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## Association News

# IVCA Feature: Reuters Midwest Bureau Chief David Greising Interviews Peter Barris, New Enterprise Associates, at the IVCA/NVCA Luncheon

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The annual IVCA/NVCA luncheon, sponsored by Baker Tilly and Ropes & Gray LLP, is one of the more anticipated gatherings in the Venture Capital and Private Equity community in Chicago, and the 2013 version was no exception. It was held on May 30th at the legendary downtown Chicago Club, and featured perspective on the local investment climate as seen by Managing General Partner of New Enterprise Associates, Peter Barris who has been investing in Chicago since 1992.

The 2013 luncheon kicked off with opening remarks by IVCA Executive Director Maura O'Hara, and the introduction of the two sponsors of the event, Baker Tilly Accounting and Advisory Firm and Ropes & Gray LLP.

“As a member of the investment community in Illinois, Ropes & Gray is a proud supporter of the IVCA,” said Gregory Metz, a Partner at Ropes & Gray who represented the firm at the event. “This is our fourth year sponsoring this event, and we look forward to be involved in the years ahead.”

Bill Chapman, Partner at Baker Tilly, made remarks on behalf of that firm. “I'd like to thank the IVCA and Maura for putting together another terrific program.” Baker Tilly continues to expand it's footprint and is ready to serve the accounting needs of private equity firms with portfolio companies in various locations.

Peter Barris is a Chicago native, whose firm, New Enterprise Associates (NEA), has expanded dramatically during his tenure – beginning in 1992 – from \$1 billion in assets to over \$13 billion is one the most notable national and international technology investors. Barris was interviewed at the event by David Greising, the Midwest Bureau Chief of Reuters and their Americas Services, a client-based news file. David was particularly well suited for this event as he co-authored with Robert Finkel “The Masters of Venture Capital & Private Equity” which shares the investing and management wisdom leaders in the industry have gained by investing in and transforming their portfolio companies.

**David Greising:** NEA opened an office in Chicago last year. What's happening in Chicago that made it desirable to open an office here?

**Peter Barris:** When I joined NEA in 1992, my first investment happened to be in Chicago. My next investment in Chicago was five years later, and then again six years after that. But I've made eight in the last five years. It was that acceleration in terms of activity in Chicago, that drew me and my firm here. In fact, when I interviewed with a local paper of note, they asked me how much in total NEA had invested

here, and I gave him a rounded figure of \$100 million. When I went back to the office to double check, I found out it was \$300 million. Their next question was outside of Silicon Valley and Chicago, which metropolitan area had we committed more dollars to? And the answer was none. So that suggested that we should spend more time here.

**Greising:** What kind of response do you get from the firm when you mention that you want to invest in Chicago?

**Barris:** Our firm grew on both coasts, and though we were based at the beginning in the Baltimore/Washington, DC area, our partners were spending a lot of time in Boston. The epicenters in Boston and Silicon Valley were 99% of the action during the 1990s in early stage Venture Capital. Just because we were investing on both coasts, there was not a problem with Chicago per se, but there wasn't a lot of familiarity as we were starting out – it was an unknown. I've heard over the years that there was not enough capital in Chicago, and not enough firms, but my position has always been the capital will follow the opportunity. You don't need a capital base, it's not as though Chicago is difficult to get to, if there are enough good opportunities the money will follow those opportunities.

**Greising:** What are the virtues of being close to Chicago, and in what investment stage is it most advantageous?

**Barris:** There are virtues to being close, particularly if you are an early stage investor, and we are biased toward early stage investing. The ability to meet the entrepreneur over a cup of coffee at a moment's notice is important, that is the reason we set up an office here.

**Greising:** Since you grew up in Chicago and have seen the development of entrepreneurs here, did you ever expect it would get to the level it's at right now?

**Barris:** I wouldn't have expected it, and when I went to Lane Tech on the north side of Chicago I couldn't even spell entrepreneur. Chicago in some ways suffers from its strength, as the headquarters in the city for many large companies, it's a very corporate environment. That wasn't the case in Boston or Silicon Valley. It's a different culture here, not only Chicago but Midwestern.

I can opine on it, I guess, because I've lived here and done enough business on the east and west coasts. It can be problematic, because the industries that drive this city – not that I'm an expert on it – they aren't really tech oriented. There is some mobility capability on the tech side, and certainly healthcare capability in the city. In some of my discussions with Mayor Rahm Emanuel, I've told him to take advantage of the huge companies in the healthcare field, with four major research universities within reach behind them. That's the strength the city can take advantage of, and we at NEA are very familiar with it, because 30-40% of our dollars go to healthcare industries. That is the area that has promise, and I've heard there is going to be an '1871' [a co-working center for digital startups run by the Chicagoland Entrepreneurial Center (CEC)] equivalent in the Life Sciences.

**Greising:** One of the pushbacks on Chicago is that they don't have a Hewlett-Packard type company – which provides a springboard for tech start-ups in Silicon Valley – what is your opinion on that?

**Barris:** I think that is changing. I can't speak about the corporate environment, but can on the academic environment. This city has some great research institutions. The culture of those institutions are changing. I head a committee at Northwestern University, which is just one year old, on innovation and entrepreneurship. It's all about building that ecosystem at Northwestern that promotes entrepreneurship at the faculty and student level, and allows something to come out of the university into the commercial world.

We've studied what they've done at Stanford, Berkeley and Harvard, and we're adopting a model that will be central to the culture at Northwestern. This extends to the local 'Big Ten' community and beyond, where I'm observing incredible strengths in technology and engineering – on a regional level it's much stronger than what is happening on the west or east coast. So it is those students that graduate from those schools, and have a reason to come to Chicago and stay in Chicago, that's a huge plant. The challenge is to keep them here.

**Greising:** Are there some winners you can point to, or is this just a continuing movement?

**Barris:** I can speak for Northwestern. There are some very interesting companies coming out of our computer science area. It will take time, but there are great intellectual properties. The drug Lyrica out of Pfizer, for example, is a \$2 billion a year product that came out of Northwestern. Now a company wasn't founded around it, but that could have been the beginning of a company in Chicago.

**Greising:** How do Venture Capitalists plug into that change you're seeing in institutions like Northwestern?

**Barris:** There is no magic pill. It's hard work and it's turning over lots of rocks. At Northwestern, it's getting to know the folks at the office on innovation and entrepreneurship. It's getting involved with student groups and their entrepreneur communities. It is hubs like '1871,' with methods for tapping those hubs becoming more institutionalized. But even in Silicon Valley, it's not institutionalized there. That's why they call it 'venture,' you have to work for it.

**Greising:** Since there is no roadmap, let's retrace your steps in one of your investments, Groupon...

**Barris:** ...which came out of three prior investments with Eric Lefkofsky and Brad Keywell. By the way, I can suggest that the reason we had our first investments in their company Innerworkings, is because Eric and Brad had a previous blow up with a company called Halo. And there was a community around here that wasn't that accepting of failure. I came in from the East Coast and heard the story about this company that had failed here during the 1990s, in the midst of the internet boom, and people were worried about that. I had seen thousands of those failures in California, what was the big deal here? So I kept digging and found out that those guys were very investable, and we put our money behind them. Groupon grew out of Innerworkings.

**Greising:** Was Andrew Mason [another founder of Groupon] still an undergraduate student when you started working with him?

**Barris:** No. He was working part time for Innerworkings, and had just started a Master's Degree at the University of Chicago.

**Greising:** Didn't you help change the focus of the Groupon idea that made it economically viable? Describe that process.

**Barris:** The business plan at the time wasn't called Groupon, it was called 'The Point.' It was a website that was a call to action. If you wanted to create a group to make a point – the example at the time was that if you were a Verizon customer and had a complaint against the company – instead of being a powerless one person, you could get a group together with the same problem, and together threaten to cancel the service unless the problem is fixed. We loved the idea of pulling together fragmented individuals, geographically dispersed, and bringing them together to create an influential base. It was using the internet to bring together people for a call to action. We liked the idea of the tipping 'point' – that getting a certain number of people together could affect a contract, for example.

What we didn't like about the plan, is how do you monetize it? Their plan was advertising, but we didn't think that would work. But we loved the ingredients, and we loved the people involved – Andrew was and is brilliant in his creativity, and we knew Eric and Brad were great operators. The combination of those people and those nuggets that we knew had potential, and it was a bet on that.

**Greising:** How much can a focus on a business plan change, once an investment is made?

**Barris:** It's not unusual that many of the biggest companies we have executed on a plan that was materially different than what we invested in. We like to use the word 'pivot,' you have to pivot. You look in entrepreneurs for a characteristic that is their ability to pivot, which starts with their ability to listen. Do they take advice? Do they listen to the market? Or do they just have blinders on? Are they saying, 'here's my plan, and no matter what data I'm picking up from wherever, I'm only going to execute this plan'? That

is the recipe for failure. Because the first plan is not generally the last plan. Every big success I've ever been involved with had to morph, not as much as Groupon did, but they all had to morph a fair amount.

**Greising:** How often does your firm originate the idea or say 'we're not going here, we're going there'?

**Barris:** Nobody at NEA will take credit for the Groupon morph, other than we knew the original plan wouldn't work. We kept introducing the company to people and other companies that maybe we could merge with, because we thought there was a creative element in the merger. If we did anything, we helped to seek ideas, but we didn't give them the main idea.

That idea came about by watching how people used the Point. Individuals started bringing people together to buy things. They saw that enough people were doing that, and they started the deal with the restaurant in the 600 West [Chicago Ave.] building, and that worked. They did another one, than another one. Where we helped was in the execution, because we'd say 'okay, it's working in Chicago, what's the plan for the next one?' We were the grit in the oyster, that helped to produce the pearl.

**Greising:** Tell us about NEA's approach to choosing certain sectors in which you have expertise. What disciplines or matrixes does NEA apply to these choices?

**Barris:** We like to hire people who understand the industries we like to invest in generally, and we're big enough so that we can afford to have generalists, as well as people who are very deep. It's the combination of the two that is the strength that we have, and so we don't pretend to have all the right ideas. Someone might come into the office, that will introduce us to a sector that we haven't even thought about. For whatever set of reasons, we agree, and then we go study it. As we go deeper, and see potential, we ask the experts in our firm to come up with a plan. We can apply the knowledge we have from other known industries, into new industries.

**Greising:** How large does a firm have to be before thinking about international investments? Or do you advise just staying inside geographical territories?

**Barris:** It's a hard question to answer because it's very firm specific. It's a big investment to go overseas, a big investment in time and money. In the initial stages, it's two times the costs – for every dollar we put in the ground in China or India, it costs two times what it would cost an investment in the U.S. It's a long term effect.

But the reason we went over there initially is because we saw promise from an investment standpoint, but more importantly our company needed us to be over there. Our portfolio needed help in China, and needed help in India. The first people on the ground were business development people, not investment people. When they were on the ground, that helped us scope out the investment strategy. As partners made flights there to help their companies, they also started investigating the venture landscape and the start-up landscape, and ultimately reformed pieces.

**Greising:** Can you give an example of that?

**Barris:** In India, we changed our focus. We started out early stage Bangalore focused, but then changed to a mid-market focus in Mumbai. And that's where we are today. When I started in this business twenty years ago, in the typical tech investment, by the time we were exiting, was the time when companies started talking about international expansion. Today, the majority of them are thinking internationally day one.

**Greising:** You raised a large fund last year. You were quoted at the time about the speed in which companies develop today as opposed to when you began. Tell us about the opportunities that creates, as well as the challenges, as far as the evolution of the companies.

**Barris:** I was around in the early 1990s, and invested in a company called UUNet. I had come out of my early career in information services, we had a huge proprietary network and sold time sharing services and network services all over the world. And we had big companies. I met this guy and he started talking about the internet. This was in 1993. So the applications that I used to run in information services, we could now run on this TCP/IP thing. And we can do it at lower costs. That was powerful.

That was 1993. It's taken twenty years for the real power of the internet to be established. Maybe that was five years ago, but it wasn't 1993. Now there is an online platform with two and half billion users, and one billion mobile phones. We had 172 years of land line development, and in a very short time mobile surpassed it. And now it's five times the users on mobile. So if you leverage the internet and mobile, now things can get accepted globally at speeds unheard of to much larger populations. That is exciting and daunting at the same time.

**Greising:** How does that apply to something like Groupon, for example?

**Barris:** Around 45% of Groupons transactions last quarter in North America were mobile. It's the second largest e-commerce company right now. We went from nothing to mobile. We began talking about it two years ago to now having mobile being 45% of transactions. The speed in which something can get adopted is at an incredible pace for a wide audience. You can build a business of scale very quickly.

I think one of the best things that Groupon did was to recognize early on that the only real differentiation we were going to have, was that if the idea was good people would follow. For years, people criticized our business, because 'anybody' could do what we were doing. But what we recognized early on was the ultimate moat would be scale. And in scale, we could do things that others couldn't do. We had to get to scale quickly. While everyone was dumping on the company, complaining that we had a business strategy that anybody could do, we were focused on building scale. The anybody-could-do-it portion was in the rear view mirror. The windshield was scale. We'll do it faster than anybody, which put us in a position that nobody could duplicate. And everyone that came into the daily deals business started going down, because they no longer could compete. The challenge was how were we to build out quickly, and we accomplished that well – 45 countries in two years.

**Greising:** Which leads to another question regarding the pressure of today's speed. The entrepreneurial visionary who starts a company – like in the case of Andrew Mason of Groupon – may or may not be the right person to run that company as it matures, under those pressures. How do you tell when you meet a person, that they can take a company through a metamorphic transition like you described?

**Barris:** I'd love to say it's something we see through pattern recognition. Obviously if it's a fourth time entrepreneur and have proven themselves, that's easy. But if it's a 24 year old, that had never had another job, the only thing you bet on is that the person is smart, they learn quickly and have all the characteristics you look for in a general manager. But you don't know, you honestly don't know.

Regarding Groupon, and those entrepreneurs who grow into a job, nobodys ever done it at the pace that had Groupon's growth, and didn't have the pace of forty eight countries in a nanosecond. That was an impossible job for somebody to grow into. But you play it by ear, and what you do as you put the investment together, is to test an entrepreneur's openness to doing what is right for the company, not what is right for them. If their number one priority is to make a great company, even if they have to step aside to assure that, then you have a contract. The contract up front has to have provisions for bringing in a new management team, with the founder's help. If they are unwilling to sign that contract, we're not willing to put our dollars into the company.

**Greising:** Lets go back to Chicago and investing. Tell us your observations of CEC's '1871'. Did you think it would be successful, or do you think that something needs to be done there to take it to a higher level?

**Barris:** I wasn't involved in the planning stages, so I didn't have a pre-opening disposition on it. I will say before I went there for the first time, I was a little skeptical, because I had seen these kind of things in different cities, and they weren't so impressive. '1871' is impressive. I think that J.B. Pritzker and Pat Ryan, and everyone associated with it, did a fabulous job. Because we're trying to mimic it on a smaller scale at Northwestern, we spent an afternoon there. We wanted to see what made it successful. The focus on digital allows it to have a good program, and the programming is what largely draws people there. Then it can become the epicenter.

When you're trying to build an ecosystem, the biggest problem is that it becomes dissipated, when in an ecosystem you're trying to get peoples and organizations that collaborate. And so '1871' has done a

fabulous job where that collaboration is happening in Chicago. If you don't know where to go, you go to '1871.' There is an energy there, it is very well designed, and it's the best I've seen.

**Greising:** Is '1871' seen from the outside as a 'one-off' for Chicago, or is it viewed as a ratification that Chicago is now emerging as a player in digital technology?

**Barris:** I don't think '1871' ratifies anything. I think it serves to lubricate the wheels. What ratifies it ultimately is what companies come out of Chicago, and are they successful companies? Do they feed on each other? And do people from those companies go out and start other companies? That's the opening, and I think Chicago has a great start. The question is, is it sustainable? You need more than one success. There is a community, and there is an energy level that is impressive, but the city needs more successful companies. I think they're going to come.

That's the question that everyone asks from the outside – is this town a "one-trick pony"? I think time will tell, but I think the answer is no. There are some great companies, and they are going to prove it out. I'm confident of that, and if I wasn't, NEA wouldn't have established an office here.

## AUDIENCE QUESTIONS

**QUESTION:** It has been said that in the Silicon Valley culture, there would be a professor with an idea, he'd go down the hall and there would be a lawyer and an accountant, and they'd start a company. In Chicago, it's all about the business plan. Is '1871' and what you mentioned about Northwestern, is there an effort to move towards more of a Silicon Valley model?

**Barris:** Yes, but no one should try to emulate Silicon Valley, it just doesn't work. The set of circumstances and happenstances that created the environment is not replicable, in my mind. That is the mistake that a lot of cities and towns make. That said, there are lessons to be learned, and what you described is an ecosystem. If I took two exact tech companies, with two exact ideas. And if I put one in Silicon Valley and put the other somewhere else – anyplace else – the probability of success is higher in Silicon Valley, because of the ecosystem. I'm more inclined to work with Silicon Valley, so they have that working for them.

What they don't have working for them is the high cost of living and zero loyalty from their employees. That is a challenge. There is talent there you can't get anywhere else, but keeping it is a challenge. What I love about Chicago is the Midwest ethic. It is more conservative and it does not accept failure very well, but hopefully a new generation of young people who see the world differently, and the flywheel will change.

**QUESTION:** I think the willingness to courageously try something is what separates success from failure, more than ecosystem. Anywhere is the operative word, not just Chicago. I thank you for pointing that out.

**Barris:** But I think the macro prints are really good in Chicago, younger people in college today are more entrepreneurially focused than ever. They tend to go to major metropolitan areas more than ever. Chicago is the most desirable place in the Midwest, for sure, and with that ecosystem of universities that I talked about, if that can be captured, that will be powerful.

Part Two of the IVCA/NVCA luncheon focuses on the national perspective, with Mark Heesen of the National Venture Capital Association (NVCA), Brett Palmer of the Small Business Investor Alliance (SBIA) and Ken Spain of the Private Equity Growth Capital Council (PEGCC). Click [here](#) for that forum article.