WHO'S WHO IN VENTURE CAPITAL

A. DAVID SILVER

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PREFACE

If one was fortunate enough to get into the venture capital business in the 1960s, as I was, it was usually accidental. In my case, I knew a little bit about corporate finance and a little bit about computers, which suggested to the partners of Kuhn, Loeb & Company—backers of Polaroid, ITT, Western Union, and other firms—that I could be their dart thrower. It was my job to find emerging high-technology companies and throw darts at the ones the partners and their clients should put their money into. We had some spectacular successes, and I learned how to lose money as well.

The principal learning experience was listening to the partners analyze the information that I gathered for them. For those readers who have known Charles Ely, John Guest, Al Friedman, and Jerry Katzin—four of the partners at Kuhn, Loeb & Company in the 1960s—it is understandable why I hold them in such high esteem. Like old brass, I polish up some of their wonderful old sayings and use some of their priceless logic when I review investment opportunities 20 years hence.

But Wall Street began downsizing in 1970, thereby losing its opportunity to corner the venture capital market when it resurfaced eight years later. In the interim, there wasn't much of a venture capital market to corner. It was clear to me in 1970 that I was an entrepreneur. I wanted to work 16-hour days for myself so that I wouldn't have to work 8-hour days for someone else. I left Kuhn, Loeb & Company to form a new firm that would service entrepreneurs in launching and funding their new businesses. I selected a poor year to do this, and there wasn't much venture capital around for quite a while. Thus I learned how to find capital in strange places: state and local governments, tax shelters, business development corporations, new-issue underwriters, public shells, and wealthy individuals. I have met with practically every venture capitalist in the country and watched their analytical processes, observed their sensitivity towards entrepreneurs, and gauged their knowledge of the entrepreneurial process.

I have seen Arthur Rock make one of his legendary "people picks" in less than 45 minutes. I have heard Tommy Davis speak on the subject of not being farther than one hour away from his portfolio companies. Tim Hay's preference for entrepreneurs who grew up on farms—because they understand first-hand the growth cycle and the price of being wrong—was as priceless a jewel as any. I also know that entrepreneurs funded by Fred Adler shouldn't go back to him with business plans that misfired on a day that he has a toothache.

Many more entrepreneurs are getting funded today than ever before. Many young MBAs are also being hired to work in the venture capital industry because of its extraordinary growth. None of this would have been possible if the old-line venture capitalists hadn't taken some risks and put in some very entrepreneurial hours, weeks, months, and years. Stanley Golder, known as "Saint Stanley" to those of us who manage venture capital funds, lobbied long and hard with the Department of Labor to have laws changed in 1978 to permit pension funds to invest in venture capital partnerships. Reid Dennis, Bill Hambrecht, Tom Perkins, and others tediously raised $5 to $10 million in the early 1970s to prove that venture capital investing was a discipline. In 1983, the $150-million Kleiner, Perkins, Caulfied & Byers II Fund was oversubscribed by 200 percent in four days of talking to the institutions. The old-line venture capitalists have legitimized the venture capital–entrepreneurial process and created a large, extremely rewarding playpen for lots of followers to frolic in. Thus, I wish to acknowledge the old-line venture capitalists; those who have survived the 1970s with more winners than losers. You can recognize their names by reading the Biographical Directory (Appendix 1) and noting the list of accomplishments for each venture capitalist.

Many of the newer venture capitalists will fail, because they lack the ability to select viable business plans and successful entrepreneurs. The venture capital industry will also become weakened by greed, as does anything where the rewards are Genentechian. It is becoming politicized by the "Atari Democrats" and undoubtedly will be legislated into some sort of indistinguishable form over the next 10 years. But now, it is the most exciting and financially rewarding place to work in the country.

Publishing books is a lot like launching a new company. The author is the entrepreneur, the editor is the manager, and a dozen other people are responsible for typing, editing, proofreading, and critiquing. My manager, Michael J. Hamilton, and his assistant, Marilyn Dibbs, have held up their end of the launch in perfect fashion, as have the other staff members at John Wiley & Sons. My typist, Louise Scott, has been indefatigable. Special thanks are also due to Beverly Jedynak, Elizabeth Meyers, and Dorothy Moore for professional skills of the highest order.

A. DAVID SILVER

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INTRODUCTION

Approximately $10 billion of venture capital is invested in, loaned, and granted to start-up entrepreneurs each year in the United States, and this has been the case since the early 1970s. The mix of the $10 billion changes from year to year. For example, during the Carter presidency (1976–80) roughly $5 billion was provided each year via government-guaranteed loans (from the Economic Development Administration, Farmers Home Loan Administration, Small Business Administration, and the Housing and Urban Development Agency); about $500 million was provided by private venture capital funds; $500 million via the new-issues market; $500 million via tax shelters; $500 million via grant programs; and perhaps $3 billion from customers, suppliers, family, and friends. President Carter was a staunch advocate of guaranteed loan programs, having obtained an SBA-guaranteed loan to launch his peanut business upon leaving the Navy.

President Reagan then came into office and reshuffled the deck. His economic advisors have no use for guaranteed loan programs. Milton Friedman was overheard saying "Nothing positive has ever come from a government-guaranteed loan." The $10 billion of start-up and early-stage venture capital in 1982 was provided approximately as follows:

Private venture capital funds	$ 3.0 billion
R&D tax shelters	2.0 billion
Government-guaranteed loans	1.0 billion
New issues	.5 billion
Grants	.5 billion
Customers, suppliers, family, and friends	3.0 billion
Total	$10.0 billion

These funds do not include venture capital provided in the form of loans with equity features from Small Business Investment Companies (SBICs) to more mature companies in an expansion stage, or loans with and without equity features provided to help entrepreneurs and managers purchase divisions of large corporations or family-owned businesses via leveraged buy-outs. Capital of this kind amounts to at least $5 billion per annum, but much of it is not venture capital; rather, it is secured, guaranteed, or subject to a firm repayment schedule. The risk is covered by cash flow and collateral.

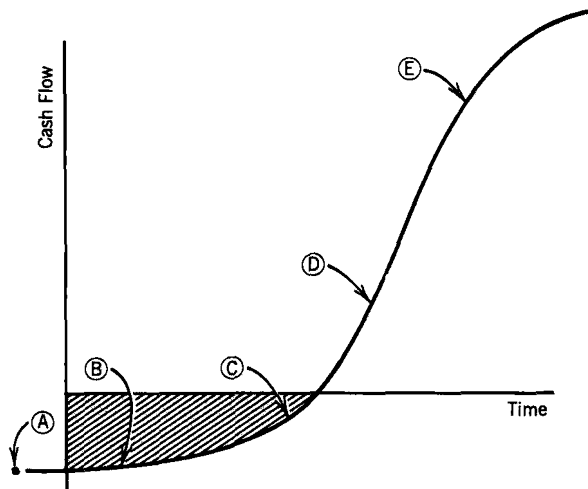
For purposes of this discussion, we will consider venture capital to be risk money invested in companies in the well of the "S" curve, shown by stages B and C in Exhibit 1.

Stage A is the research and development stage, which is not of particular interest to private venture capitalists. Stage B is the start-up stage: here a solution to a problem has been developed and it can be produced and demonstrated, but there have been no sales yet. Stage C is known as the first stage: here the solution has been sold, installed and tested in the marketplace, there is customer acceptance, and capital is needed to implement a marketing plan.

Stage D is the expansion or mezzanine stage which is attractive to SBICs and to large corporations seeking windows into innovation, such as IBM's investment of $230 million in Rolm Corp. in mid-1983. Stage E is the company's typical initial public offering or sell-out point which, it is hoped, occurs within the third or fourth year after start-up. Venture capital funds seek to invest a small portion of their capital at stage D as a hedge against having all of their investments at stages B and C. But three-fourths of their capital goes into stages B and C companies.

The private venture capital industry has recently raised some $7 billion in capital from financial institutions and corporations throughout the world. The venture capital industry today is made up of approximately 300 funds, peopled with three to ten venture capitalists per fund, each of whom is anxious to invest at stages B and C in companies that offer a high probability for rapid growth of sales and earnings. The venture capitalists usually become helpful investors, to the extent that they have any business experience. But alas, some do not have business acumen. Others may have built successful high-technology companies, but are too talented as entrepreneurs to empathize with those less gifted. After all, if you can hit, field, and run like Willie Mays, it is not necessarily accurate to presume you can teach others to do the same. Walter Alston was not major league material as a player, but he was as a manager. Very few, indeed, are the venture capitalists who can help seriously troubled companies, because only a small percentage of venture capitalists were in the

EXHIBIT 1. The "S" or Development Curve of a New Company



business in the early 1970s when they had to be surgeons to a dozen bleeding portfolio companies at once.

When you have professional venture capital in your company, the principal times to wonder about your venture capitalist as a partner are when things are not going as well as planned. Then you should worry. Success, after all, has many parents, but failure is an orphan. Cycle-tested venture capitalists know how to help you work out of your trouble when times are very tough. New boys on the block push the panic button all too quickly. It is extremely important that you go with experienced venture capitalists.

In general, there are three types of venture capitalists: (1) helpful, active, and instructive; (2) passive, unhelpful, rarely heard from at all; and (3) ruthless and dispassionate—"the problem with this company is its managers—they must go." The preferred type of venture capitalist is the first. However, many are the entrepreneurs who have accepted capital from Jacob and been crossed-up by Esau.

One of the purposes of this book is to steer you to the venture capitalists who can be the most helpful to you. Directories exist that provide you with considerable data about specific venture capital funds, but they don't give you any information about the people who work there. I think that venture capital funds have "personalities," and that no two venture capitalists respond to entrepreneurs and new companies in the same way. I think that the interrelationships between entrepreneurs and venture capitalists are very important. Venture capitalists rarely go into a company alone; thus, you may inherit to your surprise from three to five venture capital funds that you have to mold and shape into helpful partners. Although venture capital is non-permanent, three to five year money, a ruthless or inexperienced venture capitalist can hurt a struggling new business in a short period of time.

The object of this book is to provide you with a sufficient amount of information about most of the venture capitalists in the country in order to help you choose the best one. This book is organized in the following manner. Chapter 1, "The Alternatives to Institutional Venture Capital," helps you determine if the most prudent and efficient means of raising venture capital at your stage of development is institutional venture capital. There are 20 or more alternatives. You may think you need institutional venture capital and spend six months shopping the funds, only to find out that the venture capital funds don't want you. Or you may be thinking R&D tax shelter, spend time and money in pursuit of non-equity-linked money, only to learn that your deal has no takers in that market. There are certain times in any case when it is best to raise two or three different kinds of venture capital simultaneously or sequentially.

Because there are very few investment bankers willing to advise entrepreneurs on the subject of raising venture capital, most entrepreneurs are stuck with the costly measures of networking with entrepreneurs who have trod down the path successfully or letting their fingers do the walking through the traditional venture capital directories. Investment bankers save entrepreneurs the *cost of search*. Getting one's capital ahead of the competition can be a very important factor in whipping the competition.

In a new market, the golden rule applies: The company with the gold, rules.

Take the microcomputer software industry as an example. Peachtree Software of Atlanta quickly became an industry leader, although its software packages, used primarily by small businesses for accounting purposes, are not highly rated by the trade journals. Furthermore, there have not been until recently any sources of venture capital in Atlanta and Ben J. Dyer, the company's founder, had no previous management experience; indeed, he believed that Peachtree's future hopes rested on selling Perkin–Elmer minicomputer systems and not microcomputer software. However, he hired me as his investment banker, and I introduced him to dozens of venture capitalists. In May 1979, Electro Science Management of Orlando and First Venture Corporation of Bartlesville, Oklahoma, provided Peachtree with $425,000 for approximately 38 percent of the company's common stock. Peachtree was acquired within 24 months thereafter for approximately 450,000 shares of common stock (adjusted for a two for one split) of Management Science America ("MSA"), worth today over $13.5 million. MSA is a strongly capitalized software company with important ties to IBM that has funded Peachtree's expansion to sales of over $18 million per annum. The principal reason for Peachtree's domination of computer-store shelf space is not superior management or exceptional product features. It is the golden rule. Peachtree got its gold before the competition did.

Investment banking fees on venture capital financings such as the $425,000 Peachtree financing are much smaller than on megabuck mergers and public offerings. Thus, investment bankers willing and able to assist entrepreneurs are very few and far between. Whereas authors, actors and actresses, athletes and entertainers have agents to help them satisfy their needs, entrepreneurs—society's newest heroes—have very few helpers. Therefore, I have attempted in this book and in others, to provide entrepreneurs with as much hands-on assistance as I have provided to entrepreneur clients in my venture capital investment banking business over the last 13 years. The first bit of advice, contained in Chapter 1, is that you may not need to raise venture capital at all.

Chapter 2 unlocks the mystery of how venture capitalists value your company. If you must raise venture capital, it is important to put your best foot forward. If you do not make a good first impression, you will have no chance to make a second. Valuation and operating statement projections are umbilically linked. You cannot raise venture capital without a business plan, as you have often heard, because the venture capitalists need to see your operating statement projections in order to perform a number of calculations, not the least of which is valuing the company for investment purposes. The value that a venture capitalist arrives at is different from the value he offers to an entrepreneur. The offering price is generally 10 to 20 percent lower. But most entrepreneurs do not understand that. They frequently accept the offer without negotiating it. Entrepreneurs do not understand leverage as well as they should. Starved for capital and grateful for an offer, the entrepreneur fails to notice that at the time a venture capitalist makes an offer to him or her, the leverage in the negotiation begins to switch from investor to entrepreneur. This chapter instructs the entrepreneur in how to locate and use the leverage to achieve a more realistic valuation. In so doing, the entrepreneur will learn

the valuation methods of the venture capitalists and be able to compare apples with apples.

Chapter 3 explains the different stages of a venture capital financing. As we saw in Exhibit 1, there are four principal stages at which private capital is raised:

1. Research and Development.
2. Start-up.
3. First Stage.
4. Expansion Stage.

A fifth stage is the leverage buy-out of an existing company, which has features of a start-up (management is in an ownership role for the first time) as well as an expansion-stage financing (management, as well as the investors, believe that management's business plan will turn this cast-off corporate divestiture into a growth story more exciting than Cinderella; and it does frequently happen that way).

Entrepreneurs sometimes are confused about the stage their company is in. This chapter ends the confusion. A start-up rates a higher valuation than a company in the R&D stage. But valuation is not linear. Fortune Systems, a new microcomputer manufacturer launched by Gary Friedman, one of the founding entrepreneurs but apparently not the culprit behind the demise of Itel Corporation, was valued by a venture capital syndicate led by First Chicago Investment Corporation at $35 million. That was before Fortune had shipped unit Number One—that is, this was a start-up valuation. A number of Fortune's competitors raised venture capital at valuations of one-tenth or less than that, and some microcomputer entrepreneurs could find no takers at any valuation.

Fortune Systems put it all together in terms of raising venture capital, but it may not become an important factor in its market. But Gary Friedman knows "how to sell to money" and I trust that when this book becomes loaded into your core memory, you will, too. David Norman, the founder of Businessland Computer Centers, raised venture capital for a chain of computer and software stores at a valuation of $60 million with only one store open and operating. Other computer store entrepreneurs with dozens of stores are unable to achieve a valuation of more than $200,000 per store, because they do not know how to sell to money. This deficiency is correctable as shown in Chapter 3.

Chapter 4 provides you with advice on preserving your equity when dealing with venture capitalists. The adage can often be heard at venture capitalists' watering holes that the portfolio they could reconstruct of the deals they turned down or sold out of in haste is every bit as good as the portfolio of deals they went into. Some of the most experienced venture capitalists in the country can only grin and bear it when they see certain lofty stock market prices. There are few performance records as sweet as Kleiner, Perkins, Caulfield & Byers, one of whose funds has yielded over 96% per annum to its institutional backers since 1978. But Tom Perkins literally laughed Tom Kelly—the founding entrepreneur of TIE/communications—out of his office when

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the interconnect company entrepreneur said he would topple AT&T. One of Kleiner, Perkins' biggest investors, the General Electric Pension Fund, is located but a stone's throw from TIE's principal offices in Stamford. But Tom Perkins' investing formula is Silicon Valley oriented. Furthermore, TIE's telephones were not microprocessor-driven. Companies like TIE, MCI and Lexitel have given AT&T fits over the last five years, but telephone entrepreneurs cannot persuade the Silicon Valley investors of their validity.

There are many stories such as this. The venerable Tim Hay of Security Pacific Capital Corporation decided not to finance Federal Express; yet very few venture capitalists' performance records can equal that of Hay. Tommy J. Davis—whose winners at Davis & Rock include Teledyne, Scientific Data Systems, and Intel, and at Mayfield Fund include Tandem Computer and Qume—sold out his interest in Atari when Warner Communications paid $18 million for the company. If Mayfield and others had backed Atari through its expansion stage, they could have sold the company two years later for perhaps $500 million. But if the random investor were to match portfolios with Tommy J. Davis deal after deal, year after year, Davis will likely win.

The point is that your deal is one of many others to the venture capitalist. The venture capitalist's reaction before meeting you and when he or she has finished reading your business plan will not be to do handsprings and order the secretary to sound the trumpets. More likely, the venture capitalist will decide, "If the guy calls me, I'll probably see him."

There are ways to change that attitude. The first and most important is to show the venture capitalist that your deal is not labor-intensive. You do this by assembling a strong management team and helpful board of directors before raising venture capital. This lets the venture capitalist know that there are knowledgeable local people on hand to aid the company should it fall on hard times or get into some problems. By building a strong management team and local board, the entrepreneur can speed up the search for venture capital and save precious equity.

There are other strategies and tools that save equity as well. These include attitude, business plan preparation, developing alternative sources, and more. These tools of the trade are covered in Chapter 4.

In Chapter 5, the subject matter is "know thy investor." Before getting deeply involved with a venture capitalist, don't you think you should check his or her references at least as thoroughly as yours will be checked? Some venture capitalists look for fee income from their portfolio companies during the course of the relationship. Intercapco, a Cleveland SBIC, charges some of its portfolio companies a finder's fee for investing and bringing other SBICs into the deal and in some cases, a consulting fee after the financing. With the venture capitalist's prior knowledge, you should telephone the managers of his portfolio companies (they are listed in Appendix 1) and see what he or she is like to work with. If you do nothing else, and you use this book for no other purpose than that, you will probably save yourself controlling interest, hours or days of bickering, and peace of mind.

The title of Chapter 5 is "Personal Aspects, the Oral Presentation, and Backgrounds of the Venture Capitalists. The oral presentation is as important as the business plan. Venture capitalists are followers in search of leaders. It is important to provide a strong, positive image—that is, to call to mind their

image of a successful entrepreneur. I will cover the relevant characteristics in this discussion. Although it may not be possible for you to possess all of these attributes individually, you and your management team should.

Finally, Chapter 5 also deals with the backgrounds of the venture capitalists. Now, we are a fairly boring lot for the most part. We are a young industry, only three of our roughly 700 members have died, and there are fewer than five father/son teams in the fraternity. Our ways are much too parochial and patterned after big business. For example, there are but a handful of women with any real power in the industry; yet over 25 percent of entrepreneurial companies are run by women.

Few are the venture capitalists who have ever started a company or met a payroll. Over half are MBAs with financial backgrounds. Approximately half of the MBAs in the venture capital industry have engineering undergraduate degrees. This group of venture capitalists is relatively young and inexperienced and I fear for the money they manage when the next serious recession occurs. But as long as it's their cards, their beer, their potato chips, and we are playing in their house, entrepreneurs had best learn the rules they play by. Chapter 5 provides the rules and much more.

Just when you think you have impressed the venture capitalists to invest in your company, much to your surprise and to that of your creditors', the venture capitalists inform you that they must go through the Due Diligence Process. What is it? Chapter 6 describes all the things that happen during the Due Diligence Process, why they happen and what you can do to speed them up.

If you pass that step, you still don't get the $1,000,000 until the terms and conditions are negotiated, drafted, prepared in depth and signed by both parties. Chapter 7 discusses typical terms and conditions, the reasons for their existence and points you should fight for as well as those you are best to ignore.

You need courage and downside planning to live through a venture capitalist financing. Some survival tools are reviewed in Chapter 8.

I have been an investment banker serving entrepreneurs, a venture capitalist investing my own and other investors' money, and a founding entrepreneur of several companies. Substantially all of the thoughts and ideas contained herein are mine—or if not, I have cited their true owner.

Of the many industries that one could work in, the venture capital industry is considered very attractive. A venture capitalist has the coin of the realm and the interest in sponsoring innovation and change. He or she gets the opportunity to make decisions, to receive instant feedback, and then to participate in helping the entrepreneurs build their companies. If that isn't enough job satisfaction, then remember that venture capitalists are given equity rewards for being right more often than wrong. It is one of the few industries in which one can get rich relatively quickly. This creates a "chosen people" attitude among some venture capitalists. It also adds to the supply of résumés of Wall Street and corporate executives looking to get a piece of the action. As with any team that begins recruiting masses of new players, the quality diminishes. The same applies to the venture capital industry. It's the popular area in finance today and an entrepreneur should learn to become more selective in his choice of venture capitalists than ever before.

1

ALTERNATIVES TO INSTITUTIONAL VENTURE CAPITAL

Some entrepreneurs cannot raise venture capital or attract conventional debt financing to launch or expand their business. There are several reasons for this, the most common of which are that the business plan lacks appeal or that the company is burdened with debt and the new capital is to be used for debt repayment rather than expansion. No one likes to provide money to help fund a deficit. There are a number of reasons why a business plan might lack appeal. The projections of the company's future size may be too small; the problem that the company's product solves might be shared by very few people; the company's solution to the problem could be but one of many similar solutions; or the entrepreneurial team might seem poorly qualified to implement the business plan. There are other reasons as well, particularized to certain industries. Nursing homes are riddled with political problems; casinos with organized crime; and alternative energy companies with government meddling.

Start-up companies that offer a service rather than a product are the major sufferers of investor flight. The reasons for this are fairly obvious. Ask yourself if you would have helped Jean Neditch launch Weight Watchers International, whose business plan was to charge overweight women $2.00 a head to come to a conference room and stand up and talk about their overweight condition. The comedian Bob Newhart loves to create images of people like Ms. Neditch trying to convince others of the commercial value of their services. His recreation of Abner Doubleday trying to get Parker Brothers to invest in his new game called "baseball" is a classic farce. Yet Ms. Neditch sold Weight Watchers to H. J. Heinz for $120 million.

Ask yourself if you would have invested in Dr. Sam Schoen's start-up called ARCOA Systems in the late 1950s. Here was a medical doctor fooling around with a trailer-rental scheme called U-Haul. Surely if a trailer-rental system was needed, one of the transportation companies would have thought of doing it. Doctors are lousy businessmen, so the saying goes. All such truisms notwithstanding, ARCOA Systems is easily worth more than $500 million today.

There are dozens of amusing stories about magazine start-ups accom-

plished without venture capital, magazines being one of the quickest ways (other than movies and the theater) to lose all of an investment. One of my favorites, which may not be accurate but certainly is innovative, has to do with the launch of *Penthouse*. The traditional way to start a new magazine is to print a postcard with a description of the magazine on one side and the order form on the other, and send it to a list of names selected by certain predetermined demographic criteria. As the story goes, a young photographer named Bob Guccione was living in London when the idea occurred to him that there was a market for a men's magazine that offered photographs of frontal nudity. Thus he put a front view of a nude lady on his postcards and mailed them to an audience of males aged 18 to 35. However, he mailed several hundred of the cards to members of the clergy and the temperance union. The howls of protest were heard throughout London and were picked up by the newspapers. The subscriptions to *Penthouse* poured in and provided the capital to launch the magazine and the enterprise.

Entrepreneurs are so incredibly tenacious and creative that they have developed—out of desperation to meet payroll and keep the telephones turned on—a number of unique ways to "bootstrap." Bootstrapping means launching a new company without the benefit of raising outside capital. It may also be thought of as leverage: getting people to do things for the new company that they never had any intention of doing.

One of the reasons that a company may be forced to bootstrap itself is that it is offering (or proposes to offer) a solution to a problem that the marketplace does not feel exists. For example, when Henry Taub launched Automatic Data Processing Corporation in the early 1960s to solve the payroll-processing problem for large corporations, most of ADP's potential customers did not know they had a problem. Notwithstanding Taub's argument about tax changes, FICA changes, privacy of information, and the like, these corporations did not want their payrolls processed by an outside firm. Thus Automatic Data Processing had to educate a demand curve for its service, and that meant lots of money invested in advertising and marketing. Venture capital would crawl under a rock when Taub walked by. He accidentaly met a new-issues underwriter, at the first Patterson–Liston fight, who agreed to raise $1 million for the company in the public market. Several other rounds of venture capital—in those days provided by the new issues market—were required before ADP found buyers for its payroll processing solution.

If the problem you are addressing is better known to you than to your potential customers, you face the same situation that Taub did: the need to raise money for advertising and marketing to create problem awareness. Unfortunately, most sophisticated investors are similarly unaware of the problem and will "deep six" the investment proposal as well. Addressing a major topical problem—such as cancer, diabetes, or rising production costs, with solutions such as interferon, the insulin pump, and robotics—usually results in being able to raise buckets of venture capital years before a product has been developed. Major problems attract venture capital. The $120-million new issue for Cetus Corporation in 1981 was the largest new-issue public offering in history. Cetus is a biotechnology company that addresses cancer, world hunger, and other large problems.

All of us cannot start science-based companies that address major social

problems such as Cetus. We have to do the one thing that we do well. That may mean operate flower shops, cure alcoholism, teach physical fitness, or conduct market research on new consumer products. These solutions or skill areas will not attract a penny of venture capital, because they fail to give off the prerequisite venture capital-attracting odors. How do you get around that without a staggering advertising budget? Simple—you sell the problem.

PYRAMID METHOD

Problems are sold chiefly via newsletters. In every new market, the person who gets out the first newsletter usually is the first millionaire in the industry. We venture capitalists can tell when a new market is developing when the first newsletter appears. Sometimes newsletters grow quickly into magazines, but maintain the same format of indexing the various aspects of a problem for the readers. Ms. indexes the problems of women's liberation. *Byte* indexes the problems of using personal computers (*Byte* was acquired by McGraw-Hill for $7 million before it became profitable). *Satellite Communications Digest* indexes the problems of developers and users of home-satellite TV-antenna systems. Its first issue in 1979 heralded the birth of a new market, very identifiable by the sprouting of antennae on top of motels and office buildings and in rural backyards. Before there was a robotics industry, there was *Robotics Age*. So huge is the biotechnology market that at least six newsletters are sold for molecular biologists to read and see their concerns aired.

You can publish a newsletter for very little money. Four typewritten pages with one or two inches taken up by the Masthead is all you need. "Corporate Alcoholism" is a catchy title for a newsletter to launch a new business to cure or mitigate alcoholism among corporate executives. The mailing list would be the human resources officers of the 2000 largest U.S. corporations. Surely 200 of them would pop for a $100 per-year newsletter, and that's $20,000 in start-up capital, or $19,200 after deducting the cost of stamps, photocopying, and stationery. And no give-up of ownership.

After three or four issues of the newsletter, when the initial $20,000 is beginning to be eroded by telephone calls, utility bills, transportation, consumables, and the necessities of food, clothing, and shelter, it is time to offer a new product. The market is beginning to understand the various aspects of the problem. Some subscribers are telling you, when you telephone them, that they would like to meet with others like themselves to discuss the problem. In fact, it is almost time for you to begin to leak some of your solutions. The method of doing this is the seminar.

There are certain keys to running successful seminars, the most useful of which is to make them convenient, such as in airport hotels in central cities such as Chicago and Dallas. Make them last two days, give the attendees something free with their name on it such as a notebook and name tag, and tape the seminar so you can resell it as the "First International Seminar on Corporate Alcoholism," or whatever problem you have chosen to call your own. Of the 250 newsletter subscribers (there is nothing to prevent you from attracting new subscribers after the first mailing), let's say 10 percent like the sound of the seminar and have $500 in their budgets for the price of admis-

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