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Interview with William H. Draper
Draper Richards, L.P
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Harvard Business School
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WILLIAM H. DRAPER, III

The HBS Experience

I think Harvard was great! [Laughs] I think it was absolutely great. For me it was a whole new world. I knew nothing about how business worked. I mean, you don't learn much from your father, you don't talk about it. He doesn't want to talk about it. If you're going straight from college. Others would, as I say, have more experience when they got to Harvard, but I had none in the business sector. And that was great. The people were great. The students in my class were terrific. And some of those professors were super.

[My most memorable class was taught by] General Doriot. I took that in the second year. And what was good about [the class was that] it was the first time I had worked with a team of people to get a project done.

I loved his plan that every week our group had to submit the best idea. The one I remember, and we each had lots of them, was to, instead of buttons, put the button on with a snap, so it's a lot easier than buttoning. And as I've gotten older, and I help my wife with her buttons, I'm certain that that was a great idea that I never followed through on. But [I remember] ideas [and] creative thinking. We were all young. I mean, none of us had business experience. It might not be quite right today, because people usually have two or three years of business experience before they come to business school. In those days we went right out of college. I went right up there out of Yale, as I say, except for the Army.

So I think he was our way of learning what it's like, and he always said, "Keep your antenna up," and when you're at the boss's house, and he serves you his favorite alcoholic drink, just take a little sip, but then drop the rest of it in the palm. He always talked about some palm tree that was in the living room. And he told us how to read the *New York Times*. That was one whole class lesson. How to read the *New York Times* in 20 minutes, I think it was. It was -- and, you know, jump to the business section. But also go to the obituaries. That's where you learn what makes great people; what they're all about, and why you should admire them.

Early Career

General Doriot had a big influence. He said to all of us, "Get out of Boston. It's, you know, not really an appropriate place for real business. Get into something that's got some muscle, and where you really can be proud of your work. You don't want to go into financial things, and that kind of thing. You want to go into something which is a real business where they make something."

So I got an opportunity to join Inland Steel. I got turned down by General Electric, which was my first choice, I think. And it was a recession period, by the way, so jobs were not easy to get. Anyway, I'd worked one summer at Jones and Laughlin Steel Company in Pittsburgh, so this was a natural. And they selected me, and four others, in something called Randall's Rangers, which is a training program for Inland Steel. It was kind of new. We were the first group, in fact.

And so we spent a year going around the company, and learning a lot about how it works in the mill, how steel's made, how it's sold, how purchasing is done. And we learned a lot [there]. I mean, it's a real overview. And the idea was we'd go on to being the leaders of the company in the future.

Becoming a Venture Capitalist

Well, my father, who had a big influence on my life, as I say, he and I talked about venture capital. He was an investment banker, then he was a diplomat, and Undersecretary of War, at one time. He had a whole other life outside of business. But he and I talked about venture capital as an interesting, exciting thing, and he didn't urge me to go on to Wall Street and go into the investment banking world. And I think he had had a tough time just meeting the payroll, meeting the family payroll. Anyway, we talked about venture capital. So he went to run the Marshall Plan in Europe, and Averill Harriman, who ran it from Washington, as the overall leader of it, suggested that he get together with General Anderson, Fred Anderson. Fred had run the 8th Bomber Command, and Clark Gable played his part in *Twelve O'clock High*. He was a kind of a risk taker, and my father was more conservative. And the two would make a good pair, thought Averill Harriman, and they did. They got along great. And then they together planned to come back into California, where they each had some different experiences in California. Anderson had been at the Travis Air Force Base, when he was [trained] with the Air Force. And my father came out, with Dillon Read, to do the financing on the Oakland Bay Bridge.

So they both decided that they wanted to come out here, and Anderson came first. My father spent some time as Chairman of the Mexican Light and Power Company, but then came up after about five years, after they had left Paris. And so he asked me to be one of five young guys to come out, after meeting Anderson, and Anderson thought I was okay. So the five of us were all young. None of us knew anything about venture capital.

My decision was easy to leave Inland Steel. I wanted to work with my father. That was a lot of fun, a lot of good thoughts about that. I wanted to get into venture capital because it sounded more exciting than the steel industry. I'd been working for Inland four or five years, and in out, you know, my learning curve was leveling off. And so I was excited. And California, San Francisco sounded like that city on the hill. It was so exciting to everybody. And it was at that time. I'd only been here once with my grandmother, when I was 12 years old. So all signals pointed west.

Starting in Venture Capital

Venture capital was not a word known out here. It was known to me and my father and a lot of people in New York because of J.H. Whitney, and the Rockefellers were known to do some venture capital. They backed Minute Maid, and Eastern Airlines, but those were both family operations. And I knew it more because of General Doriot who, while he was teaching, was also starting up and running American Research and Development. AR&D was a venture capital company that made the big mistake of having a public issue, and being a public company, having to answer to stock holders. [It was a mistake] because in this business it's just not earnings that you can predict. It's very blocky, and you don't really know what the value is of your assets either. So the combination of that made it very awkward to be a public company.

There was one out here that was an SBIC called Continental Capital later. But not at the time Draper, Gaither & Anderson started. In 1959, we were the very first venture capital west of the Mississippi. West of New York, I think. We had a big spread in *Business Week*, a three page article about it with pictures. And so we were started up, and everybody came to us if they had some sort of a special situation. That was my first experience.

My very first deal was only a few blocks away, near Oregon Avenue here. [Reid Dennis] suggested I look at a thing called Corbin and Farnsworth. I went to see Elliott Farnsworth, and I said, "Well, what is a defibrillator?" And he said, "Well, lie down, Bill, and I'll show you." [Laughs] I laid down, and he had this big paddle, and he started, but he didn't connect it up, so I didn't get a shock. But that was the very first defibrillator company in the country, and they're still in business. We sold it to Smith Kline, later Smith Kline French. I was really pleased that company did very well for Draper, Gaither & Anderson.

There were a couple other companies that we did, but then I left after three years to start my own company. And about that time, under Eisenhower, that they had the SBIC program. It allowed me to leverage. I had 25 thousand dollars, and I borrowed 50 thousand from my father. Pitch Johnson who had been from Palo Alto and had a Stanford engineering degree and MBA from Harvard Business School; agreed to join me and leave Inland Steel. I had met him in Chicago. We raised our kids together, in this grimy mill town in Chicago, Indiana. And we had a very exciting start to Draper and Johnson Investment Company. We each put in seventy-five thousand. We were able to borrow three hundred thousand, or maybe even four hundred fifty thousand.

So our first investment was something like sixty thousand dollars that bought twenty percent of a company doing about two million, and a company that started out by called a check weighing machine. And we had a good experience and made a variety of interesting investments. Those were the two companies that kind of got me started, but Draper and Johnson was a forerunner of Sutter Hill.

Sutter Hill was a real estate company at the time we tied up with them, and the name came from Sutter's mine, and the hills of San Francisco. Greg Peterson and Frank Lodato started it. They wanted to get into venture capital. And they had a Xerox machine and a secretary. And we needed that. So we merged the two things. Pitch went off on his own. He was going to some consulting job; he ended up going into venture capital on his own, separately. He still got his own operation and we've done a number of things together. Paul Wythes had been hired by Greg from Stanford Business School, where they all knew each other. He and Frank did the real estate, and Paul and I did the venture capital stuff. And we had some very good start there.

A friend of mine worked for Societe Generale de Belgique, who owned a company called Genstar in Canada, and they said, "You have to go through them if you're interested in getting money from them." But this friend of mine from Yale had suggested that they would like to get into our kind of business. Technology was beginning to take root in the minds of lots of industry, and lots of financial people. They began to hear that things were very interesting, because Intel was getting going with the chip. All of that began to be at the root of things.

Anyway, I did get the ten million dollars from Genstar, this Canadian company that had cement, construction, and on both coasts they had a tugboat operation. So they were a conglomerate, but happy to get into some technology investments where the returns that we were able to deliver to them just fit into their rather jagged earnings record to make it look like they were a growth company, and the stock went up. We got some stock as well as cash out of the deal, because we sold them the SBIC. And Paul Wythes and I started this partnership that was based on the Draper, Gaither & Anderson formula of 20 percent for the general partners, 80 percent for the limited. In Draper, Gaither & Anderson's case it was a 60/40 split. The system of general partnership was brand new to the whole community. AR&D was a public corporation, and the other two were family companies in New York. There was nothing in the middle. Chicago had nothing. So Draper, Gaither & Anderson had the very first partnership venture firm in the country, and was the first one in the west. And we followed that partnership program for Sutter Hill.

Finding the Opportunity: VC Investments

We had a bunch of good deals. We had many fewer failures in those days, I think the reason is we'd share deals with other venture firms, so that you check your judgment, you get your broader contacts, you get more information, and you have a more cooperative spirit. It was a lot less competitive than it is today. Today, there's these huge companies, and they want to get it all because they're very hungry. "Feed me, feed me, feed me!" So that's something that has changed. But in our day, we had really very few losses. We didn't have the billion dollar hit, although there were one or two of those. But at Sutter Hill, we had a lot of doubles and triples and not many strikeouts.

When I first started, there was no term "venture capital" out here, and we worked on special situations. Fred Anderson had done the Raychem deal, which has been a big success. But that was more the exception. It was a much more convivial community. In the deals there was a lot of cooperation, sharing, each of us take a million dollars in a three million deal, or I might work on something, put the first million dollars in, and then nine months later go to Kleiner, and Mayfield, and step it up three times, or they'd do the same thing with Sutter Hill. But we were always receptive to working with each other.

That has changed, because the size of the typical venture firm is so great now that they want to move the needle. So they don't do a small startup. But if there's one that looks like it has promise, they want it all. And so it's kind of [like] Wall Street greed has come out to Silicon Valley. And, as a matter of fact, there's a little bit more to that. When John Weinberg, one of the cochairmen of Goldman Sachs, came out to Sutter Hill and our little office here down here on El Camino, I thought to myself, "Something is changing." [Laughs] Because the guy that runs this big investment banking firm, Goldman Sachs, is calling on me about prospects. We were beginning to succeed. The returns were getting to be big. The word was out. I was surprised that it had gotten out that much, but there was a lot of success happening, and a lot of money to be made out here.

Well, then what happened was Wall Street poured money in that was unrealistic, and people took it on. It's very good to keep hiring younger and younger people, because that's where the action is. Facebook didn't start with some 60 year old. And same with Twitter, and all the others. They get younger and younger. If you have venture capital partners in their twenties, you're more likely to know what's going on in that community.

There is a problem, though, in that a lot of these teams would get to be bigger and bigger, in order to handle more and more money, and the venture partners were younger, and less experienced, and made more mistakes. So now the averages are quite different. The number of write-offs seems to far exceed the number of successes. However, some of the successes are so huge that it makes everybody think, "Well, let's just throw it on the wall, and see what sticks. I mean, my gosh. If this company's worth 7 billion dollars, we don't need to make too many other good decisions." So it's like Skype, which paid for an awful lot of losers for me. But even a good portfolio that's got lots and lots of deals in it, I'm not sure that you'd find a Skype or a Facebook.

Sutter Hill

We always looked hard at the people; did a lot of research on who the people were, and how good they were. I look back, and Sutter Hill is the only venture firm that I know of that works on an "Evergreen System." Genstar was our only limited partner for a long time, and it didn't have a term. And any time any partner, either general partner, or limited partner wanted to get out, the values would be established for all the portfolio; twenty companies, and you'd value each one. And then the person who was getting out could either say, "That's fine," and take that in cash, or say, "No, I'd rather take my share of the stock." When I went to Washington to work for the Reagan administration, I took all the stocks, rather than taking the cash because I've always been an optimist, or I wouldn't have been in this business. And so I said, "I'll take my share of the stocks." And that was a good thing, because they really all continued to go up, and very well. This is called Evergreen.

All of the others, mostly because the Limited's are afraid that the general partners will somehow underprice it, and somehow they won't get their fair share, and they don't want a mess of stocks want to get out at the end of ten years, regardless, and we close it up. The problem with that is that the younger partners want to get rid of that fund as fast as possible, because they don't have much stake in it. And then once that's gone, you've got to raise new money, and they're in on that, and they're bigger in that, and the old guys are kind of pushed down. That's one problem.

Another problem is you can be running out of this fund, and you've got a very good investment. And a lot of times it's hard to cross the bridge, and have the next fund participate, because you wonder if you are just bailing out some of the earlier partners who might not be the same partners. Those are two aspects that make the Evergreen a better system, and Sutter Hill has kept that.

Public Service

My learning curve had flattened out in Sutter Hill. There's no business better than venture capital for staying in touch with young people, and so your learning curve is constantly tested, in that sense. But I did always have that interest in public service through my father, I think. And, therefore, you know, I read a lot about international relations, and so on. So I was delighted to be asked.

Jim Baker asked me to come to serve in the White House before taking over the Ex-Im Bank, and I was asked by him to be the Deputy Head of Presidential Personnel. That was like drinking out of a fire hose, because there were 25 thousand resumes stuffed in the back room somewhere. I don't know why he thought of me, but I think it was partly because I had a reputation for selecting good people, and partly he thought, "Well, the guy's from Silicon Valley. He'll put computers in there," or something. I did, actually. That's the one thing I can say. They had no computers in the White House personnel until I got there. Now it works smooth as molasses if you go to visit the White House personnel. But I worked very hard. It was a real challenge. I'd get there at 7, and I'd leave at about 11. It was that kind of a job. So I lasted for about three months, and then I said, "Now, remember, I'm going to take over the Export-Import Bank." [Laughs] And they said, "Oh, yeah, yeah."

But I met with Jim Baker and Ed Meese, who was an old Reagan hand, the conservative lawyer, very solid guy, and another man who was in charge of public relations. The five of us, [including] [Penn] James, who ran a search firm in LA, would meet 5 o'clock every afternoon about personnel matters. And that was when it was all fun. It was really moving, and it was just exhausting, because so many people wanted jobs, and knew somebody who knew somebody. And checking them out, and doing all the things you had to do wasn't easy. But it turned out to be a lot of fun. You'd eat in the White House mess [and end] up in a Cabinet meeting because the subject is something you've got something to do with. That kind of thing is a memory that I'll never forget.

The Export-Import Bank was great. I knew nothing about what they were doing, but I learned. And, again, I like my learning curve to keep moving up, and I had some wonderful people. People who talk about the bureaucracy in Washington, they don't know that the place would not work at all if a whole new team comes in. There's some very solid people.

It's an independent agency. And that helped us, in a lot of ways, and it was interesting. I've got a ton of stories about that. Insofar as being the leader of an organization that has a lot of moving parts is an interesting challenge to any Harvard Business School graduate. And I would strongly recommend that any of them that have a chance to go into public service at some point in their career do it. Because you learn a lot about how government works. You learn about how people work in a much different way. You learn to compromise, you learn how to stick with your ethics, and stick with your opinion when you know that you're right, and work it through. It's a marvelous experience.

After five years I had felt I was ready to leave. I went through Reagan's reelection, but then I thought, "I think I'll go now," after about a year more of that. Not that I didn't enjoy it, but I thought I'd done everything I can. I gave them more of a private enterprise look at things. I changed a few things that I'm proud of, and feel good about, but I was ready to go. So the White House called and said, "Hey, this job has opened up in the UN. And you'd be the number two person in the UN, second only to the Secretary General. You'll be an Undersecretary General, and there are twenty of them. But you're going to be in charge of United Nations Development Program, if you take the job, which coordinates a lot of the aid programs that are other agencies, such as UNICEF, and environment programs, and others."

The UN Development Program itself that I ran has about eight thousand projects going on at any one time in almost every developing country in the world. And the money doesn't come from the dues of the UN. I went out to Parliaments around the rich countries, and raised money with my little tin cup.

International Venture Capital

I wanted to do venture capital abroad. Nobody that I knew of had done that. And I had seen the world, so I got acquainted with it, and didn't feel like I was a stranger, to tell you the truth. I had made my mind up I wanted to go to Asia too, rather than Europe, or Latin America, for a venture capital -- venture capital's the only business I knew, so it was a natural that I wanted to get back to that. But I thought, "Gee, there's a lot of opportunity in venture capital abroad."

So then I met this young gal through a friend for whom she had done a project at Stanford Business School about what it would be like to go to Chile and invest there, which was interesting. He asked me to come hear her last presentation. The group was all there, and I listened, and she didn't say a lot, though she was the leader. She had the idea, and she got credit for it.

And then she faxed me just about my first fax, which said, "I'd like to talk to you about venture capital." So I thought a couple things about her. She was a networker, she was creative, and a self-starter. She had gotten this group together, and she led it, and didn't dominate it, and it was a good report. And she contacted me, and she knew she wanted to go into venture capital. We met the Saturday after that at Il Fornaio, and I broke a rule that I really am very embarrassed about today, which was as a venture capitalist you will fail if you don't make the calls on references to find out who everybody is, and what they've done in their life, and check references.

I broke that rule in her case. I never made a single check. I knew she was right, for all those reasons, and her personality was very warm. She was a Phi Beta Kappa from the University of North Carolina, Chapel Hill. And so I just knew this gal was right, and so we were partners before the breakfast was over, on that Saturday morning.

So we did something interesting. We checked around, and there were not a lot of funds that wanted to go outside of the borders of the United States. In fact, I would say zero. It was, "What do you mean you're going to invest outside of -- you're going to India? And why not invest right here?" "Because we think there's big opportunity out there."

So I went to a number of institutions, and struck out, except General Atlantic, who had the idea themselves of going, and they thought this is a good way to get acquainted. They didn't have a big stake in it. Then, I went to my partners at Sutter Hill, and they came in, along with a few friends. And we did not have a large fund, 15 million dollars, but that wasn't enough, as far as I was concerned. I wanted about three times that.

Because I had worked at the government, I knew about something called the Overseas Private Investment Company, which does for investors who want to invest in developing countries, what the SBIC program does for small business. They lend the investor, us, three times what you put in.

So I went to them, and they were delighted. And Robin and I -- Robin Richards is the gal's name that was my partner, still is. She and I looked at China, and we looked at Indonesia, Hong Kong, and we picked India. And we found that they were delighted to put money in. We had certain rules. The vast majority of the money had to go to India. But we had cross-border investments. Some were actually based here, but most of the money was spent there on engineering, and so on, but maybe the architect, and the president, and the marketing guy were here. And that worked pretty well. Cross-border kind of investment. And we went back and forth to India four or five times a year, stayed for about two weeks. And we had several Indian partners that we had picked: one in Bombay, and one in Bangalore. And it clicked. Everything worked well. We got ripped off on one deal only. There was one guy who didn't come through with an honest way of managing our money, but the rest, the rest were all great, and most of them worked. A lot of that is luck, because the timing of the late nineties was all good, and yet it wasn't easy. I mean, it's not easy to manage from one country into another, but it worked. And because we were the very first venture capital company to go to India, and now there are probably forty or fifty of them, we got the low-hanging fruit too. Then we did some investments locally, after that was over. Draper Richards. It's very small, you know, our own funds. But we did make the first investment in Skype, so that worked out fairly well.

We started up the Draper Richards Foundation. We're going to call it now Draper Richards Kaplan, because one of the professors at Harvard Business School, Rob Kaplan is going to invest, and become co-chairman of Draper Richards Kaplan Foundation. And he is a great guy, and we're just kind of starting to work together.

The foundation is just like venture capital, it's starting up social entrepreneurs with their first seed money. It's like a seed money venture capital program, where we give then 100 thousand per year for three years, and at the end of that time they graduate. But in the meantime, we give them a lot of coaching, we get some Harvard Business School, and some Stanford Business School professors to talk about HR, or accounting procedure, or fundraising, or management techniques, leadership. And we gather them together once a year for three days here, pretty intensive work. But then also there's a lot of interaction on the phone, and visits, board membership by somebody from our squad. And we only have about 3 losers out of 30.

Summary Reflections

I would advise someone who wanted to be a venture capitalist to do their homework on every company. Once they make the decision to become partners, to put some money in, be generous, and make sure every employee has some stake in it, some kind of option plan. Make sure that it doesn't all go to one person, even though he may be, or she may be the most talented of the group. Be conscious of how the game works. Read my book, *The Startup Game*. Do a lot of networking to make sure you get the deal flow coming to you. Stick with younger people. Keep getting younger and younger, if you can work that out. [Laughs] I've been trying, but it doesn't work very well. Stay focused on the important part. Once you're in the deal, and you're on the board of the company, be a cooperative support mechanism for the CEO. Or if you have questions, if you have real problems with him or her, take action sooner rather than later. Be very generous in your attitudes toward various financial things. Be supportive in using your network to help your entrepreneur, and generous in giving them recommendations, and guidance only to the extent that you're competent. Try not to get into something you really don't feel comfortable with, because it’s better to shut up, and let some of the other board members take the lead.