

From entrepreneurship to the management of a venture capital fund and back

## **“In this business everyone is a show-off, but no one knows it all”**

By Guy Grimland

**Jon Medved is one of the few in the IT Industry who has participated in the establishment of three start-up companies and the establishment of a venture capital fund. Below he describes the-behind-the-scenes of the two positions and explains why he returned to entrepreneurship**

“In this business everyone is a show-off and everyone is smart, but no one knows it all. If I return to the venture capital world – and I’m sure that I will return as an angel, I will have learnt that you need to trust the entrepreneurs” – says Jon Medved, entrepreneur and co-founder of the start-up Vringo. Medved was formerly one of the founders of Israel Seed Partners venture capital fund. “I trusted the entrepreneurs as a director of a venture capital fund”, he says, “but sometimes it is hard – especially when you have to replace a CEO or close down a company. However despite this, in the end, a start-up is direct representation of the entrepreneur even though the investor thinks that he adds value”.

Medved is in an interesting position. He is among the few in the local IT industry who have experienced both sides of the coin and worn two hats: that of an investor and that of an entrepreneur. He began in the industry as an entrepreneur and with two start-up companies (Accent and Merit) under his belt, he became a director at a venture capital fund and recently returned to the role of entrepreneur at Vringo, a vide ringtone company. As a result, he has several insights into the start-up scene and on the delicate relationship between the entrepreneurs and the investors.

Medved, 51, grew up in the US and immigrated to Israel in 1991. The first company he founded with his father, was Merit, they specialized in the transfer of video on optic cables. Medved was studying history at the University of Berkley at the time, and his father asked him to assist in a start-up he had just founded. Merit was sold to the Amco Oil Corporation in 1991.

### **“I wanted to do something fun”**

The second start-up that he founded was Accent (the company’s name was changed to LanguageWare.net) they developed a multi-language program and were traded on NASDAQ to the value of \$400 million. The company unfortunately failed and was closed down. Medved then decided to change direction and to establish a venture capital fund. He approached Neil Cohen, an editor at the Jerusalem Post and suggested setting up Israel Seed Partners in ’95. Later on they were joined by Michael Eisenberg, who is today a partner at Benchmark.

“At first I approached Yigal Ehrlich, who was in charge of the Yozma program, and I asked for money from the state to establish a venture capital fund. He told me that he only had \$2 million left – I said ‘great, that is exactly enough for me to set up a fund for investment in very young companies’. The funny thing was that in the end it didn’t happen, Ehrlich did not give us the money but we did succeed in raising money from other sources”.

Why did you leave the fund to establish Vringo?

“After ten years as a director at a venture capital fund I wanted to do something fun, new and creative. There is a significant difference between investing money in someone else’s initiative and developing your own. Even though Israel Seed Partners is a kind of start-up, I decided to go back to being an entrepreneur because I discovered that I don’t like to invest. Although I love to help and make dreams come true but when it comes down to it I am a start-up person by nature. When I was a director at a venture capital fund I found it difficult to sit on the side, to create distance myself from the entrepreneurs, I am not good at maintaining distance”.

**“It is hard for me to say no”**

Do you think that there is such a thing as a character of an entrepreneur vs. a character of a venture capital investor?

“When you are a director of a venture capital fund, you need to have analytical capabilities. It’s very important in venture capital to say ‘no’ as often as you say ‘yes’, and it is always hard for me to say ‘no’. It’s just as well that I had other partners in the fund otherwise I would have invested all of the fund’s money in one year. Anyone who manages a venture capital fund needs to be doubtful as well as being a believer because when you jump into the water with an entrepreneur you need to be a follower. That said a measure of doubt is important as well.”

“There are those who are extreme and say that investors are cocky and that they give entrepreneurs the run around. I don’t believe that. The problem is that when you invest venture capital you can only invest in one initiative out of hundreds. You have to be structured and it is hard to provide for everyone. However, an entrepreneur can expect that a venture capital investor will open doors for him, will be a guide and will assist him in raising future rounds”.

And do venture capital directors really assist entrepreneurs?

“I think so. Vringo, my new start-up, received an investment from Warburg Pincus. This is one of the largest private equity funds in the world. I needed their help in order to reach a large cellular phone manufacturer. Two days after I asked, I received a letter of introduction from Warburg to a member of the board in the other company, who are in fact a partner in the fund that invested in me. And so it came about that we, a small Israeli start-up, met with a senior executive. And not only that, but the meeting began with him

saying to me: ‘We know that Warburg Pincus has invested in you, which means that you are a serious company. Let’s do business’.

“In addition, people won’t tell an entrepreneur or a CEO that he is wrong. People are afraid to and therefore it is the role of the director of the venture capital fund to say no or say that in his opinion the CEO/Entrepreneur is going in the wrong direction. However one must remember that it is not the venture capital investor who controls the company, but the entrepreneur and the CEO. The investor is not meant to make these decisions and there is a fine line between good tension and bad tension between investor and entrepreneur. The balance, by the way, is what the board is there for”.