HBR AT LARGE

Gurus in the Garage

A special breed of adviser helps entrepreneurs with everything from recruiting talent to negotiating the first million in seed money. These "mentor capitalists" often spell the difference between success and failure. What they do – and how – may surprise you.

by Dorothy Leonard and Walter Swap

PHOTOGRAPHY: PHOTODISC

IN 1995, SCOTT ROZIC GRADUATED from college with a business degree, a credit card, and an idea for a software company. He piled all his possessions into his Pathfinder and headed to Silicon Valley. His modest goal: to find a high-powered, established player who could teach him the intricacies of strategy and finance – someone who really understood how to build a business from the ground up, preferably someone who'd helped run a billion-dollar business before. Fortunately, a classmate's father introduced Rozic to Stan Meresman, an executive just leaving Silicon Graphics. Meresman agreed to meet Rozic for 20 minutes over a cup of coffee. Meresman found the recent graduate fascinating. The younger man had no experience, no expertise, and no prospects for immediate funding, but Meresman discerned something special nonetheless. "I was confident that he would someday be the CEO of a large, successful software company," he recalls. Because he thought Rozic had a lot of potential, and because he enjoyed seeing young people succeed, Meresman took Rozic on as his protégé.

Scott Rozic is now the CEO of a dot-com called XMarkstheSpot. But did he really need Stan Meresman to get there?

Not if you believe the popular press, which suggests that all one needs to make a fortune is a good idea, some way-cool technology, a garage or a dorm room – and lots of burritos. But many of the 20-somethings made fabulously wealthy from high-priced IPOs had neither the right idea nor the right technology when they started. What they did have was access to a scarce resource that's hardly ever publicly acknowledged: the deep smarts of one or more "business architects." These individuals help entrepreneurs create and refine a business model, find top talent, build business processes, test their ideas in the marketplace, and attract funding. They're a key piece of the value-creating ecology in Silicon Valley. And as Net fever subsides and the word "profitability" reenters people's vocabulary, these business architects will play a greater role in the creation of vital new businesses. (For more about the value-creating systems within Silicon Valley, see the sidebar "A Triumph of the Commons.")

To understand how inexperienced entrepreneurs gain the expertise they need, we spent four months in Silicon Valley interviewing more than 30 experienced coaches, both venture capitalists and those who, like Stan Meresman, could be characterized as *mentor capitalists.* We also interviewed more than a dozen entrepreneurial teams that are being or have been mentored. Finally, we have been following the progress of two early-stage start-ups, attending both formal and informal meetings between coaches and teams. Our subsequent analysis of the role of mentor capitalists holds important lessons for anyone starting a business – and not just in Silicon Valley.

Why Mentor Capitalists? Why Now?

The Scott Rozics of this world have flooded into Silicon Valley over the last decade. They bring useful knowledge with them – perhaps an MBA, a computer science degree, or a highly developed sense of the Web. But they often lack the expertise to locate the sweet spot in their targeted market or to design an organization, and they're missing the persuasive powers and credibility to recruit and retain talent. In short, their fledgling companies lack the basic ingredients needed to grow.

Before the days of the Internet, venture capitalists would provide intensive, personal coaching for promising talent. Now, because of the phenomenal number of new companies, they're just too busy. Individual, time-consuming coaching has become a luxury many cannot afford. Because of the flood of money, the competition, and the short time to liquidity, the interaction with entrepreneurs is "more transactive than it used to be," notes Kleiner Perkins venture capitalist Russ Siegelman. Former 3Com CEO Bill Krause observes, "Twenty years ago, venture capitalists were very much a catalyst in the transfer of knowledge. Today they are portfolio managers, deal makers, financial engineers." The largest venture capital firms still take on a few carefully selected, highly promising zero-stage start-ups. But they won't spend time on businesses that aren't going to grow huge very quickly.

Thus, the supply of entrepreneurial expertise for smaller deals has shrunk. Business, like nature, abhors a vacuum and has found ways to meet the demand. One popular form is the incubator, a term

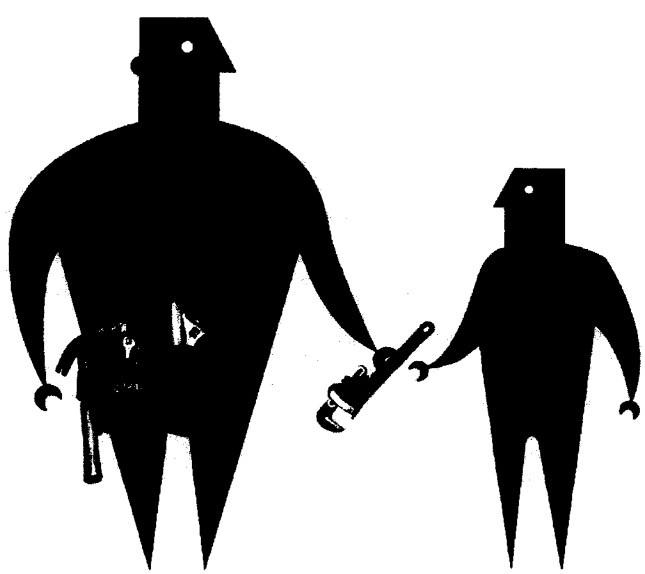

ILLUSTRATION BY MICHELLE BARBERA

that covers a multitude of models, from largely infrastructural help (space, administrative support, and computers) to highly developed, structured services such as those provided by Garage.com, which "finds 'em, fixes 'em, and funds 'em." Garage.com's clients get help with presentations, financial structuring, and recruiting from a stable of experts. In return, Garage.com receives equity and fees for raising money.

The other alternative for entrepreneurs, especially those without track records, is the mentor capitalist. Compared with most venture capitalists or incubators, mentor capitalists typically spend more time with entrepreneurs, care more passionately about the vision, put more of themselves on the line, and become personally invested in making sure the start-up gets funding.

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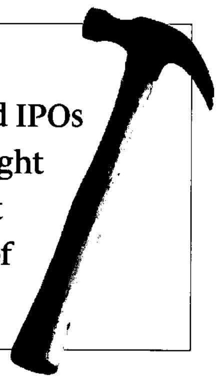

Who Are They?

Behind Intuit entrepreneur Scott Cook was Bill Campbell, mentor capitalist and chairman of Intuit. Garage.com CEO Guy Kawasaki has Venture Law Group founder Craig Johnson to thank for the early, radical change to his business concept. And both Audrey MacLean, cofounder of Network Equipment Technologies, and Stan Meresman were instrumental in shaping Ash Munshi's original idea, which later became SpecialtyMD, now part of Chemdex. Such mentor capitalists are expert coaches in part because they spent years as star players, starting their own companies and serving as CEOs or COOs. In their entrepreneurial careers, they typically had at least one notable success, but they are not strangers to failure. As coaches, their mission is to take on promising, but unseasoned, first-time entrepreneurs and help them iterate toward a viable business prototype and find the resources to grow. (The sidebar "Mentoring Styles" describes the various approaches that mentor capitalists use to teach their protégés.)

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Such coaching can take an enormous amount of time. "When I commit to being a coach, that's a huge commitment," says Fern Mandelbaum, cofounder of toy maker Skyline. "I will do anything in my power to make the company successful. The team will get huge mind share." Entrepreneurs appreciate the devotion. Jim Sachs, CEO of Softbook Press before it was acquired by Gemstar, says his mentor Heidi Roizen, cofounder of software company T/Maker, "was totally engaged. She worked with me, and we talked during the week. She would come over and have coffee and talk about what was happening. And she was very, very close to what was going on."

But why would a middle-aged, successful, cashed-out entrepreneur want to get involved with a team of inexperienced people who have no track record or money? Mentor capitalists are not motivated solely by dollar signs. Most of the coaches we studied already had a lot of money. They're no longer interested in starting their own companies, but they still love the thrill of the game. As Fred Gibbons, founder and former CEO of Software Publishing, puts it: "I love the creative process and being part of a great team experience. But I don't want to live the 24/7 CEO lifestyle." The thrills and agonies are vicarious, the risks are once removed, but the process is a deeply familiar one. Mentor capitalists are motivated by their desire to share hard-won expertise, to see their protégés succeed, and to experience the gambler's fun of making money. (Most of them get equity, and many invest small amounts of their own money at a very early stage.) 3Com's Bill Krause, a man with a passion for process, explains what drove him to become a mentor capitalist: "I was 20 years old when I graduated as an electrical engineer from college. I figured that if I worked until I was 65, I could divide my career into three 15-year phases. The first would be a learning phase, which would prepare me for the second, an earning and building business phase, which would then enable me to go on to the serving phase, in which I could give back to society. Hewlett-Packard was all about learning, leading 3Com was all about building, and now I'm getting into the serving phase. If you do well [in phase two], you can do a lot more good [in phase three]." Krause's approach was more systematic than most, but the sentiment was one we heard repeatedly.

Similarly, most mentor capitalists we spoke with were not interested in "building to flip"–quickly assembling a company that has enough value to be sold for short-term gains. Mike Homer, former general manager of Netscape's Netcenter, speaks for many when he says, "A good venture has to have lasting value and must give something back to the community. We help entrepreneurs build durable companies."

What Do They Do?

We've found that start-ups look to mentor capitalists for seven types of expertise. The expertise may be directed internally to shape the structure and operations of the emerging organization, or it may be directed externally to coordinate with and influence investors, customers, and lawyers. Because most of the companies are so young and not yet publicly recognized, the internal roles tend to be more critical. But the mentors often serve as important go-betweens with the outside world. Given the number of years necessary to become skilled in each role, most mentor capitalists can expect to be truly expert in at most three or four of the seven types. Recognizing this, the mentors often bring in colleagues to fill the other roles, either on an ad hoc basis or as part of a mentoring team.

Sculptor. All innovations evolve, and new businesses are no exception. An entrepreneur's original business concept often bears little resemblance to

A Triumph of the Commons

Why do so many wanna-be entrepreneurs like Scott Rozic, founder and CEO of XMarkstheSpot, head for Silicon Valley? The reason may seem as obvious as why Willie Sutton robbed banks–because that's where the money is. But it's really more complicated than that.

Biologist Garrett Hardin coined the phrase "tragedy of the commons" to describe a system in which people acting rationally and in their own self-interest destroy the very resources they all share for their livelihood. His original example was of colonial farmers. Adding sheep to a flock grazing on the town commons made sense for the individual but eventually brought ruin to all. The culture of Silicon Valley turns that system on its head. The bank of expertise in Silicon Valley represents a *triumph* of the commons: resources are extracted and replenished in a self-regulating and efficient manner that promotes cooperation and growth. That triumph can be attributed to the Valley's distinctive geography, history, and culture.

Why the Triumph. Viewing the valley from the flight approach to San Francisco International, one is struck by how small the region is. As Venture Law Group's Craig Johnson notes, Silicon Valley "is like any gas that is compressed; it gets hotter." Its tribes overlap socially and professionally based on work discipline (software engineers, for example), organizational affiliation (Hewlett Packard), or background (Stanford MBAs or South Asian immigrants). The most skillful players do not have to travel far to make deals, change jobs, or find professional partners. John Doerr of Kleiner Perkins is fond of saying that the Valley is a place where you can change your job without changing your parking spot.

Shared values also bind longtime Silicon Valley natives. The personal convictions of the Valley's remarkable innovators, who created not just a company but an industry, still echo through the community. Bill Hewlett and David Packard influenced the older generation directly; many of them were early employees. Through this old guard, collegiality and high standards for performance are being carried down to next-generation entrepreneurs.

Helping former employees is part of that legacy and culture. Senior mentor capitalists describe how Bill Hewlett encouraged them when they left HP and how HP engineers encouraged entrepreneurship generally. Former IntelliCorp CEO K.C. Branscomb tries to help people who have worked for her. "I will call venture capitalists for them. There are probably a half-dozen little companies founded by former employees that I have helped get funded." Mike Homer, former general manager of Netscape's Netcenter, expresses a similar sentiment: "I'm a pretty loyal guy to people I've worked for and who've worked for me. If somebody comes to me and wants this kind of help, I may not be the one to provide it in all cases, but I'm going to figure out how to get them the resources they need."

How the Commons Works. Mentor capitalists in the Valley function as an informal, close-knit guild. Today's employee may be tomorrow's boss; today's competitor, tomorrow's partner or acquisition. If you're an experienced, reputable member of the guild, you're entitled to draw from the common fund of expertise. Often, the exchanges aren't direct, one-to-one transactions. Bread cast upon the water returns in another form at another time from other people. "You can see it coming back to you," Johnson explains. "Like with Grassroots [his own recent start-up], I thought, who could help me on this project? The fact that I can call busy, successful people whom I don't know personally and have them return my calls–I think is a recognition that it's not just me, that it is just the etiquette of the game."

One doesn't become a guild member without credentials. The best-known mentor capitalists started businesses themselves or held senior positions in one of the Valley's garage-to-giant start-ups such as Netscape or Oracle. But having failed once or twice along the way does not disqualify them. In fact, the scars are proof of valor–provided one has at least as many booms as busts on the ledger sheet. Says Kleiner Perkins's Vinod Khosla of a prominent mentor, "People like him have earned the right to advise entrepreneurs. They are qualified to do it, they've done it right, they've done it wrong, and they know the difference." It is understood, therefore, that when you join the guild, you enter as a master craftsman, not as an apprentice.

Guild members depend on one another to prequalify potential entrepreneurs. Every hour that a guild member spends reviewing an investment risk represents a deposit in the bank. "I could take all the raw data with all the entrepreneurs who approach me and do my own filtering, and so could the venture capitalists. But it's an enormously time-intensive process. We've all learned that we can use each other as filters, and there's an unofficial ranking of filters in the Valley that people constantly have in their minds," Johnson says. Foundation Capital's Mike Schuh underscores the value of mentor capitalists as filters: "Of the hundreds of things that I look at every week, if it's got one of those [mentor's] names on it, I don't even bother reading further. I just make the appointment."

the final value proposition taken to market. Just as a sculptor constructs a wire armature as a foundation and then layers clay on top, gradually working toward the final form, so do mentor capitalists work with the entrepreneurs' basic idea to set a general direction and gradually shape a prototype to show to venture capitalists. The sculpting is an iterative process of opening up and exploring multiple alternatives, then focusing on one or two that appear to create a sustainable advantage. In a start-up's earliest stages, the mentors work at a high level of strategic abstraction to identify the best value proposition and potential markets. And they tend to rely on market feedback to refine the actual product.

When mentor capitalist Fred Gibbons started working with ActivePhoto, the team's business idea was to create hardware and software for the wireless instant delivery of photographs over the Web to consumers. Gibbons didn't directly challenge the team's idea, but with the help of another veteran entrepreneur, Jack Melchor, he guided the team members through a self-examination that landed them in a very different place. ActivePhoto abandoned the idea of designing its own hardware and shifted to a business-to-business focus. CEO Shane Dyer says, "Fred was always very good at distilling issues. He would try to figure out what was most important – That we were wireless? That we were software? What was the direction of the company?" The shift was painful for cofounder Valerie Smith, who loved the idea of helping consumers exchange photos immediately and without wires. For her, it was difficult to be led "indirectly to the conclusion that going business-to-consumer wouldn't make sense." Moreover, Gibbons and Melchor constantly cautioned the team to focus. Smith recalls, "I felt like they were relentless, and Jack Melchor would almost scold us to get some direction. 'You can't do ten markets at once,' he'd say."

Once entrepreneurs set a basic strategy (business-to-business versus business-to-consumer, for example) and identify potential customers or markets, the mentor capitalists usually urge them to test the concept in the market as a means of sculpting it further. Gibbons and Bill Krause encouraged ActivePhoto to try out their prototype in a couple different markets in order to assess the appetite of various consumer groups and to guide further design refinements. When the team tested their product in a public safety market, the camera flash proved inadequate, and the team members were concerned about reporting to their mentors and investors that they "had screwed up." Cofounder Sebastian Turullols remembers telling Gibbons about the test; his unexpected response was that such experiences are "great – [they] show that you need to get the product out there early, get feedback, and learn from the market."

Individual, time-consuming coaching has become a luxury many cannot afford.

Psychologist. Starting a company is stressful for all concerned, including the entrepreneurs' families. Many mentor capitalists remember the sleepless nights, the obsessive concentration that shuts out normal relations, the swings between euphoria and panic. Because they've lived the experience, many have a deep understanding of human behavior and have honed the communication skills that make them good amateur therapists for the teams they coach.

Mentor capitalists who've experienced the infancies and growing pains of numerous companies also recognize patterns in the maturation process. They can reassure entrepreneurs that certain crises will pass and help them distinguish what's normal if difficult from what's truly threatening. Several of Meresman's protégés mentioned his calming influence. SpecialtyMD founder Ash Munshi says that Meresman was "a sounding board, a counselor, and a sympathetic shoulder." He recounts a particularly important conversation in which Meresman told him that starting a company was going to be an emotional roller coaster. "He helped me understand that I shouldn't let it affect my family life," Munshi recalls. "I could go up and down, but I had to be careful with what got projected, because the last thing I wanted to do was drag my entire family along with me."

Besides helping entrepreneurs keep things in perspective, mentor capitalists can help boost confidence. Even passionate, single-minded entrepreneurs occasionally get discouraged. And although potential investors would like to believe they make decisions on a purely analytical basis, the reality is that they are swayed by enthusiasm. It's essential for start-up teams to show a brave face to the world, and mentor capitalists can often lend their energy and optimism. Michael Chiarello, founder and CEO of NapaStyle, says of mentor Fern Mandelbaum: "On a day when I was scheduled to meet with the venture capitalists, she called and left a message: 'You are the best, go get 'em... just remember what you believe in and answer in 15 seconds or less... and let me know how it goes.'" Douglas Kay of MondoMedia fondly recalls mentor capitalist Randy Komisar's optimism: "He would say, 'Remember the big picture and the vision....A lot of this is just luck and timing – nothing to do with your abilities....If this business doesn't work, you tried; it was a good effort, and there will be other opportunities.'"

Diplomat. One of the greatest challenges start-up teams face is dealing with the different personalities and levels of expertise among its members – a variance as difficult to manage as it is necessary to creativity. Mentor capitalists frequently serve as diplomats, moving back and forth between individuals, explaining actions, translating different professional languages, leeching the emotion out of disagreements. One mentor capitalist found herself conducting "shuttle diplomacy" between a

Mentoring Styles

The mentor capitalists we interviewed share one habit: they refuse to make decisions for the entrepreneurs. Otherwise, their teaching methods vary tremendously.

Learning by Doing

When Michael Chiarello, founder and CEO of NapaStyle, was developing the idea for his "media-driven Internet company," reflecting the casual but cultured lifestyle of California's Napa Valley, his coach Fern Mandelbaum, cofounder of toy maker Skyline, questioned whether other Americans shared his concept of Napa. "I thought, 'Come on, Fern, I will tell you what it means.' And she said, 'I believe you, Michael, I really do, but see if America believes you. Every position you take has to be defendable.'" So Chiarello, at Mandelbaum's suggestion, did market research. "Five of us sent out an e-mail questionnaire to ten of our friends, asking what Napa means to them. We asked them to send it to ten of their friends. We went out to a good section of America for a grassroots response to what Napa means."

Socratic Learning

Scott Rozic, founder and CEO of XMarkstheSpot, recalls the tough questions that former CFO of Silicon Graphics Stan Meresman asked him: "'So, Scott, what's the one-liner, in two sentences or less – what does the company do?' Then you give the pitch and then he plays back, 'That's not compelling, let's make that compelling.' Or the playback would be, 'What is your competitive advantage, given the fact that....' And then he would identify two companies that sound like they would do the same thing, and he'd ask, 'What is the magic of XMarkstheSpot? Because there are so many companies out there, and everybody has funding. There is something magical about your company, but how do you distill that?'"

Stories with a Moral

During an ActivePhoto board meeting, cofounder Sebastian Turullols was reporting on the young company's free cash and how to invest it. Former 3Com CEO Bill Krause responded with a cautionary tale: "Many years before, a CFO wanted to invest his company's cash in a high-yield, high-risk instrument. A senior board member told him, 'No one will remember the extra 1½% you made. But they will remember your losing $10 million.'"

Rules of Thumb

Virtually every team we interviewed had the rule of "focus, focus, focus" instilled – or hammered – into them. However, mentors also knew when and when not to apply the rule. Fred Gibbons, founder and former CEO of Software Publishing, suggested that the ActivePhoto team members violate the rule when they needed to explore more than one market – but he cautioned them to experiment in no more than two.

Specific Directives

Ken Coleman, an executive vice president at Silicon Graphics and mentor to many entrepreneurs, describes how he responded to a manager who wanted to fire a salesperson. The customer loved the guy, but he wasn't working out internally. "Here's the desired result – to remove this person but with a positive result. First, sleep on it. Be thoughtful about it. Get advice. Can you create a good exit strategy for this person? Create a win-win situation? Maybe the customer will hire him."

Learning by Observing

Sanjeev Malaney, CEO of Media Tel (now MediaLinq) says that he "learned through osmosis" from mentor Rich Zalisk, who came in as the interim president. For example, Zalisk held a two-day planning session focused on the next year's objectives. Malaney learned from watching how Zalisk got "team members on the same page," working through priorities and budgets. "I learned a lot about how to facilitate and how to manage disputes."

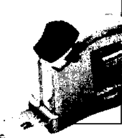
CEO and his COO, who had very different but complementary personalities and approaches. At one point, after overhearing an argument between the two of them, the mentor drew a cartoon depicting the CEO biting the COO's head off and presented her artwork to the CEO. Much to his credit, the CEO kept the picture on his wall as a useful reminder to exercise restraint.

As diplomats, mentor capitalists also mediate or negotiate with important stakeholders outside the company – or they direct negotiations from behind the scenes. An entrepreneur once told Stan Meresman that someone had offered $80 million to buy his small company. Meresman asked if the entrepreneur really wanted to sell the company. He said yes, if he could get $100 million, but the potential acquirer had told him that $80 million was the "best and final offer." Meresman told the entrepreneur there's no such thing as a best and final offer. Were others interested in acquiring the company? he asked. The entrepreneur named two companies. "I told him his job was to call them up and say, 'I'm in play, I have an offer, and since I value your relationship and how we could fit in well, I just wanted to make you aware of that.' And he ended up with a firm written offer [from] one. The end of the story is that he sold the company for $130 million to the original party, who had said $80 million was their best and final offer," Meresman says.

Kingmaker. A company cannot survive long without a strong management team, but the demand for experienced managers exceeds supply in most parts of the world. Many of the mentor capitalists we interviewed said they had to "make CEOs" by closely tutoring neophyte executives. The effort was worthwhile, they said; even if the founder didn't succeed as CEO this time, he or she might the next time. The tutoring ranged in intensity and scope. Some mentors concentrated on relatively cosmetic changes, such as helping new CEOs learn presentation skills; others tackled difficult leadership issues. Some practically provided on-the-job MBAs.

A protégé of K.C. Branscomb, mentor and former CEO of IntelliCorp, recalls being urged to abandon an excessive sense of obligation to early investors. "A good mentor can transform a founder into a CEO by evolving them beyond that very heightened sense of obligation to either your early team, early investors, or even your early customers, all of whom can have very toxic side effects," the protégé says.

Mentor capitalists often lend their energy and optimism.



Sometimes mentor capitalists also have to be king breakers. Many founders, especially those who are young and inexperienced, need to be forced aside as a company matures. The passion and energy required to start a small company often does not scale up into the operational leadership required in a company that employs hundreds or thousands of people. But it is awkward and difficult for mentor capitalists to convince their protégés that a seasoned senior management team is critical to the success of the company. Some venture and mentor capitalists make a practice of educating first-time entrepreneurs to this possibility before they fund a new company. Branscomb is not alone in having stressed awareness that "whether he or she [the entrepreneur] should remain CEO [is] a reasonable question to be asked by any board at any time."

Talent Magnet. In the worldwide competition for talent, mentor capitalists can play an essential role in start-ups. Experienced managers are still relatively scarce, even though seasoned bricks-and-mortar managers are starting to leave behind their safety nets to risk the millions-or-nothing Internet game. Mike Homer observes: "Getting people...has to be the highest priority.... The people who are best at getting these start-ups going are obsessed with recruiting." Mentor capitalists assist with talent in three ways: by persuading a professional headhunter to take on the search (at the height of the Internet frenzy, recruiters themselves had to be heavily courted), by suggesting actual candidates from within their network, and by interviewing candidates. A respected, persuasive mentor can add credibility when a start-up is recruiting a desirable executive. When BenefitPoint's founder Kurt deGrosz realized the company needed a heavy-hitter CEO, mentor and IVP/Versant venture capitalist Sam Colella came to the rescue. He knew that the former CEO of McKesson, Mark Pulido, was available – and also that he was weighing more than 100 job offers. Colella met with Pulido and convinced him that the BenefitPoint job would take advantage of all his skills, and he took the job.

Process Engineer. Entrepreneurial passion rarely goes hand in hand with a love of structure; if entrepreneurs craved order, they would not have launched into the unknown. But even the smallest organizations profit from some predictability and division of labor. For new college graduates embarking on their first entrepreneurial venture, merely setting a calendar of meetings and agendas may be novel. More experienced entrepreneurs have the simple, obvious structures in place, but they may need prodding to determine priorities, set up hierarchies, and sort out roles and responsibilities. Mentor capitalists draw on their firsthand experience to devise systems and processes that they hope will scale up as the company grows. But they have to be wary of weighing down a small business with a heavy superstructure. As Mike Homer says, "You have to bring just the right amount of process and order at the right time. I try to do things in bite-size chunks, [establishing] milestones for the things we will try to accomplish. In [start-up] Tell Me, we put in place something we called '6-60': six objectives in 60 days that would result in our first big round of funding." Mentor Rich Zalisk cuts down on the "unproductive activity, chaos, constant tacking, constant redo, constant reassessment" that inexperienced teams engage in by helping them set – and stick to – realistic, thoughtful objectives. "The teams tend to come in and say, 'Something has changed,' and I say, 'No it hasn't.' After two or three times, you get a pretty high-quality set of deliverables that don't have to be redone constantly. The key is to focus the team on results, not on activities."

Rainmaker. Mentor capitalists use their own networks to get seed money, and they figure out how to get the real cash from venture capitalists. In most of the start-ups we studied, the mentor capitalists provided early funding through a few phone calls to angel friends. Later, they introduced the entrepreneurs to venture capitalists who relied on them to screen hot prospects. Bob Maxfield, cofounder of ROLM Corp, tells how a young company by the name of SnapTrack was funded: "They had great technology. I and two others put in seed money to ensure that the technology would work, and the team proved within a few months that it did work. One of the other guys introduced them to Benchmark. I called my friends [at another prominent venture firm]; they had one meeting, they were excited, but before they could even make a decision, Benchmark came back and said, 'We'll take the whole deal.' And that was it – it was done. That company was eventually sold to Qualcomm for $1 billion."

To summarize, mentor capitalists give entrepreneurs real-time, intensive coaching on how to build a successful business. They share deep expertise that was hard earned over many years, doling it out just in time, as situations arise and in doses appropriate to the situation. They are deeply involved in the week-to-week thinking about refining the business model, attracting talent, finding money, and building a coherent, efficient organization.

A Model for Success

In Silicon Valley, mentor capitalists exert a subtle but powerful influence on the virtuous cycle of innovation. By educating first-time entrepreneurs, they seed the Valley with expertise and knowledge, augmenting or even substituting for classes in entrepreneurship at local universities. (Some mentors, indeed, are teachers and guest lecturers at those universities.) The mentor capitalists, who have formed a kind of informal guild, are loyal to individuals in their network and to their industry (whatever it may be), but only to companies that continue on the road to success. They can band together to share their expertise in the next cool project that may change the world – then disband without discomfort. They don't expect permanence. Rather, they have a Darwinian view of the business ecology and a deep belief in the necessary and desirable transience of success. What is hot today may not be tomorrow. This is cause for celebration, not despair, because a changing environment creates room to design anew.

So can the guild of mentor capitalists in Silicon Valley be imitated? Not easily. This particular community built around knowledge exchange took 30 years to develop, and it's unlikely that its components could be re-created overnight. However, communities that are already highly networked and that have a rich supply of expertise may indeed begin to foster innovation similarly. For example, the Indus Entrepreneurs, an organization started by highly successful South Asian entrepreneurs in Silicon Valley, is spreading its influence to both U.S. coasts and to India.

Regardless of whether the guild of mentor capitalists can be emulated, the niche they fill is essential to start-ups. Inexperienced entrepreneurs need mentors. Perhaps in some places, the venture capitalists will reclaim this role; in others, the "smart money" angels and mentor capitalists will fill in. No matter how these mentors are labeled, they must represent a mix of expertise; no single individual can fill all the roles. The mentors need to be highly networked so that they can complement one another's skills and learn from one another's failures, successes, and teaching methods. They must also be tolerant of the prototyping that all new businesses go through and skillful in guiding that process. They have to be capable teachers and interested in the vicarious thrill of their protégés' success. Finally, they need to be in sync with their protégés' passions and aspirations so both parties have enough mutual enthusiasm for the project to carry them through the rough passages.

We didn't set out to study mentor capitalists – we intended, rather, to study more generally how talented, creative entrepreneurs draw on sources of expertise to grow successful start-ups. But when we stumbled upon these mentor capitalists, we were struck by how critical they were to a start-up's success. Here was a microcosm of the knowledge economy, in which the alchemy of blending technical wizardry with entrepreneurial expertise yielded golden opportunities for both. Expertise is truly the coin of the realm in this world, and the scarcity of that resource has inflated its value to exorbitant heights. Silicon Valley is not the only place, of course, where such expertise is valued. Graybeards all over the United States are reclaiming some of the new-economy glamour reserved for the young and beardless. Experience – of the right sort – is back in vogue. Perhaps we can be forgiven for finding some satisfaction in that.

Mentor capitalists share deep expertise that was hard earned over many years, doling it out just in time, as situations arise and in doses appropriate to the situation.

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