Entrepreneurial Ecosystems Around the World

By

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requirements for the degree of

Master of Science in Management Studies.

ABSTRACT
Entrepreneurship is a vehicle of growth and job creation. America has understood it and benefitted most from following this philosophy. Governments around the world need to build and grow their entrepreneurial ecosystems to support the economies and foster innovation. Approaches taken to encourage entrepreneurship vary around the world based on cultural norms, market conditions, and economic circumstances.

Entrepreneurial ecosystems are generally comprised of the government, which builds rules and regulations to support entrepreneurship, the angel and venture capital industry, which provide necessary startup and growth capital to support entrepreneurship, the financial market, which provides financial incentives and exit routes for startups, and finally the entrepreneurs, who form teams and start companies.

This thesis is an attempt to study and analyze the entrepreneurial ecosystems in the U.S, Europe, and Asia. Primarily relying on interviews with industry experts and supported by academic research, it draws qualitative comparisons of entrepreneurship processes among these regions to understand the differences in these environments.

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INTRODUCTION
While economic activities in the west have slowed down since the 2008 market crash, Asian markets have weathered the financial crisis reasonably well and are still growing due to increasing consumer demand. The majority of this growth, however, stems from existing large businesses. In India, for example, small businesses account for only about 10% of the Gross Domestic Product (GDP). The market potential of Asia cannot be denied, but it is imperative that the entrepreneurial activities in the region pickup to create more job opportunities for the growing population, especially in China, India and Indonesia.

To develop these opportunities it is important for Asian nations to create healthy entrepreneurial ecosystems such as the one in America. Given the amount of activities happening in India and China, one may argue that the entrepreneurial ecosystem is already developed in the region. A question this paper examines is whether the entrepreneurial ecosystem has developed to the tune of its western counterparts. This thesis argues that the Asian entrepreneurial ecosystems are less developed compared to those in the U.S. and Europe due to systemic and cultural challenges. The entrepreneurial support system has not kept pace with the high growth and rising opportunities in the Asian region. This paper aims to identify the principal differences, potential reasons behind this lag, and finally present recommendations to close these gaps.

Entrepreneurial ecosystems are comprised of three major actors - government, startup investors (Angels and Venture Capitalists), and entrepreneurs. Examining these players, this paper seeks to identify their impact in creating and improving ecosystems. While the role of governments cannot be denied in developing a healthy ecosystem, it can also not be influenced easily. One can make recommendations to authorities and hope they will be implemented soon. The reality, though, is that government decisions are primarily motivated to either get elected or stay in
power. Given the audience of this paper, the majority of focus will be on the two other primary actors – Venture Capitalists and Entrepreneurs. Rather than studying the behavior of these actors at a higher level, the focus is to dig deeper into the actual process of starting, funding, and running a company. For venture capitalists, it examines the industry structure, the process of raising funds, and the process of identifying and investing into a startup opportunity. For entrepreneurs, it examines the process of starting a company, raising capital, managing it, and finally exiting the company. One approach to study these details could be to look at an existing well-functioning ecosystem and learn about attributes that make it great. What roles does each actor play and to what extent do they dependent on each other? America is such an example and its ecosystem can be considered a standard for comparison. This paper starts by learning about the U.S. entrepreneurial ecosystem. There is much literature available on the American ecosystem. However, it is always beneficial to hear the firsthand account of entrepreneurs and investors to learn the ground realities. Interviews with entrepreneurs and investors from around the world were conducted to present their viewpoints and thoughts on the history and existing state of the ecosystems. The paper also presents a critical viewpoint and analysis of current challenges of the U.S. ecosystem.

While, the European ecosystem is generally considered at par with the American one, this paper lays out a comparison between the two regions and examines the factors that affect the European environment. Though these two regions are somewhat similar, there are certain stark differences in the ways the entrepreneurs and VCs interact; the European geographical and political structures play a major role in forming its ecosystem and contribute towards these differences, presenting unique challenges and opportunities. The paper presents this comparison and analyzes various components of the European ecosystem.
Following Europe, the paper presents the current state of the Asian ecosystem. As the discussion progresses, the differences are laid out from the venture capitalists' and entrepreneurs' perspectives. In the final section, it presents recommendations on what Asian countries need to do in order to create a healthier ecosystem and be at par or better than their western counterparts.

While this thesis is supported by academic literature, interviews with 20 venture capitalist and entrepreneurs from the U.S., Europe and Asian regions serve as the primary source of this study. The interview transcripts are in the exhibit section of this paper. Due to confidentiality reasons, certain interviewees did not agree to have their transcript published into this report, but their views are incorporated in this paper.
Kauffman Index of Entrepreneurial Activity

**Highlights**
- The rate of business creation declined from 449 out of 100,000 adults in 2010 to 328 out of 100,000 adults in 2011, which represents a drop of 5.9 percent. This 0.19 percent business creation rate translates into approximately 543,000 new businesses being created each month during the year.

**2011**

<table>
<thead>
<tr>
<th>Index of New Entrepreneurs: 0.32%</th>
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<td>(approximately 543,000 new businesses)</td>
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Additional Views:
- TABLE
- DOWNLOAD FULL REPORT

View by Year:
OVERVIEW
Entrepreneurship in America has played an integral role in the development of its economy. In the early 20th Century corporate jobs were highly respected in the society. After the late 1970s, however technology entrepreneurs such as Bill Gates and Steve Jobs sparked a wave of innovation inspiring many to take risks and break out of corporate jobs. More recently, in 2011, an average of over half-a-million new businesses started in the U.S. Risk-taking is respected in America; a failed entrepreneur still has chances of success in other sectors and working in a startup is part of the culture. The upside of successful ventures is rewarding and the downside in many cases is trivial. There are many systems in place that help build American entrepreneurship ecosystem. The most significant system is a mature Venture Capital industry, which makes risky investments in early stage business ideas to commercialize them. U.S. markets receive new companies well and established companies usually acquire new companies to improve, expand, or bring new products to the market. The consumer market is very mature and average consumers are always looking for innovative products and many try a new product given its benefits over the existing products in the market. The media also helps by giving free publicity for newer exciting products by broadcasting entrepreneurial stories and interviewing entrepreneurs over TV/radio talk shows.

American schools teach the fundamental skills required for entrepreneurship as part of their curriculum. Children learn about famous American inventors such as Thomas Edison, Alexander Graham Bell, and Benjamin Franklin as they grow up. Many universities are very closely related to industries emphasizing practical education over theories, and college students learn about the latest technologies and industry practices. Many identify flaws or improvements in existing practices and develop a new innovation be it a product or a process that may be
commercialized. Therefore, the majority of startups are in one way or another linked to universities.

Thirdly, the intellectual property laws in the U.S. are designed to protect innovation. Although much of their reach dies outside the borders they are very powerful within. Unlike small businesses in developing economies that experience diminishing market share when large corporations roll out the same product much faster because small companies cannot obtain effective patent protection, U.S. startups have greater certainty of their IP rights.

And finally, the more open immigration policies allow not only native-born citizens, but also immigrants to participate in the ecosystem.

Historically international talent from around the world has been comfortable flying to America and starting businesses. Recently, due to challenging economic circumstances, lawmakers have grown concerned about these policies and there is a continuing debate about immigration.

Nevertheless, according to Robert Fairlie at U.C. Santa Cruz, in 2011, about 28% of new companies were started by immigrant entrepreneurs compared to 13.7% in 1996.

**STARTUP STAGE**

Angel investing is critical for entrepreneurship. The center for Venture Research at the University of New Hampshire states that in 2011, angels invested about $22.5 billion in startups. About 20% of investments were done in Healthcare and Software sectors. Historically angels have been investing in startups on their own and mentoring entrepreneurs. A lot of innovation, however, is happening in new and complex sectors. About 30% of companies are
started by entrepreneurs between the ages of 20-34, many of whom are first time entrepreneurs. While it is important that they get access to capital, the right kind of operating and industry guidance is critical. In order to coordinate better, angels have started to group together to form angel networks. The networks help in not only raising extra capital, but also bringing together sector expertise and providing required mentorship to entrepreneurs. Many Incubators and Accelerators target the same problem and provide mentorship for a small equity stake. They also help startups in gauging market interest and testing assumptions.

Historically innovation based businesses have brought huge gains for entrepreneurs and therefore many startups in the US usually bring new innovations to the market. About 60% of investments happen in technology space where most of the innovation is taking place (Exhibit-US & Canada Investments 2005-2012).

FUNDING STAGE
Before approaching the VCs, the founding team begins its operations, developing product designs, identifying potential hires, and preparing a business plan along with financials to present to potential VC firms. Entrepreneurs develop strategies to identify the best fit of the VCs they would like to work with. Entrepreneurs should network with others in their sector, and seek out input from experienced advice. A VC firm that has made past investments in a similar area, for example, would be a good option. Typically entrepreneurs must reach out to dozens of investor firms and pitch their business ideas. Apart from the business idea investors scrutinize the market
size and opportunity, technology or innovation, and the founding member team. “I look for a team that has worked together before and has entrepreneurship experience” – says Howard Anderson, Senior Lecturer at MIT Sloan School of Management (Exhibit-Howard Anderson Interview Transcript). Other successful investors emphasize other aspects of the startup. The investors discuss the opportunity among the General Partners and decide whether it makes sense to invest. For a pre-revenue company, the valuation is usually mutually negotiated between the cofounders and investors based on comparables from similar firms in analogous sectors or at similar stages of development. For companies with product and revenue, investors value the company based on multiples or a discounted Cash-flow method.

The VC makes its offer to the entrepreneur through a business and legal document called a term sheet. A Term Sheet describes the conditions on which investors agree to invest into the startup. It is a very important document and most of the negotiations happen around it. It is essential for an entrepreneur to hire a good lawyer during this process. Many “smart entrepreneurs” are looking for much more than money and would like to do their own due-diligence of the VC firm and may talk to portfolio company CEOs to understand how the investors add value apart from money. Board seats are also another major concern among investors and entrepreneurs alike. Entrepreneurs may like to get a partner, who is an industry expert, as board member however, it may not always happen. Once the terms are agreed, investors complete their due-diligence and the deal is finalized.

**GROWTH STAGE**
The company management is a much more structured process in the US than in other places.

Usually at this stage the founders already have experience managing teams and running startup tasks and they are expanding teams by recruiting additional talented employees. For promising
startups it is usually easy to attract talent because they are upbeat about potential returns. In the early days of Facebook many programmers jumped ship from Google. Generally, the investors ask the founders to set aside a stock option pool to be given to early employees and the founders are generous about providing equity stake to them.

Investors play an important role in defining the company strategy, except in a few cases, where investors leave it up to the entrepreneur to run the company. They are also very instrumental in bringing talent onboard and finding key customers. Monthly board-meetings help keep the team on track and regular feedback on its performance.

Financial reporting is done on a quarterly basis in the U.S. In the case of startups it is usually done monthly and in some cases even weekly. Frequent reporting enables the company to identify problems early, learn about market traction, and identify target segments. The best startups usually use data and analyze it to make better business decisions, for example, the startup may learn that it has to change its product or strategy because of low market traction. In such cases, the team pivots until it finds the correct way to make revenues. If, however, the investors feel that the team has execution problems it may look for a new CEO or other experts. Once the VC has invested, both the entrepreneur and the investors are in same boat and the focus is not only on protecting the investment but also on generating significant returns on the investment.

ENTREPRENEURSHIP FUTURE
Going forward, America will remain the hotbed for entrepreneurship. People from different walks of life will try entrepreneurship and a more diverse community will emerge. While historically women have represented smaller percentage of the entrepreneurship community, there have been a many successful female entrepreneurs recently and a few have obtained big
executives jobs. As the community grows, more and more women are expected to join it. A lot of the future depends on immigration policies. There is a hot debate in Washington about relaxing immigration laws to promote entrepreneurship. The government has already started a program to issue green cards to immigrants who invest $500,000 into the country. Eventually, entrepreneurship will also become a more integral part of the education system and the coming generation will be much more versed with the basic skills. Given the consumers' willingness to try new products and innovations, the entrepreneurial activity in the region is expected to remain strong. In addition, the rise of Accelerator and Incubator programs across the country is a welcome step as they increase the chances of success of startups and educate entrepreneurs about the market and its needs.
CURRENT INDUSTRY OVERVIEW
The US VC industry accounts for about 70% of the global VC market. The majority of VC activities take place around five major U.S. hub spots – California (Silicon Valley), Massachusetts (Boston), New York (NYC), Washington (Seattle) and Texas. Collectively these five regions make up around 70% of total VC investment activity in the U.S. The 2000s, however, have not been very rewarding for the industry. A 2009 paper by NVCA on VC industry performance calculated that although the VC industry had performed better than the NASDAQ and the S&P 500, the returns remain much lower than those in 1990s. There are many factors contributing towards this poor performance. First is the sector focus. In order to make money in this industry one has to choose the sector wisely. The U.S. has been very bullish on Information Technology and the bet has paid off so far. However, there is growing concern that the market may be maturing and delivering lower returns. Secondly, some experts believe that there is a valuation bubble and investments are too high. Facebook and Groupon IPOs reflected that higher valuation does not necessarily result in higher exit multiple. Thirdly, the exit markets remain tight and most of
the exits happen through M&A rather than IPO where the returns are much higher. Additionally, market conditions have delayed the exits and on average companies have taken longer to trade sale or IPO. Another explanation for these delays could be that a majority of venture-funded companies have a technology focus; to maximize firm value, such companies can target global markets to realize higher profits and therefore incur delays. Furthermore, the chart below from VentureSource shows a rise in mid and late level investing, signaling an increase in investors' confidence in these types of deals and ultimately a rationale for safer investments.

![Median Seed and Early Stage Pre-Money Valuations](chart)

Source: VentureSource through December 31, 2011
Mid- and late stage, US-based deals only

Recently, there has been a rise in the number of Incubators and Accelerators helping entrepreneurs in early stages. A few VC firms have started their own accelerator programs. It gives them the opportunity to not only, test the startups’ potentials but also, screen out the ones that have a high probability of failure. As this space becomes crowded, many accelerators have started differentiating themselves by providing specific values to startups. Philadelphia-based VenturePact accelerator is providing entrepreneurs an opportunity to develop their technology
product with a nominal fee and minor stake. Others provide access to mentors and successful
entrepreneurs to validate business ideas and provide guidance to entrepreneurs.

Given the huge consumer population and growth opportunities in Asia, many established VC
firms have opened offices in the Eastern world. However, the investing returns for such firms
have been troubling. U.S. VC firms typically raise their first international fund, such as a China
or India Fund, from investors in the U.S. and it is focused on investing in companies in a
particular Asian country. While raising the second funds, they try to change the composition and
raise more money from local markets slowly drifting towards raising more and more money from
local investors. However, only the big funds can manage to raise such country-focused funds and
many medium to small size funds stay focused on the U.S. market. It is hard to make money in
developing markets as there are many risks involved, including market risk, currency risk,
regulations risk, and management risk. The eastern markets function differently and the same
investing methodology as the western world does not necessarily work in these markets.

Moreover, talent transfer is another problem in order to start an office overseas. The firm has to
send its partner to train local staff. First off, it is hard to convince a partner who is already settled
in the States to move and start working in China or India. Secondly, in order to locate the partner
overseas there must be more than one investment and the partner should have experience in
emerging markets in order to add value to the portfolio companies.

INDUSTRY STRUCTURE
Venture Capital firms raise funds from high net worth individuals, and institutional investors
such as endowments, foundations and pension funds and invest into high-risk high-reward
companies. These investors are part of a legal partnership structure and remain passive in the
operations of the fund. They are called limited partners or LPs within the investment vehicle.
The money is usually managed by General Partners (GPs) of the legal structure. They are the individuals known as “VCs” and they actively make the decision on which companies to invest in. It is important to note that the industry plays a very important role in predicting the success of a VC firm. Certain sectors such as software, technology and mobile are well-positioned for a large market size and faster growth. Therefore about 60% of US investments happen in the technology sector (Exhibit-US and Canada Investments 2005-2012). But not every bet on technology pays off and a lot of technological innovations fail to get traction leading to losses for the VCs.

In the 80s and 90s many VC firms used to be generalists – a term used to refer to firms that consider investing into multiple sectors to diversify their risk. However as the funds got larger and opportunities started arising in complex sectors such as technology specialist firms emerged. In the paper “Specialization and Success: Evidence from Venture Capital”\(^6\), Paul Gompers, Anna Kovner, Josh Lerner, and David Scharfstein of Harvard University analyzed the VC industry returns to show that on average the returns in a generalist VC firm are lower than a specialized ones. Over time generalist VC firms started recruiting sector specialist GPs who were well-versed in specific sectors or who have relevant prior operating experience as entrepreneurs. The hope is that they will add more value to a portfolio company than a generalist, positioning a generalist firm with specialists at par with a specialist VC firm.

**INVESTMENT PROCESS**

In the U.S. market the supply is definitely equal if not less than the demand. Entrepreneurs looking for funding have a fair chance of running into a VC. VC firms tend to locate themselves close to where the demand is. Educational institutions have a large number of students trying entrepreneurship and therefore looking for funding. A lot of VC firms are located in Silicon
Valley which is a hotbed for technology entrepreneurs and close to universities such as Stanford and UC Berkeley. Many technologies are born out of labs at MIT and Harvard University attracting investors to setup offices in the Boston area. The ecosystem is greatly built in these areas and entrepreneurs and VCs are usually meeting each other through regular networking events and pitch contests. If a VC firm’s partners like an idea, they research the technology and market potential by contacting industry experts, conducting market research, and maintaining dialogues with the founding team. This due-diligence process helps them decide whether to pursue this opportunity further and draft a term sheet. Term sheets are the major focus of negotiation between the entrepreneurs and the investors. While an entrepreneur would like to have a higher valuation and relaxed liquidation terms, the investors would like to have a good control over the company either with a majority equity stake (depending on the investment and the startup valuation) or through board seats and control provisions. After a few rounds of negotiations and if the entrepreneur agrees to the terms the rest of the due diligence process continues. VC firms want to be thorough with due diligence, however, since there are so many unknowns about new technologies, market reactions, and economic environments, success still remains uncertain. “Due-diligence is very important for bad deals” – says Howard Anderson. If the investment tanks the LPs may want to see due diligence records. If it was performed well, the GPs have an answer, if not they have possibly lost LPs’ trust. Normally it takes about 30-60 days to complete due diligence and after that deal is closed, the money is transferred to entrepreneurs, and the investors put board members (typically partners) on the startup’s board to monitor its progress.

Following the investment, board members stay very engaged with the company. Some partners need updates on a daily basis, while others are comfortable with weekly updates. Similarly a few
entrepreneurs are very proactive in providing updates while others deem this to be an unnecessary process. This regular update process can be very time consuming for many entrepreneurs who prefer to stay focused on running their business and spend time on getting more customers. Nevertheless it is a mandatory process that both VCs and entrepreneurs have to follow.

Achieving considerable returns is the goal of all VC investments; while approaches and strategies vary from deal to deal, based on interviews with partners from leading VC firms, the VCs try to achieve their targets by maintaining a mixed portfolio of startups that are ultimately classified as winners, average, or losers. The most returns come from winners, which have great technology, traction in the market, and may exit at 20-40x; followed by mid-range investments where the returns are average at about 1-4x. And finally, there are investments where the technology either fails or it does not find demand in the market. Overall, the returns from winners and mid-range investments help skilled VCs make up for losses from unsuccessful startups to achieve their financial returns target.

INDUSTRY FUTURE

The VC industry in the U.S. is at an interesting juncture because it seems to have reached a mature phase where the returns are not as rewarding as they once were. The VC funds proceeds were above market returns in the 80s and 90s. However, after the tech bubble burst the returns have gone down and they have remained below market. The Kauffman Foundation report “WE HAVE MET THE ENEMY... AND HE IS US” analyzed the top 100 fund performances and found that only 20 of these funds beat the public market returns by only 3% and 62 of these failed to beat market returns. The report argues that one of the problems is that not all LPs monitor their fund performances regularly and secondly the VC compensation system is not
designed to reward performance. VCs typically charge 2% of the funds under management and 20% of the upside. The “2 and 20” structure doesn’t necessarily incentivize the VCs to make smart investments. Rather, many focus on enough returns to raise higher funds in the next round.

The GPs usually commit about 1% of their capital in new funds while the LPs bring the remaining 99%. The report suggests that if GPs invest about 4-5% of the partner capital towards a new fund, it can lead to better performance aligning the interests of LPs and GPs. On the other hand, it may lead to biased decisions by GPs as they may look for safer investments and potentially ignore unproven upcoming innovative technologies. Additionally, introducing new regulations to monitor the fund investments could lead to better understanding of investment decisions and potentially lead to better results.

There is huge competition among VC firms to find or create big wins, because a few highly successful “winner” investments are more rewarding than many average deals. Previously, there were a large number of syndicate deals (when two or more VC firms make joint investments into a deal) because the funds sizes were small ($60-$70 million) and firms benefitted by diversifying risks and committing smaller percentage of fund towards one deal. As the funds have grown larger recently, certain big funds have an option to source the deal alone. Co-investing, however,
remains an idea worth considering as it combines the knowledge of many GPs, introduces more confidence into deals, and diversifies risk, leading to better chances of success.
Total early-stage Entrepreneurial Activity (TEA)

Data from Global Entrepreneurship Research Association (GERA)  Last updated: Feb 18, 2013
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OVERVIEW
Compared to the U.S. a much smaller percentage of the European population is engaged in entrepreneurial activities, though there is a growing trend. The graph on the previous page demonstrates the fluctuation in entrepreneurship action among major European economies compared to the U.S. It compares the Total early-stage Entrepreneurial Activity (TEA) - Percentage of the population aged between 18-64, who are either a nascent entrepreneur or owner-manager of a new business – within these economies. In 2012, about 4.3% of the population of Italy, 5.3% of the population of Germany and about 9% of the population of the UK were engaged in entrepreneurial activities as opposed to 12.8% in USA\(^8\). After the financial crisis in 2008 entrepreneurial activities in all of the major economies dropped, suggesting their dependence on market conditions. Overall, the TEA has increased in major European countries since 2001 except in a few economies such as Spain that were hit hard.

There are very few successful entrepreneurial stories in the Europe including Sir Richard Branson of Virgin Group, Dietrich Mateschitz of Red Bull, Ingvar Kamprad of IKEA and Amancio Ortega of clothing giant Inditex. Historically, entrepreneurship has been seen as a much less viable career choice. Unlike American media or society norms where entrepreneurs are hailed as achievers, European society didn’t picture entrepreneurs as role models. Therefore, the younger generation has tended to rank entrepreneurship lower when it comes to looking for a career option. The picture however is changing and authorities have spearheaded a “Startup Europe” campaign, among numerous other initiatives to create a platform for successful entrepreneurs to share their stories in media and connect with young entrepreneurs.\(^9\)

One of the inherent motivations behind entrepreneurship is opportunity to create wealth. Certain countries such as France, however, have gone to the length of exploring the idea of imposing
75% income tax rates on the wealthiest citizens. This could potentially impact the way in which entrepreneurship is regarded in France. In addition, the capital gains tax rate has been one of the highest in the region leading to reduced M&A activities. In a recent move, however, President Francois Hollande has proposed up to 65% cuts in the capital gains taxes to provide a boost to entrepreneurship and business activity in general.\(^\text{10}\)

Business failures are a common phenomenon and bankruptcies are bound to happen. Bankruptcy laws in Europe tend to be much harsher, with many more protections for employees and creditors than under US laws. The authorities are working on changing this outlook by proposing the revision of EU Insolvency Regulation to better balance the interests of creditors and founders.\(^\text{11}\)

**STARTUP STAGE**

Financial support for entrepreneurs in Europe comes in from a broad spectrum of private sources of capital, including VC funds, as well as numerous government initiatives that provide early stage funding/mentoring to local entrepreneurs. However, if the entrepreneurs’ screening is not done properly, it could lead to misallocation of funds. In Russia, for example, many entrepreneurs look at these support funds as free money and they do not necessarily have long-term goals of expanding their businesses—says Patrick Schneider-Sikorsky, who oversees investments in Russia region for Black Ocean Investments. He goes on to add that many entrepreneurs prefer to raise money from friends and families for the fear of not losing equity. This reluctance to seek independent sources of capital, of course, can be a shortsighted strategy that ultimately chokes off a startup’s ability to grow. In a successful startup with a growing valuation, both investors and founders benefit, although their percentage ownership on an absolute basis may be smaller. The same behavior can be seen in allocating stock options to early employees. It is not common for many entrepreneurs to allocate generous stock option pools to
provide big cuts of stocks to early employees, which could prevent talented people from joining startups. Many entrepreneurs prefer to hire technology talent as employee rather than making them cofounders, which is exactly opposite to the U.S. practice where technology talents mostly become co-founders.

**FUNDING STAGE**
In Europe the majority of VC investments have happened in the UK followed by Germany, France and Netherland respectively\(^\text{12}\). Due to declined market sentiments it is taking longer for investors to exit their investments, making it hard to raise new funds. The investors’ confidence in the region, compared to the U.S., remains low. “Investors don’t like the idea of unproven products. They want to see a proven business model and established revenue stream before making investment decisions” – says Jay Hum, an IE Business School (Madrid) graduate whose business idea (http://www.holoholoapp.com/, an innovative app for travel enthusiasts) graduated from its business school’s prestigious Venture Lab and won an entrepreneurship competition. Many investors in Spanish region like the status quo and prefer to invest in businesses that already have revenues, which is the exact opposite of the investment paradigm of early stage venture capital.

In addition, the valuation of companies remains a primary area of negotiation for many entrepreneurs. Average pre-money valuation in Europe is lower than the U.S. (Exhibit 2005-2012 investment trends), possibly signaling that the average valuation in Europe is lower than those in the U.S.\(^\text{13}\). One potential reason for lower valuation could be the founding team itself. If a company has a serial entrepreneur as part of the team, chances are the valuation of the company would be high because the chances of its success are higher. For the first-time entrepreneurs it could be disheartening to compare valuations to its counterparts in the U.S.
Lower valuations could also result in handing over more equity percentage to investors depending on the amount of capital being raised. It could be demotivating for the team if their equity stakes are not high enough, as it may lose interest along the way since the rewards of the potential upside could be lower than it imagines.

**GROWTH STAGE**
After receiving initial investments, as entrepreneurs focus on expanding their businesses the next challenge they face is to hire top talent in Europe. People’s attitudes are somewhat reluctant towards startups and many would prefer to stay with a high-paying corporate job than a risky startup. Secondly many European economies have strong unions and labor laws, less flexible than those in the U.S., making it harder to fire employees in case a startup is facing challenges. In addition some of the countries require big severance package to be paid after an employee is fired\(^1\).

To worsen the matter further many countries have complicated tax laws and exorbitant tax rates. Many cannot even hire the best people because certain laws prohibit awarding equity from the stock pool to a certain extent, which is a major practice in the U.S. to attract the best talent. In the near future, the odds for startups to hire experienced executives may improve as the large corporations in Europe have been forced to cut down on manpower due to the ongoing European crisis and the unemployment rates remain high\(^1\), many experienced people may open up to the idea of joining startups. Governments are considering options to promote a startup culture, Italy, for example, has lowered the administrative costs to start a company from 10000€ to 16\(^1\).

**ENTREPRENEURSHIP FUTURE**
One benefit for entrepreneurs in the European region is the easy access to multiple European markets and cultural similarities among certain regions such as western-European countries and
the Nordic countries. Compared to other regions such as Asia where it is hard to scale businesses between countries, it is relatively easy in Europe at least among a small group of neighboring countries. For example, Germany-based incubator Rocket Internet started zalando.com (an online fashion store) in Germany and quickly scaled to Italy, Spain, Switzerland, UK, Poland and many other European countries. Going forward, there is a great possibility of seeing more and more cross-country businesses within Europe.

In light of the recent crisis and the falling jobs opportunities for young population, the authorities have realized that entrepreneurship needs to be supported in order to spur sustained growth in the region. The recent revision of the Small Business Act\textsuperscript{17} which reduces regulatory burdens on startups may help increase entrepreneurship in the region. In addition, programs such as Erasmus for Young Entrepreneurs\textsuperscript{18} provides young entrepreneurs with opportunities to interact with experienced ones, encouraging mentorship and collaboration that should be helpful in the long run.
**Key Findings**

<table>
<thead>
<tr>
<th>Venture Capital</th>
<th>Buyout &amp; Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>267 Trade sale</td>
<td>240 Public offering</td>
</tr>
<tr>
<td>72 Public offering</td>
<td>46 Write-off</td>
</tr>
<tr>
<td>213 Write-off</td>
<td>76 Repayment silent partnership</td>
</tr>
<tr>
<td>281 Repayment silent partnership</td>
<td>128 Repayment of principal loans</td>
</tr>
<tr>
<td>59 Repayment of principal loans</td>
<td>133 Sale to another PE firm</td>
</tr>
<tr>
<td>56 Sale to another PE firm</td>
<td>224 Sale to financial institution</td>
</tr>
<tr>
<td>11 Sale to financial institution</td>
<td>32 Sale to management</td>
</tr>
<tr>
<td>97 Sale to management</td>
<td>115 Other means</td>
</tr>
<tr>
<td>31 Other means</td>
<td>40</td>
</tr>
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</table>

**Source:** EVCA / PEDEF Analytics

<table>
<thead>
<tr>
<th>Source</th>
<th>Investment Capital</th>
<th>Venture Capital</th>
<th>Buyout &amp; Growth</th>
</tr>
</thead>
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<tr>
<td>All Private Equity</td>
<td>£29.6bn</td>
<td>£2.32bn</td>
<td>£27.28bn</td>
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<tr>
<td>Venture Capital</td>
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<td>995</td>
<td>1,966</td>
</tr>
<tr>
<td>Investments - Number of companies (market statistics)</td>
<td>1,961</td>
<td>995</td>
<td>1,966</td>
</tr>
</tbody>
</table>
CURRENT INDUSTRY OVERVIEW
Historically the European VC market has always lagged behind that of the U.S. until the dot-com bubble bust when in the U.S. the investors’ confidence took a deep plunge and investments decreased significantly. The European VC market did not even take off until around the creation of Euro.nm in 1997, a pan-European network of regulated markets dedicated to growth companies, which made listing high growth startups easier. Black and Gilson in their paper “Venture Capital and the Structure of Capital Markets: Banks Versus Stock Markets” argue that a lack of IPO exits result in lower VC investments for example in countries such as Japan and Germany. Therefore creation of Euro.nm led to a large increase of VC investments in Europe.

Before 2009, the UK outpaced U.S. in terms of VC investments (excluding seed capital) as part of the GDP on a five year average. It is, however, important to note that the UK GDP (nearly 2.5 trillion) is about 1/6th the size of the U.S. GDP (nearly 15 trillion). After the financial crisis the trend reversed. In 2010, the U.S. invested about 0.15% of its GDP compared to 0.045% in UK and 0.026% in Europe. The crisis also led to a significant decrease in investment sizes. A Deutsche Bank report says that in 2009, the total VC investment in Europe was €4 billion compared to €13 billion in the US. It further claims that an
increase in VC investment of 0.1% of GDP leads to an increase of 0.30 per person in real GDP, which is why the authorities care about venture investments especially in times of crisis such as now.

**INDUSTRY STRUCTURE**

After the recent financial crisis, the private investors reconsidered their decision to invest into a new fund and the size of new funds reduced significantly leading to a fundamental change in fund structures. In the U.S. most of the funds come from institutional investors such as pension funds and university funds. In Europe the situation is different and it lacks the participation of pension funds. Prior to the crisis, the majority of the funds came from financial institutions. But after financial institutions took major hit in 2008 the government had to step in and create funds such as European Investment Fund (EIF) to increase venture investments. But having government-backed funds beyond certain limit induces a conflict of interest and the fund performance may not be as good as it could be with private funds.

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**Share of government agencies in total VC fundraising in Europe**

![Bar chart showing the share of government agencies in total VC fundraising in Europe from 2007 to H1 2011. The chart indicates a significant increase from 2007's 10% to 2011's 57%.](image)

*Source: EVCA/Perep_Analytics*
Many of the investments in EU region happen in B2C sector as B2B business models are hard to establish by entrepreneurs since it is hard to get access to big corporate clients. It is usually hard to get large corporations to trust smaller startups and accept them as business partners. In addition, investments are mainly done in technology sector because of the academic focus of better technology research. Germany, for example, is a sustained economy based on advanced successful engineering and technology.

There are many copycat businesses coming up in Europe. Rocket Internet GmbH, a Germany based incubator, is famous for replicating successful internet-based business models that have been proven to work in the U.S. Institutional investors also prefer to invest in such business models. During the interviews, industry experts stated that recently the investors have grown especially interested in e-commerce, the mobile space and social gaming industry given the growing global interest in these sectors.

INVESTMENT PROCESS
London is the hub for European investments and being a financial capital and home for many large financial institutions, many VC funds attract investments from them. Since Germany weathered the financial crisis rather better than others it has seen a rise in VC activity recently. Berlin based VC firm Earlybird claims that Berlin is emerging as a new Silicon Valley of Europe with being home to companies such as Zalando.com, Soundcloud and 6WunderKinder.22

One of the stark differences between investment philosophy of the European VCs and the U.S. VCs is that the former prefer to look at a working and proven products for investments purposes, which is why a lot of investments happen in later stages in Europe. In addition, the chances of getting funding are higher if the founder is a serial entrepreneur.
Recently there have been a few good exits in Germany leading Earlybird to claim that few European funds are more capital efficient as the investments have made exits equivalent to U.S. markets despite lower funding requirements.\textsuperscript{23} Cost-wise, about 70\% of startup costs are labor costs and generally speaking the startup support services such as office rents, lawyers etc. are more expensive in EU compared to US – says Steve Schlenker of UK based DN Capital. He further adds that his company usually gets pushback on scheduled equity vesting from entrepreneurs from EU and not from those from U.S., signaling their somewhat conservative approach towards entrepreneurship. In addition, the funds usually have a hard time recruiting the best talent to guide the portfolio companies and to handle the exits.

In terms of investment process, mostly the investors follow same process as those in the US. “The expected returns are about 10x for early stage deals and 3-4x for later-stage deals” - says Steve Schlenker of DN Capital (Exhibit-Interview Transcript Steve Schlenker). However, there is a big difference between the attitudes of young VC firms and the experienced ones. While the young ones may tend to invest in more early stage opportunities, the experienced ones stick to growth stage investments. In addition, older firms have more formal reporting and monitoring processes. But when it comes to exits, the newer firms may make biased decisions in favor of IPOs in order to establish their reputation in the industry.

**INDUSTRY FUTURE**

U.S. venture investments have been especially successful in technology-driven industries leading European VCs to explore this area. With declined economic outlook in the EU region, investors have started to look far beyond their country borders. Russia, Ukraine and even Turkey have huge young populations with expertise in the technology and engineering fields. Many investors make frequent trips to these places in search for the next billion dollar idea\textsuperscript{24}. Of course, the risks
are even higher when investing in remote countries as they face challenges of venturing into new markets. It is a time consuming process to learn market fundamentals in international markets and it is hard to get it correct unless the market research has been performed well. Rocket Internet GmbH closed its offices in Turkey\textsuperscript{25} and cut down investments in Russia citing poor performance and lack of traction in the market.

Compared to its Asian counterparts, European countries have great pan-European support from the authorities. The EIF fund\textsuperscript{26} already invests in SMEs across Europe. However, the problem is that it targets later stage funding as compared to early stage investments to fuel growth. Moreover, being pan-European it lacks the required expertise in different markets within Europe. Probably, it will be much better if either the fund changes its focus or a new fund is created to invest in early stage innovative companies. Furthermore, EIF should be more engaged and work with individual EU economies to ensure better chances of success. The governments are also working on other provisions such as simplifying legal frameworks, taxation laws and cross-border investment opportunities for investors.

The authorities should develop a common platform to share best practices across countries to avoid pitfalls and learn from each other. The investors sometimes do so and create a knowledge base to share among its investments. Rocket Internet, for example, has established a culture of sharing mistakes and learning from different ventures.
### Key India VC statistics

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested capital (US$m)</td>
<td>$812</td>
<td>$1,064</td>
<td>$1,500</td>
</tr>
<tr>
<td>Investment rounds</td>
<td>83</td>
<td>103</td>
<td>155</td>
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<tr>
<td>Median round size (US$m)</td>
<td>$4.2</td>
<td>$7.9</td>
<td>$5.5</td>
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<tr>
<td>Number of VC-backed IPOs</td>
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<td>2</td>
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<tr>
<td>IPO capital raised (US$m)</td>
<td>$532</td>
<td>$46</td>
<td>N/A</td>
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<td>Median time to IPO (years)</td>
<td>N/A</td>
<td>4.30</td>
<td>N/A</td>
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<tr>
<td>Number of VC-backed M&amp;As</td>
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<td>17</td>
<td>5</td>
</tr>
<tr>
<td>Median M&amp;A valuation (US$m)</td>
<td>N/S</td>
<td>$62.9</td>
<td>N/S</td>
</tr>
<tr>
<td>Median time to M&amp;A (years)</td>
<td>4.2</td>
<td>3.5</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: Dow Jones VentureSource, 2012
OVERVIEW
The entrepreneurship ecosystem in Asia is not as developed as in the western world. Angels, mentors, investors, government, schools, entrepreneurs and the market form different parts of the ecosystem and there is a huge bottleneck when it comes to making all these components work together. Mentors and angel funding is crucial in making entrepreneurship successful. However, compared to USA there has been very little improvement on this side. With many western companies setting shops in Asia, high profile jobs are easily available for the talented.
Entrepreneurship on the other hand has great risks associated with it. Any potential entrepreneur has a choice to make – to go after a safe corporate position or to start a company and incentives should be higher if one has to choose the latter.

Many academic institutions in the western world teach the risks and rewards of entrepreneurship and promote it as an alternate career choice. On the other hand, schools in Asian countries have not viewed entrepreneurship as a viable career choice in the past. However, with the growing success of entrepreneurs in western countries there is a growing trend towards entrepreneurship in Asian region as well. China is way ahead of rest of the nations in this regard because of many high profile exits. In 2011 China had 456 exits with 356 IPOs and 41 trade sales\(^27\). There have been a few exits in India as well but the success has not been as profound as in China. This has motivated the youth to pursue entrepreneurship. Lately the business schools have also adopted to teach entrepreneurship and foster the environment but it is still underway.

The population explosion has forced the market to stay focused on consumer products. There are many small entrepreneurs who stick to family businesses in consumer products and services. However, the growth of the internet and technology has inspired the new generation to look beyond the consumer market and explore technology based business models.
SEED STAGE
Many entrepreneurs do not like to be the first to bring a new idea to market where the customer learning curve is high. Startups cannot afford the high costs of educating the consumers. For the same reasons, investors also do not like to be associated with such an idea. To be on the safer side, many entrepreneurs do not innovate and stick to copying a successful business model that works in western world and have not yet been introduced in Asia. For example, Rocket Internet GmbH is launching proven business models from the west to the emerging markets and differentiating on execution. But, the culture, need and behavior of Asian consumers are very different. In the west, most of the people have learned to live off of the internet contrary to Asia where the infrastructure is not as developed. An online grocery shopping model may work in the west but it will not find traction in Asian markets except a few metropolitan cities. Therefore, the consumer goods businesses still work better in Asia. This is why many upcoming startup business models are B2C rather than B2B.

The interviews with entrepreneurs revealed that an average Asian entrepreneur does not do a lot of market research before launching the business. A lot of times an entrepreneur follows his/her instinct to launch the business. Entrepreneurs depend on their personal experiences or contacts in order to learn about a market and consumers. A few months down the line the entrepreneur may realize the misfit between the business model and the market. However, if one has close ties with the business community it will increase chances of success. Many of the successful entrepreneurs either have received education from abroad or have close contacts with rich business-owning families to learn the fundamentals and also to get around with red tape and corruption, which is very common in many Asian countries.
At the same time, there are a few who are very clear about the entrepreneurship process and have done their homework well. Christian Sutardi, founder of lolabox.com in Indonesia, has raised seed funding round and is all set to launch his business (Exhibit-Interview Christian Sutardi). During the interview he stated that he has done thorough research on the Indonesian market and has already segmented his customers by using data. He is currently running the website in beta to gauge consumer interest and validate his initial hypotheses. Christian is in regular touch with other successful entrepreneurs and learning the basics every day. An approach like Christian’s is more likely to make an entrepreneur successful than an instinct-based strategy and execution.

Furthermore, many entrepreneurs do not have any go-to-market and competition response strategy. They believe that there will be no competition response and that consumers will love their product even if they start a commodity business. It is also common to see that very few entrepreneurs think about creating a compatible cofounders team. Many try to start the business on their own and the possibility of failure is higher when they cannot handle the burden of running many different tasks.

**FUNDING STAGE**

Despite the rise of many investors in the region, probably the first place many entrepreneurs source funding is through their network. The rise of accelerator and incubator programs has been very helpful for many. However, a few mentioned that they would never go to a startup accelerator/incubator as they see no value add. Some are afraid of discussing the business idea with others in early stage which is counter-intuitive because the more a business idea gets validated the better it is for the entrepreneur. Others think that it will be a waste of time and potentially delay the product/services launch. It could be due to limited education and awareness among entrepreneurs, which must be addressed.
Usually, when entrepreneurs look out for funding it is highly likely that they will chose a local investor who has market ties, knowledge and possible customer contacts. But entrepreneurs should be thinking strategically and not only be limited to local investors. If the product/service has a potential to be expanded globally, international investors make perfect sense. Andrew Darwis, an icon among local entrepreneurs and founder of Kaskus.com, the largest Indonesian web-based forum, says he chose local investors because they were the biggest conglomerates in Indonesia and had ties with other businesses and government (Exhibit-Interview Andrew Darwis). Kaskus.co.id is a great inspirational story for many entrepreneurs in Indonesia. In the late 1990’s Andrew flew to Seattle to learn web programming. He started kaskus.co.id in the late 1990’s and kept it open and free to the Indonesian community. Over a period of eight years, the website grew to become one of the largest in Indonesia and Andrew returned home to take charge of the business. In 2008, he received multiple funding offers from international investors but he chose a local investor.

A common view among the entrepreneurs is that the Term Sheet is a legal binding document which restricts their freedom and they perceive it as offensive. There is huge trust gap between entrepreneurs and VCs. Therefore Term Sheets that favor entrepreneurs are preferred and have higher chances of getting accepted.

**GROWTH STAGE**

Following the investment, the entrepreneurs are usually in charge of leading the business. However, there are many hurdles along the way. One of the biggest ones is employee/talent management. A young company definitely needs talented people in order to succeed and it is very hard to steal them from corporate jobs. It is not rare to find a foreign-educated person returning home to pick such jobs as he/she usually seeks to enter startups. Rocket Internet, for
example, hires young talent from international b-schools to run its ventures in developing countries. Another hurdle for a startup is supplier or partner management. A young company needs to win customers and often needs to deliver on faster service and better customer service. Suppliers are not used to working at a fast pace as traditionally they have been working with larger companies which are typically slower in nature. Many suppliers site infrastructure problems, which is real as infrastructure in most of Asian cities is expanding at a slower pace than the growth is. It is hard to create a competitive advantage on execution and even harder to create one on customer service. For example, an e-commerce retailer cannot promise a fixed delivery time because of the supplier unreliability and poor infrastructure, adversely affecting its customer satisfaction.

Most of the entrepreneurs do not have a defined exit strategy. In fact, they don’t even like to think of an exit at an early stage. Some want to try out entrepreneurship for a short time and carry it forward if it works. Others are in it for long term but have not thought about exit options. It is a good strategy to think about potential exits while starting a business and VCs can add significant value by helping in this decision.

ENTREPRENEURSHIP FUTURE
Entrepreneurship is slowing taking shape in Asia. With growing population there is a demand for many innovative and traditional businesses as well. Asia is a complex market and many western companies have tried and failed to get a foothold in the region. The local entrepreneurs have a distinct edge of market knowledge and they are slowly learning and waking up to it. However, the ecosystem needs to be developed more and markets should be embracing risk-taking entrepreneurial behaviors. Recently many foreign-educated people are returning back to their home countries and trying to do startups. They take advantage of the ties they have built in the
western world to secure funding and knowledge. Overall, one need not have a great and
innovative idea to revolutionize the market. The demand is so high that there is enough room for
multiple players. And as these startups establish themselves markets will develop overtime to
create greater chances of exit though IPO or acquisition.
Market's contribution to global GDP vs leading global companies' share of total revenues \(^1\) from given markets, 2010, %

<table>
<thead>
<tr>
<th>Developed markets</th>
<th>Emerging markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of global GDP</td>
<td>64</td>
</tr>
<tr>
<td>Share of revenues</td>
<td>83</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>North America</th>
<th>Western Europe</th>
<th>Asia-Pacific (developed)(^2)</th>
<th>Asia (excluding Japan)</th>
<th>Latin America</th>
<th>Eastern Europe</th>
<th>Middle East, Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of global GDP</td>
<td>26</td>
<td>25</td>
<td>13</td>
<td>16</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>% of revenues</td>
<td>39</td>
<td>28</td>
<td>15</td>
<td>8</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

\(^1\)For 100 of the world's largest companies headquartered in developed economies; figures for GDP do not sum to 100%, because of rounding.

\(^2\)Asia-Pacific (developed) includes Australia, Japan, New Zealand, and South Korea.

Source: Company financials; McKinsey analysis
CURRENT INDUSTRY OVERVIEW
About half a century back Asia was not at the forefront of economist’s radars. However, viewpoints have changed now and many are looking to invest in Asia given that most of the global growth is slated to come from this region. According to a recent McKinsey report the total size of consuming class (people with daily disposable income > $10 at purchasing power parity) has grown to about 2.5 billion. By 2025, it is expected to grow at the same pace to about 4.2 billion out of the expected world population of 7.9 billion. And by the same year annual consumption in emerging markets is expected to rise to $30 trillion from current estimates of $12 trillion in 2012.

Every public or private investment firm must be aware of this fact. However, despite the growth potential of Asia, the venture capital investments have been very fragmented around the region. In 2012, Asia accounted for only 18% of total number of deals around the world. Most of the share is accounted for by China and India. Greater China and South Asia had a combined share of 74% of all VC investments in Asia while North Asia accounted for only 19%.

Established large international investors have been trying to get their foot in the door for a long time. Most of these investors favor later stage investments given that early stage companies face tougher road towards profitability. The recent rise of wealth in Asia and introduction of new business models such as Incubators and Accelerators have given the local firms a chance to enter the market. Incubators/Accelerators business models have brought down the barrier to entry in this market. Hence, companies with smaller funds have gotten a chance to try the industry. Most of them have been very motivated by the success stories in the west. However, there are a few who enter the market in order to help the economy and local entrepreneurs. Overall, there is a
slow rise in investments by western companies such as Rocket Internet and local investors in Asian markets.

**INDUSTRY STRUCTURE**
Aside from India and China, where international investors have been able to setup their shops and have made successful investments, the rest of Asia has been relatively left alone. The problem could be two-fold - investors are wary of the inherent systemic risks and the entrepreneurs also do not find great fit for their goals. A trust gap exists in the market. Most of the businesses in Asia are relationship-based where the majority of the market share is owned by either large conglomerates or state companies. Entrepreneurs feel that local VCs can add more value by providing entry into the door of these large potential clients. Therefore, in order to be a successful investor, one should have big contacts and established relationships with governments and large corporations. International investors have a tough time establishing these relationships and that’s why they don’t usually become first choice of entrepreneurs while seeking funding. In Indonesia for example, most of the large investor firms are spin-off arms of big conglomerates. Therefore VC firms are still family owned small businesses.

Having a lack of investment experience and stuck into the conglomerate mentality, these firms don’t look beyond basic consumer goods industry. Innovation is not their very first criterion as opposed to western investors. Since 2005, about 47% of total investments have been made into consumer and industrial sector (Exhibit-Asia Industry Investments 2005-2012). As the conglomerate owners grow old their successors, however, are looking beyond the traditional investments and are opening up to invest into technology based businesses. Although in 2005, only 90 deals were made in the IT sector, it has grown by 550% percent over the last seven years (Exhibit-Asia Industry Investments 2005-2012).
Owing to the lack of investment experience is the growth of innovative business models. Pt. Grupara Adva Informatech, for example, has started an accelerator program which provides free office space and resources to entrepreneurs while they develop the idea and product in early stage. After the firm becomes comfortable with the idea and entrepreneurs, it invests into its portfolio companies to take them to market. This idea is well-received because the investors don’t take too much risk by investing in the beginning without understanding the concept. “A lot of entrepreneurs are not serious about their ideas and they are often looking for quick money. We too are not sure whether the idea is great or not. A good way to test both the doubts would be to invite entrepreneurs to join our program for free and work on the idea.” – says Aryo Ariotedjo, Managing Partner at Grupara.

The portfolio selection by investors is also a non-standard process. A lot of importance is given to the ones who come though recommendations. Normally expats or foreign-educated entrepreneurs get a lot of attention from investors. Jakarta-based Merah Putih incubators founder Antonny Liem states that Asian consumer mindset is very different from western consumers. He further adds that if a business can help consumers save money, make money or provide entertainment then it is in good spot and those are the startup ideas he seeks.

**INVESTMENT PROCESS**

As stated earlier, a lot of funds in Asian countries are rich-family funded. Singapore as an exception has many funds from the government, says Kay-Mok Ku, a partner at Gobi Partners. The problem with running funds that are backed by one huge conglomerate or a State is that some of the investments may not necessarily be rational and be biased towards what investors deem necessary for their own benefit or success. Although some established funds in China and India do follow standard investment processes from raising funds from limited partners, having a
fixed investment horizon, expecting standard returns, negotiating Term Sheets, and monitoring companies during investment phase to help in exits, there are those who do not abide by these common western practices. Deal-sourcing is not an active process and given the demand supply ratio it does not have to. Generally, the terms are negotiated keeping entrepreneurs in perspective as the companies believe in long-term returns. Andrew Darwis of founder of kaskus.com says that his investors were happy to offer the terms I deemed feasible (Exhibit-Interview Andrew Darwis) and agreed with my vision of the company. Of course, his investors were one of the largest conglomerates in media/advertising industry in Indonesia and strategically, kaskus.com fits into their long-term perspective as it gets huge traffic.

After the investments, many funds do not stay involved with startups very regularly. Of course there are board seats and voting rights but a lot is left up to the entrepreneur to decide. Essentially, such funds function as a bank loan except that they own equity stakes in the businesses. Although the entrepreneur might be happy that he/she doesn’t have to waste time on weekly/monthly reports, it might also be dangerous to give the reigns completely into entrepreneur’s hands as the company may not stay on target.

Many Asian markets are not supportive of exits though acquisition or IPOs. Chinese and Indian markets have been moving in this direction and there have been some very successful exits including baidu.com of China, which peeked out in 2010 with 177% growth over 2009. But the global economic scenario has slowed down IPO exit prospects in Asian markets. Therefore, investors are not confident in exits and that contributes another reason towards the non-entry of large funds into Asian markets. The local investors stay positive towards long-term exit prospects and/or acquisition of portfolio companies by large multinational such as the acquisition of Koprol by Yahoo Indonesia. But, in the long term, acquisition exits will go up as
multinational firms make an entry into Asian markets and existing businesses are one the best ways to acquire customers.

Lack of talent is another problem that investors often mention. Business education is not very profound in many Asian countries. Of course, one doesn’t need business education to create a successful business. But unlike western education where business education is part of the regular curriculum and children learn about it while growing up, eastern education system is not designed to do so. India, for example, has education system that prepares student well for a career in Science and Technology. Investors state that a lot of their time is wasted teaching entrepreneurs about basic accounting and marketing terms. They often look out for entrepreneurs who have had education abroad, preferably in western countries. Surprisingly, there is not enough push from the government side to promote business education among children and, certain countries struggle to gather government support to foster entrepreneurship.

**INDUSTRY FUTURE**

Overall, the Asian VC industry is growing but at a slow pace. There are too many variables in the industry and the market is not supporting it. The State’s role is very critical and laws and regulations should be modified to foster foreign investment. A few successful exits are a must in order to boost investors’ confidence and motivate more entrepreneurs. There are very good venture capital opportunities still untapped specifically in Southeast Asian countries such as Indonesia, Malaysia, Vietnam and Thailand. Rocket Internet GmbH has made huge bets in the region and has started many Internet-based ventures in the region. The company believes in the growth potential in Asia and is expanding rapidly to capture market opportunities. Its limited partners too are very bullish on the future and have recently invested more funds.
CONCLUSION

After studying the entrepreneurship and venture capital industry in all three regions it seems that entrepreneurial ecosystems have matured to different levels in different regions.

America remains far ahead of Europe and Asia, and has very well developed processes and support for entrepreneurship. Although the west coast has the most developed ecosystem, east coast areas such as Boston and New York are close. Depending on the industry, entrepreneurs move to the locations where they may find the best support and chances of receiving funding to grow their companies.

Europe follows closely behind and has been trying to catch up with the U.S. However, the recent European crisis has affected its push towards entrepreneurship to some extent and the sentiments and efforts of people and the governments alike. Europe, in the midst of widespread austerity measures and harsh cutbacks in some countries, has pockets of entrepreneurial activity, particularly in England and in Germany that is supported by both public sector efforts as well as by private investors and enthusiastic entrepreneurs. Entrepreneurial growth and the shift in culture are indeed happening in Europe, but it is very much a lumpy and uneven process, with conclusive results not yet visible.

Asia lags behind both the U.S. and Europe and to some extent it is understandable as the priorities of developing nations are different from those of Europe and the U.S. The Asian region is large, diverse and difficult to generalize about. It is clear, however, that in certain leading cities and regions, particularly in China and India, the necessary components of entrepreneurial ecosystems are developing, again at an unsteady pace. Clearly, Asia and its individual markets continue to face very significant challenges to meet its promise as the next rising entrepreneurial ecosystem, but there are many promising signals.
CREATING A SUCCESSFUL ENTREPRENEURIAL ECOSYSTEM

Having analyzed the VC and entrepreneurial environments in the U.S., Europe, and Asia, the following factors play an important role in creating a successful entrepreneurial ecosystem:

END CONSUMERS
America is an innovation based economy; its consumers have a large appetite for new products or services innovations. This kind of market allows for high adoption of new technologies and products, and the legal infrastructure in many cases supports waves of innovation. Investors also love such markets and their filter criteria are generally low for innovative products.

GOVERNMENT AND REGULATORY ENVIRONMENT
While the markets in US and EU have given small returns recently, Asian markets have grown rapidly and this has presented opportunities for international investors to diversify and invest in Asian markets. Although, many big funds have been successful others have struggled to catch up, many others remain skeptical about Asian markets given the unstable political environments and protectionist attitude in certain regions. In order to boost confidence of investors, it is important that governments open their economies to international investors and build a coherent agenda to send stability signals. But in diverse democratic countries such as India it remains a challenge as the government is usually formed through alliances with multiple parties and it has to bring all of them to a consensus while making important economic decisions. Despite being an open economy, incumbent Indian government faced challenges in passing the law on Foreign Direct Investment in multi-brand retail because partner political parties were protectionist in nature and opposed the idea, hurting the sentiments of international investors.

Currency risk remains another factor for international investors while considering investments. Indonesia, for example, has struggled with its currency devaluation and of course, investors would not like to put their money in such uncertain markets.
Tax laws are also critical to promote investments. Adopting fair, transparent and straightforward tax laws are critical in attracting foreign investment or in bringing local investors back to their home markets. This is of course an ongoing challenge for all markets, developed and emerging.

On the entrepreneur’s side, authorities can help by relaxing regulations regarding setting up new business or expanding across states and by reducing transaction times and costs. During the late 90’s and early 2000’s India government promoted setting up of software technology companies and Call Centers by establishing special physical premises such as Software Technology Parks of India. Since the incumbents of these facilities enjoyed special taxation benefits, many people quit their corporate jobs and turned entrepreneurs to start software product/services firms. It is also important that the bankruptcy laws are relaxed and entrepreneurs do not dread them while considering the possibility of failures.

CAPITAL FLOW – DEBT AND EQUITY
In the US, majority of VC funds raise money from institutions such as pension and endowment funds. The LPs usually allocate their assets among publicly traded investments and alternative assets, such as VC, PE, real estate, commodities and hedge funds. Obviously this structure has worked very well and EU and Asia should open up to adopt it. Government can play an important role here by fostering and easing regulations to allow such investments.

MARKET AND CORPORATE ATTITUDE
Corporate involvement is necessary for the success of smaller businesses. Corporations can not only help by engaging with them to share knowledge to create innovative solutions by becoming strategic investors but also in creating an exit route by acquiring smaller companies. Technology companies such as Cisco, Google and Facebook have special M&A teams that are on a constant lookout for acquisitions and strategic investments.
IPO is another exit route for businesses. However, it is not an easy exit unless the market is receptive to new business ideas and the regulations are well-designed to ease the process of going public. EU and China created special stock exchanges for high growth technology companies that motivated many to pursue entrepreneurship.

**CULTURAL PERCEPTION**
In the U.S. entrepreneurs are hailed as heroes and the media helps by giving free airtime to promote innovative products. Business failures are not considered taboo within the society. On the other hand, in many developing economies and some European countries, failures are not received well. As a result, many chose to take safer corporate jobs as opposed to entrepreneurship. Hence the attitude of society should change towards risk-taking, and failures, and entrepreneurship should be considered a viable and better choice than corporate jobs. In addition, success stories must be hailed via media and other means such as political speeches.

**EDUCATIONAL INSTITUTIONS**
Educational institutions can help in promoting entrepreneurship and changing attitudes of the youth towards it. Many institutions in Asia and even Europe have a lot of catching up to do with their U.S. counterparts. The U.S. has established a perfect engagement framework between educational institutes and industries. This provides the students with many opportunities to stay close to industries and learn about their deficiencies. Asia and Europe should develop such an infrastructure and promote innovation culture in universities. In addition, proper Intellectual Property rights should be introduced to safeguard innovations and promote their commercialization.

**TALENT AVAILABILITY AND MENTORING OF ENTREPRENEURS**
Scarcity of talent is often cited by investors in developing markets. It can be solved by creating better courses and changing the existing educational curriculum in the universities to train
students in technologies that are more relevant to the job market. Government should help by creating incentives for successful entrepreneurs to engage with and mentor upcoming entrepreneurs. In addition, accelerators and incubators can also play an important role in ensuring success of new businesses by offering advice and guidance.

**RECOMMENDATIONS TO DEVELOP ASIAN ENTREPRENEURIAL ECOSYSTEMS FURTHER**

There is no doubt that the Asian ecosystem is changing. It is highly unlikely, though, that a big change will arrive in next four-five years. In the short term, the majority of Asian economies will continue to struggle to lift entrepreneurial activity. However, many countries such as India and China have been working on concrete plans to develop it. There are many other changes at the social and economic levels that will lead to the overall growth of ecosystem. There is always uncertainty as to whether these initiatives will follow through as planned.

Based on the required levers introduced in previous section, three main actors, namely government, investors and entrepreneurs can take the following steps to develop Asian ecosystem further:

**GOVERNMENT-LED INITIATIVES**

Government support can play a very important role to raise the entrepreneurial activity in a country. As mentioned earlier, authorities in countries such as India and China have planned to promote entrepreneurship. China, being a communist economy, has a high probability of success in these efforts compared to India given the latter’s multi-party system. Therefore, these initiatives could be a short term effort to bring changes and retain power by incumbent government and the agenda may change in the next election cycle.

There are four major areas in which governments can lead initiatives:
1. **Regulatory framework**: Authorities can ease laws and regulations related to creating and registering new businesses, cross-state operations, lower taxes, labor restrictions, and intellectual property protection.

2. **Infrastructure Development**: Most of the Asian nations lack the adequate infrastructure that can support new businesses. Many of the innovation in the U.S. happen around delivery times and new firms differentiate based on infrastructure-related problems because they tend to help consumers save time and make things convenient. Therefore, infrastructure development will enable new innovations and also boost consumer confidence into new firms as it solves their needs.

3. **Educational Institutes**: In India, prominent institutions such as IITs (Indian Institute of Technology) and IIMs (Indian Institute of Management) remain government funded and their major decisions are taken at government level. Instilling entrepreneurship related curriculum and establishing closer ties with the industry will encourage students to think beyond regular white collar jobs and take entrepreneurship as an alternate choice.

4. **Market development and increase capital flow**: Governments can find ways to promote M&A activities by reducing red-tape and IPO exits. In addition, creating an investment vehicle such as Fund of Funds (FOFs) could further boost entrepreneurs’ confidence and remove factors such as investment availability out of the equation.

Once the government establishes a support framework along these major points, the investments and entrepreneurship activity will go up. A few exits will start a chain reaction leading the first generation entrepreneurs to invest in newer startups and starting their second or third companies. Investors too will run to get a piece of the pie by competing with government funds and initiating
their own investments. Relaxed laws will lead international investors to jump in. Therefore, in the long run a healthier ecosystem will emerge.

**INVESTORS-LED INITIATIVES**
Investors can lead the initiatives in the following ways:

1. **Develop tolerance and patience for new products:** While it is always rational for the investors to invest in fast-growing technologies, new products or services may take some time to gain traction. Therefore, investors need to look at entrepreneurs’ proposals from a new angle and incorporate the tolerance and patience into it.

2. **Develop trust with entrepreneurial community:** In order to break the entrepreneurs’ common myth that VCs are not their business partners, the investor community needs to engage more with them and develop interactions to communicate trust. Regular meetings, feedbacks and common gatherings should be held in order to educate young entrepreneurs about VC investing and the need for it.

3. **Corporate engagements:** Large corporations can also help in this direction by encouraging entrepreneurs to develop innovative products. Corporations can start by collaborating with educational institutes in R&D activities and provide necessary direction for commercialization of innovative products. They should engage with entrepreneurs in order to not only mentor them but also to gain access to newer products that can help them gain a competitive advantage. It also helps increase entrepreneurs’ chances of exit and success as corporations will possibly make strategic investments leading to more M&A activities.

4. **Local + International joint investments:** There is a lot to learn from international established investors. The local investor community should engage more often with
international investors and make joint investments in order to learn the basics that made American investing practices so successful. While on one hand it will help boost local investors' knowledge and help them expand their investments beyond their country borders, on the other it will help local entrepreneurs expand globally.

ENTREPRENEUR-LED INITIATIVES
Entrepreneurs can help develop the ecosystem in the following two ways:

1. **Form communities and share ideas:** The American entrepreneurial community is well-developed and there are many support forums to help young entrepreneurs receive guidance and help. It is also common practice to bounce ideas off friends and families to gather feedback and tweak the business model. This model is very helpful as it not only validates their ideas but also provides them early signs on how the demand is going to be. Such communities must be formed in Asian countries.

2. **Investor interactions:** The entrepreneur should also seek out early inputs from investor communities and stay close to them. In the U.S., entrepreneurial activities usually follow hot trends. For example, the market suddenly saw a huge inflow of app-based startups when iPhone and Android phones flocked to the market. Investors usually have a good sense of what the hot trends are in the markets and they can guide entrepreneurs in that direction.

INTERVIEW TRANSCRIPTS
How do you raise funds?
VCs raise funds from Limited Partners. LPs are pretty much defined. VCs don’t want individuals anymore. Earlier days, companies were LPs who wanted a window on technology. We used to take money from big corporates and teach them how to become VC. But, it has been evolved since then. Today, you want LPs such as pension funds which are looking for returns only. And the returns haven’t been that good lately because the markets are acting rationally. And VCs don’t want rational market. The venture industry is based on Nasdaq. If Nasdaq is high the comparables are good.

What industries/markets/regions do you focus on?
Old style VCs from 1980 were generalist. But it took then too long to get up to speed so firms started to specialize in certain sector such as Telecom or Computing or software. These firms showed better returns until the sector went down. I still believe that focused firms will continue to do well because they better understand the industry. One can specialize in sub-industry or sub-sub-industry.

What products/services do you find interesting to invest?
Product and services that can create whole new markets are very interesting. If it is existing market it is not too exciting because by the time you come to the market your advantage has dissipated.

How open are you to invest in a new technology?
New technologies are very exciting. I look at technology that is coming out of lab. It may not be completely proven yet but if I think it will be, I invest.

Is that one of the reasons why you see many VC firms in Boston area near MIT, Harvard, and BU?
Venture Capital really got started here by a professor at Harvard named Georges Doriot. Then it jumped to west coast. Sometimes, serendipity rolls in, i.e., Texas Instrument and Dell in Texas and Biotech technologies in North Carolina. So, it doesn’t always flow exactly the same way.

What do you look for in a potential investment opportunity?
Two things really: Is the technology exciting and is it the correct team that can execute well. It doesn’t have to be a complete team. It could be a couple of people that are very important and then can we can add to the team.

What are your expected returns?
We look for 40% IRR per year. When we look at the deal that’s what we hope for. If it is much less say low double digits I pass. To
make good money in VC you need a couple of 20x-40x investments.

**How do you manage the expectations of LP's/investors?**
The LPs like to see at least 8% IRR but it's not easy to do. And we know if we provide this return they will support our next fund otherwise they won't. Pretty much every quarter we are sending them reports. In yearly meetings we are going over the overall portfolio. There are some internal rules about write-up an investment. I write it up if another VC who is respected puts money into higher valuation. So, you want to see investment at a higher rate but it got to be with a qualified VC not an angel group or a big company.

**Do LPs care about individual investments or they care about the portfolio as a whole?**
Some LPs are passive while others are very active. The active ones track individual investments. They track partner records as well and what investment decisions they have made. They also track fund performance and continuously look for new ones and invest in them if they are better than existing ones.

**How much focus do you put on the cofounding members of target investment opportunity?**
I look for team that may have worked together before. We are not looking for an A-star team. If they have worked together chances are they know what they are doing. I also look for some experience. Even if they have failed before they might be worthwhile looking at. It is hard to tell how good a team is. I am not particularly interested in someone from a big company who wants to start a company. He may be a very good guy for his next company but not that one. His instincts are wrong.

**So if one guy comes to you with an idea alone, would you listen to him?**
One of things that venture guys do is they never say no. They say come back when you have a chief engineer or marketing guy. They may be able to put together. I like to see a team of two or three and I like someone tell me I don’t really have world-class team players help me find them that’s OK. If I am helping an entrepreneur in finding four or five people then he/she is too naïve.

**What about co-investing with other VCs?**
What has happened over the years is that VC firms have gotten so big that they don’t like to share their deals. We like to put all the money but don’t want any investment to be more than 5% of our portfolio. In the old days when the funds were smaller ($50-60 million) we will syndicate the deals. Typically what you see is that the lead investor should be in the same city as the company to watch it every week.

**Is there a lot of competition among VC firms?**
There is competition but a lot of these deals you are working with many other parties (7-8 relationships). When you want a deal there is some competition. Occasionally, there is some collusion in which case we may put a joint bid. Sometimes two firms may be
competing for same investment so we may negotiate on deal terms.

What are your primary negotiations while considering an investment? The term sheet mostly. Usually venture companies want to reasonably value a company in A-round and take some equity stake. Sometimes the terms may be onerous such as a triple liquidation preference. If the entrepreneur has a good lawyer they may negotiate a bit. On the whole, we don't try to be too tricky there. You don't want to have a bad reputation because you work with the entrepreneur community. You don't want to wait for 6-8 weeks after putting the term sheet and the entrepreneur either changes its mind or tries to renegotiate.

What is the timeline? A 3-week negotiation on term-sheet and if we agree then we have 30-60 days to do our due-diligence and file it. As long as there are no surprises we go ahead and do the deal.

Is due-diligence really critical? If an investment tanked, when the LPs come back we want to be able to show them the due-diligence file. If LPs figure that there was not enough due-diligence then they may be reluctant to invest in next fund. So due-diligence is important since you will be spending 8-10 years with the company.

What pushbacks do you see from companies seeking funding? Usually it starts with the term-sheet and then the board sheets. They want to know how we are going to help them. Are we putting a senior member on the board or not? The smart guys are more demanding while others care only about money. The smart ones ask why they should choose us over others. They want to talk to the CEO of other portfolio companies about how much help we provided? How we handled conflicts?

How closely do you monitor the invested companies’ progress? Now it is almost to the level of micro-management. The founders may not like it terribly. Earlier days we used to leave it up to the CEO. In rare situations we send one of our partners to manage a company if it is in shambles. Some entrepreneurs are very good at managing the board. They will be calling us telling us on daily/weekly basis about the progress. For the real companies with existing business quarterly meeting make more sense.

What values do you provide to your target company beyond funds? Primarily two things - find a better team member and find key customers. We have got relationships with bigger companies so we can provide access to them. The VC advice is kind of a grey area. There have been cases when the advice was great and other times it failed. On the exit side, the VCs are very active. 75-85% of the exits are sale. We kind of know on day one and figure our exit options. The other part is when the entrepreneur burns out. If the entrepreneur has made good money and he might want out. That's an on-going discussion and kind of an agreement. So, we are always looking for a possible exit when we have made good money. It also depends on the market situation. You got to let the big-winner
investments run for a while and if you are successful there it covers a lot of risks.

**What are some of the challenges you see from investing side and entrepreneurs’ side?**
The challenge from the investing side is picking the right company. If you pick the right company and right industry you make 40x. If you picked the right industry but a 2nd or 3rd level company you make 20x. If you pick right industry and 5th and 6th level company you make 10x. But if you picked wrong industry it is hopeless. Many of the portfolio companies don’t do well but then you make money from other investments. We also look to sell non-performing ones to one of our portfolio companies to get out of it.

**When do you give up on the company?**
When you figure that there is too much wrong with the company or the industry then the best money spent is the money you spend to close it down. You try your best to make it work but if it’s not picking up it’s time to shut it down.

**From your own experience, where do you see the entrepreneurship shaping up in this region?**
East coast is more conservative and we don’t like too many assumptions. We like products that work and not assume that some big company is going to buy us out soon. MIT Harvard in this region is a big help. West coast was very close to semiconductor manufacturing and they developed commercial products. They could go from chip to hardware very quickly but east coast had to wait as they didn’t have quick access.

**Do you think there are enough talent/opportunities in this region for investment purposes?**
Yes. It takes a few things to get venture industry going. The first thing is you should be close to world-class universities that provide access to smart science. Second thing we need is sophisticated capital that understands risks and understands how to build companies. Third thing you need is templates showing success stories to motivate other.

**How do you differentiate yourself from VC/Incubators?**
VCs claim to be different from being specialized in industry or a sector.

**What do you think about upcoming accelerator business models?**
Accelerators are good filter mechanisms. Some VC firms have started their own accelerators. It gives them a chance to spend some time with the company before they put in any money.
Isaac Sukin  
Co-founder,  
Dorm Room Fund, Philadelphia USA  
http://www.dormroomfund.com

Please talk about your background, VC experience and your company.
I taught myself to code around 5 years ago and have been doing freelance development and consulting for startups for about 4 years. This past summer I was an intern for First Round Capital, where I built technology to help the partners among other things, and got to sit in on pitches and funding discussions. I then became the first member of Dorm Room Fund, a VC firm run by students that only invests in student-run companies. We have $500,000 from First Round and we typically invest around $20,000 per company. Our goal is to be the first choice for the best student entrepreneurs in the greater Philadelphia region to start and grow their amazing businesses.

How do you raise funds?
First Round helped us create the fund and they are our initial LP. We have not decided how we will approach fundraising when we raise the next fund.

What products/services do you find interesting to invest?
One trend that we have seen is students using technology to improve other sectors rather than building pure technology companies.

What do you look for in a potential investment opportunity?
We look for product, market, team, and risk/exit. We will have a blog post coming out shortly that goes into this in great detail but we also have an outline of what we expect to see in pitches. Basically we look for ability to execute, ability to iterate and test to find product/market fit, commitment to the venture, understanding of the market, ability to actually build the product, and potential of the idea/market.

How do you manage the expectations of LP’s/investors?
First Round helped create Dorm Room Fund and are helping us make it successful so they are kept very much in the loop with all our developments.

How much focus do you put on the cofounding members of target investment opportunity?
We consider product, market, and team, and any one of those categories can override the other two. Obviously it’s hard to say team doesn’t matter, but in many ways the market can matter more because it doesn’t matter if the team is outstanding if no one wants to
buy what they’re selling. So generally when we look at teams we look for an ability to adapt.

**What are your primary negotiations while considering an investment?**
We do not negotiate terms. We have a single founder-friendly term sheet that we think everyone would be crazy to say no to.

**What pushbacks do you see from companies seeking funding?**
Most of the hesitation we’ve seen so far is just due to how new Dorm Room Fund is and so there is some lack of awareness in terms of what value we provide and how VC investment works.

**What are the gaps in your expectations and the companies’ expectations?**
Founders that are less aware of what we do aren’t sure how much control they would be giving us by accepting investment (the answer is basically none).

**How closely do you monitor the invested companies’ progress?**
We try to be as frictionless as possible, so we monitor only informally (by being friends with the founders).

**From your own experience, where do you see the entrepreneurship shaping up in this region?**
I have definitely seen a surge in entrepreneurship on campus over the past 3 years. 3 years ago there were tons of social-local-mobile applications and everyone wanted to build the next social network. There was very little awareness from business-focused founders of what work was required on the technical side. Today there is much better awareness across the boundaries of hustling and technology, and many more people are applying technology to interesting problems.

**Do you think there are enough talent/opportunities in this region for investment purposes?**
Absolutely. One of our theses with creating Dorm Room Fund was that Philadelphia students were an untapped market for VC investment, and our experience so far has definitely supported that theory. Also, Warby Parker, AdMob, Invite Media, Milo, MyYearbook.com, and Lore were all started in the dorm rooms of University City. Microsoft, Facebook, Dell, and many other amazing companies were started in dorm rooms. We aim to make that list even longer.

**How supportive is the startup culture in this region?**
There are tons of events and programs around campus and in Philly to support entrepreneurs. It’s not San Francisco and it’s not New York, but it’s fun to be part of an emerging entrepreneurial market.

**How do you differentiate yourself from VC/Incubators?**
We are one of the first student-run VC firms; we only invest in students; and as a result we can reach deals and provide insights and value that other VCs can’t. As students and entrepreneurs ourselves, we understand the needs of student entrepreneurs, and we are friends with them,
so we can tailor our services and efforts to them.

**What do you think about the growth/changes in incubation/VC industry in next 5 years?**
I think we will see even more shift towards the very earliest stages, continued innovation from thought leaders like First Round Capital, and I think the startup scene will mature as the increased amount of companies funded at the earliest stages hit the Series-A Crunch. I think we’ll see much better awareness develop around common mistakes and best-practices.
How do VCs raise Money?

It’s pretty much only LPs or very wealthy families... Endowments. Most funds try to avoid individual people because it’s hard for individual to understand risk and duration of venture funds. Europe you have lot of family offices and Asia is a mix of family offices and some more corporate investments. By the way, when I talk about Asia it’s mostly about India since I have exposure in that market.

What will you say about US VCs investing abroad?

The only model that actually works is the same model that consulting companies follow. You fly out one person from home office and then hire some local talent and try to establish culture and local connections and over time it becomes self-sustained. One difference here is that many venture funds have raised kind of country specific funds and only the very large players have worldwide presence. Israel is a special case. A lot of funds are investing in Israel because the Israeli model is that you have tech and development in Israel and sales and HQ in America.

Who are the LPs in country specific funds?

It’s a combination of both US LPs and local investors. Usually what happens is that the first fund is all the US LPs and then the local GPs cultivate relationships with local LPs. In second fund, you have more local LPs and by the third fund you want to be much more localized, sort of 80:20.

From my experience in Indonesia, I have learned that entrepreneurs usually want investments from local VCs. Do you think so too?

I think it depends what your business is. If you are local business selling to local people then local investors make sense. So if the entrepreneur is lucky enough to have a choice of picking the investor, I think the prudent strategy is to have combination of both.

What is the reporting structure to LPs?

You have an annual meeting. You have quarterly written reports and usually biannual advisory board phone calls. The advisory board is the subset of the LPs who have agreed to spend little bit extra time with you and they are also the ones to accept sign-off on valuations etc. That being said, good venture firms do is try to stay in touch with the LPs. So, if you are visiting Chicago it’s great to have a chat with your LPs there and update them about the progress. From the VC standpoint, if you have an entrepreneur in your city of travel then have a chat with him. If you think about LP-GP relationship, of course there is performance involved over a ten year cycle but in
between there is a trust issue. SO, personal meetings help to establish that trust.

**What is the fund structure usually? How much do the GPs put in while raising a new fund?**

GPs have to put in their own money. The traditional model was 1% but of the gains you get 20-30%. Most recently, lot of LPs are asking GPs to put in their own money which has two effects. First effect is that the venture then becomes the business of old rich guys or young rich guys who made a lot of money, which is kind of counter-intuitive because VC business is also becoming more professionalized. It is after all venture capital – it is high risk high beta business. Let’s take it to other extreme if GPs put in 99% then they will never make investments in a risky venture. So the VC business will become more risk adverse and by definition that is a very different asset class.

**But given the 2% management fee, a lot of ventures are focused on raising more and more funds?**

That is a real problem. Many ventures are focused on raising more and more funds and then it becomes a lifestyle business. I would argue that a better alignment is to have less management fee and more upside. Let’s say, a point management fee and 30% of the upside. Now we are aligning the incentives right. I am struggling with the idea of requiring GPs to put in more money.

**How do the LPs monitor investments? Do they monitor individual investments?**

Few do and it is mainly in annual meetings or quarterly reports.

**Do you think that is a problem and LPs should be more involved?**

No. I think that is OK. I think the biggest problem with venture industry as an asset class is that it has underperformed for over a decade. Ventures funds are like dwarfs in a room. You may be the tallest dwarf but you are still a dwarf. LPs compare returns with other asset classes which have given better returns.

**How do you find new opportunities to invest in? Is it an inbound or outbound process?**

It used to be an inbound business. Although, there are still a few famous guys who have that luxury. But for everybody else, it’s a hyper-competitive business to find the right opportunity. This is hard to understand for an entrepreneur. But it is amazing how hard you have to fight for the good ones. There is also relationship building involved where you want to stay in touch with people so that when they are thinking of building something or investing into an opportunity you are on top of mind for them. If you are on smaller platform then you have to fight another problem – good entrepreneur would not come to you rather they go to famous guys like Sequoia Capital.

**So, how do VCs compete among each other? Or how do smaller players compete with giants?**

If it gets to an auction smaller guys will always lose. For big players it’s mostly about their network. But for smaller guys it’s a personal relationship game because the
entrepreneur is not one out of 200 investments.

**So, do VCs ever compete on term-sheet?**

You really want to be in a situation where you don’t compete on terms. If it’s a later stage deal and it goes to a banker it’s all about deal-terms. In early stage, it is rare but in order to be invited to deal term dance you have to be liked. Entrepreneurs don’t care about the investors if it’s a later stage deal but in early stage it matters. VCs are quite strongly connected. So if entrepreneurs are talking to 2-3 firms, it’s high probability that I will know who those are. The entrepreneurs are also happy to have more than one VCs investing.

**What percentage of your time goes into deal-sourcing, new investment negotiations and managing existing investments?**

About 30% new deals, 30% existing deals another 20% is market research and figuring out which new market segments to go after and the last 10% is interactions with LPs.

**What kind of market research do you do and how?**

It’s about understanding industries by talking to experts. You use academia, market research tools such as Gartner and primary research to understand latest trends in markets. If you know an industry you have an advantage while dealing with the entrepreneurs and they also develop confidence in you.

**What are major negotiation points with entrepreneurs?**

It’s mostly about valuation. If you tell me option pool, well that’s valuation. Participation feature is valuation again.

**What do you think about the accelerator/incubator business models?**

The original incubator model popped up in the dotcom bubble. And the idea was to give the entrepreneurs office space and all the support help they need. That business model failed miserably because in reality there were not many promising entrepreneurs there. They survived as long as they were in the cocoon and then they failed. There were ideas that were marginal and they failed. But the business models today are very different. Now, the accelerator provide little bit of money and tell entrepreneurs to build their own company. These days it’s easy to start company with so many open source technologies and cheap cloud computing services so the accelerator model makes much more sense. They are not competitive to VCs but to angels rather and I think they are helping the industry.
Nicolas Wittenborn  
Investment Associate  
Point Nine Capital, Berlin  
http://www.pointninecap.com

How do you raise funds?
1. Fund mostly from friends and entrepreneurs in our network,  
2. Fund mostly from institutional investors, see http://techcrunch.com/2013/02/13/pnc-ii/

What industries/markets/regions do you focus on?
We focus on Germany, Poland and Europe in general, but are not limited to these areas (pretty much agnostic to geographic if attractive opportunity).

What products/services do you find interesting to invest?
It’s Mostly SaaS, lead generation, marketplaces and e-commerce. Recently we have also started looking into products connecting online / offline.

How open are you to invest in a new technology?
If it makes sense, we can understand it and there is a big opportunity, yes.

What do you look for in a potential investment opportunity?
The following (although not always all of them have to apply): Product / Market fit (=first traction), team, product, market, timing, substitutes & competitors, etc.

How do you manage the expectations of LP's/investors?
We are very transparent, give quarterly reports to keep them up to date.

How much focus do you put on the cofounding members of target investment opportunity?
We meet every single person in the founding team before making a decision.

What are your primary negotiations while considering an investment?
The majority of the process really involves the validation of the team / model. Valuation etc. are rather standardized and in the most cases not the issue of much discussion. This might vary vastly to later stage VCs.

What pushbacks do you see from companies seeking funding?
Of course valuation can be a factor. But if both sides want to work together, you can always work the terms out.

How closely do you monitor the invested companies' progress?
Ideally we receive KPI updates once a month, have call with the founders to discuss current issues. It’s sometimes more frequently and sometimes less frequently. It usually depends on stage and needs of the company.

What values do you provide to your target company beyond funds?
We have helped a lot of companies with i18n so have experience there. Also, most of us have some kind of entrepreneurial background; making us very founder
friendly + we try to be as much help as they need with strategy / recruiting / product & pricing decisions etc. In addition, we also provide access to bigger VCs in our network for bigger follow-on rounds.

What are some of the challenges you see from investing side and entrepreneurs’ side?
I think when the terms are right and everybody has appropriate expectations and is transparent with their actions & intentions, VC is a win-win situation.

From your own experience, where do you see the entrepreneurship shaping up in this region?
Berlin, Scandinavia, Amsterdam.

Can you share some insights from your buddy investors and what they might think about the market/region?
Everybody gives Berlin credit, maybe a bit too much at the moment.

Do you think there are enough talent/opportunities in this region for investment purposes?

There will be, yes. But it is still in more of an early stage.

How supportive is the startup culture in this region?
Invest in them. Have events with startup groups etc.

How do you differentiate yourself from VC/Incubators?
We are a very small team with entrepreneurial background and real passion for innovative products.

What do you think about upcoming accelerator business models?
I think it is a very crowded market and only a few players will make it.

What do you think about the growth/changes in incubation/VC industry in next 5 years?
I think it will be a very interesting and exciting time, with lots of big players emerging and even more falling. Hope we will bet on some of the previous one.
Steve Schlenker  
Managing Partner  
Digital Networks Capital, UK  
http://www.dncapital.com

How do you raise funds?
Meet with 400-600 LPs to try to get 2-3 new LPs per fund, plus try to generate good returns so all existing LPs come back, or if an LP isn’t coming back try to convince them to sell their existing stake to an investor who will buy that stake and "staple" a primary commitment to the new fund. It takes about 10-15% of my time year round, 30-50% of my time for 6-9 months every 3-4 years.

What industries/markets/regions do you focus on? What products/services do you find interesting to invest?
Our fund is 75% EU, 25% RoW. The 75% EU is mostly Germany and UK, to a lesser extent France and Sweden, opportunistically elsewhere. The 25% RoW is principally Silicon Valley, LA, NYC or Boston, opportunistically elsewhere. Sector wise we invest in application layer IT, so (1) ecommerce (2) adtech (3) enterprise software, particularly where it sells to business units instead of CTO offices (4) mobile and web applications (5) digital media. I focus first on the entrepreneur, second on the market, provided it is one of the markets listed above.

What do you look for in a potential investment opportunity?
1. Founders who are relevant to the business idea, therefore with an unfair advantage.
2. Real problems, hard to solve, that many people have
3. Business where I think DN Capital can add value through our experience, networks and contacts

What are your expected returns?
We think in terms of multiples, not IRRs. Early stage risk - 10x in 5 years. More mature company - 3-4x in 3 years.

How do you manage the expectations of LP’s/investors?
If it is a good vintage, we should generate 2.5x net to LPs. A bad vintage, 2x. A great vintage, 3x+. We correspond with our LPs formally 4-6 times a year and informally almost every month.

How much focus do you put on the cofounding members of target investment opportunity?
Team overall is our #1 requirement. Co-founders are important if there is a history tying them to the core founder, or for how they were chosen or added to the team. Look out for family members as co-founders, we have done this before and it rarely works. Also, look out for situations where equity is too thinly divided among cofounders, or where the top two split the equity 50/50. Also, someone must be the CEO - cannot be management by consensus.

What are your primary negotiations while considering an investment?
Price, terms, right to follow our money, right to be on the board, right to block bad decisions, blocking rights on future financing rounds

**What pushbacks do you see from companies seeking funding?**
We often want founders' equity to vest over time but we get pushback on this, particularly from non-US founders. We often get pushback on things like drag-along rights

**What are the gaps in your expectations and the companies' expectations?**
Usually around first year time to scale customers and revenue

**How closely do you monitor the invested companies' progress?**
It depends on the experience of the founder. Some companies I have received daily updates while others send it monthly. Generally I like to get bad news as soon as it happens, good news periodically, and general updates every 30 days or so.

**What values do you provide to your target company beyond funds?**
Customer contacts, strategic sounding board, business partnerships

**From your own experience, where do you see the entrepreneurship shaping up in this region?**
Geography-wise: I think European entrepreneurship is growing as younger people are more willing to risk failure than older people.

Sector-wise: I think the entrepreneurial scene has always been vibrant

**Do you think there are enough talent/opportunities in this region for investment purposes?**
Absolutely

**How supportive is the startup culture in this region?**
European ecosystem is not as strong as the US, particularly in terms of acquirers willing to pay high prices for teams that could improve the acquirers' long term prospects. Also, a lot of the early stage ecosystem in the US that supports at low cost the entrepreneurs is much more expensive in Europe - lawyers, landlords, etc. It's all there, but more expensive than US.

**How do you differentiate yourself from VC/Incubators?**
We have a proven track record of helping companies successfully expand across the Atlantic, both Europe to the US and US to Europe.

**What do you think about the growth/changes in incubation/VC industry in next 5 years?**
Always goes in waves. Once angels start losing a lot of money because fewer of their companies get backed by VCs, they will go quiet, and when 1 or 2 billion dollar plays happen, it will pick up again. VCs themselves swing between early stage investing and growth equity investing all the time. The one change that appears likely to stay is crowd-funding for start-ups, but it will be interesting to see what regulations
come down on this form of financing after the first few fraudulent events.
Jason ‘Jay’ Hum  
Co-founder, Holoholo App, Madrid, Spain  
http://www.holoholoapp.com

What challenges did you face in terms of resources, funding etc. while starting your company in Spain and raising seed round?

Entrepreneurship is definitely alive and well in Europe and Spain. However, the Spaniards’ attitude is different. They don’t have the mentality to really go out and take bold risks. It’s mostly taking an existing idea and tweaking it a little bit. That’s the nature of the Spanish way of thinking. It’s even more apparent when it comes to investors. The Spanish angel investors don’t invest in early concept or R&D type projects. They want to see startups bootstrap and gain traction. A lot of investors I spoke with were not interested in pre-revenue startups.

What about the team? What kind of team are they looking for?

They are looking for people who have past entrepreneurship experience. In case of tech-based ideas they want a technical cofounder.

What was the response when you reached out to the angel investors in Spain?

I got a positive response from many of them. A lot of them wanted to meet and start the conversation.

How much money were you planning to raise in early stage?

200K €.

Did you ever come close to talking about valuation?

No.

What else do the investors care about apart from good team and idea?

They also care about market opportunity and scalability. They also want to see whether you have plans for the USA and Asian market. Since I was an expat they really liked the fact that I wanted to start the company in Spain and then bring it to the US.

Why were the investors excited about the US consumers?

They realize that the US is the biggest market in the world.

How were you filtering which investors you want to meet?

They were pre-filtered already as I had done my research. A lot of them came through referral as well.

To what extent the investors like go get involved once they have made an investment?

It varies. Some of them are very hands-on while others play more of an advisor role.

From your own experience and interactions, where do you see entrepreneurship shaping up in Europe or in Spain?

It’s shaping up well, but there isn’t the same infrastructure or support for young entrepreneurs as in the US. In Spain, the
idea of starting a company is still pretty foreign.

Can you share some insights from other entrepreneurs you have met in region?

They think it's ripe for opportunities and a lot of them are very focused on going forward with their product. They have a tough skin. They see entrepreneurs in America getting big rounds of funding and they want the same, but they don’t have the same gung-ho attitude.

Did you think you have enough expertise at your disposal to make sure that your company achieves success?

Apart from the funding, I think I had enough expertise at my disposal. There is definitely a lack of people with the right technical skills. It's a challenge to convince them to quit their stable job and work at a startup
Tell me a bit about Kaskus?

Kaskus is an online community. It's different because it's not e-commerce, not social media, and not a news portal. We launched the website in late 1999 and the traffic slowly kept building. Early days I had to support the company with credit cards until we started making good money from advertising. After I came back to Indonesia in 2008, I took the project seriously when I saw Indonesian people using it. We have grown huge now and have about 100+ employees. We have grown about 20-30% annually.

What is your vision of the company?
What is your exit strategy?

Kaskus has all the basic ingredients for converting it into a big ecommerce including marketplace. Going forward I want to establish it as biggest ecommerce player in Indonesia. We haven’t really thought about exit strategy yet. The company is still growing and IPO is not an option in near future.

How did you get investment?

We didn’t reach out to investors. We had good advertising deals flowing in enough for us to survive. Deals with big names were very helpful in getting traction and people started trusting us. We were approached by lots of international VCs. Many were based in US having offices in Singapore. In 2009 it was a social network boom time in Indonesia with Twitter and Facebook and that led to investments inflow. There was a lot of paperwork so we involved lawyers. It took us some time to learn all this. Initial talks were just to hear their proposal and valuation. Investors wanted to know about different metrics such as number of active users, number of transactions etc. Many wanted to buy the company outright and that was a turnoff because I believed in Kaskus and I thought the total valuation of the company can be much higher. The first VC that contacted us is a good friend now and he has become sort of mentor now. We talked to him about different offers we received and he guided us. With one investor we reached due-diligence stage. Due diligence process is also very time consuming and it took us about 6 months to complete it. It is a good and a bad thing. You learn a lot about your own company but then your projects get delayed. Early 2010, we found a local investor and we finalized the deal. He also had connected us with technology talent which we had trouble connecting with.

How did you filter investors?

We filtered investors based on exit strategy and we also wanted local VCs with government connections and corporate connections. International VCs always talked about ROI and IPO exit within next 4-5 years. However, it meant that we had to
generate revenues in line with their expectations. The local VCs on the other hand said they just want to stay invested and would let us run the company. Therefore, we chose local investors. Local investors weren’t so interested in due diligence and they already knew about the potential of Kaskus. Our main investor was already active on Kaskus and a moderator of one of the forums.

What do you think about entrepreneurship in Indonesia?

In Indonesia, parents support kids’ education etc. until they get the job. Then they look for jobs to pay back to their parents. So they don’t like to take risk. It’s very conservative society and risk taking is not a norm. But it is slightly changing.

Do you have enough talent in Indonesia?

It is hard to find technical talent in Indonesia. Mostly we outsourced our work. Investors offered access to talent and they were the ones we liked.

Which product/services are booming in Asian markets?

It’s mostly e-commerce—because of poor infrastructure and traffic problems. But it also affects business side and supply chain gets affected.

What are the challenges for entrepreneurship in Indonesia?

Employee management is huge problem. In USA, you don’t really have to micro-manage but here you have to. Therefore, we have built a cool office to create environment like international companies such as Google. We want them to be excited about Kaskus and when they chose their career option I want them to think of Kaskus.

Are you using data analytics to form your strategies?

We use data analysis heavily. We invite our main users to listen to their idea and run experiments among a selected group of users.

What do the consumers in Indonesia want? And how do you engage them?

I think customers like free stuff and fast information. They also want to stay connected with people and share information. In Kaskus, we have monthly social events and invite celebrities to create marketing buzz. This year we want to travel to universities campus and connect with students.
Tell us a bit about lolabox.com?

It is Indonesia’s glossybox.com. Consumers subscribe to our website for a low monthly plan and they receive beauty boxes in mail. It is an interesting business because Indonesia has huge growing beauty market and internet access is growing as well. We have received huge responses on our facebook and twitter page. We have raised seed funding round and are in the process of launching it soon.

What is your motivation to start a business?

My motivation to start a business in general has two components: compensation and internal motivation to prove to myself that I am capable of becoming an entrepreneur in Indonesia because it is growing really fast. With my foreign education and experience in startups, I have an edge over others. I worked for Rocket Indonesia for almost a year and learned the basics.

What is your marketing strategy and why did you chose it?

Indonesian people are very active on social networks. It is mostly social media. So we definitely plan to use social media. In addition, we also depend on word of mouth advertising since we have a wow factor attached to our product. Celebrity endorsements also tend to work really well because Indonesian people love celebrities.

What have you learned about consumers in Indonesia?

In Indonesia, B2C business models are more important. Infrastructure plays a big role and that’s why you see many e-commerce coming up. Things work in Indonesia if you can save money for people. Lolabox helps consumers by providing access to expensive cosmetics on low cost. Indonesians want to save money. That’s why e-commerce is tough because it becomes a price game. Indonesians are also very social and hangout online and offline.

What is your go-to-market strategy? And how do you plan to scale?

We want to start slow and depend on word-to-mouth advertising.

What practices you follow about employee management?

Employees here only work enough not to get fired. There are stark difference between the attitudes of employees in Indonesia and those in western countries. Talent and motivation are huge problems. So people make up for it by hiring many employees but for some positions it is hard to do so.

What is your experience about business partners in Indonesia? Do you think your business partners are professional and reliable?

I worked for foodpanda.co.id, a food delivery website. I learned the hard way that
Indonesian merchants are not reliable. Indonesia is a country where seniority plays a big role. So, middle management is not really capable of solving things. So, if you ever run into issues it’s better to run to the bosses to get quick resolution.

Is there any help from the government to promote entrepreneurship?

I personally have no experience about it but I have learned from various Indonesian startup groups on internet that government help is very limited and more needs to be done.

How did you choose your cofounding team member?

I have worked on PE firm and learned about digital media. When I thought about starting it in Indonesia I felt that there is a lack of talent. After a lot of hard work and connections I found my cofounder. The main criteria were business background and big social network with government and corporations.

Tell us about your funding?

The investor is a friend of mine. He belongs to rich family and he is very interested in startups. He liked my idea, my background and me as a person. In order to raise funds in Indonesia, you should have connections to rich families. The American spirit has always been that everybody gets a chance but here entrepreneurs get judged immediately.

Why did you choose to go to a VC rather than an incubator?

Because I wanted to have control of all the process and didn’t want to waste time since we are almost ready for release.

Do you think your strategy is influenced by the investors?

Yes. I can already see the demands coming in. In the USA, mostly the entrepreneur is in control but here my investor wants to have a lot of control.

How do you see entrepreneurship shaping up in this country?

There have been a few exits in Indonesian market. And I think many young people want to try entrepreneurship. With the boom of smartphones, Indonesians have been developing more and more apps as the startup costs are very low.
EXHIBITS

The data below has been compiled using CapitalIQ.

**VC DEALS: 2005-2012**

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**WORLDWIDE VC INVESTMENTS TREND: 2005-2012**

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<tr>
<th>Year</th>
<th>% Consumer Discretionary</th>
<th>% Financials</th>
<th>% Information Technology</th>
<th>% Materials</th>
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<td>11%</td>
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ASIA INDUSTRY VC INVESTMENT: 2005-2012

2005 2006 2007 2008 2009 2010 2011 2012

- Consumer Discretionary
- Financials
- Information Technology
- Utilities
- Consumer Staples
- Healthcare
- Materials
- Energy
- Industrials
- Telecommunication Services
AFRICA INDUSTRY INVESTMENT: 2005-2012

![Bar chart showing industry investment trends from 2005 to 2012.](chart.png)
LATIN AMERICA AND CARIBBEAN INDUSTRY INVESTMENTS: 2005-2012

![Bar chart showing industry investments from 2005 to 2012]
2005 VC Investments - Geography and Average Pre-Money Valuation

2006 INVESTMENTS TRENDS

2006 VC investments - Geography wise
2006 VC investments-Industry-wise

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Values

- Count of All Transactions Announced Date
- Average of Pre-Money Valuation ($USD, Historical rate)

Geographic Locations [Target/Issuer]
2007 INVESTMENTS TRENDS

2007 VC investments - Geography-wise

2007 VC investments - Industry-wise
2007 VC investments: Geography & avg. pre-money valuation

- Africa / Middle East (Primary): $21.51
- Asia / Pacific (Primary): $18.75
- Europe (Primary): $159.03
- Latin America and Caribbean (Primary): $40.21
- United States and Canada (Primary): $484.34

Geographic Locations [Target/Issuer]

Values
- Count of All Transactions Announced Date
- Average of Pre-Money Valuation ($USD, Historical rate)

2008 INVESTMENTS TRENDS

2008 VC investments: Geography-wise

- Africa / Middle East (Primary): 10
- Asia / Pacific (Primary): 250
- Europe (Primary): 980
- Latin America and Caribbean (Primary): 2137
- United States and Canada (Primary): 70
- Total: 3041

Geographic Locations [Target/Issuer]
2008 VC investments: Geography & avg. pre-money valuation

Values
- Count of All Transactions Announced Date
- Average of Pre-Money Valuation ($USD millions, Historical rate)

Geographic Locations [Target/Issuer]

2008 VC investments: Industry-wise

Primary Sector [Target/Issuer]
2009 INVESTMENTS TRENDS

2009 VC investments: Geography-wise

Count of All Transactions Announced

Date

2009 VC investments: Industry-wise

Count of All Transactions Announced

Date

Primary Sector [Target/Issuer]
2009 VC investments: Geography & avg. pre-money valuation

Values:
- Count of All Transactions Announced Date
- Average of Pre-Money Valuation ($USD millions, Historical rate)

Geographic Locations [Target/Issuer]

2010 INVESTMENTS TRENDS

2010 VC investments: Geography-wise

Values:
- Count of All Transactions Announced Date

Geographic Locations [Target/Issuer]
2010 VC investments: Industry-wise

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<td>Energy</td>
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<td>Industrials</td>
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<tr>
<td>Information Technology</td>
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<tr>
<td>Material Sciences</td>
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<tr>
<td>Telecom Communication Services</td>
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<td>Utilities</td>
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</table>

2010 VC investments: Geography & avg pre-money valuation

<table>
<thead>
<tr>
<th>Geographic Location</th>
<th>Count</th>
<th>Avg Pre-Money Valuation ($ millions)</th>
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</thead>
<tbody>
<tr>
<td>Africa / Middle East (Primary)</td>
<td>10</td>
<td>5,479.95</td>
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<tr>
<td>Asia / Pacific (Primary)</td>
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<td>2460</td>
</tr>
<tr>
<td>Europe (Primary)</td>
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<td>Latin America and Caribbean (Primary)</td>
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<td>2487.4</td>
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<td>United States and Canada (Primary)</td>
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<td>109</td>
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<tr>
<td>Values</td>
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</tr>
<tr>
<td>Count of All Transactions Announced Date</td>
<td></td>
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</tr>
<tr>
<td>Average of Pre-Money Valuation ($ millions, Historical rate)</td>
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2011 INVESTMENTS TRENDS

2011 VC investments: Geography-wise

<table>
<thead>
<tr>
<th>Geographic Locations [Target/Issuer]</th>
<th>Count of All Transactions Announced</th>
<th>Date</th>
<th>Average of Pre Money Valuation ($USD million, Historical rate)</th>
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<tbody>
<tr>
<td>Africa / Middle East (Primary)</td>
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Values

- Count of All Transactions Announced
- Average of Pre Money Valuation ($USD million, Historical rate)
2011 VC investments: Industry-wise

2012 INVESTMENTS TRENDS

2012 VC investments: Geography-wise
REFERENCES


9 “EU says we should glorify our entrepreneurs: Skype; Spotify and Angry Birds creators advise EU – first stage of "Startup Europe" campaign.” European Commission Press release, March 21 2013. Web. April 30 2013


12 “European Venture Investment Continues To Fall In Fourth Quarter.” PRNewswire, Jan. 28 2013. Web. March 15 2013


Dorm Room Fund, Philadelphia.