
Critical Success Factors and Public Policy Issues in European Venture Capital: What's Hot and What's Not

**Seminar Hosted by CMI
Cambridge, 17 June 2005**

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Desired Outcomes of this Discussion

- ▶ Review the importance of supporting entrepreneurship as an urgent matter of public policy.
- ▶ Have a lively, interactive discussion about what it takes to be a successful entrepreneur... and a successful early stage Venture Capitalist.
- ▶ Exchange views openly and freely.
- ▶ Respond to insightful questions.
- ▶ Thank my colleague Catherine Calarco for use of the next 3 slides.
- ▶ End on time...



The Impact of Entrepreneurship as Public Policy --- 1/2

Governments must invest in education and R&D

“Waves of technically trained young people-- steeped in the latest theories and techniques, and honed by some of the smartest minds in science and technology--do more for raising a country's industrial competitiveness than all the tax breaks, development aid, and government initiatives put together.”

Appreciation to APAX Partners and The Economist Intelligence Unit for advance permission to quote their impressive, as yet unpublished report, Understanding Technology Transfer, due to be released in Spring 2005



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The Impact of Entrepreneurship as Public Policy --- 2/2

- 70% of a nation's economic growth is typically attributed to entrepreneurship
- 35% of the Fortune 500 list is displaced every 3-4 years by new firms
- *Inc. 500* firms grow at 1312% over 5 years
- NZ Fast 50 companies exceed 1000% growth
- GEM research suggests 30% of the differences in GDP growth are attributed to levels of entrepreneurship activity
- Entrepreneurship is the fuel that drives the expansion of cluster growth



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Entrepreneurship and Government Policy – an Oxymoron?

What good at -

- Set a vision
- Understand larger picture
- Support and fund activities
- Think clearly for the long term
- Tolerate risk while leading fundamental change
- Control the government process and environment
- Be predictable

What not good at -

- Maintain fast clock speed
- Make rapid decisions
- Deploy high impact activities
- Be entrepreneurial
- Avoid politics
- Take action vs. talking forever
- Avoid control and indecision



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The Current Climate: B2B = Back to Basics

- ▶ Entrepreneurs need to have outstanding
 - Team
 - Technology
 - Value Proposition
 - Market
 - Customers
- ▶ Applies to VCs as well...
 - Europe
 - Canada
 - USA



“Blue” Money from Company Builders

- ▶ Selecting Your VC Partner: Yesterday & Today
 - Seek True, Value Added, “Blue” Money
 - Operating Experience
 - Rolodex/Network
 - Awesome Portfolio (in your space)
 - Cool Limiteds (in your space)
 - Deep pockets/guts to stay the course
 - Realistic Expectations
 - Time to Market
 - Revenue Growth
 - Valuations



The Entrepreneur: A Special Species?

- ▶ **What does the successful high tech entrepreneur look like?**
 1. Integrity
 2. Leadership
 3. Impatient; bias toward action (with analysis).
 4. Quick clockspeed
 5. Modest ego. Seeks and accepts coaching. Recognizes, and hires to overcome weaknesses.
 6. Willing to be different, but knows it (not oblivious).
 7. Pragmatic; willing to compromise (in order to move forward).
 8. Rejoices in others' victories (no petty jealousy).
 9. Driven to solve a valuable problem for customers (not driven by money or technology).
 10. Able to attract world class talent.

Net:

pH of Stomach = $1-2 \sigma > \text{average}$

** With special thanks to
Flagship Ventures*



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Our Message to Entrepreneurs: Building Your Company

- ▶ Need an “A” Team – “3K” experience
- ▶ Need Serious Technology – sustainable advantage
 - Solve an important, valuable problem...
 - For clients who have money...
 - Who want to pay well...
 - With a short sales cycle...
 - And will buy more, soon...



**YOUR VALUE PROPOSITION MUST BE COMPELLING,
QUANTIFIABLE, PROVEABLE, REFERENCEABLE, AND
EASILY EXPLAINABLE...**

Examples of what CAN be taught (1)

(especially valuable for engineers, scientists, and business people and policy makers)

- ▶ It's all about the people.
- ▶ Teamwork creates value and success:
Lone wolves build perpetually small companies.
- ▶ Appreciation and mutual respect for different types of people guarantees better company performance:
 - Excellent sales people are essential
 - (not lower life forms).



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Examples of what CAN be taught (2)

- ▶ Business Basics: CFIMITYM
 - Profit vs. cash flow
 - Risk is higher when you're growing fast.
- ▶ How to Write a Business Plan
 - Need to know how, but...
 - Recognize that VCs don't read them
- ▶ Customers need to feel they have a relationship with your firm before they will buy from you.



The Tough Questions (1/2)

- ▶ Do European entrepreneurial teams have the global ambition, grit and workaholic sales skills needed to build great companies?
- ▶ Are European policy makers:
 - Willing to face the issues
 - Able to make quick decisions
 - Able to work hard/long hours



The Tough Questions (2/2)

- ▶ Are European customer firms inclined to seek novel solutions from start ups? Can they ever learn to make quick decisions to buy?
- ▶ Do European VCs have the global networks and operating experience needed to truly add value to their portfolio company management teams?
- ▶ Since start ups must enter the US market sooner rather than later, shouldn't they select their seed VCs based on their relationships with the most relevant second round VCs in the USA?



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