

Submission In Response To Issues Paper:
A Review of Venture Capital and Entrepreneurial Skills in Australia

submitted to

**THE INNOVATION DIVISION
DEPARTMENT OF INDUSTRY, INNOVATION, SCIENCE,
RESEARCH & TERTIARY EDUCATION**

By **Randal Leeb-du Toit**

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1. EXECUTIVE SUMMARY

I am pleased to be able to provide this brief submission in response to the Issues Paper titled *A Review of Venture Capital and Entrepreneurial Skills in Australia*.

The Gap

While Australia has an abundance of intellectual property raw materials and an entrepreneurial culture, it severely lacks a sustainable entrepreneurial ecosystem for translating these resources into refined products.

The set of market failures facing Australian entrepreneurs and start-ups, collectively termed 'the Gap', include a lack of sustainable funding mechanisms and long term business building skills training. Over the past decade this Gap has grown wider and the demand for a resolution has increased exponentially.

Venture capital forms an integral part of this entrepreneurial ecosystem. Not only does the deployment of risk capital help to create companies in areas where mainstream funding mechanisms usually fear to tread, but venture capital managers through their deep understanding of what can work in emerging technology arenas, also act as a reality check for entire industry sectors.

Minding the Gap

My thesis in this submission is that an Australian Centre of Entrepreneurship & Venture Capital (ACEVC) can significantly address these market failures and create a solid bridge across the Gap by providing a concerted solution set designed to establish and maintain the Australian entrepreneurial ecosystem.

I recommend that ACEVC focus on three key initiatives to maximise its impact:

1. **Entrepreneurship Conservatory**:- developing a results-based set of training programs for upskilling entrepreneurs using a real time, interactive pedagogy that will form the basis for a 'science of startups';

2. **VC College**:- providing real life experiential training on the job for successive generations of Australia venture capitalists through the deployment of a dedicated pool of capital and the active management of a portfolio of investee companies; and

3. **Entrepreneurship Research & Policy Unit**:- conducting research and informing policy that broadens Australia's understanding of the drivers of innovation and that advances entrepreneurship and its symbiotic relationship with venture capital.

Together, these three initiatives will create a virtuous circle, an ecosystem, of entrepreneurship and venture capital that will lead to a step change improvement in the success of both Australian entrepreneurs and venture capitalists.

2. DECLARATION OF INTERESTS AND AFFILIATIONS

This submission has been prepared by Randal Leeb-du Toit in his private capacity. His interests, affiliations and experience are set out for the purposes of transparency and to provide context for the submissions being made.

Randal, a qualified lawyer, is a multi-faceted entrepreneur and seasoned technology investor. He has had over twenty years first-hand involvement in strategy, investment oversight and operations with over a dozen high technology ventures and multinationals in Australia, USA, Europe, Asia and Africa and he has had significant exposure to Silicon Valley. He was a co-founder of Innovation Bay, an invite-only business network and angel group that funded, inter alia, Spreets. He currently commercialises technology from the University of Sydney, where he is 2IC of their commercial arm, Sydnovate.

Randal was the executive charged with commercialising research from NICTA, a flagship Research Centre of Excellence backed by the Federal Government, with six universities and four state government partners. He created an entrepreneurial culture and put in place a stage gated commercialisation process and IP management system, which included a proof of concept grant scheme, internal fund, Entrepreneur in Residence Program and a VC Partner Program. He spun out a number of venture-backed companies that collectively employ over 100 staff globally and have software active on billions of devices.

He was also CEO of an early stage venture capital and incubation firm that received both State and Federal funding under Backing Australia's Ability and built up a

portfolio of fourteen companies, an intrapreneur within one of the world's largest business publishing houses, an adviser to News Corporation's Fox Interactive Media and has been chairman and on the board of numerous companies, a number of which have received venture capital funding.

3. THE AUSTRALIAN COMMERCIALISATION LANDSCAPE

The Australian commercialisation landscape is rich in the basic resources required to achieve results. Australians are curious by nature and driven to create solutions to problems. This culture of entrepreneurship has resulted in a rich tapestry of invention over the years.

Fueled by this culture, the government has been fantastically supportive of fundamental research with organisations such as the Australian Research Council providing many millions of dollars towards furthering research. The country has no shortage of universities, public research institutes, centres of excellence and Cooperative Research Centres.

However, it is in translating this research to market that Australia has been somewhat less successful to date and where there is a strong need for a concerted solution. The Federal government and various state governments have supported initiatives in this area - the Building IT Strengths incubator program, Pre-Seed Funds, Innovation Investment Fund program, COMET, Commercial Ready Program and, more recently,

Commercialisation Australia, all of which have produced an array of positive results.

The main issue is that these programs have been ad hoc, applied disparately, and as a result they have not sufficiently produced a sustainable entrepreneurial ecosystem.

In addition, they have been applied in the traditional government tender and grant style that, while providing some impetus and much needed funds, is too hands off to truly kickstart a sustainable ecosystem. The Federal government needs to view itself, like its close neighbor New Zealand, as an investor in the future and get involved more as an active investor in ensuring success is achieved in the entrepreneurial arena.

Creating ACEVC will lead to a complete revolution in this space that will provide a step change in comparison to other lacklustre attempts to mirror the success of other geographies. ACEVC is what Australia needs in order to create a synapsed and connected ecosystem and an industry of innovation.

Let's look at the the Innovation Investment Fund Program. Initially, under this program there were a number of venture capital firms operating in Australia. Over the years though the number of funds has dwindled, with most funds either ceasing to operate all together or moving off into the private equity sector. Only a few of those that have remained have been able to achieve sufficient return on investment from their portfolios to enable them to raise subsequent funds and increase their funds under management. This has lead to a severe shortage of venture capital in Australia, not only because potential limited partners (Australian super funds) have little confidence in putting capital to work in this asset class in Australia due to sub standard results in the past, but also because this is further exacerbated by the total lack of depth in venture capital managers in Australia. There are no second or third generation venture capitalists in this country,

nor is there a well trodden path of succession. These are fundamental barriers to creating a true venture capital-entrepreneurial industry nexus rather than a cottage industry.

Within the university and public research institute sector, researchers are not sufficiently motivated and incentivised to progress their outputs further than academic papers or conference proceedings. When they do, there are insufficient mechanisms to assist in achieving market validation or delivering proof of concept - essential gates towards receiving meaningful commercialisation funding and ultimately productising their intellectual property.

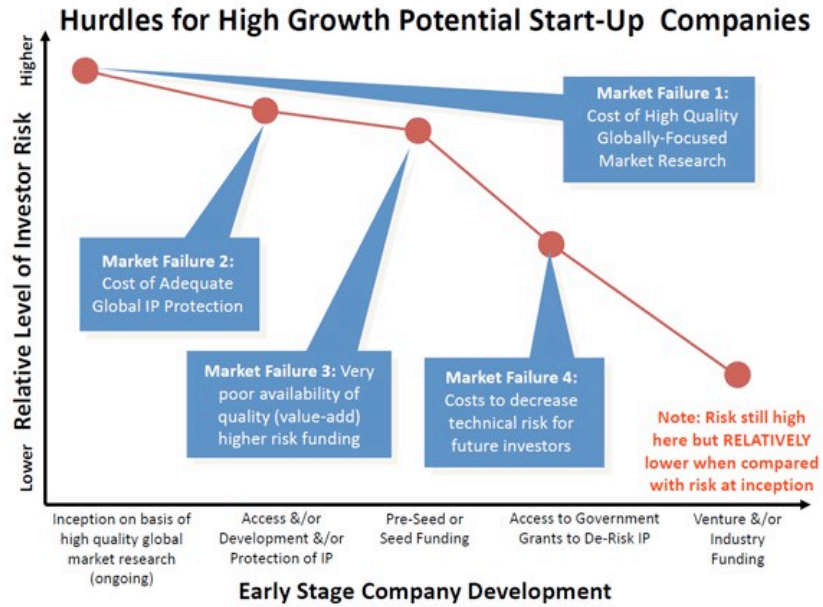
When researchers and entrepreneurs are able to sufficiently progress their ideas to the point where they would be ready to secure external funding this is, for the most part, not obtainable due to a lack of viable funding operators who have the risk appetite and nous to venture into uncharted waters.

Another potential source of funds is via high net worth angels. While there is some activity in increasing the number, sophistication and firepower of angel investors, this is still a largely untapped resource for early stage funding in Australia.

Similarly, there is minimal upskilling of entrepreneurs in the country and where such education is carried out it follows an outdated pedagogy that does not accord with the nature of entrepreneurial endeavors, and is provided in an ad hoc manner.

Within this landscape, there are a number of pain points that have been exhaustively discussed by others. Collectively these market failures add up to what is called the Gap that yaws wide between early stage ideation and funding and more established venture capital and development.

The following diagram prepared by Dr Roslyn Brandon is instructive as it clearly illustrates the risk inherent in each market failure point relative to the stage of development of a venture.



Acknowledging this collective Gap, this submission posits the view that a concerted solution set is required to create a sustainable entrepreneurial ecosystem in Australia. Providing this concerted approach via one organisation, ACEVC will greatly increase the probability of success in this endeavour.

4. AUSTRALIAN CENTRE OF ENTREPRENEURSHIP & VENTURE CAPITAL (ACEVC)

In essence, the mission of ACEVC is:- *To improve entrepreneurship and venture capital in Australia.*

By tackling the following goals in a concerted way, ACEVC will achieve its mission:

1. Increasing the understanding within Australia of entrepreneurship and venture capital;
2. Substantially advancing venture capital and entrepreneurship education and training pedagogy and content;
3. Fostering a culture of and promoting entrepreneurship-friendly policies; and
4. Creating a sustainable and concerted approach to facilitating the commercialisation of new and advanced technologies by entrepreneurs and researchers, which show great promise for improving the wealth of Australia.

ACEVC can most effectively achieve its goals and mission by focusing its activities within three key initiatives:

- A. Entrepreneurship Conservatory
- B. VC College
- C. Entrepreneurship Research & Policy Unit

A. Entrepreneurship Conservatory

Akin to the Conservatorium of Music at The University of Sydney, the aim of the Entrepreneurship Conservatory is to provide a unique and dynamic environment within which entrepreneurs can collectively and collaboratively learn while and by doing as they perform and produce their art of entrepreneurship.

This immersive, integrated, iterative and networked pedagogy fits within the fundamental design principle of the Conservatory, namely to establish a program calibrated to the real life, real time entrepreneurial process, rather than following traditional, static forms of instruction.

The Conservatory is results-based and its goal is to assist Australia prepare more entrepreneurs who anticipate the highest possible rates of success measured, in part, by the creation of larger numbers of new businesses that foster wholly new industries.

The Conservatory will draw from innovative models such as the Kauffman Foundation's Laboratory for Enterprise Creation, private sector accelerators and a range of programs that support entrepreneurs like Y Combinator, Seedcamp, Founder's Institute and Singularity University.

In doing so the Conservatory will build up a comprehensive and cohesive set of programs. The Conservatory will also act as a test bed for ACEVC to formulate a fundamental knowledge base for teaching and progressing entrepreneurship in Australia that will become a referenceable 'science of startups' and will lead to an acceleration in the number and success of high growth, scale companies.

B. VC College

The aim of the VC College is to provide real life, experiential training on the job for successive generations of Australian venture capitalists. The current industry is too small to build a sustainable venture bank of talent with suitable skills to deliver consistent returns to limited partners.

A key aim of the College is to provide a level of comfort to potential limited partners. The college train up venture capital managers so that they produce higher return on investment, and give potential institutional limited partners, such as Australian superannuation funds greater comfort in deploying capital into the venture capital sector of the alternative assets arena.

Working initially on a captive ACEVC fund these managers will develop their skills under close supervision from very experienced Silicon Valley venture capitalists. This program will be designed to educate and train emerging leaders in venture capital and will feature a structured curriculum that includes a tailored learning plan, mentoring, peer learning and industry-specific development.

As managers graduate from the college they will take on the management of a series of seed funds, with ACEVC acting as a Fund of Seed Funds.

Within a relatively short period of time, alumni of the VC College will create a thriving and particularly Australian venture capital industry. Its true measure of success will be when Australian super funds increase their alternative asset allocation to the Australian venture capital industry.

C. Entrepreneurship Research & Policy Unit

ACEVC will conduct and fund research that contributes to a broader understanding of the drivers of innovation and that best advances entrepreneurship and venture capital.

This unit will be informed by activities in both the Conservatory and the VC College and, in turn, as a 'science of startups' crystallises, will be able to guide these two units.

In addition, the unit will provide funding for and manage a number of post doctoral research grants to further Australian research in the 'science of startups'.

The unit will also formulate empirical data and findings that can be used by the Federal Government as the basis upon which to set policy in the areas of entrepreneurship and venture capital.