up. He turned angel to invest in start-ups on his own and to launch the Electronic Frontier Foundation, an nonprofit advocacy group that has been described as the ACLU of the software industry. Since those early forays into angel investing, Kapor has become one of the more sought after angel investors, and he has worked closely with such funds as Accel Partners and Polaris Venture Partners as an investor and at Kleiner Perkins and Sevin Rosen as a special partner. But in 1999, Kapor, believing that the needs of entrepreneurs were wide-ranging and could not be adequately addressed by angels alone, became a partner with Accel.

Kapor has been on both sides of the street. His perspective is one of an entrepreneur, an angel, a venture capitalist, and an activist. Kapor talks candidly about his experience with the venture capital process and about some of the venture capitalists with whom he has worked.

AS A KID, I was very good at math. It also became the primary focus in my life—a sort of "safe place"—something I was good at and could get rewarded for. I was also fortunate enough to have early hands-on exposure to computers in the mid-'60s, at school and in some enrichment programs. I loved it but had no thoughts of making a vocation out of it.

I went to college in the late '60s and graduated in '71, so for a number of years I was distracted with adolescence and the general upheavals—external and internal—that took place at that time. I wound up working briefly in the early '70s as a programmer, but I wasn't very good at it.

About the same time I read Ted Nelson's book, *Computer Lib*, which had the vision of the personal computer even before there were any. In '77–'78, I got into the Radio Shack TRS-80 Model 1 as a hobby, and that led to the consulting gig that actually began my career.

Growing up, I never thought of myself as entrepreneurial. Part of it was because "business" was just not cool then. In fact, however, my father ran a small business and my maternal grandfather was also a small businessman. I have since been reminded by friends that even though I didn't know it, I was always thinking about starting a little something—a used record business, actually, in college.

Entrepreneurship just came naturally. It was in my genes. And the interesting thing for me was discovering—this is now '78–'79, that not only did I have an aptitude for computation, but also I just seemed to understand better than most people around me what would make a good business and what wouldn't. It became obvious to me that there were huge rewards to being successfully entrepreneurial. That's when I really got serious about it.

From 1978, when I started with PCs, to 1982, I had a very extensive introduction to business, personal computing, and management. I did a lot of different things in quick succession: I was a consultant; I ran a cottage industry software shop out of my apartment where I wrote a large program in Basic—the first graphics and statistics package for the Apple II—and sold it by mail order; and I worked as a program author for Personal Software, Inc., the publisher of VisiCalc.

I had contracted with Personal Software to do work on VisiPlot and VisiTrend, which were companion products to VisiCalc. Before those two products were even complete, I went out to Silicon Valley in 1980 and lived in Sunnyvale for six months, working as the new product manager for Personal Software.

That was my first direct experience with Silicon Valley venture capital. I remember meeting Arthur Rock, who came into a Personal Software board meeting I was attending. That's where I really learned

the structure and the who's who of venture capital. I then moved back to Boston to finish the products I was authoring, and Personal Software published them. I was getting royalties, so I had some money. I put some of it into working on new products.

I teamed up with a guy named Jonathan Sachs. There are several Jonathan Sachses in the computer industry, all of about the same age. This was the one who started out at MIT and Data General, who had actually written an early spreadsheet for Data General minicomputers. And he was in a start-up that failed.

So Jon and I started working together. The IBM PC was announced, which gave us a focus because it was a next generation machine after the Apple II. That's when we began. In the fall of '81 we started working on what became *Lotus 1-2-3*. I had made a bunch of money—after taxes and settling with my partner, I was left with $600,000. I had sold back the royalty stream to Personal Software for a large sum. I said, "Okay, I'm gonna put half of it aside for myself. I might buy a house and put some money in the bank. But I'll take half of it and start funding this project." When I could see that I was running out of the $300,000, I said, "I better go raise some money." But I was very ambivalent about venture capital.

Dealing with Venture Capitalists

Bill Sahlman of the Harvard Business School wrote a case about the Lotus financing. Part of the case is the seventeen-page letter I wrote to Ben Rosen, which was essentially the first draft of the business plan. I had gotten to know Ben because he had been a customer of *Tiny Troll*—my first product—a graphics and statistics package. And he was the first Wall Street person to notice VisiCalc and to say, "Hey, there's really going to be a business in personal computer software, particularly in PC applications." He was a guru. And he also had a small investment in Personal Software and was a brand-new VC. I had met him two or three times.

I was terrified of the standard-issue venture capitalist. I had met Arthur Rock and found him very scary. And I had met Pat Lyles, late of Charles River Ventures, who was teaching at Harvard. At one point while I was in Boston, I had gone to visit Charles River as a favor to a colleague who was pitching a business plan. I wasn't a part of the business, but I was there to add credibility. You knew it had to be a pretty raw start-up, if I was adding credibility. It wasn't a very good plan, and the venture capitalists just took this guy apart! Looking back, I would say it was more of a "surgical dissection" to prevent blood loss. But even so! I mean, I was a former "flower child."

I knew Ben Rosen and he seemed like a nicer person. He had just started Sevin Rosen. In this letter I wrote—and this is famous through Harvard Business School for its honesty—"Look, I want to tell you about this business I want to start. But first you need to know that there are some things which are as important to me as making a profit—if we're going to be in business together." I did this for self-protection. I was so scared of getting dismembered, that I just felt it was best to be completely honest with the whole thing! When people at Harvard read the plan now, they're mystified by this. There's often speculation as to whether this was some negotiating plan on my part to somehow get a higher valuation. People just don't understand.

I didn't shop the plan. I was highly inexperienced. It was a funny thing. I was simultaneously highly experienced and highly inexperienced. It was now 1982. I had been in personal computers for four years, which is longer than almost anyone except Bill Gates or Gary Kildall. I had authored a commercially successful product. I had been a product manager and done a good job for a hot start-up. I was somewhat well-connected. And I had a co-founder who had technical experience and who was really excellent. So if you were going to invest in PC software start-ups, we were quite experienced.

On the other hand, I had no management experience to speak of. I didn't have a deep technical background. I have a pretty good background now, but at that point I had no industry experience, hadn't worked at Digital, hadn't been at Intel. And I was a kid. But Ben didn't know much more about venture capital than I knew about being an entrepreneur. That's why he brought in Kleiner Perkins as a co-investor. Much of Kleiner's specific advice in the early days was not useful. But that's because PC businesses were a different model and they hadn't learned the model yet.

I showed the plan to Ben. He said, "Please write us a business plan. And make it short, because—y'know." So I did. And then I didn't hear anything for a while. Four to six weeks later I get a call

from L. J. Sevin, his partner: "Mitch, I'm in town. I'd like to have dinner with you tonight. Is that possible?" I said, "Absolutely!" I rushed home and changed, and made a reservation at a very fancy restaurant in town.

We get through the salad course and we are just making chit-chat. And I'm waiting for him to get to the point. Then we're done with the appetizers, and I was thinking that if he didn't get to the point by the main course, I was just going to ask him, because I couldn't stand the suspense. Right about then he said, "Mitch, Ben and I would like to invest in your company. How much do you think it's worth?" I dropped my fork, I was so shocked! They decided to take a chance on me.

Working with Sevin Rosen

There were only six people at Lotus at the time. Jon was already hard at work on *Lotus 1-2-3* itself. In fact, before we closed the venture deal we had a working prototype. We had actual code up and running that you could see. We were Sevin Rosen's third investment. They had done a later round at Osborne and they had done Compaq before us. I felt at the time that Sevin Rosen was atypical of venture capitlists based on my small sample. Ben was very genial. And he was going up the learning curve as well. So he had a lot of "value-added" in media, Wall Street, marketing, communications, and positioning the company, because that was what he knew. And he also had an enormous amount of enthusiasm for the product. He was really a product champion.

I thought that was great. There wasn't any friction. And he was the board member. Ben's partner L. J. recommended that Alex d'Arbeloff, the CEO of Teradyne, sit on the board. As Alex was running Teradyne then, he had significant operating experience.

Alex and I butted heads a few times. I appreciated a lot of Alex's practical wisdom, but he was also very opinionated and I didn't take criticism very well. Over the years our relationship wasn't always that great, but I always found him quite valuable. Alex made more of a contribution on operational issues.

The Kleiner folks were passive: no board seat. We had a couple of meetings. They tried doing a couple of things, like pushing us to offer

IBM exclusive distribution rights. Jim Lally of Kleiner came with me to IBM. They wouldn't even consider the offer—fortunately for us!

So, as far as Sevin Rosen's "added value" to Lotus, I would say it was the fact that Ben believed in the venture and supported it. That meant an enormous amount. By my standards now—and I'm sure by Ben's standards—it was just a beginner's performance all the way around! There was a lot that was left out. There were a lot of things that they weren't good at.

When I compare the relationships companies now have with VCs to what Lotus's relationship was to Sevin Rosen, there's a real contrast. Companies now can get much better, deeper, and broader support in all different areas—strategic stuff and improving partnerships—than what we got. What helped us was that Lotus became successful very rapidly. We were cash-flow positive on our first quarter of shipments.

The business plan that Sevin Rosen had invested in projected first-year revenues of $8 to $10 million. My first plan was $3 to $4 million, but I raised the estimates. We actually did $53 million in revenue in the first year. In 1983 dollars! And then we tripled that in '84. We couldn't have done it without the money from Sevin Rosen. And Ben's help was invaluable.

I left Lotus in '86. Then I founded ON Technology in '87. It was very ambitious and technically ahead of its time. I raised money from Kleiner Perkins and Cole Gilburne. ON had a high valuation at $10 million. I also put in a bunch of my own money—over $3 or $4 million. A year into it, I realized that I just didn't have a "fire in the belly" about it. It was a huge mistake. I tried heroically to turn the company in a different direction. We changed strategies from being a platform company to producing applications. And then I wound up leaving.

Being an Angel Investor

My being an angel investor goes back to the mid-'80s. First, I became a limited partner in a couple of venture funds. I was in something called The Masters Fund. I was in the next Sevin Rosen fund. And in KPCB IV.[1] I started co-investing with Kleiner Perkins and Sevin

[1] *The fourth venture fund of Kleiner Perkins Caufield & Byers.*

Rosen on some of their deals. I invested in PictureTel alongside Kleiner Perkins and Accel. I also invested in Avid Technology. I co-invested in Shiva's first round with Cole Gilburne—I actually had 5 percent of Shiva at one time, which was a big position. I did some other whimsical things, most of which didn't work.

As an angel I'd have a relationship with the CEO. I'd spend a certain amount of time talking to the company and visiting it. But if that was three or four times a year it was a lot. I was in Digital F/X—that one didn't work. It kept on missing, and we kept on raising money. I learned a lot. I always learn more from the losers than the winners.

As to my less-considered deals, I did some curious things, like Reliable Water. That was started by Ed Fredkin out of MIT. It was a desalination system powered by an expert system. It failed. That was $100,000. And I put money into Dynabook, a failed laptop start-up. That was a big bust. So I started getting an education. I learned a lot in that period, from the mid-'80s up until the early '90s. Some things worked well. Avid made money and PictureTel made money. Shiva ultimately made a lot of money because we sold near the top.

GO: An Entrepreneurial Failure

I invested in GO Corporation, one of the pen computing companies. GO was overly ambitious, and not well enough thought through. I put in a lot of money and sat on the board initially. There wasn't a business plan. The business was too early, technologically. John Doerr and Vinod Khosla of Kleiner Perkins were both on the board. We were all in the mode of "swing for the fences, hit a home run." And so it got ramped up very big. It also had a huge burn rate that it just couldn't sustain. The funny thing is if it had been more modestly capitalized, it probably would've been alive today, as it might have eventually found its way—or so I told myself. But at the time it was either "out of the ballpark" or "shut it down." One day it was IBM that was going to save the company, the next day it was Intel, then it was AT&T. And the measures got increasingly desperate. I'm glad Jerry wrote the book *Startup* because it really gave the flavor of what it was like. He left some of the good parts out, though.

Getting Institutionalized

In the early '90s I wasn't very active in venture investments as a limited partner. I was sort of seeking to broaden my investment base. So I wound up being approached by Accel Partners. I didn't know them. But Joe Schoendorf made the connection in 1993. They were raising a new fund. I felt a very positive chemistry within the firm from the outset. I liked the people, and I felt especially comfortable with Jim Breyer.

The first thing I did was to refer an Internet project to them—UUNET. John Doerr had declined my invitation to take a look at it. I was a seed investor and very excited about the company, so I called Jim. Accel did the deal and it wound up being enormously successful.

In 1995 I referred another project to them—RealNetworks. I was an angel investor and Accel did the first round. I was on the RealNetworks board with Jim Breyer for four years, and I became more and more impressed with him. In addition to being smart—he is off-the-charts smart—and experienced, he has always acted with 100 percent integrity, which is impressive. That's my standard, too, but you don't see it all the time in operation.

At Accel, which I joined as a full-time partner in 1999, I feel very comfortable with the culture. Voices are rarely raised despite everyone around the table being highly competitive, Type-A personalities. People are not treated or mentioned with disdain. There's intellectual honesty and candor, but it doesn't get personal. And there is really a partnership culture of collaboration that goes back almost twenty years to Jim Swartz and Arthur Patterson, who established that tone for the firm. And I think Jim Breyer, as the managing general partner, not only fits in but carries the culture on, and will carry it on into the next generation.

As to joining Accel, Jim Breyer had made it clear for a couple of years that Accel would be delighted for me to work more closely with them in any capacity. I got to a point where I was ready to do that. I had decided that I was tired of working alone and I wanted to work in a team context. I also think that with an aggregation of resources you can get a synergistic effect where the whole is greater than the sum of the parts. I don't think it's an accident that the fundamental form of venture capital has been a partnership—in part because you need it for judgment balance.

Angels Revisited

Angel investors have become very important. There are a lot of successful entrepreneurs and executives with money to invest who want to be active in the very early stages. I see it as a complement to, and not as competitive with, the kind of institutional venture capital Accel does. We work with angel investors regularly. They are one of our best sources of new projects.

I am doing this because I get very passionate about helping build companies, helping entrepreneurs, and taking my twenty years of experience and applying it toward new ventures. The influx of new money is increasing more rapidly than the influx of smarts. That's because smarts is not a fungible commodity—it's in part a product of experience. And I think, ultimately, the value-added—the non-financial contribution—is going to continue to be material. I think it will be *more* material—because money is money is money—and everybody will have money. It'll be even harder to win on the virtue of having dollars in the bank.

Success is going to be about strategy, execution, and building a company's infrastructure quickly. I would hope, for instance, and this is something that's been really worked on at Accel, that the next frontier could be in VC firms helping with people issues—human resources issues.

We ran a focus group at Accel for portfolio CEOs, and it became clear there is an opportunity for venture firms to take the initiative to help portfolio companies deal with people issues. They can identify appropriate resources and steer people to the companies.