Dean's Executive Leadership Series - DELS 2008-2009

Transcript of Interview with Ann Winblad, co-founder of Hummer Winblad Venture Partners

About DELS: The Dean's Executive Leadership Series at the Graziadio School of Business and Management features in-depth audio or video interviews with today's top business practitioners and thought leaders. Listen or subscribe to the podcast to hear their views and insight on the current challenges and opportunities facing the business community.

Start

Narrator: The Graziadio School of Business and Management at Pepperdine University proudly presents the Dean's Executive Leadership Series. This podcast invites top business practitioners and thought leaders to share their view on the real world of business.

Rick Gibson: Hello and welcome. My name is Rick Gibson. I'm the Associate Vice President for Public Affairs here at Pepperdine University, and I'm joined today by Dean Linda Livingstone, who is the Dean of the Graziadio School of Business and Management. Welcome, Linda.

Dean Linda Livingstone: Thanks, Rick. It's good to be with you today.

Rick Gibson: Well, the sixth year is off to a great start on the Dean's Executive Leadership Series. Tell us who is on tap for today.

Dean Linda Livingstone: We are now going to listen to Ann Winblad. She's the cofounder and managing director of Hummer-Winblad partners. It's a venture capital firm that was founded in 1989 and has launched more than a hundred new software companies since then.

Rick Gibson: Sounds like it will be an interesting conversation. Let me invite our listeners to sit back and relax and enjoy this conversation with Ann Winblad, cofounder and managing director Hummer-Winblad partners.

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Dean Linda Livingstone: Today we have with us Ann Winblad, and Ann is a cofounder of Hummer-Winblad Parters, a venture capital firm that focuses on software investment. So, Ann, it's really a pleasure to have you with us for our podcast today.

Ann Winblad: Thanks. It's great to be here today.

Dean Linda Livingstone: Well, Ann, you have sort of an interesting background. You grew up in Minnesota in a very small town and had a father who was a coach and a mom who was a nurse, and now you're in Silicon Valley investing in software companies. Talk a little bit about how you got from Minnesota to Silicon Valley and how you made sort of that career transition in your life.

Ann Winblad: Well, I was fortunate that I picked a track, I was very good in mathematics as a high school student, and it was not a very natural path to be a math whiz, but I was fortunate to be not just the class valedictorian but the head cheerleader. So I got a little balance there. I learned later, after I met most of my colleagues who had started software companies, that most of them never even went on dates during their high school years. So I tried to be a balanced math major.

Dean Linda Livingstone: Had a bit broader background than many people that you were working with.

Ann Winblad: Exactly. So when I went to college, I was able to get a double major, which was mathematics and business administration management, which to me was a real gift. I really was going down the track of a science type major. A math major is very theoretical, not very applied. I didn't pick engineering. And so this balance of business and math let me understand how you apply problem-solving skills to real-world problems. I was also lucky that when I graduated, it was a big year for affirmative action, and that included women as minorities. So, I was offered a very senior job at the Federal Reserve Bank in Minneapolis in the systems group in the research department. So, I got to see what a job in a big company was like, and I decided, you know, now I know I can get a real job.

Dean Linda Livingstone: That always feels good after you graduate, doesn't it?

Ann Winblad: Yeah. When you're young, you feel like you can always go backwards. You never do, but you always feel that way. So I thought, now that I know I can do a real job and get a real paycheck, why don't I just quit my job and start a company. The timing was a very unique time. It was 1975. I also finished my master's degree in international economics and education on executive program at night and

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Saturdays. So I had a master's degree, basically degrees in four different domains. And there was another interesting thing going on: Computers were getting smaller. I didn't happen to notice that the year I decided to quit my job, which was 1975, that there was 11-1/2 percent unemployment in the State of Minnesota and elsewhere. I did know that I was sitting in lines to get gas, so there was a little bit of inflation going on.

Dean Linda Livingstone: Being young and naïve can actually have its benefits sometimes.

Ann Winblad: I noticed that the Vikings lost the Superbowl. I noticed as time went on that the president of the United States resigned, and there was no capital for a young software company, but I managed to convince three of my coworkers to quit their jobs as well and start a software company with me with no capital out of my apartment. And my timing was fortunate. It was really the luck of the draw that I had the right skills. I learned how to program in college also, became a program in a real company, a systems programmer at the Federal Reserve Bank. So, as far as I was concerned, I had all the skills to be wonder woman in software, because it was unknown. It was such a new frontier. The future was only for entrepreneurs in software at that point in time because there was no software industry yet that was created. So that's how I got to where I am today. I'm in my 33rd year in the software industry, the last 20 years as an investor.

Dean Linda Livingstone: So, how did you make that transition from being a CEO, and I know you did some consulting as well between selling that company and becoming a venture capitalist, but how did you make that transition? And talk a little bit about the different set of skills it took to run your own company versus investing in other people's companies and helping them to be successful.

Ann Winblad: Well, as you mentioned earlier, my father was a high school basketball coach, and he was a very winning coach. He's in the Minnesota Athletic Hall of Fame.

Dean Linda Livingstone: Congratulations.

Ann Winblad: And University of Winona Hall of Athletic Fame. But he's a coach. And the difference between being a venture capitalist and a software entrepreneur is, in the latter case, as an entrepreneur, you're a player, and in the former position, as a venture capitalist, you're a coach. And there is a transition to be made there. After my company was acquired proactively, I moved from Minnesota to San Francisco. I'd spent most of my time in airplanes going to where the computer industry was here in

Silicon Valley any way. And two things happened: One, again, as a woman, I got a lot of press, probably as a university president you get the same, and some of it's just "woman does something." So we get our own fair share of press, which is a competitive advantage. And venture capitalists started calling me up and saying, "Hey, would you come and look at my software company?" One thing to remember here is I had taken no venture capital. I had met some venture capitalists and one in particular, Don Valentine, because they had funded the hardware companies that our software company, open systems, worked with, but I really had very little knowledge of how venture capital worked, even what they did, let alone what value they added, because we didn't see them in the software industry, even by the mid '80s, very much. So, I pretty much went to see a bunch of software companies that venture capitalists had funded in the mid and late '80s. We're about '86 now. And they were really in bad shape.

As they were themselves new to this category of company, and I really had built quite a low opinion of venture capitalists and stopped taking the calls, "Come and look at my company." But one venture capitalist in particular called me up and said, "Look, you don't really understand that it's a really powerful combination when it works well between venture capitalists and entrepreneurs, and if you're ever going to start another company, you probably want to understand how we work. So, you get to pick the venture capitalist that's right for you. So I would take our calls and keep helping us out with our companies while you've got a little bit of spare time. And, in fact, I have one company I'd like you to look at." And I said, "Okay. One more company." And I went to see this company, and it was pretty easy as a former software CEO to understand where they had gone off the rails, and I offered my suggestions up to the board. And one of the people on the board was John Hummer, who cofounded Hummer-Winblad venture partners with me. And John was with a diversified fund and really thought this software category was where he wanted to be, because he'd worked with some software companies, a few successes and a few failures. And so John started stalking me. Now, at 5 foot 2-3/4 inches, I believe I am the shortest venture capitalist in Silicon Valley. John was a first-round draft pick in the NBA out of Princeton at 6' 10", so he's the tallest venture capitalist.

Dean Linda Livingstone: And I love watching Princeton basketball, so...

Ann Winblad: Well, you might have seen him play in the '70s.

Dean Linda Livingstone: Probably did.

Ann Winblad: And so John called me incessantly, pitched me on starting a venture capital firm with him. The only reason I did this is, another thing had happened, is that the PC software industry that I had been fortunate enough to join in the pioneering days was really reaching its peak. It wasn't falling apart, but the opportunity for new companies on just the PC was pretty much reaching saturation, and we were just about to move into a new era of computing called client-server computing, which was the predecessor to distributed computing and the Internet. So there weren't a lot of new software startups. So I took John's meetings and his calls, and before I knew it, I was helping him do the pitch book, to raise the money, and then before I know it we were meeting with Bob Gunnerson, a notable lawyer here in forming our partnership and we were on the money trail. And so that's how we got into this. John omitted one very important piece of information, that because of the downturn in the early '80s, '81 and '82, and the subsequent crash of the disk drive industry, the semiconductor industry and the erosion of the old hardware companies, there had not been a new venture capital firm funded in five years. So we were swimming upstream to raise our first funds.

Dean Linda Livingstone: And you were the first venture firm to focus specifically on software, so that was new. And then you said you're swimming upstream in terms of gathering capital to do this. Why have you been so successful? What do you think has been the key to what you have done that has allowed you to continue to work in that industry for as long and be as successful as you have?

Ann Winblad: We ultimately did raise our first fund, which was 35 million dollars, the smallest fund we ever raised. We had to have 135 meetings to raise the 35 million, and I won't recount...

Dean Linda Livingstone: Takes a lot of persistence, obviously, is one of the things that led to that success.

Ann Winblad: It does. You know, and it does really speak to, you know, patience and persistence being a really important quality in the right combination for a venture investor. The niche we picked, software, is really unique. The companies are still relatively capital efficient. The more important ingredient to these companies is the intellectual capital. The companies are able to really size themselves to fit the economic trends. They can thrive let alone survive in very tough times, which we're going through, about to go through again. It really hasn't hit the software beach yet, but it will. And we've had a very disrupted period of time in software since the creation of our fund in 1989. In essence, what venture capital and entrepreneurs are as a combination is the very essence of capitalism is in this country. It's successes and failures, creative destructionism, really constantly reinvigorating and rebooting the economy. And our timing was very good. When we started in '89, there was a new platform, client-server computing. We funded 16 companies in our first fund. Eight of them became public companies. We could not beat that.

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Dean Linda Livingstone: Wow. That's a good hit rate, yeah.

Ann Winblad: You know, then we had sort of a stretch of that in distributed computing, which we had some very good successes there. Then the Internet came--little bit of a bubble there--more than a little bit, a real bubble. But really, that was really kind of the tsunami to the destruction that we have today, which is really all sorts of new things in software, open stores, virtualization, cloud computing. There's not just the waiting for the platform shift anymore. So it's all been an acceleration into some of the most disruptive times, which this creative destructionism means real big opportunity for entrepreneurs. And very much like the mid '70s, which I was a very small company as open systems, and in that same time period, Oracle was founded in '78, Microsoft in '75, same year I started my company, Apple started in '76. You look at sort of some of the stalwarts of, you know, this industry, and even out of that bubble of the 1999s came Google. So, in many ways, you know, disruption creates opportunity for us. And we've been very, very fortunate that we've been in a time where the information economy is forming a greater part of our GNP. It's really an engine for job creation. It is the core of innovation for almost every industry and the ability for us to create companies has not become that much more expensive, in fact, even in some cases more capital efficient.

Dean Linda Livingstone: So in this very disruptive period, what kinds of companies, what kinds of software focus do you think are going to have the greatest opportunity to be the next Microsoft or Google, or are there certain niches within software that you think have the most potential? I mean, what are you all looking at and what do you think is going to be the hot next thing in software?

Ann Winblad: Well, one of the things that it's important to remember is worthy opportunists and the entrepreneurs and the visionaries. And that's also an important thing to learn as a young venture capitalist is that what you want to do is get in the river of deal flow. You want to meet as many smart, bright people who are willing to take the risk of company creation, have the intellectual stamina to actually build a company, and have been watching just the right pieces for them to come together. So we never claim to tell you what's going to happen in the future. There are some disruptions in process today, and most of these disruptions are under the surface for a long period of time before you see big companies formed. If you, when Freddie and Fannie went away off the S&P 500, one of the companies that took their place on the S&P 500 was a local company here called sales force, not a venture-backed company. It was formed by Larry Ellison. But they represent a category called "software as a service." Now everybody talks about this as a hot area.

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We made our first software as a service investment in 1997. So, you're always sort of starting to build these companies well ahead of this curve. Another big term is "cloud computing." The data center is a computer, utility computing models, not just service computing models. And that is another disruptor of how you're bringing higher value software to the enterprise in the consumer using a different compute model. We've been making investments in the cloud computing space for a couple of years now as well. We also see some of the underlying technologies, virtualization, the way software is created, open source components forever becoming part of the core ingredients of how companies operate and how software is built. So, we have a lot of disruptions coming down the pike. It's not really one big thing anymore, and that's what makes it really spectacular for us as being a niched investor in softwares. We're not just sitting there waiting for the one next trend and hoping that we can react to it quickly. It also means as early stage investors, which we are, we invest at the greatest risk point, which is the first round, that the new companies we invest in today probably won't have their products in the marketplace until 2010. So we'll take this 2009 year for the new companies and have it be a year of building behind the scenes. You know, we have great hopes that maybe the economy might improve a little bit between now and 2010.

Dean Linda Livingstone: We're all hoping that.

Ann Winblad: Yes. We're going to do our best to help <inaudible>.

Dean Linda Livingstone: Good. Because I'm glad to hear that.

Ann Winblad: Our entrepreneuring startups. But that actually is one of the things that sets apart the true entrepreneur is they don't come in to us saying, "The trend today is this." They come in with a vision of the future that we've not thought up before. They're true visionaries.

Dean Linda Livingstone: You're investing in the future; you're not investing in today.

Ann Winblad: Today. We're not. If we're a later stage investor and we're in software, we're probably looking at virtualization, open source, software as a service, you know, some of the core trends that you see, to see which companies have built up to critical mass there. But that's not us. We're just looking at the future and seeing how that might pan out.

Dean Linda Livingstone: So, when individuals come to you with ideas and are wanting you to fund what they're working on, because you're looking to the future, looking for that visionary perspective, what are

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the things that you look for in those pitches that are made to you that help you to understand that this is one that there's really potential for in the future versus, no, this is going to come and go and it's not worth our time and investment.

Ann Winblad: Well, there are two things. One, we don't fund inventions. That's not our space. We fund tight fits to a forward-going market opportunity. So the true visionary not only knows what kind of disruptive technology pieces allow them to build new products or vastly superior products, but they really are able to talk like a customer to us, even if they've never sold a product before or even if they, themselves don't have a prototype they've ever shown a customer, they know there is a pain in the marketplace that current products cannot solve and that that pain is increasing. So, this unique ability which makes an entrepreneur different from an inventor is the ability to fuse together the product opportunity with the market opportunity, which equals a business.

Dean Linda Livingstone: In this economic time that we have right now, I mean, there's so much turmoil going on. You've talked about disruption just in the software space, sort of independent of what's going on in the economy. So, how does the turmoil in the economy sort of mapped against all the disruption that's going on from a technological perspective play out in your world in terms of the challenges and opportunities that are there versus a time when the economy is going strong and we don't have the kind of stress that we're experiencing right now?

Ann Winblad: Well, in the software space, specifically, and enterprise software, we watch carefully the trend for IT budgets. And frankly, we don't have clear visibility on those trends going into 2009 and 2010. So, what that means for investors during this period of time is investors don't stop investing. We have funds. We are looking for new companies, but the bar gets a little higher. There may be things that two years ago we would say, "Look, this is likely to end up on an IT budget because it has value," and so, when we talk to customers, they say, "Gee, I don't have something like this on my budget because I never conceived of it, but I can see us, you know, really being interested in that." So when we talk to customers today, they have to say, "Oh, gosh, this is a pain point, and it's not going to get any better, and it's going to keep growing," versus, "I could be interested in that." So, the number of purchases that especially large corporations will make goes down in number, and the competition for vendors to get the customer's dollar gets tighter. So we just raise the bar higher and, you know, pain points that the customer might have going forward that the products would solve or revenue-enhancing ability that products will build for the customer. So, just the bar sometimes goes a little bit lower in flusher times because we know the customers will be more innovative in their purchases versus tying the purchases directly to revenue generation, lowering total cost of ownership or really driving some core efficiencies of their businesses that are curtailing their competitive advantage.

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Dean Linda Livingstone: So, what kinds of sort of direct impacts on your venture fund have you seen because of all of this? People less willing to invest or-- and then as you said, a higher bar for who you're willing to fund? I mean, what are sort of the direct implications for you?

Ann Winblad: Well, we have been fortunate in that venture capital firms raise funds every three to four years, and so we raised our sixth fund last year.

Dean Linda Livingstone: Okay. So your timing was good.

Ann Winblad: Our timing was fortunate again. And, you know, we weren't trying to time the economy. It was just our time to raise our fund. Investors going out this year are going to see what is called the denominator effect. That means that our funds come from endowments, pension funds, family foundations, and traditionally investors that had been in this asset class for even a longer period of time that we exist, the venture capital industry as we know it pretty much started in 1972. That's when Sequoia and Kleiner Perkins, for example, were created. So, today, if I am a pension fund and I look at-- and I was a 100 million dollar pension fund a couple of months ago, I'm probably a 65 million dollar pension fund today. And if I said 4 percent of my pension fund was going to go to the asset class of venture capital, I'm probably already over-allocated.

So there will be a juncture here where some funds will not be able to raise their next fund, and they will either stay in the market investing their old funds and managing their existing portfolio or they'll just go away. That effect will not be had on ours. Our investors are committed to our funds, we believe, and you know, we won't be back on the market for three years. So, we will see some winnowing of our colleagues, but that has happened before. But in number, most of the bigger and established funds are pretty well funded to go through the next three or four years. There's not any impact on our software companies. They don't depend upon debt. The debt instruments for software companies have been a recent phenomena in Silicon Valley, and they may be a very short recent phenomena, although there is some debt financing available. We don't depend upon most of the-- we do depend upon having healthy customers who have IT budgets. And we don't know where those IT budgets will be in 2009 and 2010, but it's hard for me to imagine that any major company can stop spending on software and still retain any kind of competitive advantage or run their companies.

Dean Linda Livingstone: We have a lot of students and alumni that have a lot of interest in the venture area. Sometimes it's because they are entrepreneurs and would certainly like to get funding, but others are interested in maybe moving into a position like you're in and working within the context of a venture

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fund. So for those interested on sort of the venture fund side, what advice do you have for them about how to position themselves to potentially be qualified and successful at some point in working on the venture side rather than on the sort of entrepreneurial side?

Ann Winblad: Well, if I look how we've grown our partnership, the last two partners we added had been CEOs of our portfolio companies. They subsequently went on. They took those companies public. They went on to run other companies. So, they were proven players. This time is another good example about it's not just being a smart person. It's do you have the experience to coach the teams and through good times and tough times? And I would say pick where you want to have your investing strategy as a venture capitalist. If you are starting a company and you want to be a venture capitalist, you probably are going to be venture funded at some time and develop a tight relationship with your own funders who say, "Gee, this young woman or young man, it would be really great to have them on the coaching side when they're ready." My own belief is there's not a direct career path without being a practitioner in your investing space to be a successful venture capitalist.

There are exceptions and there are some very, very good venture capitalists who never ran companies, but not that many. And it is, you know, our job is to build enough successful companies. And we have to use every single lesson learned in our play book. So having been at the helm of your own company before, knowing it's not just being a smart person at a board meeting or writing a check, but what it's like to really run these companies through thick and thin really is extremely important to be very successful over the long term as a venture capitalist. You might take a stint for a short time as an associate. We've had two of our associates take two-year positions and then join our portfolio companies. We've had one of them come back then, you know, as a partner role, and so that's not promoted as a route to a partner at a venture firm. Or you can do like I did and start your own. That's pretty hard, but you know, there's always room for a unique offering and a unique partnership and a fresh look at how you would pair capital with entrepreneurs, risk capital specifically, and create great companies. And if you think you can do that, you know, we did it during the last tough time. It'd be a real challenge right now but go for it.

Dean Linda Livingstone: In the business school at Pepperdine, we talk about a mission that focuses on developing value-centered leaders in advancing responsible business practices, so, really strong, values-centered approach, ethical based. Talk just a little bit as we kind of bring our podcast to a close about the role of kind of values and thinking about that in the context of how you choose your investments and who you choose to work with.

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Ann Winblad: It's interesting, if you're an undergraduate student, you probably didn't take an ethics course. It's very, very hard now as a business school graduate to not have ethics integrated across no matter what you're studying, if it's an MBA or a master's in something else. One of the things that makes a successful entrepreneur, especially in the venture-back industry, is not just integrity but true intellectual honesty that you can come into a board meeting and effectively be standing naked in front of a mirror, that you're willing to share the ups and downs of your businesses with your investors, that you're able to do this to lead your employees through, again, the tougher times. That transparency really is very, very closely tied to business ethics. It's really having the courage to really tell the truth. And that sounds like a cheerleading thing to say, but it's much, much deeper than this. It really is truly understanding: Is my business making it or not? What do you have to do it be successful to retain people? In the case of software, if you lose the intellectual capital, it doesn't matter how much money we give you, because it's all about people. In fact, that was why it was hard for us to get our fund created in the first place, is all the first investors said, "Well, who would want to fund a software company? Don't the assets walk out the door every night?" And when I answered yes, they said, "Well, we're not interested. We want, you know, buildings and..

Dean Linda Livingstone: Something hard that I can touch and feel. Yeah.

Ann Winblad: So, in more than any other industry, there's nothing to hide behind in software. So really understanding the value of people, the value of intellectual honesty, the value of truth in how you really, really run a business is a key element to success. And some people do not have the courage to tell the truth because it's hard, it's painful, but that really does distinguish the winners from the losers, and we see it over and over again. You know, if you take your investors by surprise or your employees by surprise or yourself by surprise by operating in a reality distortion field or misleading people, you don't get everybody on your team. And when you get all the oars pulling in one direction, you'd be amazing how much tougher the boat is and how much faster and further it goes. So it's really always been a mystery to me to anyone who doesn't really understand the real depth that your question implies in building a successful business.

Dean Linda Livingstone: Wonderful. Well, thank you so much for sharing with us, Ann. It's been wonderful having you with us. We congratulate you on your success in the past and certainly wish you the best in the future even during these difficult and turbulent times.

Ann Winblad: Thanks. We're all going to need all the help we can get in the coming years.

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Dean Linda Livingstone: Thanks so much, Ann.

Rick Gibson: Well, as promised, that was an interesting conversation.

Dean Linda Livingstone: It was fascinating talking to Ann and hearing about the work they've done investing in software firms and really helping drive new ventures in northern California.

Rick Gibson: Well, tell us who we can expect to hear from next.

Dean Linda Livingstone: Next, we have with us Robyn Kaminsky. She's the Executive Vice President of Activision Publishing, and she will join us on November 18th in Malibu.

Rick Gibson: That sounds terrific. Well, let me invite our listeners, if they enjoy these podcasts, to subscribe by going to the Bschool.Pepperdine.edu, that's Bschool.Pepperdine.edu/DELS, and you can find these web casts and video casts at YouTube and iTunes. Until next time, thank you for listening.

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