Oral History of C. Richard “Dick” Kramlich
Part 1

Interviewed by:
David C. Brock

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David C. Brock: I thought we could begin with your first interest in getting into venture capital, which I understand was when you were working in Boston that this idea took hold for you.

C. Richard "Dick" Kramlich: Well, I really appreciated that. I mean, I'll be really brief about this, but I think I've always interest-- been interested in-- I would say, in growth and in innovation. Those have been since I've been a teenager. And I mean I started a little light bulb company when I was 13 years old because I felt it was a ubiquitous requirement, and so my father encouraged me to do it if I used my own money and so I bought a half a train-car worth of light bulbs from Sylvania Corporation, but that's…so I mean I had this yen in me forever. And when I went to Harvard Business School I was a little distressed because all the focus was on major corporations and financial services and I wasn't really interested too much in that -- although I had to get good enough grades to stay in school. But I was really interested in innovation. And there was only one course that was really in innovation and that was General Doriot's course called manufacturing. So as I was from the Midwest I was an outsider so I got there and I found out that that course was way oversubscribed and I couldn't get in. Later I wound up living across the street from General Doriot and I got to know him really well and he used to introduce me as one of his best students even though I never took his course. <laughs> Anyway, he was a great guy and he was-- he actually had a lot of aphorisms that were very appropriate for anybody who wants to be an entrepreneur or go into the venture business, and it so happened he had organized a company called American Research and Development and he had two fellows who I knew pretty well come-- follow him, as assistants to him. So anyway I got to-- I really found a way of getting excited about things and so, just cutting it all kind of short, when I went to get a job I was-- one of the deans got me by the ear and-- as I was crossing the campus and he said, "Now Dick, I know there are a lot of things you don't care for about this place." I mean it was true; I didn't. I helped to organize a recruiting scheme that allowed smaller and middle-class companies to come to the school; five of us organized this thing and-- 'cause we thought having P&G and Goldman Sachs be the people who could afford to come up and interview Harvard Business School guys was a little limiting if you were interested in going to Atlanta and starting with a small company in Atlanta. So we divided the country into seven different sectors and then we'd have students come and tell us, "I want to go to work in Atlanta" or "I want to go to work in Seattle" or someplace else. The long and short of it is it was very successful and so he said to me, "You know, one of our best-- our second best graduate since World War II has just started a company in Boise, Idaho and if you would like me to I'll call him and suggest he fly you out to Boise" so I said, "Okay." So I flew out to Boise, he flew me out, and I spent a couple of days at this company. The company had just started; it wound up being Boise Cascade. And so anyway I had a nice talk with him and met all the people in the company. I don't want to get too into this but the end result is that I thought it was interesting, but not compelling, because it was really a merger of two companies; it really wasn't a startup. And so I went to Denver where my grandparents lived, and I come from three generations of entrepreneurs and once you get it in your DNA everything else is boring. <laughs> So I was there and I got a telephone call from a friend of my father's who was-- his name is John Lockhart; he had been Howard Hughes's first right-hand man for 17 years, both a lawyer and an accountant and didn't practice either law or accountancy. When Howard crashed in Beverly Hills, he was taken over by some caretakers who had fed him a lot of morphine basically, he was really not his old self, and so John left and he was recruited into being executive VP of the Kroger Company, Cincinnati. And he called me at my grandparents' house and he said, “Dick”-- I recognized the name but I didn’t know anything else about him. He said, “Would you mind stopping by in Cincinnati on your way back to Boston?” and I said, “Sure” so I did, and Cincinnati was more or less the last place on my list. My dad had sold his company. I was in Wisconsin and I was free to go anywhere I wanted; I really wanted to go somewhere in the northwestern part of the country. And so anyway John had gone into Kroger with the idea of modernizing the company. He wanted to computerize it, he wanted to make everything as efficient as possible, he wanted to change the attitude of the company, and he wanted to really brighten it in a big way so he said, “I need a really good right-hand man”-- I was 25-- and he said, “who will be able to make sure we do-- we’re doing it all right and I am going to put a lot of pressure on you to do it.” And I said, “You mean I don’t have to go through a training program?” He said, “No” so I said, “I wasn’t really planning on doing this. I’m not really a corporate guy but I think this is a great opportunity.” So for five years we laid the groundwork for what became today’s Kroger, which is the fastest growing, largest company in this-- in the business and it’s very profitable and they’re growing at 30 percent, which for a company that’s $25 billion-- or more than that I-- a hundred billion dollars I think by now it’s a-- it was-- my job was called manager of financial planning. So in the course of that I had a lot of-- I was a jack of all trades. I had, among other things, about a billion dollars’ worth of investment responsibility among other things so I went around and I tried to-- we tried to organize that into an efficient way. We owned an insurance company subsidiary and all that, and the long and short of it is that I had great experience in legal, operations, finance. I mean I was writing the quarterly and annual reports and was one of 13 people who were allowed to speak to Wall Street and I really got into the details of what it takes to run a large company.

Brock: May I ask you a question?

Kramlich: Yeah.

Brock: You mentioned the effort to computerize the company.

Kramlich: Right.

Brock: Was that your real first experience with information technology?

Kramlich: It was, yeah.

Brock: What did you make of that experience?

Kramlich: Well, we-- I made a lot of it. I mean we had a couple of people who were really experts that I worked with and we started out with the Honeywell products and then we wound up with mainframes, the 360 series [IBM System/360], and we actually got everything from automatic reordering systems to the normal financial controls and that sort of thing, and it was-- we really, really-- it was-- we almost went from a pen and pencil to total computerization for the company and it was great and we…Anyway, I got a little brush with investments through this-- all these-- two profit-sharing funds, I think all the Top Value profit-- Top Value trading-stamp company. Warren Buffett by the way, this is the foundation for what he did was get permanent flow in a trading-stamp company. I don’t know if you ever knew this.

Brock: No.

Kramlich: That was how he got started at Berkshire Hathaway. And then we had this insurance company, Selective Insurance. I managed the bond portfolio for them, but I went around and we-- I interviewed all the people who were investment advisers and I actually had an interesting insight because when I got-- this was about a 20- or 30-year-old profession at that time and all the founders were all involved in their businesses like Scudder Stevens & Clark, Loomis Sayles and all these companies. So I interviewed them all and I found that the people who actually started this had a fire in their belly about doing finance right and that was really interesting so we made some choices. Anyway, after-- I was involved in the first corporate acquisition that Kroger had done outside of the food field and that was we-- I helped John acquire this company called SupeRx, which is a drugstore chain, and we used that as a launching pad for doing a lot of other things, other multiproduct lines. And anyway, after five years John said, “You don’t have to make a career of this.” I said, “I like what I’m doing a lot. It’s been a great.” We had lot of pretty interesting things, like how do you avoid Jimmy Hoffa from closing down all the food chains in the United States on the very same day. John gave me a check for $50 million, taking it to Hoffa’s office and saying, “What you’re doing isn’t going to work because we can buy enough time to outlast you”-- he never did it-- and stuff like that. I mean, it was just little drama points but it was a lot of fun to do that and so I just had a brush with what it’s like, and I decided in the course of that-- a friend of mine, Peter Crisp, had gone to work with Venrock, this fellow, John Shane, had gone to American R&D-- American Research and Development, and another friend of mine, Phil Greer, had started a management company that was going to get into the venture business. And I sort of had the understanding that what was going on was really interesting so I went to Boston with the idea of learning more about finance and I became a partner, the only non-Bostonian partner, of this excellent old-line firm. All these fellows were 40 years older than I was-- that had to do with how-- and we had a lot of people who had been entrepreneurs who had turned their capital over to this-- these were all old Yankees-- and matter of fact one of our partners, Ned Baker, whose younger brother was the dean of the Harvard Business School at the time. I mean none of these people had anything to prove to anybody, they were great, and that was wonderful for me because they treated me great and I learned a lot about how to handle my-- and so anyway I started-- I was-- one of my jobs there was to go around Route 128 and see all the new technologies so I actually had a ball. I’d go out there and then I’d bring-- we didn’t organize a permanent pool of capital; it was one-at-a-time venture funding and it was kind of crazy because everybody had their own portfolios that they were in charge managing and then you had to speak for your portfolio and how much of this you were going to put into something. Anyway, the long and short of it, I did about a dozen projects and I was having a pretty good time; a couple of them turned out pretty well. And about that time there was a whole series of-- there were a series of articles in Forbes magazine called “The Money Men” and the first article in that whole series was by-- was on Arthur Rock. And my wife had gone down to Texas to be with her mother that weekend so I would just sit home in our apartment looking over the Charles River, having a great time. <laughs> I was going to stay in Boston forever except that our firm had merged with another firm and it became a little too corporate for me, and so I was thinking, “This isn’t really my dream any longer.” And so I was reading this article and it talked about how Arthur and Tommy Davis had formed a venture fund in California and they had turned three and a half million dollars into eighty million and he told me-- and he related how it happened, and they said, “Well, now”-- and they had split up in 1968. This was in 1969 and-- it was in September of ’68 and this was in ’68 and they had split up in June or something, and he said, “Well, now, Mr. Rock, what are you going to do?” and I said-- he said, “Well, I’m going to find a younger partner and do it all over again” and I don’t know but something in that article just spoke to me and I’ve never done this before or since, <laughs> never anything like this, but I sat down and wrote him a longhand letter. This is how you spend your life, it’s important, and I’ve been very lucky and happy with what I’ve done but I think there’s a bigger life out there. And my wife got home on Sunday and I said, “I’ve done the craziest thing. I’ve written this letter” and she said, “You’ll hear from them” and I said, “Do you really think so?” She said, “You will.” On Monday I got a call from Arthur. I later found out there were a thousand replies. Every one of them had a printed resume, very professional; mine was a handwritten letter. And he said-- so it was Marie on the phone and she said, “Mr. Kramlich, I have Mr. Rock for you” and I said, “Good” so he got on the phone and he was telling me-- he said, “Are you going to be around in October?” and I said, “I think so.” He said, “Well, I have to go to-- come to Boston” -- because one of the companies he was involved in, which was called Scientific Data Systems, was going to appear before the Boston Society of Security Analysts-- “and I’d like to meet with you on the weekend-- the Friday of the weekend before” and I said, “That sounds fine.” So he and I met and it turned out he was going to go up to Waterville Valley to go skiing and I had a place in Waterville and so we talked a lot about skiing <laughs> and talked about a lot of the different things, and then he said, “Look.” He said, “I have to be in this Boston Society meeting on Monday. I have a lot of friends of mine who are in the company. Why don’t you sit at the head table with me and we’ll-- I’d like to have you meet a few of these people” and I said, “Great,” Max Palevsky, Sandy Kaplan, people like that. So I did, and my friends were in the audience <laughs> and they said, “Hey, what are you doing up there anyway?” and I said, “I don’t know. I’m just sitting here.” Anyway, so it worked out okay, and so about a year later-- so he and I talked quite a bit in the process. He said, “Give me some names I can call” and I did; “Tell me all the companies you’ve invested in; show me all the portfolios you’ve managed,” etcetera, etcetera. I did all of that and so then I’d been studying for this Chartered Financial-- CFA it’s called-- Chartered Financial Analyst and I’d taken exam one and exam two; I just did it for the heck of it and they were fabulous courses by the way; you have eight years to go from first to last and it’s macroeconomics and microeconomics and it’s really rigorous. And so I had been studying for six months for this exam and the exam was going to be on a Saturday and then my wife and her family were all going to Spain on Sunday, and so Arthur said, “We’ve been talking for a year.” He said, “I’m going to be in New York on Saturday” and he said, “Why don’t you and I meet Saturday morning at nine o’clock when I’m at the hotel and we’ll take a walk in Central Park” and I said-- God, I’d been studying for six months-- “Okay.” <laughs> It took me that long to make that decision. So I went down there. On the way down, I wrote a list of things I thought were involved in starting a venture capital firm and put it in my pocket and he and I took an hour-and-a-half walk, and he said, “Okay, this is the way we ought to do it” and I took out my piece of paper and we had nine out of ten things overlapped.

Brock: Were those items on your list items of areas of interest or ways to conduct--

Kramlich: How we ought to organize a firm, what we ought to focus on, how we ought to organize our self to keep control of things, what are our priorities from an investment standpoint, what stage of investment do we want to do, what are we really trying to do, so that was-- so that’s how I did it; that’s how I got involved. And so we organized the ten-million-dollar fund; I brought in about a third of it and Arthur brought in about two-thirds of it. We had people like Gordon Moore and Sandy Kaplan and Henry Singleton, Bob Noyce, Jay Last.

Brock: An impressive group.

Kramlich: We were all a great group and we never invested ten million. We invested six and a quarter, thirteen companies and all of them were failing at one time or another, but we got all of them through. At one point he said, “Have you ever been to Japan?” and I said, “No” so I went over-- I studied a lot and I went to Japan and financed six companies-- seven financings on six companies at the time-- I stayed there and one president after another came over and I took them around to meet everybody and for example Itochu now, it used to be C. Itoh, I put them in three or four and they’re one of NEA’s limited partners today and a lot-- and so-- and some-- anyway it all worked out well. And so we were going to-- I was a one-third partner, Arthur was a two-thirds partner, and he’s a very intelligent guy and we had the whole world going to pot at that decade.

Brock: It was a tough time.

Kramlich: And for example in ’74 one technology company went public. And I mean we were in Alza for example-- that was our first company that went public-- but anyway,y we found ways of having all of them be survivors and we made $40 million on 6.25 invested and it worked out pretty well. And Arthur said, “Well, let’s do another partnership.” I said, “Arthur, it’s great” but I didn’t want to do two partnerships with him ‘cause he’s a very control-oriented guy and I just-- as I said I’m not really a corporate guy, much less a junior partner in a partnership. I mean I just couldn’t—

Brock: Your time as a junior partner--

Kramlich: My time had ended. So my wife said, “Why don’t you partner with some people you really like?” and I said, “Well, I really like these two guys on the East Coast.” Tom Perkins asked me to be a partner of his; Bill Hambrecht asked me and I spent quite a bit of time with Bill and whether-- he had a venture portfolio that was kind of going sideways at the time. Anyway, I had gotten to know these two fellows from the East Coast and-- this is a long way around this but-- one of them was Chuck Newhall and Chuck had been with T. Rowe Price as a-- just had joined them out of HPS and his father had worked for Laurance Rockefeller but he was on the buyout side-- he was on the remedial side actually, the workout side as opposed to being on the venture side. That isn’t the side <laughs> that is very much fun and-- but Chuck was in love with the venture business, and it so happened a company that I had been involved with in Boston had gone from ten to two hundred and forty-- it was a great investment-- and the other venture-- the other investor was a fellow named Cub Harvey who was-- at that time ran the New Horizons Fund at T. Rowe and, the long and short of it, that’s how T. Rowe Price became our sponsor limited partner at the beginning. He said, “Chuck, be sure you see Dick” and we got together after a dozen different visits over the years. I had known Frank Bonsal because he was a guy at Alex. Brown who took them from being a sleepy mid Atlantic bond house to investing and becoming one of the Four Horsemen and so he always was peripatetic and going everywhere and never forgetting a thing, tremendous fun, a great personality, a really good guy. And so Tom [Perkins] asked me one time after we had shaken hands and he said, “Well, exactly, what are you doing, Dick?” and I said, “Well, I’m thinking of starting this venture firm with these two fellows from the East Coast” and he said, “Well, are they in the venture business?” I said, “Well, not really. One is an investment banker, he-- new-- underwrites new deals, and the other fellow is working at T. Rowe and he’s running their so-called incubator fund.” And he said, “And so you’re going to move to Baltimore, are you?” and I said, “No.” He said, “You’re going to be here and they’re going to be there” and I said, “Right” and he said, “I think that’s the dumbest idea I’ve ever heard” <laughs> and he said, “Why don’t you just come to work with Eugene [Kleiner] and me?” and I said, “Look. If you would have asked me a month ago, maybe I’d have done it but I have shaken hands with these guys and I just don’t go back on my word.” And he said, “Well”-- he said, “How are you going to make decisions?” I said, “I don’t know but we’ll find a way. <laughs> Anyway, the long and short of it is I said, “Look, Tom. Let’s stay friends, do some deals together and we’ll see you on the playing field.” He said, “Fine”. So that’s how we got started and just before that had happened Arthur and I both had invested in Apple.

Brock: I’d be interested--

Kramlich: I did. I spent a good part of 1977 going around seeing all the PC companies and Apple wasn’t the best company. I mean there were two companies, one out of Berkeley and one out of Palo Alto at Stanford; they were better companies, I mean, technically in my judgment but they just didn’t have that something-- extra spark that I thought is the entrepreneurial spark whereas Apple had it. And so I was-- I had a fairly small amount of stock and I wanted to make it NEA’s first investment so I called my friends in Baltimore by this time. Now we’d not only shaken hands but done our beginning draw up all the docs and talked to people, and Chuck said, “This isn’t enough money that we’re going raise, $15 million, and”-- and I said, “Chuck, this is one of the best companies we’ll ever see, ever,” and he said, “Yeah, well, I’ve heard people say that before.” And Frank said, “Well”-- he said, “It is a small amount of money and we don’t even have the fund raised yet” and I said, “That’s all right. I’ll do it” and he said, “No, no.” I said, “Well, look, this is a partnership and if we’re not going to put it in NEA I’ll let you guys have any part of this you want.” And Chuck said, “I just don’t have any money” and Frank said, “I’ll split it with you” <laughs> and then I got a chance to buy a bigger-- a little-- bigger amount a little later just really through circumstance, but anyway we wound up closing the NEA one on June 6th, 1978, in very tough times.

Brock: Just a few questions.

Kramlich: Yeah.

Brock: When you were reading that article about Davis and Rock’s investments did you see a similarity to the sorts of areas that you had been investing in in the Route 128 corridor?

Kramlich: Exactly the same, same-- Boston was pretty exciting in those days and I mean right out of the textbook; they were great. I got excited by all these companies and I saw them all through even after I came out; we merged them or went public.

Brock: In your partnership with Arthur Rock, was it the same sort of startups in computers and really computer hardware--

Kramlich: Technology.

Brock: Technology.

Kramlich: Yeah. It spanned a lot of different-- two ax linear-- two-axis linear motors we did one that wound up being an exciting company, did well, so they were in a lot of forms of technology, some materials technology actually so it was a variety of things.

Brock: Not just in computers--

Kramlich: Not just in computers. I said Alza for example was our first-- actually the first investment and Zaffaroni was one of our limited partners.

Brock: Interesting.

Kramlich: So it was just a variety. I’ve always regarded rightly or wrongly the fact that I’m not an engineer as a plus because I have to learn everything from the ground up and I like doing that.

Brock: Shifting back to NEA and raising that first fund, was it also wealth created by previous waves of technology entrepreneurship going into your fund?

Kramlich: A little of it. I can tell you one meaningful story. We had one initial investor who came in through T. Rowe, the Roberts family, and then we had the second one. I had been an usher in a wedding, yeah, earlier in life, and this fellow who was an usher-- co-usher with me, Jim Goodbody was his name, his father used to be in a brokerage firm by the name of Goodbody and Company. Anyway, he said, “Dick, I understand that you and Arthur and are going to go away.” I had brought-- by the way-- about a third of all my partners who I’d brought into AR and Associates came in eventually-- into NEA, but this particular guy called me and he says, “I have a very conservative family but I think I’d like to propose along with two of my brothers-in-law that we become a partner of NEA” and I said, “Jim, that would be fabulous.” He said, “There is one hitch.” He said, “You have to”-- he said, “The patriarch of the family, they live in Indiana and you have to come out to make a presentation to the family members.” So there were three sons-in-law and three daughters and each one was going to put in $333,000 for a million-dollar commitment, and then we had to go to Muncie, Indiana. The patriarch of the family was a man named John Fisher and John Fisher was the chairman of a company called the Ball Corporation, and so he said, “If we’re going to do this presentation,” he said, “this isn’t what I like.” He said, “I think”-- anyway he said, “You have to do this. You have to do it at eight o’clock on Sunday morning and finish by ten o’clock” so I was thinking Indiana, eight o’clock, ten o’clock, everybody has to go to church, and so I said, “That’s fine. We’ll do it” so I said, “Chuck, Frank, we have to get out there” so I arrived-- I wasn’t kidding on telling any of this-- <laughs> anyway, I arrived-- we arrived on Sunday night and went to the Holiday Inn in January, 15th or something, and that was when the coal strike was on and there wasn’t any electricity. So the Holiday Inn had one light bulb on in every room and no heat in the rooms and they decommissioned all the television sets and they only had one television set on and that was in the lobby. I mean I like basketball and so this happened to be a basketball game between Indiana State and Michigan. I don’t know if you remember that game?

Brock: No, I don’t.

Kramlich: Larry Bird?

Brock: Oh.

Kramlich: I mean it was versus Magic Johnson, a pretty good game.

Brock: <laughs> Impressive, Magic.

Kramlich: Pretty big day . And so I checked in and put my bag down in the room, came back to the lobby, watched this game. I called my wife and I said, “You know, I just seen the greatest basketball game in history.” Just in this… Well, the next morning we got up, it was 15 below zero. You know, all icy ground. So we walked over to this place, four building, a four-story building, went up to the top floor. Thirty-five people in this room. All the accountants, the lawyers, the bankers and John Fisher. Three of us, three girls and their husbands. And John Fisher says, “You know, look. We don’t have much time,” he said. And he said, “I tell the girls if they really are interested in gambling, they ought to just buy some more shares in the Ball Corporation.” He said, “What do you think about that?” And I said, “You know, Mr. Fisher, I’ve read your annual report. You run a tight ship here. Run a good company, and how can I disagree with that? I think it’s a good idea.” But he said, I said, “There is such a thing as diversification.”

Brock: Hm.

Kramlich: And recognizing this is blind pool. You know, well, he didn’t say that. He said, “Just recognizing this is early state,” he said, I said, “I think this is something you could consider.” And he said, “Well, let me see. I’ve read all your documents. I just want to understand the ground rules here. Number one, you’re not telling us what you’re going to invest in. It’s a blind pool.” I said, “Right.” And he said, “You’re going to lock us up for as long as 15 years, because a 12-year partnership with 3, of, you know, voluntary re-ups. And,” he said, “they’re all startup companies or close to startup companies, so they’re all the highest risk companies, at a time when there’s no liquid market for anything.”

Brock: <laughs>

Kramlich: “Much less startup companies.” And he said, “Are those things all correct? And you haven’t raised the money yet; is that correct?” He said, “Yeah.” I said, “Yeah.” I said, “You’re correct on all of them.” And he said, “Well, why are you doing that?” I said, “Well, some people think that in the worst of times it’s a good thing to start something.”

Brock: Hm.

Kramlich: I said, “Another thing is, I have two great partners, and I think the three of us are going to do the best we can. We have our whole life tied up in this. And I can’t promise you anything, but we’re going to give it our best.” And he said, “Well, girls, look,” you know, a few other questions. He said, “It’s now a quarter of 10. I told you we’d get you out of here by 10.” But he said, “Girls, if you want to do it, it’s okay with me.”

Brock: <laughs>

Kramlich: That was our first real limited partner.

Brock: Amazing. <laughs>

Kramlich: And Barbara Goodbody, until two partnerships ago, came to every meeting that we have, annual meeting.

Brock: And participated in…

Kramlich: Yeah.

Brock: Wow. Isn’t that interesting?

Kramlich: And, you know, et cetera. This just happens to be a particular poignant story.

Brock: Did you have that experience with other investors who just--

Kramlich: We did.

Brock: --they stick, stuck?

Kramlich: Yep, roll it over.

Brock: Right.

Kramlich: No. I hadn’t really realized that. I had a friend of mine I’d gone to school with named Gunther, Gunther Pamberg, and he’s coming to our annual meeting. And Gunther and I were at HBS together and I used to sit at the foreign students’ table for breakfast because I thought it was interesting. And so Gunther, and we’d stayed in touch over the years. He’s a German guy, lives in Switzerland, had lived in Australia. And he was-- so he came in in NEA 3 or 4. NEA four, I think it was, and he kept on putting in more and more money and finally I think in NEA 7 or 6 he put in 10 million dollars. I said, “Gunter, look. This is way too much money.”

Brock: <laughs>

Kramlich: I mean, he said, “Look. I have you guys all figured out.”

Brock: <laughs>

Kramlich: I said, “Really?” <laughs> “What is it?” He said, “Let me show you my spreadsheet on you guys.” He said, “The way you pull down the capital, the way you pull back the capital. You pay back the fees and then you pay back the principal before you guys share in anything.” He said, “I’ve done a analysis of how much exposure I have at any one time.” He said, “You know, I’ve invested 40 million dollars in your partnerships between then and now.” And he said, “You know what the maximum exposure I have had at any one point in time is?” I said, “I don’t have a clue.”

Brock: <laughs>

Kramlich: I think he said, “Two hundred and fifty thousand dollars.” He said, “Just because of the way you pull it out, turn it back. I had never analyzed it that way.”

Brock: That’s very interesting.

Kramlich: You learn a lot from your limited partners.

Brock: <laughs> I’m sure you do.

Kramlich: And I ask him that every—we’re going to see him in about six weeks, something like that. But anyway, so that’s Gunther.

Brock: As you were-- well, maybe we should--

Kramlich: Not that everything goes as well as all that, but…

<laughter>

Brock: And for their ups and downs.

Kramlich: For their ups and downs. And we’ve had our downs.

Brock: <laughs>

Kramlich: We’ve had. A lot of ups we’ve had. You know, 14 ups and 1 down.

Brock: <laughs>

Kramlich: That’s not bad.

Brock: I’ll take it.

<laughter>

Kramlich: Any time.

Brock: Right. Just, well, one question was interesting, your conviction about how important Apple was going to be so early.

Kramlich: Right.

Brock: I’d be interested to know. I had the pleasure of doing an interview in the past with Arthur Rock and he said the same thing basically about Apple, that he just had that same--

Kramlich: Oh, yeah.

Brock: --quick conviction, if you will. So I’m interested just to hear you say a few words about that.

Kramlich: We saw the whole thing at the same time.

Brock: Right. Right.

Kramlich: You know, they started out with great graphics. It’s all about art.

Brock: Really?

Kramlich: Yeah.

Brock: That was it for you.

Kramlich: Yeah.

Brock: The visual-- because it started in color, right, with the Apple II?

Kramlich: Yeah, yeah.

Brock: And that was a--

Kramlich: All the graphics were in color.

Brock: Mm-hm.

Kramlich: Was all about art.

Brock: Interesting.

Kramlich: I said they had pizzazz where the other two companies were more engineering oriented.

Brock: Hm.

Kramlich: I mean, Steve was not an engineer.

Brock: Right. And that aspect of the graphics, about the art, meant what for you? That computing would change into--

Kramlich: He was thinking outside the box. He was going to change things.

Brock: Mm-hm. And did that drive into NEA, did that drive your interest into looking for other people exploring kind of this new possibility in computers?

Kramlich: Well, I had spent a whole year. I mean, the computer industry, the personal computer industry, was, it was just right out of the hippie era.

Brock: <laughs> Yeah.

Kramlich: I mean, you know, I mean, there was the Kentucky Fried Computer.

<laughter>

Kramlich: You know, et cetera. I mean, it was, you know, I used to go to all the shows. Was great.

Brock: Hm.

Kramlich: And everybody was barnstorming. And it was just, it was chaotic.

Brock: <laughs>

Kramlich: But there was a real, it was a real…there was a real integrity to what was going on.

Brock: Interesting.

Kramlich: And that was what was impressive about it. And, you know, when Arthur and I were partners, I was witness to the circumstance that led to the microprocessor, which was totally a fluke. And, you know, all these things that were, you know, and the n-channel and the p-channel and all the other things having to do with a integrated circuit.

Brock: Right.

Kramlich: So, I mean, I observed an awful lot.

Brock: <laughs> Well, it seemed to me like--

Kramlich: Arthur’s a very smart man.

Brock: He seemed-- I had that impression indeed.

Kramlich: Very smart.

Brock: It seemed to me that the investment in 3Com would be important to talk about, just because some of --

Kramlich: You’re absolutely-- you’ve picked that right out of the hat.

Brock: <laughs>

Kramlich: That’s-- you’re right.

Brock: To then Apple to 3Com to--

Kramlich: It was fantastic.

Brock: --Forethought. Yeah. Could you--

Kramlich: Oh, yeah.

Brock: And that seems, again, you’re really early in thinking about connecting these machines.

Kramlich: Right. Well, I mean, when I met Bob Metcalfe, I said, “This is the real deal,” to myself. And I really think that 3Com should’ve been Cisco today except better, actually. A lot better than Cisco. And Bob Metcalfe had it from the very beginning. And he, in fact…I asked Peter Crisp, who was an original investor in Apple, is friend of mine from HBS who’s a wonderful guy, by the way. And he was on the Apple board for 17 years. Apple did the original financing through Venrock.

Brock: Okay.

Kramlich: It didn’t ever occur in Walter Isaacson’s book, but that’s when it actually happened.

Brock: Mm. Venrock was very active in a lot of things.

Kramlich: They were-- and a guy--

Brock: Intel.

Kramlich: And there was a guy named Charlie Smith who was running their venture activity at the time, and he and Arthur were very good friends, and he was the guy running their stuff at that time. And he was a great guy. Anyway. So fact, actually, Steve Jobs flew-- he asked a guy named Hank. He and Hank Smith worked together at Atari.

Brock: Mm-hm.

Kramlich: And then Hank went to work at Venrock under Peter Crisp. And he said, he asked Hank, he said, “Look. I’m going to get some venture financing. Where should I get it?” And Hank said, “If you want real quality, go to see Peter Crisp.” And at Venrock. And so that’s what happened. And it actually, Don Valentine had loaned him some money.

Brock: <laughs>

Kramlich: Hundred thousand dollars. And so Peter said to Hank, <laughs> this is a real story now. He said, “Hank, you tell me when they’re getting low on that loan, would you, please?”

Brock: <laughs>

Kramlich: And that’s when Steve and Steve went to see Venrock. And they flew out. This is the real truth. It’s not, I don’t think, I don’t know, if anybody’s ever told you this. But so they flew out to the East Coast and Venrock started their offices, their meetings, on Monday morning, eight o’clock at Rockefeller Center. And this is all Laurance Rockefeller’s money, by the way.

Brock: Oh.

Kramlich: Yeah, not the family’s. Laurance’s.

Brock: Huh.

Kramlich: And he was the real entrepreneur of the whole family. And so it was all in the-- so they started at eight o’clock. They had an appointment to see Steve and Steve at nine. So after the eight o’clock, meeting was over about quarter of nine, Peter went into the men’s room and he finds these two guys changing into blue suits.

Brock: <laughs>

Kramlich: And he says, “You don’t need to do that.”

<laughter>

Kramlich: So they came in. They put their blue suits on and they came in and made this presentation. And he said, “Well, look. Go down the hallway and we’ll get in touch with you.” <laughs> And so Steve and Steve walked down the hallway and Peter says they looked around at about five partners and they said, “What do you think?” “Let’s do it.”

<laughter>

Kramlich: And that was it. I mean, you know, they had done some work, obviously, but they knew what they were doing.

Brock: Yeah.

Kramlich: But that’s how, that’s how that was. Then I called Peter. That’s how he got inclusion in that financing. Arthur said, “You know Peter, don’t you?” And I said, “Yeah, really good friend of mine.”

Brock: Interesting.

Kramlich: Arthur didn’t tell you that.

Brock: Well, we were talking about Intel.

Kramlich: Yeah, right.

Brock: So to be fair--

Kramlich: Yeah.

Brock: --I didn’t ask.

Kramlich: I know. He never tells that story. That’s how it happened.

Brock: I was--

Kramlich: But anyway, 3Com.

Brock: 3Com. Yes.

Kramlich: So then we had organized NEA. And I’ll be darned. I am not quite sure how this happened, but Bob came in to see me. I had moved from 1635 in the Russ Building to 1821.

Brock: <laughs>

Kramlich: And went up a couple flights and had this one, was just me and the secretary. That’s what Tom Perkins says. He says, “Who? You’re going to be all here by your--“ I said, “Yeah, yeah. Not a problem.”

Brock: <laughs>

Kramlich: Anyway, so Bob came in to see me and I said, “God, do I like this guy. He’s really smart and just knows what he’s doing.” He was at PARC.

Brock: Right.

Kramlich: And he had invented Ethernet. And so we talked about it and he started telling me about cloud computing.

Brock: Hm.

Kramlich: This is in 1981. And-- or yeah, ’81. ’81. I think ’81 or ’82. And he, I mean, he was so far-- this was all about workplace computing.

Brock: Mm-hm.

Kramlich: And so, you know, having gone through this Apple story.

Brock: Right.

Kramlich: I said, “If you take a printer and take a storage unit and you take all this together and put it in a work group, I mean, it’s got to be tremendously productive.” Then you cable it together with the Ethernet. I mean, what’s not to like about that? So I said-- I called Chuck and Frank, I said, “I think I got the next <laughs> really big thing here. This is really great.” And so they agreed with that, and anyway, I made an offer to Bob and… Because we’d done a lot more homework, but I didn’t have a clue as to what cloud computing was all about at the time.

Brock: <laughs>

Kramlich: And I remember one night my wife and I were going-- he, Bob, said, “Come on over,” and he and his wife were, they lived on Russian Hill, and he says, “Come over and just, we’ll get a pizza or something and just talk.” And so we were on the floor and he was sketching out cloud computing to Pam.

And it was really interesting <laughs> to see what that was all about. Anyway, Bob disappeared 40 days. And I said, “I wonder what in the heck’s happened to him?” And he went, I said, “What are you going to do?” He called me one night, ten o’clock. He says, I said, “Bob, where the heck have you been?” He said, “I’ve been around talking to people.” I said, “Really?” I said, “How many people have you seen?” He said, “Forty.” I said, “Really?” I said, “What did you learn?” He said, “I learned a deal is not a deal is not a deal.”

Brock: Hm.

Kramlich: I said, “Pretty good.”

Brock: <laughs>

Kramlich: And he said, “Dick, I want to do work, I want to work with you.” And I said, “Great. Appreciate that.” And he said, I said, “Did you like anybody particularly out of that group?” He said, “Yeah.” I said, “Why don’t you go to that person’s office and we’ll split the deal with them?” And he did. So there was a group of people came out of Hewlett-Packard and Jack, this fellow, yeah, represented them.

Brock: Hm.

Kramlich: So that’s how we got together. But anyway, I was always Bob’s guy and the other guy brought in Bill Kraus later on. And that’s the end of that story.

Brock: Well, I wondered if, because it seemed not long thereafter--

Kramlich: Right.

Brock: --is when you made a decision to invest in Forethought, which again seems to be, you know, as I understand the original idea, it was kind of take what Xerox PARC had done on the Alto with the graphical user interface and bring that to the IBM PC. I--

Kramlich: Let’s go over that a little bit. It wasn’t quite that clean.

Brock: Oh.

<laughter>

Kramlich: I wish it had have been. It would’ve been a lot easier. But so what happened is that we had a young guy in the office who got the mustard, actually, but he started working with these two guys who came out of Apple.

Brock: Right.

Kramlich: Taylor Pullman and Rob Campbell. And they wanted to start a junior Oracle.

Brock: Oh.

Kramlich: That was the idea, to begin with. And then so Oracle was debating whether they really wanted to do a junior Oracle.

Brock: <laughs>

Kramlich: And so while they were debating that, time was going on and nothing was happening at Forethought. And so… But your observation, by the way, is very keen. Because it really did lead that ultimately, to that equation, that really circumstantial evolution of things.

Brock: Hm.

Kramlich: So anyway, so nothing was happening. And this guy who I had been working with Taylor and Rob, did some things that haggard the partnership, and he was gone. So somebody had to take it over. It was kind of semi-stillborn at this point.

Brock: Mm-hm.

Kramlich: And so I came over and met Rob and Taylor and they were good guys. I asked Bob Metcalfe to go on the board.

Brock: I saw that.

Kramlich: So he did that. And so it was getting to be really… And then another guy in the partnership said, “We’re starting--“ we had gone through I think a second round of financing, sort of on promise still. Not much development. They, “Oh, these guys.” And they said, “Got to do something. Just doesn’t look like Oracle’s going to get their act together in time for us to do this. And time is passing us by.” So they entered into a license agreement with firm in Boston called Abacus. And Abacus had developed this system, and we thought we’d maybe license it for 15 percent royalty.

Brock: Mm-hm.

Kramlich: And so it was a file system.

Brock: Is this FileMaker?

Kramlich: It became FileMaker.

Brock: Okay.

Kramlich: It was a filing system.

Brock: Okay. Yeah.

Kramlich: And so it was a-- and so anyway, we came in for a third round of financing. And by that time I’d gotten to know these guys pretty well and I also knew something else, that they had hired this other fellow who was an English major from Berkeley who was really a good coder. And he was doing a presentation product in software. So anyway, they made this-- Rob came in. By the way, between the last time the partnership had seen him and now, Taylor Pullman, who was a very presentable guy, and he said, “You know, Dick, I have a family, and we’re not doing anything very much right now,” and I said, “Taylor, look. If you want to leave, not a problem.” And Bob Metcalfe said, “Dick, you know, there’s a time and place to give up on these things.”

Brock: Hm.

Kramlich: And I said, “I don’t disagree with you, Bob, but now is not the time.” And because I was thinking of what was going on in the back room.

Brock: Yeah.

Kramlich: So anyway, they came in. Rob came in, 5’3”. He had been a used car salesman in Denver and was at Apple. Left Apple. But Apple was falling in love with the FileMaker. So we were trying to figure out how to sell FileMaker. And what we were doing is we had the engineers were, software guys were here, and the telemarketers were here, and they-- so telemarketer would get a hold of somebody and they’d say, “I have this great filing system. This has the following characteristics.” And they’d say, “Well, does it have a redundancy? Does it have security?” He said, “Just a minute, please. Do we have redundancy? Do we have security?”

Brock: <laughs>

Kramlich: “We’re going to have it next Wednesday and the next one next Tuesday. Yeah, we can promise that for you in two weeks. We’re going to have one next Tuesday and the following on the following Tuesday.”

Brock: <laughs>

Kramlich: “Good.” <laughs> That was how we were selling these things. It was really happenstance. So anyway, we were getting a little traction, but we had about $50,000 a month in sales. And so I brought them in to make this presentation and everybody said, I said, “We have this really neat system that we’re building. It’s going to be a software-driven system for making presentations.” Because you remember, 3M had these, you know, everything was transparencies and stuff like that.

Brock: Right. The overhead projector.

Kramlich: Overhead projectors. And this guy and one of the other fellows said, “You know, we’re in the process of financing this other presentation product. It’s all-- he said, “It’s the bee’s knees.” He said, “It is really fantastic. It’s all going to be mechanical, and it’s really got sharp edges, and it’s really great.” And I said, “Well, you know, maybe that’ll do well.” He said, “We’re going to blow everything else out of the water.” I said, “Yeah. But there should be a place for something like this.” And he said, “Well, no.” So we turned it down. So I said, “Look. I’ve never done this before, but,” I said, “I’ll make a offer to you that you can’t turn down.” And he said, “What is that?” I said, “I’ll finance it myself. On one condition. If it’s a winner, you guys get the proceeds. If it’s a loser, I’ll take it.”

Brock: Hm.

Kramlich: And he said, “Really?” Chuck said, “How can I turn that down?”

Brock: <laughs>

Kramlich: I said, “That’s my point.”

<laughter>

Kramlich: So I called my wife. We were building a place at Stinson Beach at the time. I said, “Pam, stop the building.” She said, “How much is this going to cost?” I said, “Sixty thousand dollars a month.” That was our burn rate. But by that time we were getting FileMaker up to where it was-- because everybody said, “Fifteen percent royalty, you’ll never make any money on it.” And so I said, “Well, maybe.” But anyway, so that was like in August. So we went through August, September, October, November. So that’s four times six. Twenty-four. We’re in the middle of December. So I had quarter of a million dollars in there and I knew that we weren’t going to finish this thing until April.

Brock: Mm-hm.

Kramlich: But then there was this show we were going to make a debut of this product at that time. So we had a leader, Bob Gaskins, who was a developer, told me. He says, “You know, Dick, this is one of the most exciting times in my whole life. I can’t get over this. We get $60,000 the first of each month, maybe.”

<laughter>

Kramlich: I said, “I know. It’s just a matter of luck. I mean, as long as I keep on coming up with it, you’ll be okay.”

Brock: <laughs>

Kramlich: And Tom McConnell was one of our -- became one of our general partners. And he says, “Dick, I love this. This is really fun. It’s just dangerous to sell.” So anyway, we’re having fun. And Rob was doing a great job. And he was running the whole thing. And so by this time we had FileMaker. And they were making FileMaker II and FileMaker Star. They had another name for another one. We were at our third FileMaker and we were making improvements, the prices were going up, the royalties were going down and, you know, as an absolute number we were doing great. Because we were using less of the licensed product as we were improving the product.

Brock: Ah.

Kramlich: So anyway, I had it worked out so I thought, “If we could do--“ I may be off on some of these numbers. I thought maybe we could do a million dollars in bookings when we introduced that product in April. Just out of the air. But we were talking about how big the market is and what it could be and all that.

Brock: Mm-hm.

Kramlich: And by the way, we knew that Microsoft was working on a presentation product too. And there were some other people working on it. But anyway, the long and short of it is is that when we unveiled the product, I can’t remember the exact number. It was like two and a half million dollars booking. Some substantial betterment to what we had thought we’re going to do.

Brock: <laughs>

Kramlich: I don’t remember what the number was exactly. But I had been lining up some second-rate underwriters, because I thought if we could be doing half a million dollars a month in FileMaker, and we could do a million dollars a month in PowerPoint, we named it PowerPoint, that a million and a half dollars a month, which is 18 million dollars a year or something like that, we would be, let’s see-- 15 million. Let’s see. Yeah. Million. Yeah, 8, 15 million, there’s a million and a half dollars a month. Yeah, 18 million or something like that a year. Three million. Yeah, 18. I thought that we would be able to be a representative company, you know, take it public.

Brock: Mm-hm.

Kramlich: So I had yeses from two of them. So then one day Rob calls me. He says, “Come over. I have to see you.” So I did. He says, “We have this offer from Microsoft.” He said, I said, “Rob, I really think we ought to think more than once about this. We have a winner of a product here. And we’re going to have good margins on that product. It’s got a insatiable amount of demand for it. You can see that at the show. And you really, we really, I have it lined up to do an offering, so…” And I said, “Let’s just think about it.” And so then-- Rob knows all this. So then I got a call from Bob Gaskins.

Brock: Mm-hm.

Kramlich: And Bob said, “You know, this has been a great thing. I honestly think this offer from Microsoft, this is going to take a lot more development dollars.” He said, “This offer from Microsoft’s a pretty good one, and I don’t really think we’re set up to be a public company.”

Brock: Hm.

Kramlich: “We don’t even have a CFO,” you know. I said, “Well, we can fix all that,” you know. He says, “I can tell you, I really think the best thing to do is sell the company.” So, you know, “Microsoft has shut down their presentation product. We ought to do it.” And I said, “Look, Rob. Let’s do it in stock anyway. Microsoft never acquired anything.” And he says, “Yeah. Well,” he said, “you know, I’ve been on a starvation diet for three years now.”

<laughter>

Kramlich: He said, “I’d really like to see some cash.” I said, “Look. I’m not going to stand in your way, but we ought to do stock.” Anyway, we did it for cash.

Brock: <laughs>

Kramlich: And 20 million dollars. That’s not very much money. So then I went to the partnership and I said, “Well, boys, here we are. We have a return on our investment. I told you I was going to give it to you if it’s a winner.” Chuck said, “Dick, look, you took the risk. Take what you’ve put in there. Get--“ oh. I didn’t tell you the most important thing.

Brock: <laughs>

Kramlich: In December, Apple. Rob called me. This is December. It’s between August--

Brock: Okay. After you had made that first--

Kramlich: After first $240,000 investment. He said, “Apple called us today. They love FileMaker. They don’t know about the presentation product.” You know, they don’t know is it good, bad or indifferent.

Brock: Right.

Kramlich: “But they love FileMaker. They’re going to adopt it as their standard. And they’ve just formed a venture capital fund, and it’s run by Dan Eilers, and they want to make a million-dollar investment in Forethought in December.”

Brock: <laughs>

Kramlich: “So you’re off the hook.”

Brock: <laughs>

Kramlich: I go, “Yeah.” I said, “Get to work on the house again.”

<laughter>

Kramlich: So anyway, but that happened in between that. So anyway, so then I coasted the rest of the way. And then Chuck, as I said, said, “Dick, you earned that. You ought to get it.” I said, “That’s great.” That’s the way our partnership has always worked. That’s why it’s enduring. Because we’ll do the right thing, we’ll do the fair thing. And we can be candid with each other.

Brock: <laughs>

Kramlich: And that’s a big deal. Yeah, politics are an extent in any organization, but to the extent you can eliminate them the better off we all are.

Brock: <laughs> I’m sure of that.

Kramlich: Yeah, and that’s-- we run it today. So that’s the story and it became-- and about a year later Bob Gaskins called me. He said-- or maybe two years later. He said-- because they moved the headquarters over to 2400 Sand Hill.

Brock: Mm-hm.

Kramlich: And fact, the father of one of our interns was a guy who was running the PowerPoint operation at that point, interestingly enough. But anyway, Bob Gaskins came in to see me, and this was after Microsoft went on a explosion, you know.

Brock: Mmm.

Kramlich: And he said, “Dick, I just wanted you to see something. I want to show you how many millionaires were created out of that acquisition.”

Brock: Hm.

Kramlich: And he showed this PowerPoint. I can’t remember the number, was 85 or something like that. Was really big deal.

Brock: Wow.

Kramlich: And all these guys had gotten all the stock. They got-- well, not only the cash. They got all these options from Microsoft. They all turned into millionaires, and some of them multi-millionaires. And it was all over this thing. And then Gaskins told me that, how meaningful it has been, to Microsoft. I did a little audit about 10 years later, and I wanted to find out how much additional development dollars went into the development of PowerPoint from Microsoft. Was over 500 million dollars.

Brock: <laughs>

Kramlich: It would’ve been a lot for that company to do it on its own.

Brock: Yeah. Right.

Kramlich: So there are two sides. I always say there are three sides to every story.

<laughter>

Brock: At least. Yeah.

Kramlich: So that’s the story.

Brock: A couple follow-ups, if I could.

Kramlich: Yeah. How are we doing?

Brock: One was--

Kramlich: We’re doing great.

Brock: Yeah.

Kramlich: Yeah.

Brock: One was I wondered if when you saw their ideas about the presentation software, Presenter, later called PowerPoint, that--

Kramlich: We called it PowerPoint from the beginning.

Brock: Oh, did you?

Kramlich: Yeah.

Brock: Okay. When you saw their descriptions of it and that the entire premise of it was to use that graphical user interface.

Kramlich: Right.

Brock: And so the slides that you were building on the screen would be just what you got when you outputted them. I wondered if that resonated with what you were talking about before when you saw the Apple II and it’s all about the--

Kramlich: Same thing.

Brock: Same thing.

Kramlich: Right. There’s a buzz. I mean, there’s a certain something in your, I say, when you’re a hunter. I’m a hunter, basically.

Brock: Hm.

Kramlich: I’m always looking for new things. And when you see something that’s truly exceptional, it just gets your, I mean, your adrenaline flowing. I…that same thing happened.

Brock: Hm.

Kramlich: Yeah, I haven’t lost that. Still excited about things today.

<laughter>

Brock: Well, there’s two roads we could go. One is I, in looking through other investments that you made in computing, it does seem, well, it seems like there were a couple themes. One was networking. You know, sort of 3Com and--

Kramlich: Oh, I’m big believer.

Brock: --you know.

Kramlich: Got me in the network. That’s what made me so angry about 3Com. That’s why I left the board in ’87. I thought there were blinders on. Bob wasn’t the least bit guilty of any of it, but I thought the company was shortchanging itself. Hugely. I mean, we had the world by the tail in ’85, ’86, ’87. I mean, we went from million to 4 million to 16 million to 47 million.

Brock: <laughs>

Kramlich: All organically. Just like that. Because it was such a great idea. Workplace computing.

Brock: Right.

Kramlich: It was just such a strong, you know, that was the-- every year they’d say, “This is the year of the work group,” you know?

<laughter>

Kramlich: So that’s what it was, but it was-- and then that got me into networking.

Brock: Mm-hm.

Kramlich: And, you know, so I could, I mean, it’s all these things are, you know, you peer over the deck and you see what’s coming next. I mean, it’s really pretty clear, when you’re in the middle of the fight, you know, can see what’s going on. It’s really clear. That’s why I was excited about Juniper.

Brock: That’s what I wondered.

Kramlich: Right. Same thing.

Brock: And I was also interested to see another theme that I kind of saw, that I think I saw in there, was about graphics.

Kramlich: Yeah, totally.

Brock: If you think about Apple II. PowerPoint. And then Silicon Graphics.

Kramlich: That’s right.

Brock: And probably others, Macromedia.

Kramlich: Silicon Graphics was a direct recipient of that.

Brock: Yeah. And--

Kramlich: I loved it.

Brock: --was that what--

Kramlich: Same thing. We did great for 10 years and lost it.

Brock: Hm.

Kramlich: See, we used to lose it.

Brock: Yeah. <laughs>

Kramlich: You know, but you have to-- that’s why it has to be a religion.

Brock: Hm.

Kramlich: See, that’s what Steve did. He kept it a religion. In fact, what he did is he, when he…he got fired, which was the best thing to ever happen to him.

<laughter>

Kramlich: In many ways.

Brock: Mm-hm.

Kramlich: You know, he learned and NeXt was no success. Even though he had to rewire it in order to make it successful in the new Apple.

Brock: Mm-hm.

Kramlich: And Pixar was a thankless job. Nobody could solve that problem. But he found he could. Because of the people that are involved. So then he came back in, he still had the religion, and Johnny [Ive] was still there, and, you know. But that’s why you have to have a religion. And a religion has to-- it’s in any organization. If you don’t have the religion, you don’t have it.

Brock: Hm.

Kramlich: It’s the religion.

Brock: And it makes it easy to lose it if you don’t maintain that.

Kramlich: Right.

Brock: Hm.

Kramlich: I mean, I think, you know, even a company like IBM loses and gains back part of it or some part of it and loses it and then gets it back and, I mean, it’s a religious situation.

Brock: Hm.

Kramlich: It’s more than work.

Brock: Hm. Mission.

Kramlich: It’s passion.

Brock: Yeah.

Kramlich: Somebody believes in something. They believe in a vision, and you have to fulfill that. And so I think that’s exant in a lot of different, I mean, Microsoft is probably a good example of that. You know, good business practices, but, you know. As I read one day <laughs> not too long ago in an interview, a guy says, “Culture eats strategy for breakfast.”

<laughter>

Kramlich: I think that’s a great quote.

Brock: Right. You could have the most brilliant strategy in the world, but if you don’t have the organizational culture to--

Kramlich: Yeah, right.

Brock: --effect it--

Kramlich: Right.

Brock: --it’s like having no strategy at all, I suppose.

Kramlich: Right.

Brock: <laughs> That’s a funny phrase.

Kramlich: Right.

Brock: Well, maybe if you don’t mind--

Kramlich: Yeah.

Brock: --I thought we could talk a little bit about--

Kramlich: But you were right on all those tales.

Brock: Yeah.

Kramlich: They all go… That’s actually a-- nobody’s ever done that that has ever talked to me about it.

Brock: Well, what’s interest-- you know, I--

Kramlich: I mean, <laughs> you really did nail it. <laughs>

Brock: Well, I would imagine, I would think, just, well, it would be the same way for an investor, let’s say.

Kramlich: Yeah.

Brock: You know, like if you see, you know, this marriage of graphics, art, computing, if that’s an important thing, it’s got to direct--

Kramlich: It does.

Brock: --you know, what you pursue.

Kramlich: Right.

Brock: Same with networking.

Kramlich: Right.

Brock: You know, and in a way, you kept with those.

Kramlich: Yeah.

Brock: Those different religions.

Kramlich: That’s right.

Brock: Yeah.

Kramlich: Yeah.

Brock: And well, I was--

Kramlich: I know it when I see it, actually.

Brock: One of these veins.

Kramlich: Yeah.

Brock: Yeah. Are there others that you can think? Just be…

Kramlich: Yeah. I mean, I--

Brock: I’m sure there are many but…

Kramlich: There are many.

Brock: Yeah.

Kramlich: Yeah. I mean, there are some that are still in the process of being born.

<laughter>

Brock: Yeah. Maybe you keep those to yourself.

Kramlich: Will do. I’ll keep those to myself.

Brock: Yeah.

Kramlich: <laughs> Try.

Brock: You can tell me after we turn off the--

Kramlich: The answer is “yes.”

Brock: --thing. Yeah. <laughs>

Kramlich: But there are lots of things still going on that I’m pretty exceptionally excited about.

Brock: Thinking about software.

Kramlich: Yeah.

Brock: And thinking about PowerPoint in the framework of just your other involvements with software, you know.

Kramlich: Right.

Brock: I was just interested, how has that, that area, changed over the course of your career? It strikes me that at the beginning, maybe even into the-- even in the ‘70s, perhaps, software as a business was more of a marginal activity or something.

Kramlich: It was a marginal activity. Right.

Brock: And now it’s so--

Kramlich: Became dominant.

Brock: Yeah. Could you, do you have any thoughts about--

Kramlich: Well, I--

Brock: --that transition?

Kramlich: I know lots of thoughts about that, but…

Brock: Okay.

<laughter>

Brock: Yeah.

Kramlich: I mean, it’s all about building a sustainable business and then building your business model on what can be sustained. And, you know, I think recurring revenues are really not hardware revenues.

Brock: Hm.

Kramlich: They’re really software revenues. They’re actually systems revenues, which is really governed by software. So, I mean, I think it has to do with the business model. How do you build a sustainable, profitable, innovative company? So it’s really that’s what happened. And I, you know, if you think back on all these technological breakthroughs in computing that have involved software orientation, I mean, it’s really pretty amazing. Now we have software defined as a service.

Brock: Yes.

Kramlich: I mean, it’s gotten to that point where that’s kind of the penultimate.

Brock: Mm-hm. Where you’re not longer even--

Kramlich: Right.

Brock: --purchasing software.

Kramlich: Right.

Brock: You’re purchasing the performance of it or something.

Kramlich: I mean, we were small investors in Software Publishing, which was a pretty good company for a while, until they lost their religion.

Brock: Hm.

Kramlich: And they were good. Good company.

Brock: Well, how--

Kramlich: Bob was the director of that company too.

Brock: Bob Metcalfe.

Kramlich: Bob Metcalfe. Metcalfe is great. You know, he gave quite a, you know, at the time, what amounted to a lot of his net worth to MIT. And he’s just been, he’s motivated, by all the right things.

Brock: Hm.

Kramlich: Really great guy. Real resource.

Brock: Did you have a, you know, do projects with him when you could or…

Kramlich: Well, sure.

Brock: <laughs>

Kramlich: And then he, you know, he went to Boston and, I mean, he--

Brock: Right.

Kramlich: --he’s a good man. He’s doing his own thing. He’s now teaching in Austin.

Brock: Oh, is he?

Kramlich: Mm-hm. He never really has gotten the accord that he deserves. Even though he’s had a lot. I mean…

Brock: Why do you think that is? Why do people not appreciate?

Kramlich: You know, because, I mean, 3Com should’ve been Cisco.

Brock: Yeah.

Kramlich: And these people changed their, we merged with another company, and it got all corporate, corporatized, I’d say.

Brock: Hm.

Kramlich: It’s one of those things that eats at religion.

Brock: Hm. And that seemed to be just in our conversation today a recurring theme for you.

Kramlich: Right.

Brock: When the organizational structure, you know, gets locked down or is preventing--

Kramlich: Right. That’s what happens.

Brock: --freedom of action or something, that’s--

Kramlich: That’s what happened at SGI. Same thing.

Brock: Same thing.

Kramlich: Same thing.

Brock: Huh. And what did you find? Did you find any particular ways to guide an organization away from that? Did you find any techniques?

Kramlich: You know, it’s hard to tell some people when they’ve been really successful, “There’s a train coming down the tracks right at you.”

Brock: <laughs> Yeah.

Kramlich: That’s happened to Ken Olsen.

Brock: Oh.

Kramlich: You know, I mean, for example.

Brock: Yeah. Example.

Kramlich: I mean, just a perfectly smart guy and all that, but very practical and you’d rather bet on today than tomorrow.

Brock: Right.

Kramlich: That’s really what it comes down to.

Brock: Well, another thing that I wanted to be, another follow-up question that I neglected to ask that I should’ve earlier, was about in the scope of your career--

Kramlich: Yeah.

Brock: --that decision to say once your partners kind of say, “No mas,’” <laughs> with Forethought and PowerPoint and you say, “I’d like to do this on my own,” have you done that since?

Kramlich: Once in a while.

Brock: Once in a while.

Kramlich: Yeah.

Brock: So it’s been…

Kramlich: We ran into it a little bit, this last year. Greg knows the whole story. We needed to get a little more organized, which we’ve done, and I like that. And I think we’re at another point now where we’re getting religion back.

Brock: <laughs>

Kramlich: And I think it’s a good thing and… But during the course of things, there are a lot of, you know, it’s the old truthism that a winner has many parents, and a loser’s an orphan.

Brock: Yes. <laughs>

Kramlich: And so people play those politics. And it’s hard to tag exactly what, how good, a VC is or isn’t, actually. It’s almost impossible. You have to be known by the projects. And you may be in a no-win situation given where you’re focusing.

Brock: Right.

Kramlich: If you were focusing on semiconductors for the last five years, you would probably not have your job.

<laughter>

Brock: Mm-hm.

Kramlich: I mean, it just goes through those kind of cycles.

Brock: Sure.

Kramlich: And so I only do that in two, only in two circumstances, where I think there’s a lesson to be learned.

Brock: Hm.

Kramlich: And I don’t do it out of bravado. And I don’t do it out of bullheadedness or anything like that. And I don’t completely do it out of economics. But in several cases, I’ll do it in the case of one company that’s dismembering right now. I did it because two other guys in the group had the guts to do it and I wasn’t going to let them down, even though it’s a sinking ship.

Brock: Mm-hm.

Kramlich: And so that’s one reason. And I didn’t ask the partnership to put them on in because it wasn’t going to win. In other cases, where there’s something that is of value, that simply because of the life cycle of venture funds and of companies, they don’t coincide and you have to manage a company, I mean, our partnerships are three years in the incubation, investing stage, and then we go on to the next one, and next one. So sometimes you’re going to have, and you’re going to have different partners in on each partnership.

Brock: Right.

Kramlich: So some people think, “That’s not my partnership, so I don’t give a damn.” And that sort of thing. And so in some cases there is something special at a company, call it religion, that for one reason or another, somehow some kind of flame has been kept alive. And if I think it’s really salvageable and they’re really the people there who believe it, I don’t want to have to go out and try to indoctrinate anybody.

Brock: Right.

Kramlich: But if some guy at a desk, in the back of the place, without anybody’s knowing it, has kept this place alive and you’re lucky enough to find that person, I’ll go, I’ll walk the plank for them.

Brock: <laughs>

Kramlich: That’s really how it is.

Brock: And I would imagine that in doing that it was interesting that you said it wasn’t all about economics. I think it must, those stories, you know, people must tell stories of, it must enhance your reputation.

Kramlich: I don’t give a damn <inaudible>--

Brock: Well, but I’m saying--

Kramlich: Right.

Brock: --it surely does. You know, that--

Kramlich: Well, if you’ve gone through a war and your buddy in the foxhole is alive and we survived, the buddy’ll tell--

Brock: Right.

Kramlich: --his wife or his buddy.

Brock: Right.

Kramlich: Something like that.

Brock: I’m not saying that that’s what--

Kramlich: Yeah.

Brock: --motivated you, but--

Kramlich: Yeah, I know. And people misinterpret it, by the way.

Brock: Hm.

Kramlich: The word is, you know, I have to have a lot of patience. I have zero patience.

Brock: <laughs>

Kramlich: Perseverance, yes. Patience, no.

Brock: Huh.

Kramlich: And I say I like one “P” word, and I hate the other one.

Brock: <laughs>

Kramlich: I had no patience at all during that Forethought situation. I mean, <laughs> are you kidding? I was finally-- when you finally get something there that works, then it’s exhilarating. We had one deal that, I mean, I’m really proud of and it’s going to come out and make a lot of money. But we got to, you know, we have to distribute all these things eventually. It’s very difficult to wind up partnerships.

Brock: Hm.

Kramlich: Because our, as I said, our maximum is 15 years. We had 12 years. Longer than anybody else <laughs> and then we have three one-year renewals. So we had two companies left in NEA 4. So I take on all these throwaway deals and just for the heck of it. And so one of them we got merged into a computer company and that worked out okay. We could’ve done better. Given a little more time we could’ve done a lot better, but we did okay on that one. The other one, we just never had a break, in this company. So finally we got to the end of it and this was a, huh, funny. This is a printing graphics company kind of thing.

Brock: <laughs>

Kramlich: Service company.

Brock: Mm-hm.

Kramlich: And through a total-- again, it was another person’s project, but I got involved. And I said, “You know, there’s a lot of discovery in this business that you don’t know anything. You’ll never learn it from a book.” And in this particular case, this company was called Visual Edge, and in this case, I mean, it never had a profit in history. And we just had a one failed attempt at the company after another. Finally we got this guy in who has more perseverance than I do.

<laughter>

Kramlich: I mean, that takes a lot. Anyhow, this guy, we wound up buying a company in Canton, Ohio, by, you know,Graphic Enterprises. And this turned out to be a pretty neat little thing. This is a… And so we all immediately did away with everything else we were trying to do and we focused on that and then we acquired another little company there. And then what I discovered is there’s a real disconnect between documents, document makers, these high-speed document makers sold by document making companies, most of them all Japan.

Brock: Mm-hm.

Kramlich: And the user. And so all these Japanese companies like Canon and like Sharp and I mean all these companies have zero contact with our customers.

Brock: <laughs>

Kramlich: They get to the marketplace through distributors. So distributors are, it turns out, that these are all mom-and-pop shops. They just have gotten into this business for some reason or other and there are over 2,000 of them around the United States. And run right, they have gross margins of 40 percent. And run right, they have five-year leases on all their equipment.

Brock: Hm.

Kramlich: Now, you show me a business that does 40 percent gross margin with five-year renewable leases on pieces of equipment that cost a half a million dollars. Some of them don’t cost a half. A lot of them cost hundred thousand, up to half a million, some a half million. I can show, there’s the makings of a good company there. With nobody having contact with a customer.

Brock: <laughs>

Kramlich: It’s really amazing. So I’m a director of Silicon Valley Bank, and we had a bank line with Silicon Valley Bank. And these guys at Silicon Valley Bank, the chief credit officer, who I have a lot of respect for, he’s a hard-line guy.

Brock: <laughs>

Kramlich: He says, “Dick, that company, we’re going to pull the line of credit.” Said, “Now, if you’re a director of a bank, one of the worst things you can do is have your company be a customer of the bank.”

Brock: Yeah.

Kramlich: You know, they have a thing called Reg O. Regulation O is that any company that where you have a director who’s a director of the bank as well as being a director of a company, that company has to be treated no better than your worst customer.

<laughter>

Brock: Yeah.

Kramlich: Is that nuts or not?

Brock: Yeah. Well…

<laughter>

Kramlich: So I said, you know, “We got to get out of this situation.”

Brock: Yes.

Kramlich: Well, we can’t refinance it. The company’s not making any money. And, you know, they’re going to write it off, the whole thing. And I said, “Look.” And I said-- and then we got started in this company in Ohio, then built a little bit and little more. But still we weren’t off the ground. It was kind of like the Wright brothers.

Brock: Yeah.

Kramlich: And so I said, “Look. Just give us a little more time. We’ll get this.” “No, no, no, no.” Anyway, long short of it is we found a way to get some exculpatory financing, and we financed our way out of the claws of Silicon Valley Bank. And I told these guys at the bank, I said, “Just wait. You’ll hear from us again.”

Brock: Yeah. <laughs>

Kramlich: Anyway, so then we go along, we build. Now we’re into the fourth year of this. So what we did at NEA, because it’s a 1987 partnership and we had to do something, I said to our legal guy, <laughs> he’s a great guy, I said, “Let’s just take a chance for the first time in history. Let’s just distribute the shares to the limited partners, even though there’s no market for the shares and the company’s kind of in bad shape.”

Brock: Huh.

Kramlich: He said, “Don’t you think that’s bad deal?” And I said, “I don’t think so. They’ll be at sea for a while, but I think it’ll work out.” So now, this year, we’re, right now, without doing anything, we’ll have 6 million dollars’ worth of EBDA on about 40 million dollars’ worth of sales. And what we’re doing is we’re doing a roll-up. And now we have our, because we have defined best practices in the business, because there are 2,000 dealers out there with no hope of liquidity, we’re picking off the best dealers, we’re going to have a billion dollar business within three years.

Brock: Hm.

Kramlich: And it’s going to be making great money.

Brock: <laughs>

Kramlich: And now we refinanced ourselves out of that exculpatory lender. We got ourselves into a less exculpatory lender, and now we make quite a-- and that’s even that, so 1 percent a month, I mean, it’s 12 percent interest rates. We can still bring down a good deal to the bottom line, because we have such good metrics.

Brock: Mm.

Kramlich: Now we’re running at over 40 percent, and making money every month. So we have 36 straight months of beating our estimates. Now we’ve acquired a second company that has multiple operations in Kentucky. Now we’re doing a third one in Virginia. We’re doing a fourth one that’s going to be down in Texas. I mean, we really have something going now. And we’ve made-- so we, I mean, it’s incredible. So you know what Gold Hill is?

Brock: No.

Kramlich: Gold Hill is a subsidiary of SVB, half owned, and half by these guys. So they actually financed part of this. They’re really good people. So they were winding up their partnership, so the guy who runs it called me. Because they had a loan to the company. It was two and a half million dollars, 2.4 million dollars. And they were charging 10 percent interest. And they had to wrap up the partnership, so he says, “Look. We’ll sell you guys… Now that we’re well financed, we don’t need any more money. We got 17 million dollar line of credit.” He said, “We’ll sell this to you guys.” You know, he said, “Dick, I’ll sell this to you for 50 cents on the dollar.”

Brock: Hm.

Kramlich: He said, “That’s what the market is for this kind of thing.” And I said, “I’ll do it, but I don’t want to just hog the whole thing.” So I called the company and I said to the management, “You want a share in this thing?” So they did.

Brock: <laughs>

Kramlich: So the chairman did it, president did it, and one other director did it. So get this. This is called Visual Edge. We now just bought this two and a half million dollars line, you know, loan. It has three years to run. We’re getting 20 percent interest. We own three percent of the company. And so… And we’re getting, so we have, 20 percent and the way it works out, it’s a 45 percent internal rate of return.

Brock: <laughs>

Kramlich: I said, “I’ve never seen a 45 percent rate of return on anything that isn’t crooked.”

Brock: Yeah.

<laughter>

Kramlich: That’s incredible. So now I said to Louis Citron, who’s our legal counsel, said, “Louis, send all our LPs this last quarterly report.”

Brock: Huh.

Kramlich: “Because they’ll see it.”

Brock: Mm.

Kramlich: And they’ll see how much we’re growing. We’re doing it by acquiring these other companies, but we’re doing, we’re using best practices to model the business model, and this is a great thing. Nobody else does that business. Isn’t that amazing?

Brock: <laughs> It is. I mean, that certainly sounds like a story of--

Kramlich: That’s a scrappy--

Brock: --perseverance. <laughs>

Kramlich: That’s a story-- I mean, that doesn’t have the-- but they did involve a little of, you know, graphics, if you will.

Brock: Yeah. Right. Well, I know we only have a few minutes--

Kramlich: Yeah. Yeah, so that’s sort of…

Brock: --of time left, but I would, I’d love to hear you talk about, the relationship between your involvement with computers, the graphical, you know, that whole graphics theme in computers, and your growing involvement with collecting video art, digital art.

Kramlich: Yeah.

Brock: How you see those relation, you know, how did those things grow up together?

Kramlich: You know, I wish I were smart enough to follow all this out.

<laughter>

Brock: Yeah.

Kramlich: I mean… I just go on instinct.

Brock: Mmm.

Kramlich: And my wife has got a phenomenal eye. And I won’t go through whole thing, but the bottom line is that we, I, my prior wife, died. And I wound up marrying this girl, and she’s just really, I was a really lucky guy, that was 33 years ago. And so we got married in seven weeks.

Brock: Hm.

Kramlich: So I went over to see her the night before we got married <laughs> and I said, “This is kind of ridiculous. We don’t really know each other very well.”

<laughter>

Kramlich: “So let’s go through a little rigor here. I like to do this; you like to do that. I like to do that; you like to do this. And what do we have in common? The answer’s nothing.”

Brock: <laughs>

Kramlich: I said, “That’s a bad way to--“ I said, “Forget this. A bad way to start a relationship.” I said, “What’s your passion?” She said, “My passion’s art.” I said, “Sign me up.”

Brock: <laughs>

Kramlich: And so that’s what we’re doing. And we, she became a trustee of SFMOMA.

Brock: Hm.

Kramlich: And then one thing led to another. We went to a trip to Europe with SFMOMA. They had a brand-new director and a brand-new curator. And so half the people who were going to go opted out because it was something new. And then so we went there and we learned a lot. And in the course of that, John Caldwell, who was the curator, come from Carnegie, and he had been an art, he was an art critic for The New York Times before that. He said, “You know, Pam, if you want to make a difference in the art world, you have a great eye, you’ve got a great education in art.” She was even married to a French artist at one point. That’s called the ultimate test.

<laughter>

Kramlich: I said, John said to her, “Go into something nobody’s doing yet and it’s going to require an understanding of where this fits into the whole scheme of things in the history of art.”

Brock: Hm.

Kramlich: And he said, “You’ll make a contribution if you do that.” And my wife is a purist. And she will, she is, doing that. And she thought I would like it, because I come down here <laughs> and I’m involved in, you know, technology all the time.

Brock: Right.

Kramlich: And actually, I like classical art, but…

<laughter>

Brock: Yeah.

Kramlich: You know, but I signed up for this. So long short of it is is we are just finishing a facility that Greg knows about. We’ve been building it for 15 years up in Napa that’s a study center.

Brock: Hm.

Kramlich: It's a aboveground. This is the enunciation of the whole thing. Aboveground pavilion with a stainless steel roof, 6800 square feet, 5800 square foot all-glass pavilion, set up on the Western side. It's going to be not obvious from the ground floor, because we want to make it not obvious. Where actually below ground we have 25,000 square feet--

Brock: Wow.

Kramlich: --of display space. For artists. And we have a great director of the collections now. And I say to him that, you know, "If this thing is successful, it'll be because of you." And we've collected over 350 pieces now. Somebody, I mean, you'll know about a lot of these artists. A lot of them are getting to be well-known. I mean, for example, Steve McQueen, one of our artists. You know, guy who got the Oscar for "12 Years a Slave."

Brock: Oh, wow.

Kramlich: We have, you know, I don't know if you ever heard of Matthew Barney?

Brock: Yes, of course.

Kramlich: We have all of Matthew Barney's Cremaster Series. And we've been doing this just by self, you know, a lot of, we've had a lot of advice over the years. We took a, I took a tutoring course in this to begin with. But we've had great institutional significance. We've asked, we asked, three-- we formed a foundation called the New Art Trust in 1997, and the idea of that is best practices in conservation and education. And we want to do standardization. We wanted to give the artists an idea of what they could use as a demonstration of their artwork that was likely did not wind up in a blind alley.

Brock: Hm.

Kramlich: And so we have a lot of things like that. And it's been great. So we asked three directors of three museums to go on the board of this foundation. It's 501c3. Nick Serota, who's the director of the Tate in London.

Brock: Oh, yeah.

Kramlich: Glenn Lowry, who's head of MoMA in New York. And Neal Benezra, who's the head of SFMOMA. They all said, "Yes." I said, "Look. This is just me. This is not a lot of money. I mean, I'm just doing this one at a time." And he said, Glenn says, "Look. Somebody's going to get this right. There's a chance you will."

Brock: Hm.

Kramlich: So that's our mission.

Brock: Fantastic.

END OF INTERVIEW

