

[The Importance Of 'Crazy Ideas' To A Successful VC Firm](#)



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Venture capitalists endlessly hope to stumble upon the “black swan” with regard to scientific and technological breakthroughs. As researcher Nassim Nicholas Taleb chronicled in his much-referenced writings, the black swan is an unpredictable event that has a major impact and is later rationalized by hindsight, as if everyone expected it.

In that context, venture capital firm [Draper Fisher Jurvetson](#) sets up its partnership to “invest in things that most people think are crazy ideas,” said co-founder Steve Jurvetson [during a recent talk](#) at Stanford University about innovation and market opportunities.

Jurvetson said DFJ doesn't strive for consensus among its partners when investing in deals. Instead, the firm allows a passionate minority to outweigh a negative majority. “A couple of people that really want to do a deal can out-vote five that don't,” Jurvetson said. “The reason is because no good idea that changes the world is universally regarded as one at its outset.”

As an example of a company that DFJ backed despite disagreement among partners, Jurvetson mentions Skype, which he negotiated and seeded in 2002 before the company revolutionized telephony and sold to eBay Inc. for more than \$4 billion. Another example is Hotmail, the free email service later bought by Microsoft Corp. that Jurvetson tells me was rejected by 20 other venture firms before DFJ seeded it in 1996.

“They were generally laughed at by most venture capitalists when they were trying to raise their first round of capital,” Jurvetson said during Stanford's Entrepreneurial Thought Leader Lecture Series. “In retrospect we all try to change that story: ‘Oh yeah, I really tried to get that deal,’ ‘I almost got that deal,’ ‘I would've been in that deal.’ But at the time they all laughed at it.”

This is a source of encouragement for entrepreneurs whose ideas have been spurned by investors. “If everyone thinks your idea is good, it's probably not a big idea,” Jurvetson said. “If most people think your ideas is bad, that's great, as long as you find someone who thinks it's a good idea.

“If you can find a 1 to 10 ratio - one person that likes it and 10 that hate it - that's perfect...as long as you respect the one person and he's not the village idiot.”

At the end of Jurvetson's talk, an audience member asked him what process DFJ has in place to ensure a passionate minority can overrule a negative majority.

Jurvetson hesitated, then half-jokingly answered, “If we had any trade secret, that's kind of it.”

He then says that DFJ tweaked its decision process over time. Early on, the firm “thought it would be a brilliant idea” if deals only got done when three partners were passionately in support

of a deal. On a scale of one to five, all three partners had to vote five, and at least one partner had to be willing to take a board seat as a pre-qualifier. “We thought that would generate a very interesting dynamic (in terms of) where the conversations go, how you schedule meetings, the pace at which you can invest, and we thought it would accelerate things,” he said. “It actually slowed the pace of investment dramatically.”

Now, with a bigger investment team, DFJ does a “simple voting tally” where a few fives can outweigh a bunch of twos after adding it up and taking the average. The firm has also added the “silver bullet” where every partner may make a deal without friction as long as it’s a small amount of money. And each fund has a patch if the partners feel that its investment focus is out of balance.

“These simple rules are really important in business,” Jurveston says, “and if you’re thinking of starting a start-up or working at a large company, the way you set up the processes and architect the way communication occurs can dictate the emergent properties of the firm.”