



Where are the Deals?

Private Equity and Venture Capital Funds' Best Practices in Sourcing New Investments

by David Teten,
with Chris Farmer

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Abstract

We find that private equity and venture capital funds which employ a pro-active origination strategy have consistently higher returns, driven by both greater quantity and higher relevance of incoming investment opportunities. These proactive investors are using both traditional tools (cold calling) and more innovative tools (internet research, web scraping, social media, and expert networks). We expect use of social media in particular to increase as more millennials reach decision-making roles in the investment industry and among investable companies.

The Web and social media might seem to threaten the discretion and exclusivity that private equity and venture firms traditionally prize by increasing information leakage. However, our data show that increased deal flow and brand recognition offsets any loss of confidentiality.

This research study draws on a wide range of data: our in-depth interviews with over 150 private equity and venture investors; our proprietary dataset of information regarding these funds' origination

processes; and the authors' experience working with a range of institutional investors.

Author bios

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"Deal origination is about how much hard work you can do in a year. There isn't any secret." ¹

- James McNair, Senior Managing Director,
Corinthian Capital

There is a company in New York that is going to make its investors phenomenally rich. It is just 9 months old, founded and self-funded by a serial financial entrepreneur. He has recruited a 5-person team, and is working on selling investors his vision of aggressive growth through both technology and some targeted acquisitions. We guarantee that this five-person startup will have a valuation of over \$1 billion within 7 years.

Unfortunately, we do not know the name of this entrepreneur or his company...but we will explain how you can find it. In this paper we discuss best practices in deal origination: systematic methods to identify a potential investment target, identify the owners, reach out, and persuade them to welcome your investment. We define "deal origination" as the stage in the investing cycle when proactive and reactive efforts are made to identify private company securities available for sale.

We find that private equity ("PE") and venture capital ("VC") funds who employ a pro-active origination strategy have consistently higher returns, driven by both greater quantity and higher relevance of incoming investment opportunities. We expect use of social media in particular to increase as more millennials achieve leadership roles.

To our knowledge, this is the first systematic study on this topic; we have not found any other in-depth research on this topic by either academics or practitioners. In leading this research, we are leveraging our experience working with a wide range of top-tier investors and our proprietary dataset of the origination practices of over 150 institutional investors globally with whom we have conducted in-depth interviews. We also have presented on our research to dozens of conferences, funds, and

investment banks globally, gaining additional insight from audience feedback.

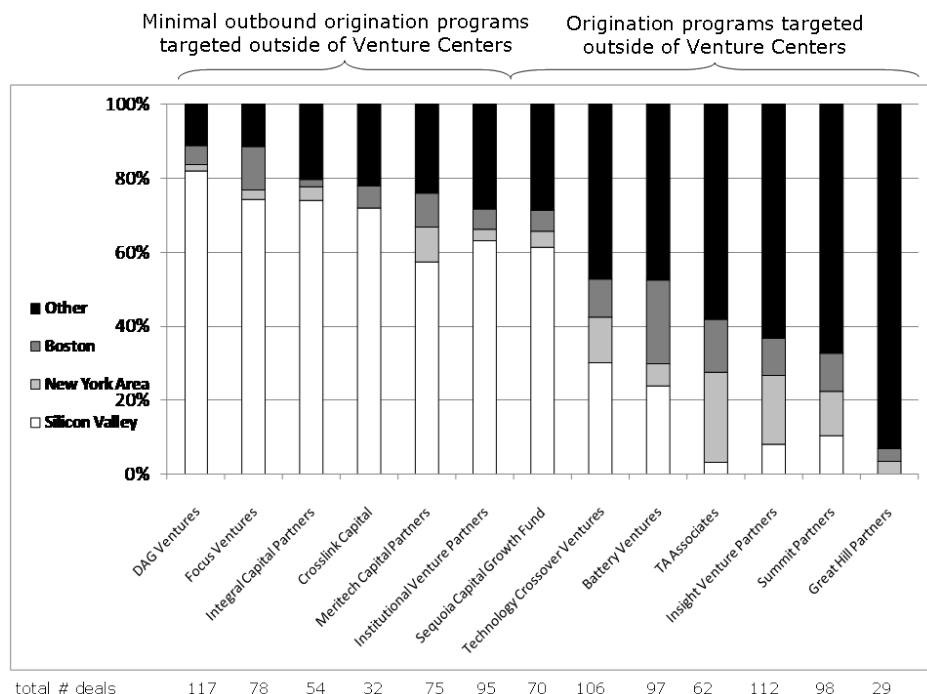
We will discuss the deal origination process for all categories of private company investors: buyout, distressed, growth equity, VC, and angels. The best practices we identify are also pertinent to a much broader range of businesses:

- **Corporate development/M&A groups**
- **Lenders/investors in debt and other non-equity securities**
- **Hedge funds that invest in transactions on a negotiated basis** (e.g., public investments in PE)
- **Salespeople selling to executives.** We view institutional investors as fundamentally salespeople of their firms' capital.

Why deal origination matters

Funds can have a substantial impact on their investment success by implementing best practices in deal origination. For example, late stage venture capitalists and growth equity investors who have origination programs of substantial scale and are focused outside of the most competitive markets are almost all top-quartile performers across stage, vintage, and sector. As a case study, Exhibit 1 analyzes the technology investments of the leading late stage venture capital and growth equity funds between 2000 and the first quarter of 2010. The funds on the right side of the chart source and invest heavily outside of the traditional geographic centers of the venture industry (New York, Boston, San Francisco Bay Area), and are consistently among the top performing investors in their class. Since 2007, all of these funds have been able to raise funds equal or larger than the preceding fund. By contrast, most of the funds on the left side have not raised new funds since late 2005.

Exhibit 1: Investments by Geography of Leading Late-Stage Technology Investors, 2000-1Q2010



Notes: Only for IT & related sectors. Battery & Sequoia data only include late stage/growth equity deals.

Similarly, Professors Henry Chen, Paul Gompers, Anna Kovner, and Josh Lerner [2009] found that VC firms based in locales that are VC centers (northern California, Massachusetts, and the New York City metropolitan area) outperform those that do not, regardless of the stage of the investment. Ironically, this outperformance is most pronounced *outside* of the VC firms’ office locations, particularly those areas outside the venture centers. This is true in both early- and late-stage investments. Average success rates for investments in the main office regions are 14.5%, while the branch office and outside office investment success rates are both approximately 17%.² The funds in both of these studies need to use aggressive origination tactics to reach outside of their local geography.

Castle Harlan, a \$3.2b PE fund, found similar results in an internal 2009 study of the sources and returns of all their completed transactions (68 deals, 38 exited). The relevant deal team rated the importance of seven proprietary strategies to winning each deal, on a scale of 0-10 (10=maximum). For example, "finder" and "industry expertise" were two of the strategies. ("Finder" was typically scored with either a 0 for no finder involved or a 10 for a finder of any kind playing a key role in sourcing the transaction.)

Howard D. Morgan, Co-President, Castle Harlan reported that across all deals, the mean total "proprietaryness" score was 21.2 out of a maximum possible of 70, and 44 of the deals (65%) scored above 25. Most of these 44 deals fully exploited (i.e., 10 out of 10) at least two proprietary strategies, and benefited from some other strategies as well. Closing a transaction requires multiple levers; this pattern of using multiple strategies to close a deal is typical and not unique to Castle Harlan.

Castle Harlan found that the most proprietary deals (defined as those with scores of 31 or more) had a somewhat higher return than non-proprietary deals, while at the same time the firm tended to pay on average a premium for these proprietary deals. This implies that these companies were higher quality than non-proprietary deals; Castle Harlan perceived a lower uncertainty risk; and/or the fund was able to add more value to these transactions after a transaction closed.

Many of these sellers probably ran a limited auction, and by definition Castle Harlan won the auction. In any such situation, an investor doesn’t know if it is the smartest person in the room who is justified in paying a higher price...or if it suffered the ‘winner’s curse’ of paying above the real value. By having a proprietary angle, Castle Harlan increased

the odds of being the smartest person in the room, not the patsy.

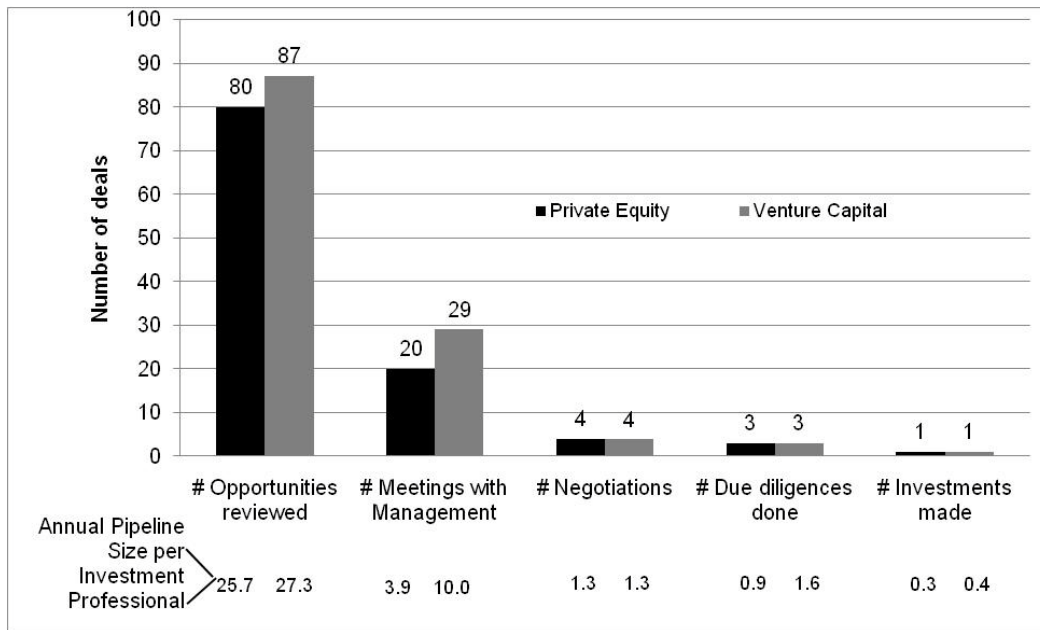
By contrast, deals characterized as being sourced through finders of any kind were associated with lower entry multiples, but also relatively less attractive realized outcomes. (Only 9 investments (13% of the total) had a "Finder" score of 5 or more.) Deals sourced through affiliated investors; through relationships with current management; and/or through relationships with non-incumbent management were associated with slightly higher entry multiples, but also better outcomes. In other words, deals sourced by an outside finder are still somewhat proprietary, but the expected return of such deals for Castle Harlan was lower than with the other possible sourcing strategies.

Ernst & Young [2006, p. 5] found that ¾ of the largest PE investments in 2006 resulted from proactive deal origination strategies, including

"company or sector tracking, building relationships with management, [and/or] introductions from established contacts". Only 11% of the deals resulted from PE investors starting work during the formal sale process. "Better preparation, strength of relationship with target management, and sector focus were the most important factors cited in winning a deal."

Although proprietary deal origination clearly creates a competitive advantage, the challenge is that deal origination has a low success rate and typically requires the most time investment of any phase of the investing process. In our entire dataset, the median investor in private companies had to review 80 companies in order to close one transaction. The median PE and VC fund required 3.1 investment team members to close one transaction in one year. Exhibit 2 shows the median pipeline size across our entire dataset.

Exhibit 2: Median Pipeline Size Necessary to Close 1 Deal

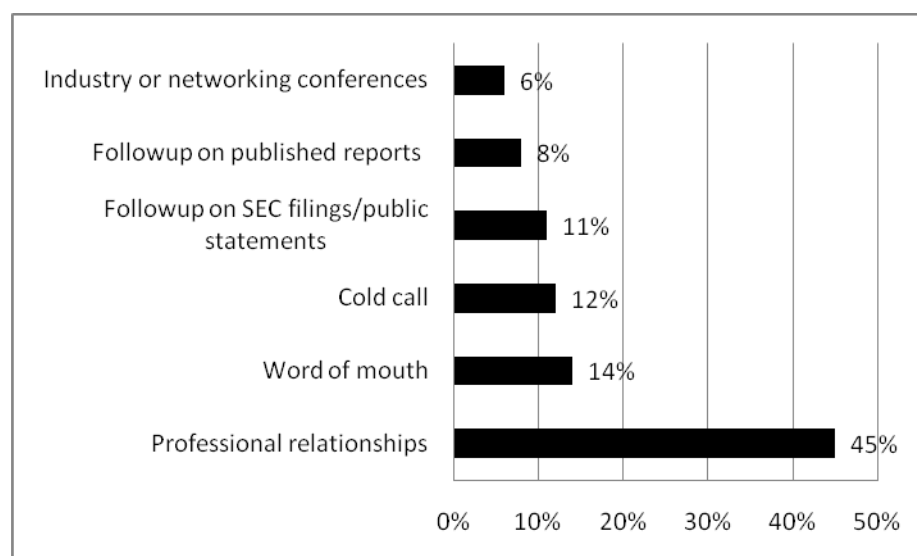


More funds are realizing that by the standards of most comparable sales processes, origination today is a very inefficient and labor-intensive process. Pappas, Allen and Shalock [2009] found that 55% of PE funds they surveyed reported that they plan to change their origination processes over the next 3 years -- a higher percentage than intended to change fundraising, portfolio management, or any other fund process.

Deal sources

The most significant sources of deal origination include personal and professional networks and reputation of the general partners and principals (Exhibit 3). Across all funds we studied, just 44% of total deal flow came directly from in-house sources.

Exhibit 3: What is the most important process your company's internal [deal-sourcing] group uses to locate possible deals? (% of respondents responding affirmatively)



Source: *The Deal & Merrill Data Site 2010*

Investments sourced through personal and professional networks have been shown to yield better returns; mutual fund managers investing in companies run by executives who attended the same school at the same time as the fund managers earn returns 840 basis points higher than they do when investing in the broader universe of companies (Cohen, Frazzini, and Malloy [2007]). The research of Sunesson [2009] on VC investors shows the same pattern of differential returns, and Sunesson adds that this difference should be greater among investors in private companies than public securities, because private markets are less efficient.³

This seems counterintuitive; why should the simple fact of a common school connection create such a dramatic increase in returns? We think the reason is that the investors' private information about company management is much more insightful than public information.

Social networks are particularly powerful in the search process because an investor is navigating unclear waters. If properly educated and motivated, each relationship in your network will have his antennae tuned for opportunities that fit your investing mandate. In order to train your relationships, it is important that you provide them with simple, clear investing criteria. None of them can remember a lengthy checklist; better that you brand yourself tightly, e.g., "We're interested in education companies with revenues over \$25m."

Whenever your relationship sees such a company, you'll be top of mind for that narrowly defined niche.

Jim Marra, Director of Business Development, Blue Point Capital Partners, a \$400m PE fund, reports: "Some time ago, I met with the CEO of a business which I knew would likely go for sale over the next few years. We got the first call from them at the same time as an intermediary. We submitted a Letter of Intent that was well below the threshold to get into the 2nd round, but nonetheless we got a seat at the 2nd round. We were ultimately not the highest bidder, but the highest bidder didn't get the deal done. They'll come back to the market in a year from now; we will be invited to that conversation. We think building these relationships is a better use of time than chasing 100 investment banker auctions. On average, probably 1-2 years pass between our first meeting with a CEO and closing a deal."

Market mapping

Troy Noard, Managing Director, Frontenac Company, said, "We focus on industries we know well. We don't do well with a 'we're smarter than everybody' strategy, investing in a company or industry we've never heard of."

A core component of any world class origination effort is to focus the investment generation activity through "market mapping", which we define as identifying the key macro- and micro-economic drivers of an industry and creating a database of all

the key companies in that sector. Typically, the goal of market mapping is to identify the companies and

sectors that have the greatest growth potential and/or competitive white space (See Exhibit 4).

Exhibit 4: Key Steps in Market Mapping

#	Stage	Example
1	Choose industries and geographies of initial interest , often adjacent to existing competencies and portfolio.	Global growth equity fund with deep experience in North American and Japan, which chooses to focus future investments in those geographies.
2	Define your proprietary point of view.	Thesis: Population in developed countries is aging rapidly.
3	Translate into investment theme for specific industries and/or geographies of interest.	In the finance industry, we expect growth of financial services providers with low-risk investing products.
4	List major players in target industries/geographies , and how each will be impacted by the investment themes.	Asset managers with expertise in annuities/fixed income products will likely benefit.
5	Iteratively improve market map based on feedback from industry contacts and potential investments.	Message/disseminate elements of the market map to key sector players through industry forums and mass media.
6	Determine which activities along the value chain offer the highest return (typically the proprietary ones). Consider developing those capabilities and outsource the rest.	Develop deep ties in the brokerage community that distribute low risk financial products.
7	Identify areas of future growth. Typical avenues of growth include: core business / adjacent markets; regional/global expansion; M&A; human capital; technology; financial structure; personal networks.	Fund researches bolt-on acquisitions while diligencing its primary target.
8	Assess fit with Fund's strategy.	Local geographic leader that would benefit from Fund's global reach.
9	Regularly update the market map based on market feedback and lessons from investment prospects.	Maintain internal wiki or database regularly updated with key market data and insights.

For example, Great Hill Partners, a \$1b+ PE fund, has successfully used their focused knowledge of the markets in which they invest to drive tuck-in acquisitions to accelerate the growth of their portfolio companies. Since inception, Great Hill Partners' portfolio companies have acquired over 200 companies with the help of the fund. Market mapping has helped Great Hill Partners to source attractive investments as well as to add value after the investment. This value addition also reinforces the origination efforts as portfolio management teams, a key constituent in the choice of equity sponsor, value Great Hill's sector expertise in strategic planning and the potential increased equity appreciation due to the acquisitions.

Sector specialization

Pascal Levensohn, an experienced VC and Managing Director, Presidio Strategic Services, said, "The #1 thing we can do to improve our deal origination is spend more and more time really focusing in on core technology developments-- understand our vertical better. We get a lot of value from raw reading and understanding of everything in our space, drilling deeper and deeper."

Specialization (and marketing accordingly) does enhance deal origination. Specialization allows for a deeper knowledge base, ability to add more value through an enhanced network, and is likely to make a

fund top of mind for key sources of deals in the domain. In PE specifically, Losson ([2006] p. 35) found that the rate of return of PE funds declines with diversification across financing stages, but increases with diversification across industries. Diversification across countries has no systematic effect on performance.

Sector focus is a common strategy in the US and is becoming more prevalent amongst European PE investors. In Ernst & Young's study of the largest PE deals of 2006 ([2006, p.5]), US investors reported that sector focus was an advantage in 2/3 of their deals, establishing credibility with management and helping to evaluate the growth potential of the target. In Europe, investors reported that sector focus was an advantage in 25% of deals. In both regions, these sector-focused deals performed above average.

ORGANIZATIONAL STRUCTURE

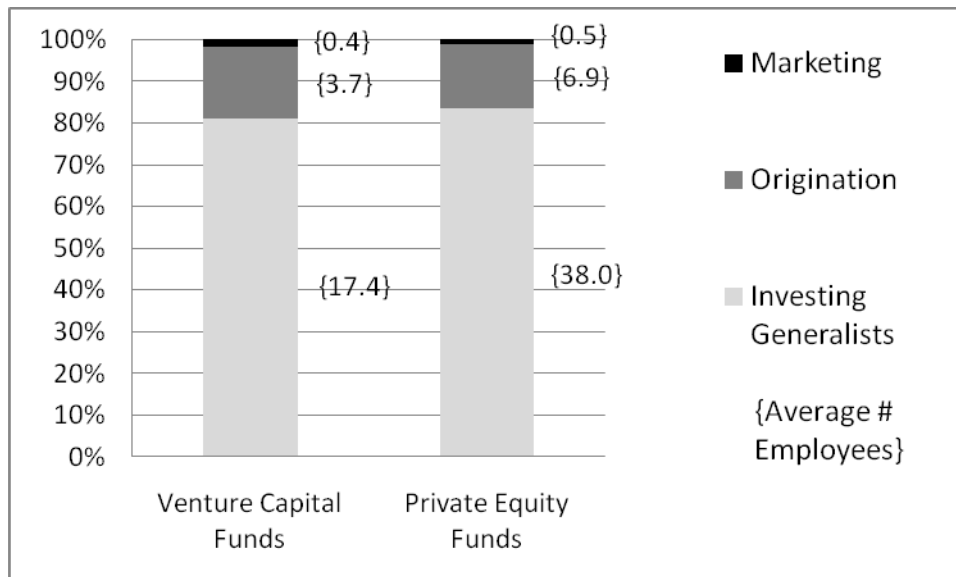
As the PE industry has matured, the organizational structure of funds has increasingly grown more professional, hierarchical, and similar to that of other professional services organizations. In addition, origination has become a core business function. Out of 5,732 investment professionals in our dataset, 20.4% (Exhibit 5) are focused primarily

on origination and marketing. This is a significant increase over the percentage a decade ago, reflecting an increasing focus on the origination function. This trend to specialization in origination is much more apparent in the developed than in the emerging geographic markets.

58% of PE funds reported that once headcount grows past 50, adding functional specialists, instead of relying on the traditional "Renaissance man" style of the firm's founders, correlates to positive performance (Pappas, Allen and Shalock [2009]). Troy Noard, Managing Director, Frontenac Company, was one of many investors who told us, "Deal professionals tend to get distracted by doing deals.... Dedicated origination provides a constant and consistent presence in the marketplace and makes deal flow less lumpy."

The largest practitioners of dedicated origination programs – including such firms as Battery Ventures, Great Hill Partners, Insight Venture Partners, Platinum Equity, Summit Partners, TA Associates, and TCV --- typically have between 0.75 and 1.25 dedicated deal sourcers for every generalist investment professional.

Exhibit 5: Investment Team Distribution by Job Function



Our respondents reported that the best originators had a consistent set of attributes, in descending order of importance:

- **Persistence, or "hanging around the hoop".** An effective originator needs to be able to accept that each "No" moves one closer to the rare "Yes".
- **Personality.** Alexander L. Cappello, CEO, Cappello Capital Corp., observes, "Even when all else isn't equal, people still do business with whom they like."
- **Business and financial judgment.** Dedicated originators need enough knowledge of basic finance to rapidly screen an investment fit.
- **Adequate financial sophistication.** One well-known PE partner said, "The problem with the new biz dev guys [who don't have a deal background] is they have no say. They have an unloaded gun. Historically they're always in conflict with guys who process the deals."
- **Seniority and appropriate title.** Andy Brusman, Managing Partner at SAE Capital Advisors, observed, "The originator has to be viewed as being a person of influence. If you're not, the source's position will be, 'I need to get to the decision-making person as soon as possible.'"
- **Internal authority to get a transaction executed.** Some companies complained that they spend hours educating an originator about their firm, and then need to educate the execution team members all over again.
- **Creativity.** The best originators can think creatively about untapped sectors, or new methods of approaching a firm, which will give them an advantage.

IDENTIFYING TARGETS

Deal Signals

Craig Elias, sales expert and author of SHiFT!, observes that salespeople are typically five times more successful when they sell to decision makers who recently experienced a 'Trigger Event'. These events trigger dissatisfaction with the status quo and motivate decision makers to seek something they did not previously need. The challenge is that many trigger events are private and not easily observable.

We have listed below some sample deal signals which indicate that a company is likely to be receptive to an inquiry from an outside investor. David Teten has found that many of the signals below can be identified by a combination of

commercial databases, social media, data mining, and targeted phone research, and is building an automated platform for sourcing new transactions based on such signals.

Status of major equity owner

- Private equity funds motivated to sell because fully invested; raising next fund; and/or because investment has aged over 5-7 years
- Large corporation seeking to raise cash by selling subsidiaries
- Major owner with time-limited tax incentive, e.g. due to temporarily lower capital gains tax rates
- Family owners in midst of succession battle
- Death, disease and divorce ("the Three D's")

Status of CEO

- CEO becoming tired, aged, and/or acknowledging limits of his or her competence

Corporate performance

- Growth too rapid to be self-funded
- Underperforming/distressed

Industry/economic trends

- Industry consolidation. Aside from competitive pressure, seeing a competitor make a large cash gain from exiting also prompts a CEO to think about liquidating his or her own equity.
- Competitors raising capital, creating pressure to maintain parity
- Growth sector

We particularly recommend that investors monitor their target ecosystem for cyclical opportunities and structural shifts. M&A often creates orphan divisions and cyclical downturns force a refocusing of strategy. A Boston Consulting Group/IESE study (Meerkat et al. [2008], p.10) showed that over the last 30 years, between 30% and 46% of PE returns have been driven by EBIT multiple arbitrage or, in essence, market timing.

Many respondents use commercial databases of companies to source potential investments. These include regional surveys, "fastest-growing company" lists, trade association membership lists, as well as commercial vendors such as Amadeus, Capital IQ, Dun & Bradstreet, Hoover's, InfoUSA, Lexis-Nexis, ThomsonReuters, and OneSource. James S. Cassel, Chairman & Co-Founder, Cassel Salpeter & Co., commented that he finds it very valuable to walk the

halls of a trade show with a senior operator who can explain what's really going on at each industry player. Some funds use outsourced research and analytics providers such as Evalueserve.

Certain specialized services have emerged which facilitate sourcing individuals, as opposed to companies. People search engines (e.g., LinkedIn, ZoomInfo) aggregate publicly available information about firms and individuals from SEC filings, alumni newsletters and many other sources. These allow searches for individuals with pertinent industry expertise, and/or some of the deal signals above.

An ongoing professional investor complaint is their daily deluge of information. Some investors surveyed reported that they would set up alerts in a blog reader (e.g., Google Reader) to tell them when a news story or blog appeared that discussed a narrowly defined industry or company of interest.

COLD SOLICITATION

While cold calling may seem like an inferior sourcing strategy versus leveraging established industry contacts, these programs have consistently proven to generate top performance when applied at scale in such firms as TA Associates and Summit Partners. Hessel 2009 writes, "At TA [Associates], ... 30 associates call about 5,000 companies a year. That information along with extensive databases gets poured into a collection that now includes statistics on 350,000 privately held companies. TA visits approximately 1,200 firms per year and invests in 10 to 12." Snow [2004] reports that in 2004, TA reported that of the last 16 investments it had made, 14 started out with a cold-calling relationship.

Building a cold calling program requires significant infrastructure, and most of all, patience. Conversations with target investments can often require years of relationship building which requires manpower, marketing, and travel. One multi-billion

dollar growth equity firm reported that on average, 36 months passed between their first conversation with a CEO and closing an investment with him or her.

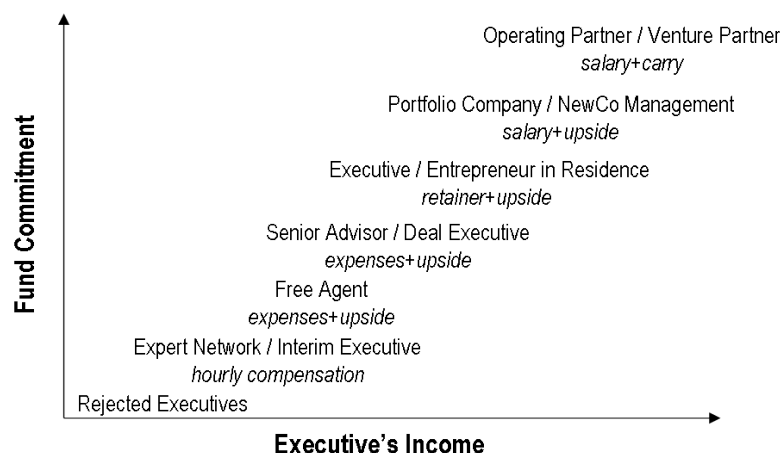
Exhibit 6: Key Steps for a Successful Cold Calling Program

- Focus on geographies/sectors that are undercovered by peer firms.
- Maintain clear criteria and metrics to ensure that the relationships being developed have a reasonable likelihood of yielding investments, and stick with them.
- Institute a formal CRM system, tied to a formal deal tracking program.
- Directly tie compensation to developing and maintaining the database; volume of flow; and quality of flow.
- Require regular follow-up with priority companies.
- Organize scheduled reviews with partners and sector teams.
- Maintain consistent dialogue with key prospects and sources.
- Use multiple outreach methods: phone, email, fax, overnight mail, etc., in order to get the attention of the person targeted.

OPERATING EXECUTIVES AND ENTREPRENEURS

Many investors reported that they tried to create deal flow by building relationships directly with pertinent entrepreneurs and executives. Exhibit 7 summarizes the different ways in which investors can tap outside executives:

Exhibit 7: Private Equity Fund Structural Options in Working with Executives



Each model has advantages and disadvantages; we discuss the most pertinent models below. You can read more about best practices of private equity funds in working with operating executives at teten.com/executive.

Rejected executives

Peter Rip, General Partner, VC Crosslink Capital, observed that “A large portion of my deal flow comes from people I have rejected in the past.” By the nature of his role, he turns down the great majority of the people who come to him seeking funding, but the better ones will circle back a few years later with another opportunity. He reports that treating these entrepreneurs with respect is critical to his long-run success as an investor.

Expert networks

Integrity Research [2009] reports that the fastest growing sector of the \$1.8b independent research industry are expert networks, with 2009 revenues estimated at \$364m. The expert network industry puts investors in direct contact (usually via phone, but also in meetings or via survey) with industry experts. Institutional investors are using expert networks to help originate deals in three main ways, according to Michael Duran, Managing Director, Gerson Lehrman Group (the market leader):

- **Facilitate top-down, “rainmaker” sourcing strategies.** Connect investment firms to senior industry executives to help identify investment opportunities.

- **Support bottom-up, “boil the ocean” sourcing strategies.** An investment team can exhaustively call experts to identify all the companies in a target sector or geography.
- **Enable thematic sourcing strategies.** Identify experts and consultants to help develop investment themes, map target markets, and engage market-leading firms.

Senior advisor networks

Numerous PE funds employ a “senior advisor network” or “executive network”, e.g., 3i’s Business Leaders Network and Goldman Sachs Special Situations Group Chambers Street Executive Network. We define these networks as an investor-sponsored group of executives with ability and willingness to add value to portfolio companies (Exhibit 8). Some funds require that members of these networks make at least a token investment in the fund itself, sometimes while offering to waive the management fee.

These executives are most commonly only paid when they’re working with a portfolio company as a board member, consultant, interim executive, or full-time employee. They may also receive transaction fees if they originate a transaction. Richard Kilner, Partner, 3i, said, “We consciously separate the origination role from the board/exec role. We avoid making the finder think of himself or herself as a potential executive in the company. There’s no guarantee that they will be a fit with the company or the management team. It is important to set realistic expectations and do the right thing for the company.”

Exhibit 8: Comparison of Senior Advisor Networks with Alternative Talent Sources

	Experts and Consultants	Senior Advisor Network	Executive Recruitment
Relationship Owner	Expert network / consultancy	Fund	Recruiting firm, then handed over to fund
Duration	1–2 hours to 3 months	6 months–2 years+	Permanent
Sample Service Providers	Bain & Co., Boston Consulting Group, Gerson Lehrman, McKinsey	Harvey & Co., Navon Partners	Accolo, Ignition Search Partners, Heidrick & Struggles, Russell Reynolds
Typical Cost	\$1,000/hour for expert networks; \$300–700/hour for consultants	Sometimes retainer, sometimes paid as buy-side investment banker	1/3 compensation
Driver of Exec Compensation	Length of consultation	Value creation and continued involvement with client companies	Winning full-time employment
Confidentiality	NDA possibly, but hard to enforce. Consultant may “shop” ideas.	Signed, enforceable NDA.	NDA unusual

Source: Expanded and updated based on table from Jon Weber, Managing Director, Anchorage Advisors LLC.

Deal executives/ executive-in-residence

Some PE firms focus their origination strategy by partnering with executives with deep vertical expertise, and then jointly pursuing companies in that executive's vertical. We call such an executive a "deal executive", defined as: a lead operating executive working with a PE fund to source a deal and who is either not working for the company(s) involved, and/or wants to spin out some assets from his or her current employer. Among the funds that use this strategy most heavily are Frontenac Company, GTCR, Post Capital Partners, Prospect Partners, Red Diamond Capital, and Wind Point Partners. Frontenac reports that about 75% of the deals it currently executes emerge from its “CEO1st” strategy.

Another successful practitioner of this strategy is PE fund Hamilton Robinson LLC. In July 2002, Mark Riser placed a request in the career services section of the Darden alumni site (i.e., a gated online community) advertising Hamilton Robinson’s desire to find CEOs to back in management buyouts. A classmate of Riser’s saw the ad and forwarded it his friend, Mark Panozzo. Panozzo was the President of Black Clawson Converting Machinery LLC, a \$35m family-owned leader in flexible Web converting and plastics processing equipment. The then-owner was aging and seeking to sell the business. Panozzo contacted Hamilton Robinson to propose a buyout. In

10 months from Riser’s initial outreach, Hamilton Robinson backed Panozzo and his team in a management buyout.

Entrepreneur in residence

An Entrepreneur-In-Residence (“EIR”) is typically a serial entrepreneur or top-flight executive that a VC firm would like to fund in his or her next venture. “These companies generate our greatest returns,” said Andrew Rachleff, a partner at Benchmark Capital. “There’s much less risk.” (Warner [1998]) In the early years after Benchmark’s founding in the mid-1990s, approximately half the companies the firm funded were led by EIRs. Even without the firm’s breakout investment in eBay, its early funds would rank among the all-time best in the venture industry. EIRs remain a core element of Benchmark’s investment strategy to this day and many other top venture funds have increased their use of the strategy, including General Catalyst Partners, Accel Partners, and Bessemer Venture Partners.

The EIR often joins the fund for 6-18 months and reviews business plans alongside the venture capitalists at the fund. The benefit of the program is that the entrepreneur gets an excellent window into the marketplace, access to the firm’s resources and network, and real-time feedback from the investment partners. The VC fund gains the sector expertise of

the EIR and has a front row seat to invest in the entrepreneur's next venture. While there are typically no formal strings attached for the entrepreneur or the fund, the deep relationship and information advantage frequently results in an investment if both parties agree on the potential of the idea.

MARKETING

Brand and reputation

An overwhelming majority of PE funds surveyed (93%) believe it is important for funds to have a strong brand, which is critical not just for deal flow (76%) but also fundraising (83%), recruiting (51%), and investing (43%). [Haynes (b) 2009, 3] The bad news is that PE firms are typically not as responsive as the media would like, according to a survey by BackBay Communications and Marketwire [Haynes (a) 2009]. Of 109 journalists surveyed, none rated PE firms excellent in communication, and only 30% said their capabilities are good, while 48% rated them fair and 23% chose poor.

To assess where brand-building efforts should be focused, we asked intermediaries (e.g., investment bankers, brokers) to report the attributes that consistently motivated them to send investment opportunities to funds. We argue that intermediaries' answers are probably more meaningful than the answers of executives and entrepreneurs, because intermediaries typically have a much larger dataset of experiences working with investors across multiple transactions.

In descending order, their answers were:

- **Possibility of future revenue.** Glenn Oken, Managing Director, Mangrove Equity, said, "We proactively offer a finder's fee. We have to make sure they understand we will honor that fee." That said, one prominent PE partner said, "One of the dirty secrets of the PE industry is that the small banks show us deal flow partly in hopes that we will hire them for a sell-side mandate, but realistically it's almost never going to happen. We know in advance which banks we will probably hire to sell one of our firms."
- **Integrity.** An easy way for parties to evaluate a fund's integrity is to observe whether the fund follows through on all the minor commitments made during conversations (e.g., quickly emailing a document after pledging to do so).
- **Speed of response.** Intermediaries find it very frustrating to send a deal and then not hear a positive or negative response. Andy

Brusman observed, "The bar isn't too high to impress investment bankers with politeness. They are used to mailing deals to someone 4 times, and getting no response."

- **"Fair" treatment of sellers.** For example, investment banks and sellers complain frequently about "retrading", i.e., funds using due diligence as a reason to lower their initial bid.
- **Experience with the industry or owner type** (KPMG [2005, p.8]). For example, some funds attract family-owned companies because of their heritage with high-net-worth families.
- **High certainty to close.** Bob Landis, Partner, Head of Origination, Riverside Company, said, "We have the reputation of being a credible buyer. One of our major differentiators is that we never have failed to get appropriate financing."
- **Friendship,** although one real estate investor observed, "MBAs don't have friends, they have contacts."
- **Feedback and Referrals.** Intermediaries know they can use their time more efficiently in the future if the investor gives them clear feedback. Even better, intermediaries value referrals to other potential investors.
- **Maintaining a single point of contact.** Bill Roman, Managing Director, Harris Williams & Co., observed, "We designate a point person at Harris Williams for each sponsor; we think it's more efficient for each sponsor to do the same. Of course, we will work with sponsors through whichever channels they find most efficient for them."

The average company seeking capital is not very aware of the PE community, because most private companies do not have a need to interact with the investor community. As a result, company management will assess initially a potential investor based on two main sources: intermediaries familiar with the investor community, and what they can see online.

From the point of view of the company, all of the attributes above are important, excluding future revenues to the intermediary. In addition, companies considering outside investors told us they valued:

- **Added operational value:** access to executives, customers, board members, and service providers.
- **No extra costs,** i.e., refraining from charging portfolio company fees.

- **Fair treatment of employees post-transaction.** For example, one CEO of a \$60m company told us he specifically wanted to sell to a PE fund, not a strategic investor, because, "Many of my team are in their 50s, and it will be hard for them to find a comparable job elsewhere."
- **Brand.**
- **Long hold periods.** Many sellers do not want the instability of preparing for a second sale not longer after their first sale.

Periodic mailings and other outreach

The majority of funds reported that they had a mailing list of "friends of the firm" and sent out announcements of new transactions and other news. Zack Schildhorn, Associate, Lux Capital, sends out a mailing twice per year to his firm's mailing list. "The software we use allows us to see which companies and investors open up on our mailing. This gives us clues to their fundraising interest level."

One of the most creative tools we identified for funds to stay in touch with investors was Thompson Street Capital Partners' football pool. TSCP is a \$445m middle-market PE group. For the past 7 years, Thompson Street has prominently featured a football pool on its website during football season, using technology from UPickem.com. They spend about \$600/year to run the pool, and about \$1,000/year in prizes to participants. About 800 people play the game. This is a trivial cost for Thompson Street to remain top of mind to investment bankers, PEs, and others in their investing universe.

Investor databases

Both investment bankers and entrepreneurs use the major databases of institutional investors to identify funds that are a fit for their capital needs. We found that filling out a profile in detail, and optimizing it for search engines, is an easy way to ensure visibility to pertinent industry players. The same principles of search engine optimization that web designers use for corporate websites should also apply to the fund's profile in the investor databases, e.g., ensure the inclusion of all synonyms for your focus industries.

The leading databases of institutional investors include Galante's, Grey House, and VentureXpert. For PE funds specifically, we suggest EurekaHedge and Pitchbook. For VC funds, leading databases include Angelsoft, CrunchBase, PWC MoneyTree, TheFunded, and VentureDeal.

Websites, internet, and social media

Many VCs and most PE investors are not using basic internet marketing techniques. Jim Zaslaw, CEO, interactive agency Zinc Solutions, observes that 90% of PE funds are not implementing even basic search engine optimization techniques. By contrast, Jeff Busgang [2010], General Partner, Flybridge Capital Partners, calculates that of the approximately 1,000 venture capitalists in the US actively seeking deals, 10-15% blog. A few investors, such as Accel Partners and Khosla Ventures, post detailed analyses of their target investment sectors on their websites. Sarah Tavel [2009], Senior Associate, Bessemer Venture Partners, calls this blogging and posting of internal analyses "VC's freemium model."

We think that increasing numbers of investors will devote more energy to their social media efforts. Private equity investing is a relationship business, and the only relationships that really matter are with the relatively small number of LPs, entrepreneurs, executives, and intermediaries. However, as more of our personal relationships move online, social media becomes a very cost-effective way to strengthen a firm's corporate relationships.

Fred Wilson [2007], Managing Partner, Union Square Ventures, writes, "[Blogging is] a huge benefit to our business. Of course it brings incremental deal flow, but it also filters the deal flow and makes it more targeted and more relevant. Its also a great way to bring needed attention to the companies we invest in. And its a way to do research on new sectors and learn about other companies that compete with our companies. And its a great way to learn about emerging technologies....Its the best tool for vc investing that I've ever seen and I've been in this business for more than 20 yrs." [sic]

While relatively few PE firms are so open today, HealthPoint Capital, which focuses on the orthopaedics and dental implant industries, has made their website a destination for M&A, research, and investing information in these sectors. They are operating in a highly fragmented industry; there is no one "Silicon Valley" where orthopedic and dental device companies are centrally located. Their agenda is to make their website into that virtual Silicon Valley. Because they are so focused, they can justify the time and expense of a 5-person research team. John C. McCormick, Managing Director, Healthpoint Capital, observes that they only publish on their blog a portion of the research that they conduct in-house. They blog daily and send out a weekly email to 16,000 readers.

Many investors are wary of the idea of blogging because of concern about information leakage about

their strategy. However, investors who blog report that the information, credibility, and relationships they gain by being visible offset any concerns they may have about leaking a certain investing thesis. After all, the investing universe is collectively operating with hundreds of simultaneous investing theses, many contradicting one another. The odds that another investor will chase the same deal as you because he heard about a certain thesis on your blog are very low (See Wilson [2009b].)

We also see investors actively participating in online communities as a method to connect with others. They can go into Facebook, Google Groups, LinkedIn, Meetup, Ning, Xing, Yahoo Groups, and other sites to find like-minded people.

Côme Laguë, founder, Nueva Ventures wrote, "I monitor the Harvard-startups [Yahoo!] group via Grouply, which is a forum for entrepreneurs of my alumni [Harvard] asking questions about various startup issues...."

"I make use of LinkedIn, particularly to keep tabs on other micro-cap venture firms like us. ... I'm linked to most of the partners at these other firms. You can see exactly which entrepreneurs each partner has met either by the daily LinkedIn network updates or by searching on the name of the entrepreneur and whether they directly link to any of my peers. Often that gives me an early signal on which entrepreneurs are out actively pitching, who they have already talked to and whether they were favorably received and therefore added to the partner's network."

"....The outreach helps me be top of mind within my network, so I'll be their first call in a referral. The entrepreneurs get fired up when they look at the blog, my unique background ... and want to engage."

Another example: Daniel Zumino raised \$8 million from co-investors, and his co-investors sourced that opportunity, via a Stanford alumni mailing list. Based in Paris, Daniel is co-president of HEC Angels and a former Boston Consulting Group partner. In November 1999, Zumino used the broadcast e-mail capability of the Stanford alumni web site to contact alumni in the technology sector. He briefly described a European start-up company in need of investors, in which he was an angel investor.

Within 24 hours, Zumino received about 10 replies, including 6 from potential investors, and 4 from people offering help for developing the business in the United States. With these links established – all via e-mail – the group was well on its way to the regular process of meetings and due diligence, which led to an \$8 million venture round in March 2000.

Key conferences and organizations

Many investors reported that they made a point of speaking at key industry conferences and taking leadership roles in major trade associations, which they found to be an efficient way to expand their network. 75% of attendees at the biggest mid-market PE conference, ACG Intergrowth, directly attribute new deals to their participation [Association for Corporate Growth 2009]. At Castle Harlan, each partner has a quota to speak to at least two major conferences per year. Howard D. Morgan observed, "We focus on speaking at non-PE conferences. We don't want to talk with competitors."

Fred Wilson [2009a], Managing Partner, Union Square Ventures, observes, "I think our industry places too much emphasis on conferences in an era where there are amazing tools to congregate online and find like minded people. I am not suggesting that face to face meetings aren't important, they are critical. But schmoozefests at fancy resorts aren't the kinds of face to face meetings I want to do....Lots of little conferences on specific domains is best for both investors and entrepreneurs. I like things like [defragcon.com] and [gluecon.com], for example." [sic]

Give-aways

At the large PE conferences, providing some sort of tchotchke to attendees has become very common. David J. Malizia, Managing Partner, Westshore Capital Partners, said, "We use beer cozies, tumblers (glasses), nice leather mini-footballs : anything that causes the person to interact with the object. I like big things, that they have to hold. I have gotten tremendous response from the footballs. I've particularly gotten value from a cube of post-it notes, with my logo and number on every post-it and all on the sides. At least once per month, I get a lead from that. I have sent out 2,500 at \$8/each (including cube, box, package, and postage)."

INVESTMENT BANKERS AND OTHER PAID INTERMEDIARIES

We define a compensated intermediary as a third party who introduces potential investors or merger partners to each other. In this section we discuss a range of compensated intermediaries: investment bankers, acquisition search companies, business brokers, websites with businesses for sale, and secondary brokers.

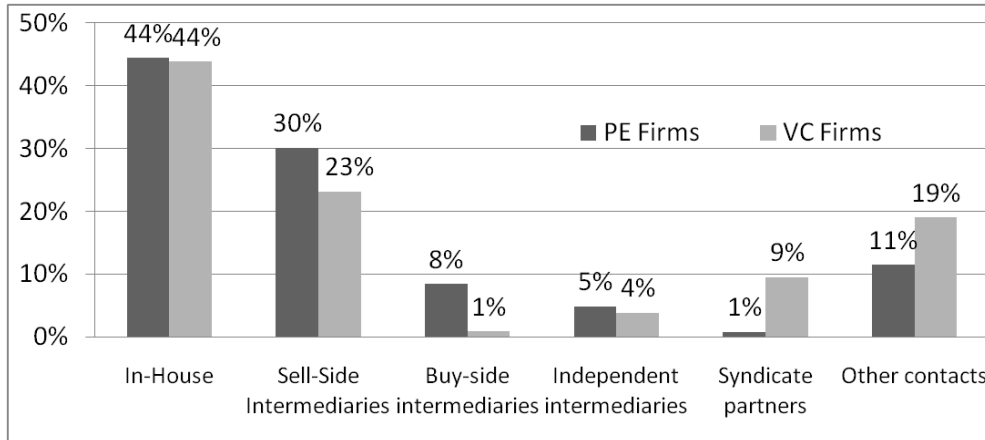
As Exhibit 9 shows, PE funds use paid intermediaries heavily, whereas VCs use them to a

much lesser extent. However, unpaid intermediaries are used widely by both.

An Indian PE investor said, "If you are trying to source a deal directly, you have to be an investment

banker yourself and sell the concept of PE to the vendor. So, you have to simultaneously sell him the concept of PE and convince him to raise money."

Exhibit 9: Primary Sources of Investments for PE and VC Investors



Investment bankers

The job of a sell-side investment banker is to create an auction, which in turn forces buyers to compete for the lowest return. Despite that, for PE firms, investment banks are by far the most important channel for deal origination. Most selling companies with some scale will hire a banker even if it has a preferred buyer, in order to maximize its selling price, so the banks are hard to evade.

One PE investor commented, "I would never buy something from one of the large banks, but I'm very interested in deal flow from the boutiques....There are six small banks in particular that I love to get books from. They put together atrocious pitch books; I think they failed English class. I love bad pitch books, because it scares off a lot of other investors. Of course, I would never hire one of these banks to sell one of our companies"

Another source of flow are fundless (or "independent") sponsors, investors who source and vet deals without any committed capital. Instead, they line up financial sponsors on a deal-by-deal basis. Tuckerman Capital, a manufacturing-focused PE fund, has taken this model to the logical limit by specializing in investing in partnership with independent sponsors.

Acquisition search companies

Acquisition search firms provide outsourced deal origination services. They typically have a database of private companies which they will scour on behalf of a client. Some use a team approach consisting of research associates and senior investment bankers (e.g., Dinan & Company); others leverage a pool of experienced senior investment bankers.

Exhibit 10: Advantages and Disadvantages of Acquisition Search Firms

	Advantages	Disadvantages
Value-Add	Increased flow of relevant deals and investment opportunities	Typically do not provide advice on valuation/structuring/negotiation, unlike a traditional investment banker
Costs	No fixed cost, other than (in some cases) a retainer	Additional layer of costs (typically 1% to 2% of enterprise value)
Focus	Can be highly focused on specific industry, size range, geography, etc.	Can deluge a fund with inappropriate deals unless used in a focused way
Database	Large database in which to fish	Accused by some funds of exploiting the buyer's name to grow their own database
Motivation	Highly motivated	Typically motivated only to close a deal, not by the quality of the deal

Marketplaces of primary and secondary interests

Literally dozens of vendors have tried to create online marketplaces where private businesses can list themselves for sale. Historically, these tend to attract only the smallest companies. Only one of the investors whom we interviewed had bought a company sourced via this channel. Among the most notable examples are AxialMarket, BizBuySell, MergerID, and MergerNetwork.

Another avenue for sourcing private company interests in an online market is from another PE fund, or in some cases other current holders of minority equity positions. 2009 secondary transaction volume for interests in private partnerships declined approximately 39% to \$12.3 billion vs. \$20.1 billion in 2008.⁴ For unregistered securities in private companies, secondary transaction volume declined approximately 57% to \$2.4 billion in 2009 vs. \$5.7 billion in 2008.⁵ [NYPPEX 2010]

To obtain access to secondary interests, funds have several options:

- **Approach a fund directly**, particularly one that is in distress.
- **Look on the markets for secondary interests**, such as SecondMarket (the market share leader), NYPPEX, and the PORTAL Alliance.

- **Approach investment banks specializing in secondary interests**, such as Cogent Partners, Probitas, Triago, and UBS Private Funds Group.

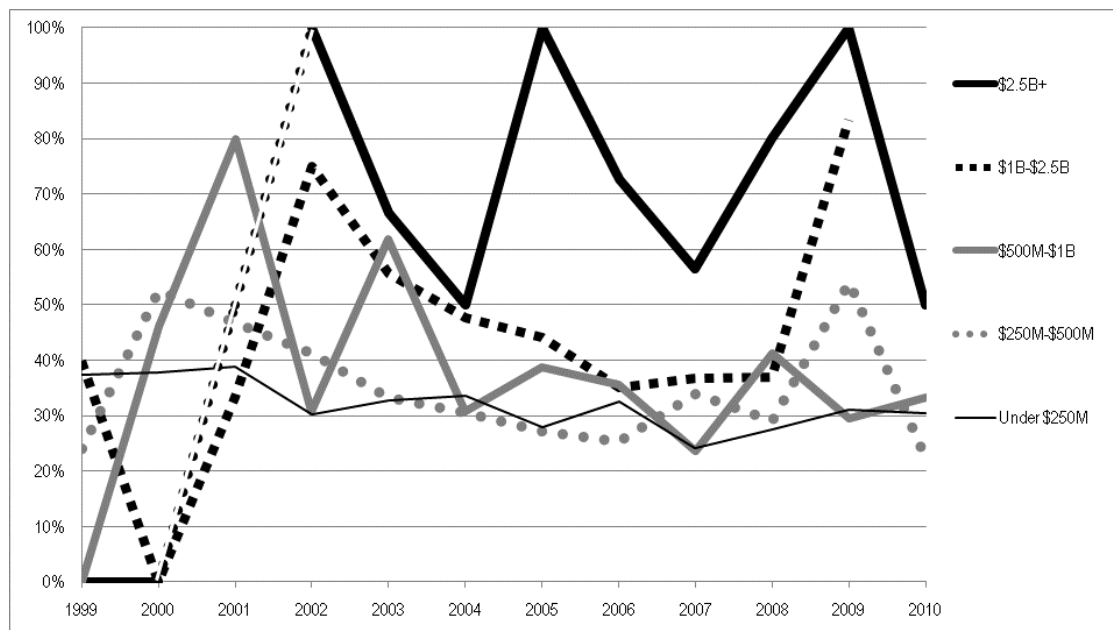
UNPAID INTERMEDIARIES

Another major source of transaction flow are other professionals in the deal industry who are not investment bankers: other investors, professional services providers, and so on. In this section we discuss other institutional investors, service providers, independent sponsors, nonprofits, LPs, strategic corporates, and online communities.

Other institutional investors

Of all US PE deals in the last decade valued under \$2.5 billion, 32% were club deals; among deals valued at over \$2.5b, 67% were club deals (See Exhibit 11). Similarly in the VC sector, around 60% of U.S. VC-backed startup companies in the past two decades received at least one syndicated financing rounds (Du 2009). We assume that in a high percentage of these club transactions, the source of the transaction was partially or entirely another institutional investor.

Exhibit 11: Private Equity Club Deals as % of Total Number of Deals in Each Size Range



Club deals are defined as deals with more than one equity investor. Data for large deals is volatile due to small sample size for these larger transactions. No \$2.5B deals executed in 2001.”
 Source: Pitchbook.com data through May 2010

Investors syndicate or invite others into deals for a number of reasons, including risk mitigation; external validation; expertise/capabilities of syndicate partner; geographic coverage; to increase the odds of winning a deal; to reduce the competition for a deal by teaming up with the competition; and an ability to do larger, more capital intensive deals (the primary reason for club deals in PE but also common in VC). For example, a larger fund will refer a small transaction to a fund focused on smaller deals, in the hopes of a quid pro quo.

According to Hochberg et al. [2007], VCs that are better networked at the time a fund is raised subsequently enjoy significantly better fund performance, as measured by the rate of successful portfolio exits over 10 yrs. Network “centrality” may be a better predictor of future performance than experience or exits. One standard deviation improvement in network centrality improves probability of successful follow-on round or exit by 5.8% and performance by ~2.5%.⁶

The benefits of a heterogeneous syndicate are well known: complementary industry expertise and network; local or geographic expertise and network; validation of investment; and future reciprocity. However, Du [2009] found that VCs demonstrate a clear preference for syndicate homogeneity: investing with firms of similar “social status”, high geographic

proximity, and prior co-investments. Heterogeneity among syndicate partners may increase conflicts and transaction costs, but also offers valuable learning in the long run, suggesting a tradeoff between short-term costs and long-term benefits.

In addition to the informal syndication that frequently happens in both the VC and PE industries, a number of firms have set up formal programs with other funds as a method of increasing their deal flow:

1) Feeder funds. A direct investment fund may invest in another fund in order to generate deal flow. This is a far less common practice in VC than syndication, and even less common in PE. Oak Investment Partners, a late stage fund, has invested in at least seven early stage funds to drive deal flow. Each fund focused on a sector (health care, wireless, etc.) or a region (DC, Washington, etc) and were intended to serve as a source of deals for Oak’s later stage venture practice. Sequoia Capital recently invested in seed accelerator Y Combinator in order to help generate quality early stage deal flow.

2) Fund Affiliate. Fund affiliates are set up to pursue a special strategy or to serve as a source of funds for the main funds. Integral Capital Partners, Meritech Capital Partners and DFJ are among the more high profile examples of this strategy in the venture market today and there have been a few in the buyout market as well, e.g., TPG and Blum

Capital's affiliation with Newbridge; Berkshire Partners' affiliation with Greenbrier.

Service providers

Few of our respondents mentioned receiving significant deal flow from service providers (lawyers, accountants, recruiters, etc.). One commented, "I have to spend a lot of time educating them before they're helpful." Another PE Partner said, "You'll never get a deal from a lawyer, because of their fiduciary duty mindset. They'll always try to get a client to hire an investment banker."

The type of investor who gained the most flow from service providers were investors who were highly focused on a single vertical. Some of these respondents told us that they made a point of connecting with all lawyers/service providers who were similarly specialized in their domain.

Limited partners

Very few funds told us that they saw their limited partners as a source of deal flow. There were three exceptions:

- **Funds who received most or all of their funding from one entity**—e.g., a commercial bank's affiliated PE group, or a corporate development group. Strikingly, partners at these funds typically said that much of their deal flow still came from outside of their organizations, likely because needs of their LP were quite different from their own needs.
- **VCs with universities as LPs.** These VCs would sometimes tell us they tapped their university connections to create access to new technologies.
- **Executive funds.** Many institutional investors create funds aimed at senior executives in the funds' industry. We saw this tool in PE (Irving Place Capital) and VC (Institutional Venture Partners Founders Fund), as well as among investors in public companies (Abernathy Financial Services). These executive investors have a strong incentive to have the fund in mind as they come across new investing opportunities.

Strategic corporates

Although many institutional investors want to buy assets from corporations, we identified very few

investors who viewed corporations as sourcing partners. Howard D. Morgan reports they have executed four transactions in which a corporation was key to sourcing the deal: "Typically the corporate is a co-investor, and Castle Harlan leads the transaction. Partnering with corporations is a pathway to them owning the asset outright. Usually that is not contractually guaranteed, but happens organically. From the point of view of the corporation, we're a risk-mitigated way to get the asset. Hopefully when we sell the business it's at a very different stage than when we got it. In particular, strategics don't have resources or interest to deal with distressed entities. We do."

Online communities for senior executives

Few of our interviewees mentioned online networks as a sourcing tool unprompted, with the exception of LinkedIn. Some mid-market PE investors were using the members-only online network of the Association for Corporate Growth, and many investors reported the use of their alumni online networks (e.g., the online database of Harvard alumni).

However, as the Facebook generation moves up the corporate ladders, we see an increasing number of senior executives and investors joining and actively participating in gated online communities. People join them for the same reason that in the physical world they like to participate in gated communities both for their residence and for their socializing (e.g., a golf club).

The more digitally savvy investors reported that they created interest groups in online communities. For example, the most active online community in the ACG network is one focused on cleantech, and is run by a dealmaker in that sector. Other investors trawl the Q&A portion of sites like LinkedIn to identify domain experts.

A number of wireless investors are active members of INmobile.org, the leading online community for US wireless executives. The community is primarily for operating executives, but INmobile.org admits VCs who were formerly senior wireless execs, or who may have major focus on the industry, according to Adam Zavel, Co-Founder.

TRACKING PERFORMANCE AND MEASURING ORIGINATION EFFICIENCY

Most funds we interviewed had developed some standard metrics to identify the opportunities they developed and the ones that resulted in completion. Typical metrics included:

- **Activity Measures:** # Phone calls made; # Phone connects with management/board members; # meetings; # Deals brought to Monday morning meeting; # Memos with approved budget for due diligence; # Indications of Interest; # Letters of Intent sent; # Letters of Intent signed; # closed transactions
- **Deal flow by source**
- **Pipeline analytics:** Conversion ratios (from each stage of the pipeline to the next); Proprietary vs. non-proprietary deals; Response time
- **Industry benchmarking measures:** Percentage of deals seen completed by any firm; % of all deals consummated across the industry that fund would have considered which the fund saw

A number of respondents said that their firms judge origination exclusively based on closed transactions. "That's the only action that rings the cash register." We do not think this is a very rigorous way to analyze the efficacy of origination.

Customer relationship management

It's a truism for most professional services firms that they should have a global CRM system. Their businesses are based on relationships, so it seems axiomatic that tracking that data would be helpful. However, it was striking to us how many financial services firms lacked a scalable CRM system.

EquityTouch [2009] found in a survey of 61 PE funds that 37% were using no formal CRM application; instead, they were typically using only Microsoft Outlook and Excel. The leading CRM tools were: Salesforce.com (17%); Act (15%); Saleslogix (7%); and Microsoft Access (7%). We should highlight another provider, Angelsoft, which is by far the leading deal-tracking application for the angel network community, and also has over 100 VC clients.

Tim Lasonde, CTO, EquityTouch, observed, "What we are finding in the market is that the paradigm shift to the web 2.0 and collaboration mentality is hitting the alternative asset community last (slower). Associates are asking for it, but Partners don't see the value yet."

Given the congenital weakness of institutional investors in inputting and updating information, we think you should automate as much as possible the process. We have identified five ways in which investors can add data to their CRM systems:

- **Employee networks.** One of the most powerful ways to get data within the CRM system is to use a relationship capital tracking tool, such as ContactNet's Enterprise Relationship Management platform. These tools automatically spider through the emails, IMs, and other tools of a firm's employees, in order to identify with which people the firm has relationships. Mike Ahearn, human resource partner at Boston-based VC firm Greylock Partners, reports that he finds these tools are a good way to find IT people who aren't actively searching for work and may not otherwise come up on his radar screen (Horowitz 2005).
- **Business cards.** We recommend using a card scanning tool such as those sold by Cardscan, IRIS, Neat, or Presto to incorporate this data into your CRM system.
- **Data from email and files.** A number of vendors sell tools which automatically suck in data from email signature files, web pages, etc., into your CRM system. This speeds up data entry by obviating retyping. Vendors include eGrabber, Gwabbit, GrabText, and Broadlook.
- **The cloud.** We recommend setting up an automatic synchronization with some of the major public contact databases (LinkedIn, Spoke, Plaxo), which allows you to get current contact information.
- **From the company directly,** e.g., via a web-based application such as Angelsoft.

CONCLUSION: TEN SIMPLE STEPS TO IMPROVE YOUR ORIGINATION

We've listed below the ten steps we think can most significantly increase the efficiency of your origination process.

1. **Analyze your network** to make sure you are building relationships with the right potential investors and referrers.
2. **Use Market Mapping to develop deep, proprietary insights in target industry sectors.**
3. **Monitor target ecosystem for cyclical opportunities and structural shifts.**
4. **Align internal interests,** e.g. provide performance-based compensation tied to origination metrics.

5. **Divide and conquer.** Assign responsibility for key relationships. Focus team by sectors/stages/structures. Consider dedicated origination professionals.
6. **Centralize data and become an information sponge.** Install a CRM system. Record emails, phone numbers, the notes you take in meetings, and everything else you can about the people you know. Add everyone you meet to your database.
7. **Develop a network with limited overlap.** Focus on building relationships with people who do not know too many of your competitors, or know too many of one another.
8. **Take control of your virtual presence.** Make sure that when people look for you online, which they will, your image is both accurate and flattering. Keep your profile updated.
9. **Join the in-person and virtual communities where your target market lives.** Once you have joined one group, ask the members where else they connect with like-minded people.
10. **Take a leadership role.** Market yourself as the go-to co-investor for target sectors and geographies by developing proprietary insights, a deep network of key partners and talent, and other assets. Sell value add to entrepreneurs and key “peer” firms and actively drive syndicate creation. Write a blog to cover your domain, and perhaps create a virtual community around your unique interests.

David Kahn, Director of Investment Development, American Securities Capital Partners, said, "Our process is more structured and rigorous than it is different. It's the elements of accountability in our process that make it effective." We cannot offer you too many truly unique secrets of origination, but diligently executing the changes above will give you a long-term advantage vs. the competition.

NEXT STEPS

More data from this study is at teten.com/deals and teten.com/executive . We very much value your feedback; please contact David Teten at dteten@teten.com and/or Chris Farmer at cfarmer@generalcatalyst.com.

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ENDNOTES

¹ This and all other quotations were made by respondents in our study, unless otherwise documented.

² See also Hardyman, Wasserman, Rogers, and Leamon 2007.

³ See also Hochberg et al. 2007; Hochberg et al. 2010.

⁴ Defined as gross cash proceeds plus unfunded commitments transferred for interests in buyout, venture, mezzanine, funds of funds, natural resources, distressed debt, real estate and hedge funds.

⁵ Direct investments include equity, convertible and warrant related unregistered securities in private companies and special purpose vehicles.

⁶ Network Centrality includes: (1) # of VC ties; (2) frequency of co-investment invites; (3) access to the best-connected VCs; (4) ability to syndicate its own deals; and (5) ability to make new co-investor connections. Performance data correlation is based on exit rates and follow-on rounds.