



# How to Become a Venture Capitalist

An Interactive Qualifying Project (IQP) submitted to the faculty of Worcester Polytechnic Institute in partial fulfillment of the requirements for the Degree of Bachelor of Science in Management Engineering.

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# I. Acknowledgment

I would like to thank Professor Jerome Schaufeld for his immense patience and help with this making my idea into a suitable project. He helped guide and help me finish this project through his dedication and commitment to seeing me succeed.

## II. Abstract

This Interactive Qualifying Project (IQP), which was for partial fulfillment of graduation requirements which looked to figure out how to become a Venture Capitalist. In particular, finding one path to becoming one. Since Venture Capitalists are their own small business the original plan was to make a business plan describing how I would start to become a Venture Capitalist. This would have taken too long to fulfill the requirement of WPI. Instead, I evaluated and studied articles to find patterns before contacting Venture Capitalist. Which led to finding interviews already conducted since there was a lack in responses. Through this process I was able to come up with some recommendations on how to start and define what a Venture Capitalist is in terms of a business.

# 1 Introduction

In this section is an outline of what an IQP is, brief description of the project, as well as the goal and how this project came about.

## 1. 1 What is an IQP?

An IQP is an opportunity for studies to dive more into a topic that is not specific to their major. This is a distinctive element to the WPI Plan and WPI's project-based learning [1]. The project also allows students to work with others to solve a problem or need. The project can be done off-campus in one term dedicated to IQP or could be spread out over three terms.

## 1.2 Project Goal

The goal of this project was to find the challenges of becoming a Venture Capitalist. To achieve this goal was to contact and question current Venture Capitalist to see how they made it a career. Unfortunately, there were some roadblocks that prevented me from interviewing Venture Capitalist. One of the reasons was they never emailed me or called me back. Another was that they didn't want to talk to me if they did call or email me back. Lastly, a reason was that I couldn't find people's contact information online. I had to get more answers. Plan B was to look up already conducted interviews and make the questions fit into categories to achieve the same results. I was able to find enough interviews.

## 2 Background

This background goes over some definitions of different types of Venture Capitalists as well what other people say about how to become a Venture Capitalist.

### 2.1 What is a Venture Capitalist?

A Venture Capitalist is a person who invests in other people's companies by buying a stake in the entrepreneur's idea for a company. [2] The Venture Capitalist also nurtures the idea for a brief time and then leaves the company with the help of an investment banker when the Venture Capitalist sees its ready to move on. [2] A good Venture Capitalist tries to find a business with a strong management team, a good size market that has lots of potential growth and a unique product or service that can sell. [3] Additionally, Venture Capitalists try to find opportunities in an industry they know or have experience in. [3] This limits risk and mistakes that way the Venture Capitalist can properly help the company when they buy a good size portion of the company. There are four different parts of the venture capital industry and the first one is made up of entrepreneurs who need funding for their business. [2] The second group is made up of investors who want to make a good profit. [2] The third is a group of investment bankers that need to sell companies and the last group are venture capitalists who have made money for the other groups. [2] Diagram one shows the different groups and gives a visual representation of where money, ideas, initial public offering (IPO), and stocks run in and out of the four main groups

represented as houses. [2] Some say that to be a Venture Capitalist you need a formal education. Earning a business degree can be very helpful in which you can learn how to read a business plan or model to help understand the business as well as the direction the entrepreneurs see the company going in the future. [4] A degree can also help a person gauge a market and different industries a Venture Capitalist would want to invest in. [4]

## 2.2 Types of Venture Capitalists or Investors

There are three main types of Venture Capitalists or investors: Angel Investors, Financial Investors and Strategic Venture Capitalists. [5] Angel Investors are typically a wealthy individual that often has a tech industry background. This puts the Angel Investor into a high-risk investment that the investor can easily make a small investment on. This investment is usually less than 1 million dollars and is done in an early stage of the company's growth. The investors motivation is to have a huge return on investment and have an exit strategy that is either an IPO or subsequent financing rounds. The second Venture Capitalist type is the Financial Venture Capitalist. This type is the most common and the person is usually part of an investment firm that obtains capital from institutions and individuals. They are also normally organized in formal Venture Capitalist funds that have a limit on size, lifetime and exit of the company that the investor is investing in. This investor gets their money back on interest and can typically invest anywhere from \$25 million to 10's of billions of dollars. Their motivation is purely financial which includes

maximizing their return on investment and also Initial Public Offerings, Mergers and Acquisitions. The third type of Venture Capitalist is a Strategic Venture Capitalist. They are normally a small division of a large technology company. Some examples include Intel, Cisco, and AT&T. They do corporate funding for strategic investing which help companies succeed and spur revenue growth on investment. This could also provide investors with valuable connections and partnerships. Once these connections are established the Strategic Venture Capitalist takes a “back seat” from the company.

## 2.3 Is There a Clear Path to Becoming a Venture Capitalist?

Now that we understand what a Venture capitalist is we can talk about how to become one. While there is no direct path, (hence why this project is being conducted) there are several ways to achieving the goal of being a Venture Capitalist. First it is recommended that you have a business degree from a four-year college. If you want to go higher it is suggested but not highly suggested that you also get a MBA. Then, you will need to make sure you understand how to read a business plan properly and know what a good business plan looks like. Another attribute needed to become a Venture Capitalist is to understand the market you want to go into as an investor. Understand the potential growth and if there will be any competition. This will include having good instincts in order to build capital. This will come with experience. Some gain experience by becoming an entrepreneur first.



But the most important resource to have in order to become a Venture Capitalist is to have a great mentor to guide you through everything.

### 3 Methodology

Originally, my advisor and I thought we could interview Venture Capitalists one on one. This plan was going to be executed by coming up with a list of questions about the interviewees experience. We made a list of questions (appendix X) and reached out to Venture Capitalists and Venture Capitalist firms. No one responded back which made us go to plan B. Plan B was to lookup already conducted interviews from Venture Capitalists and categorize the list of questions to make the list from Plan A fit with the interview. Plan B was more successful in the fact that we found three interviews.

After a Google search I found three interviews that interviewed Venture Capitalists. Their names are Bill Gurly, David Beisel and Jeremy D. Glaser. Each of these Venture Capitalists have been successful in their own ways. Bill Gurly works in Silicon Valley and grew up surrounded by NASA employees [6]. He credits his childhood experience to successfully finding opportunities to invest in Uber, Twitter, OpenTable and more top companies that make millions and billions [6]. David Beisel is a co-founder and partner of NextView which is a seed-stage Venture Capitalist firm. He specializes in making digital media and internet companies [7]. Jeremy D. Glaser is a Venture Capitalist lawyer who represents Venture Capitalist funds by facilitating

acquisitions, IPOs mergers and more [8]. These three people helped form this project and solve the problem of how to be a Venture Capitalist in three categories.

The categories are made up of a few questions to help this project. The first category is Tips/advice for being a successful Venture Capitalist or Entrepreneur. The second category is Investing and the third category is How did you start and describe your failures. These categories help set up what to pull from each interview.

### 3. 1 Category 1: Tips/advice for being a successful Venture Capitalist or Entrepreneur

There was some interesting advice for being successful. Bill Gurly stated that having both promotion skills and execution skills are two incredible skills to have [6]. Most people only have one of these skills but he says that the ones that have both are extremely successful. Another useful tip by David Beisel is to be persistent which is another good trait to have since you know what you want and how to get it [7]. Some interesting advice from Bill Gurly is to give a beginner Venture Capitalist is to sit down for coffee or at least meet face to face with a Venture Capitalist [6]. This allows you to pick up facial and body language that would be hard to do over Skype or a phone a call. The face to face interaction also reveals more about the company Gurly says [6]. David Beisel had a different view of what advice should be given as it is to gain a lot of experience and exposure to what a Venture Capitalist does [7]. He also suggests joining a firm. Additionally, there was also advice given to young entrepreneurs about how to

obtain an investor. Gurly suggests talking face to face while Jeremey Glaser says that even though you have a breakeven point you will definitely need more money than you think you do to build capital. He also suggests raising money with revenue [8].

## 3.2 Category 2: Investing

The first question was about how many companies have you invested in and who has been the most successful and why? Bill Gurly answered by listing companies such as Uber, Twitter, Open Table, Yelp, Zillow, Dropbox, Instagram and Snapchat [6]. He didn't give a great reason to why they were successful but they make millions and billions of dollars. Additionally, David Beisel just said that Sombass Media was his business and that was successful [7]. Based off of these answers there's not really a fine line to what counts as having a successful business besides making money year after year. This also ties into the next question of whether a Venture Capitalist gives more than just money. Gurly sits and has coffee and likes to keep his investors close to him to do this [6]. Also Beisel says he strives to build innovation in the companies he invests in [7]. This goes hand in hand with the next question of how do you decide to invest and how much? While they didn't describe how much Gurly states that there is no rule book and the rules always change to adapt. Glaser says that he decides by making sure the entrepreneur has a big idea in a big market and has the management talent to execute [8]. Having a good management team can be crucial. Next in this category asks about the challenges to investing and how investing has changed. Gurly states that Venture has become more competitive and there's "hyper competition" which he

believes is caused by the Venture Capitalist fear of having a bad reference [6]. While he didn't go into detail about what a "bad reference" means it could be obvious to state that there a lot of ideas out there but they might not be able to be executed. Beisel simply states that now there are super angels that invests a lot more than angel investors [7].

### 3.3 Category 3: How did you start and describe your failures?

This category was to figure out if the Venture Capitalist's had a similar start or if there were many roads that were taken. Gurly saw opportunities from where he grew up in Houston, Texas and met with Austin Ventures [6]. He then went to Credit Suisse First Boston to start his career [6]. He was in touch with Frank Quattrone who is an investment banker and led Gurly to move to Silicon Valley to be employed at Benchmark Capital [6]. Gurly was never an entrepreneur but Beisel was one [7]. That's how he got his start before going to Venrock to become a Venture Capitalist [7]. Even between the two interviewees there were different paths that were taken to be a successful Venture Capitalist. Additionally, I looked for any failures and lessons learned from them. Gurly regrets investing in Google since he didn't know to evolve the rules that he had in place [6]. Beisel didn't mention any.

## 4 Recommendations:

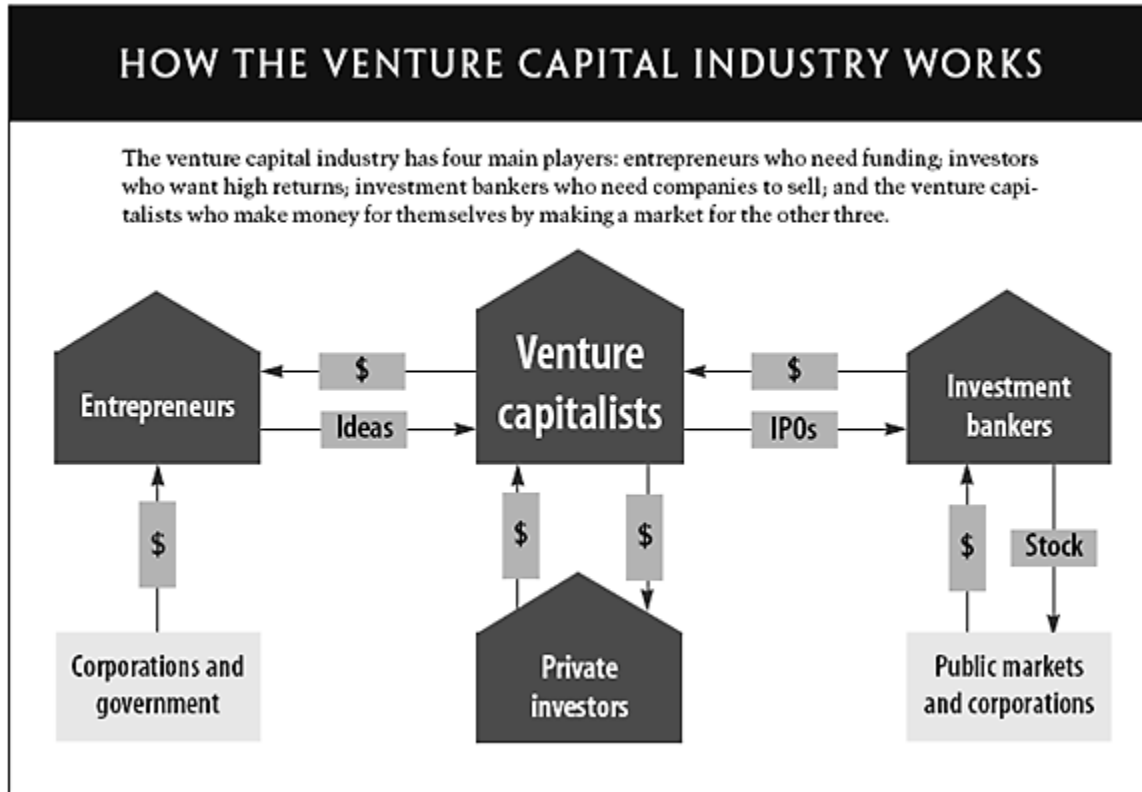
I learned a lot from these interviews even if Glaser is a Venture Capitalist lawyer that didn't answer many questions. I would recommend to anybody who wants to be a Venture Capitalist to gain experience and take an opportunity when given one. It also doesn't hurt to have some education about what you are going to get yourself into.

There is no one way to become a Venture Capitalist but this project has proven that there aren't a million different ways. There are mainly two ways that include gaining exposure to the Venture Capitalist world and becoming an entrepreneur first. These are the first leaps to becoming a successful Venture Capitalist.

# Appendix

## Appendix 1:

Diagram 1:



## Appendix 2: Interview Questions

- a. What are some tips for being successful? (Do research about the investors in annual reports)
- b. Which of the many companies you've invested in has been the most successful and why?
- c. What advice would you give to a beginner venture capitalist?
- d. What advice would you give young entrepreneurs to obtain investors for their company?
- e. Do you invest yourself into the business other than monetarily?
- f. How do you decide to invest in a company? How do you decide how much to Invest in that company? (Find on the annual report)
- g. What are some Challenges to Investing? How have they changed since you started?
- h. How did they start? What was your motivation to become a venture capitalist?
- i. Have you experienced any Failures? What were they and how did you learn from them?
- j. Future? With innovations such as crowdfunding do you believe there will be more competition amongst investors?

### References:

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