National Venture Capital Association
Venture Capital Oral History Project
Funded by
Charles W. Newhall III

Tape 1 - Dick Kramlich and Carl Thoma

Recommended citation: Dick Kramlich and Carl Thoma, "Venture Voices: A Conversation with Dick Kramlich and Carl Thoma," interviewed September 22, 2008, for the National Venture Capital Association, Arlington, Virginia.

Tape 1 - Dick Kramlich and Carl Thoma

[Beginning of Recorded Material]

01:00:30 Interviewer: Dick, just spell your last name so they have it on tape.

Dick Kramlich: It's K-R-A-M-L-I-C-H.

Interviewer: Great, thank you. First, tell us what makes venture capital unique. Why is it different from any other asset class?

Dick Kramlich: Because it's, uh, very, uh, people oriented and is --

Male Voice: Say venture capital is different.

01:01:00 Dick Kramlich: Uh, yeah. Venture capital is different because we are partners with entrepreneurs -- capital partners with entrepreneurs. We know when we're getting involved in a start up project that this is an uncertain voyage and, um, and we're in the boat with the entrepreneur and the entrepreneur's team and we don't know where the shore line is; we don't know what the icebergs are or anything like that.

01:01:30 And it's a, uh -- and so we have to, you know, we have to use our collective experience and, uh, intelligence and, uh, to help build the team and really make the company into what it can be, and it's really, uh -- so you're really, uh -- it's not a prescribed path. There are certain milestones that you -- everybody observes but -- and you know what the goals are theoretically when you start, but inevitably they change and inevitably there are crises and crises don't happen on schedule. So,

you have to really be very much in tune with the company and the entrepreneurial team.

01:02:00 So, it's really a people business at the end of the day.

Interviewer: You've had a long, successful career.

[Director's comments]

Interviewer: You've had a long and successful career. What are some of the biggest changes you've seen over the last 30 years that have impacted how you do business?

Dick Kramlich: Well, when we -- 30 years ago it was, uh, most, uh, likely that there were just, uh, one or two or three, uh, partners and a very small support staff and, uh, you usually, uh, invested in a, you know, a locality or region that was nearby.

01:02:30 Today -- and I've taken it to the far end of that -- it's really a global business and you're certainly influenced by what goes on around the world whether it's in Europe, Asia, Israel or where else, certainly all over the United States.

01:03:00 And, uh, I think the venture community can take a certain amount of pride in that we've exported sort of the model and, uh, and I think that it's, uh, it's now, uh, battling other asset classes for capital. And, uh, there have been times that haven't been, you know, much worse than this is terms of capital access because of the IPO market, but this is [as

it goes] a notoriously choppy business. It's cyclical to the extreme. So, I think it's changed as to the cycli--.

01:03:30 It hasn't changed as the cyclicality but the way you access the business has changed completely. The amounts of capital and the capital deployment over a period of time has changed completely. We invest -- we're what we call a multi-stage firm, so we invest at all stages of companies now as opposed to start up or first stage only. So, it's really, uh -- and you have to be prepared for much longer, uh, times between the time you fund a company and the time you have a liquidation at the end.

Interviewer: Would you say those are the most difficult parts of being a VC, dealing with the cyclicality and now having to adjust to stock market conditions?

01:04:00 Dick Kramlich: I wouldn't say it's the hardest part at all. Um, I mean we -- you know, when you decide you're going to go into this work, uh, the most difficult part is really dealing with uncertainty and, uh, and dealing with the need to bring resources, uh, financial and personal, to, uh, each individual, uh, deal and working it along with your team.

01:04:30 So, it's -- it's a -- it's much more -- it's -- there are a lot more complexities then there were a long time ago. I think the complexity of the business, the size of the business, you know, when we started --. To actually further elaborate on your prior question, when we started it wasn't unusual, uh --. My first fund that I did with my then partner

Arthur Rock, we did it on a $10 million partnership. We never invested the full $10 million. Then we would form NEA in 1978 and our first partnership was $16.5 billion.

01:05:00 Now we're talking about, you know, factors of, you know, billions and, uh, and yet we try to keep the art form that we had in that early -- those early years, and that's difficult to think in terms of scale. So, scale and complexity are the two most difficult things.

Interviewer: What makes a successful relationship between a VC and an entrepreneur?

Dick Kramlich: The fact that -- what makes the most, uh, difference in terms of the entrepreneur and the relationship between the entrepreneur and the VC is really the, uh, the trust and the skill that you bring to [there].

01:05:30 I think that you have to be a capital partner of the entrepreneur and, uh, be candid with each other and be really, you know, each one has to be willing to deliver bad news, you know, because, as I said, crises don't happen on schedule and you're going to be in a rocky relationship and it better be a trusting one because if you don't have that to begin with you could never fulfill a mission.

Interviewer: Here's a chance to brag a little bit.

01:06:00 Dick Kramlich: Yeah?

Interviewer: If you can pick a company that you think has had the biggest impact on the general public or a handful of companies that you're most proud of, how would you answer?

Dick Kramlich: What companies have had the most impact? We've been involved since we stared NEA in over 600 companies.

01:06:30 I'm going to just -- personally I've been a director of, uh, eight companies as gone from start up to over a billion in value. Of those, uh, I, uh, you know, I could pick Macromedia for example because of the ubiquity of Flash; I think, uh, Immunex which now is part of Amgen was the first company that focused on cancer as a -- as a therapy; um, Juniper Networks which was a serious, uh, activity in the, um, certainly in the networking area.

01:07:00 One that didn't fall into that robust category but which was the first acquisition by Microsoft was the company that developed Power Point; it was called Forethought. That's had quite an impact on the general public. I personally was also in -- a small investor, private investor in Apple at the day it -- in 1976.

Interviewer: And one last thing, Dick, before we let you go; what do you think would most surprise people about venture? What do most people not know about the business?

01:07:30 Dick Kramlich: The -- the relationship between the entrepreneur --. What -- what I -- I think what would surprise most people about the business is the nature of the relationship between the entrepreneur and

the venture capitalist. We're not a banker. We don't have any collateral. We don't -- we can't forecast the rates of return. You know, we don't, um, we don't have a prescribed exit at the time we start.

01:08:00 So, I think it has to be the relationship is built upon experience and trust between the two parties. I think there are people in our business who pr-practice vulture capitalism. Many people in the uninformed public thinks that we take advantage of the situation and some people do. Nobody's lily white in this kind of a process, but I think 80 percent plus of the, uh, people in our business I think the world of and, uh, because we are dealing on -- on a personal level, uh, and that personal level reaches into every relationship you have.

01:08:30 So, I think that's the part of it that would surprise a lot of people. It's not a nameless, faceless kind of a project at all.

Interviewer: Is there anything we should know that our questions haven't brought out or anything that you'd like us to capture?

Dick Kramlich: Well, I think the way I've always looked at it is I've felt very privileged to be in this business and to have people, uh, entrust their capital with us on the basis of past history but also the way we deal with our limited partners and, uh, you know, we don't, uh --.

01:09:00 At the very beginning, one of our first, uh, limited partners said, "Well, let me get this straight. You're not promising any rates of returns. Is that correct?" And I said yes. "We're not promising that, uh, any fields -- what you're going to invest in it. Is that correct?" And I said that's

correct. "And you're telling me we could have this money locked up for as long as 12 years. Is that correct? So, no rates of return, no prescribed investment and illiquidity for perhaps up to 12 years."

01:09:30 And I said you have it all right. [Laughs]. So, I felt in that kind of a relationship if you do it right and you just keep doing it over and over again and you have great people -- you can't compromise on people -- if you have great people and treat your [limiteds] the way you'd like to be treated yourself, uh, it's a privilege to be in the business and I'll, uh, it goes way beyond any financial returns.

Interviewer: Great. Thanks so much.

01:10:00 Dick Kramlich: Thank you.

Male Voice: Can I add just one question?

Dick Kramlich: Sure.

Male Voice: Is there anything that keeps you up at night?

Dick Kramlich: I sleep great. I do. I stay up at night. The only problem I have is that we're living in China and I'm constantly, you know, faced with time zone changes, but as long as I get a little, I just -- I sleep like a baby every night and we won't take that to the next step. [Laughs]. But, no -- nothing keeps me up at night.

Male Voice: Thank you.

Interviewer: Thank you so much.

[Director's comments]

[New Interview]

[Director's comments]

01:10:30 Interviewer: Okay, so we have it on tape, could you give us the spelling of your first and last name and your firm or affiliation?

Carl Thoma: Carl -- C-A-R-L -- Thoma -- T-H-O-M-A. Thoma Bravo.

Interviewer: Bravo, B-R-A-V-O?

Carl Thoma: B-R-A-V-O.

Interviewer: Okay, great.

Male Voice: Capital T, capital B?

Carl Thoma: Yes.

Interviewer: Why is venture capital different than any other asset class?

01:11:00 Carl Thoma: Venture capital, especially in today's environment, first is not about finance. It's -- venture capital is about

financing innovation, financing dreams, financing people, helping them execute, to drive productivity, enhance lives, and create jobs.

Male Voice: It's real important to [unintelligible].

Carl Thoma: Okay.

Male Voice: The camera's [unintelligible].

01:11:30 Carl Thoma: Okay.

Interviewer: You've had a successful career. What's different now versus 30 years ago?

Carl Thoma: Given I was in venture capital 30 years ago, I can probably comment maybe we were spoiled 30 years ago because it was a less competitive environment and if you represented investor money it gave you an edge, whereas today it's much more competitive.

01:12:00 There's more money. Also, with just the flow of information you have to move quicker; you have to innovate faster. So, I -- in many ways we've -- we've brought -- we've brought on this rate of acceleration on ourselves by our success and the technologies we've developed to speed information.

Interviewer: Those are some difficult challenges. What's the benefit in it for you? Why do you still do it?

Carl Thoma: There's nothing like the thrill in venture capital or private equity to see companies succeed and feel like, in your own small way, you -- you did help make a difference.

01:12:30 Interviewer: Let's talk a little bit about your success. If you had to pick one or two or a handful of companies that you're most proud of or that you think have impacted the general public, what would they be?

Carl Thoma: One company that I personally was involved with was a company called Paging Network and then Cellular Network which was one of the founders of, you might say, the whole cellular telephone industry which started when we were investing in the paging business.

01:13:00 And you -- you look at it today -- at the time, we had no imagination that 25 years later you would have, you know, billions of cell phones being used worldwide and -- and helping found the whole mobile communications. Also, I was fortunate enough when I first got in the business to get to work on being one of the original backers of Federal Express, which is hard to believe.

01:13:30 When we got involved to break even would be moving 11,000 packages a night and now they're probably moving eight million packages a night.

Interviewer: What would you say are some of the most important criteria in a successful relationship between a venture capitalist and an entrepreneur?

Carl Thoma: When I think of what's important in a successful relationship between venture capital and an entrepreneur it's a few key words.

01:14:00 You know, one if just trust each other; two is respect of each other; and three is being realistic with each other. I mean building a company is not an easy task. We all hear about the successes but we don't hear about the dozens or hundreds of other companies that don't succeed, and any time you're working in a partnership with somebody that -- that trust, respect and just open realism is just -- is -- is just critical.

01:14:30 Interviewer: What would you say about venture capitalism that most people don't know about? What is the least understood part of the business?

Carl Thoma: I think a lot of the public thinks venture capital is really about money but to me money truly is a commodity, and what makes a great venture capitalist is an understanding to motivate and support the entrepreneurs in their dream.

01:15:00 As we say in our business, we're -- we're coaches. Our job is to help the venture capitalists who are on the field excel.

Interviewer: What's the most difficult part of the job?

Carl Thoma: Dealing with the -- the reality of -- of -- of acknowledgment that something may not work or when somebody -- maybe the company's

got to that state where you need to bring a new person in to take that dream to the next level.

01:15:30 It's, uh, once again, much like in sports, kind of that acknowledgement of when it may be time to change quarterbacks. It doesn't mean everybody's not a player and it's not a great team.

Male Voice: Can we do that again? Say, "The most difficult part of the job," so we know what you're talking about.

Carl Thoma: Okay.

Interviewer: Let me ask you the question.

Carl Thoma: Okay.

Interviewer: What is the most difficult part of your job?

01:16:00 Carl Thoma: The most difficult job to me in venture capital is dealing with reality. You know, first when somebody has a dream, is -- is it possible to actually be successful? And then the second part of -- of dealing with reality is when a company's growth or maturity may have reached that point of being realistic about what is the right leadership that's needed to take the company to the next level, because one of my favorite sayings in venture capital is that the venture capitalist has to be even more o-optimistic than the entrepreneur they're backing.

01:16:30 And you've got to make sure you -- you bring reality to -- to that relationship, and that's tough sometimes.

Interviewer: It sounds like it can be emotional. There's an emotional attachment here that can either hinder or help you move the deal forward.

01:17:00 Carl Thoma: Absolutely. My feeling is that in venture capital all the great companies are built around where the people providing the capital and coaching are just as passionate and emotional about it as the entrepreneur and the key, much like in the sports analogy, you've got to channel that energy and passion in --in a constructive and realistic manner.

Interviewer: Can you talk about when that energy doesn't work to your favor?

01:17:30 Carl Thoma: You've just got to -- anytime you run into emotions in -- in venture capital where it's not working like it should, it's -- you've just got to, in some ways, just take a time out; step back; look at the pluses and the minuses; and more, like in any good leadership situation, it's not a personal situation. It's dealing with the realities of the situation at hand and trying to deal with it in a mature way.

Interviewer: Over your career, what thing has kept you up at night? What is it that keeps you up at night?

01:18:00 Carl Thoma: It's that . . . discipline --. The thing that keeps me up at night in venture capital i-is trying to deal in a -- with that I

call a reality because everything goes at a pace and -- and you've got to make sure you're not going too slow or you're not going too fast. Y-You're being realistic, but at the same time you're -- you're coming about it with -- with drive and passion.

01:18:30 But realism is -- is the most important thing because it really is a balance.

Interviewer: Conversely, what gets you up in the morning?

Carl Thoma: That dream of making a difference.

[Director's comments]

Male Voice: Could you talk a little bit about that passion for innovation?

01:19:00 Carl Thoma: Ask the question again.

Male Voice: What is the passion for venture capitalists? You talked about innovation.

Carl Thoma: Venture capital -- to me, the passion of venture capital i-is making that difference.

01:19:30 I think all human beings in general, you know, want -- want to make a difference whether it's in a small way with -- with their children or in -- in the larger scale of making a contribution and that can help a small company succeed and the people with benefits or a larger company

helping them succeed and -- and to me, that's what gets up every morning is just thinking about what am I going to do today to -- to make the world a better place? And you -- you don't mean this to be, you know, soupy but I mean that's the excitement.

01:20:00 That's why I've been involved in venture capital now for 33 years and -- and you never get tired of it because every day there's a new -- a new opportunity to make -- make a difference.

Male Voice: When you walk by someone who's on a cellular phone --

Interviewer: How do you [feel]?

Carl Thoma: When you walk by and you see someone on a cell phone, it -- it's always fun to tell people you were there at the beginning.

01:20:30 I remember when I first got in the venture capital business in the early '70s was coming out and having the chance to meet Bob Noyes. Here was somebody who had actually started Intel, which if we think of the impact it's had on our -- our industry today or -- or being there while we weren't smart enough to invest in Apple, at least we were there and had the opportunity to be exposed to it. I mean it's just -- I mean that's what venture capital is all about is -- is helping people succeed dreams and then at the same time bringing a sense of realism to both sides because venture capital is investing people's capital.

01:21:00 So, they have to be --treat it with respect but at the same time they've got to treat the entrepreneur whose dream they're financing with --

with respect. And so it's -- I don't think a lot of people appreciate the responsibility and that duty we really have, and I think all the great venture capitalists in our industry -- I mean, I think that's what, in the end, makes them very successful is that sense of -- of respect all the way around.

Interviewer: Is there anything you'd like to share that perhaps our questions haven't brought out that you think is important?

01:21:30 Carl Thoma: To me, the one thing that venture capital has to do more of and NVCA is doing some of that with the video that's been put together is we've got to continue to help educate people to better understand that we're not financier's and when you see meltdowns of second mortgages, that is not what venture capital is about. Venture capital is not about leverage [unintelligible].

01:22:00 Venture capital is about innovation and driving productivity and -- and it sometimes we just get lost because we get thrown in with -- with the pool of all types of investment, and -- and as I said at the beginning, venture capital is not about finance. It's about, you know, creating and building companies and doing innovative things.

Interviewer: Great. Thank you very much.

Male Voice: Thank you very much.

[End of Recorded Material]