

# Spotlight

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By Charles King, Pund-IT, Inc.

Pund-IT, Inc.  
Hayward, CA  
U.S.A. 94541

Contact:  
Office: 510-383-6767  
Mobile: 510-909-0750  
charles@pund-it.com  
www.pund-it.com

# Dell Ventures—Mobilizing Early Stage Innovation: an Interview with Jim Lussier

By Charles King, Pund-IT, Inc.

Venture capital and capitalists (VC/s) enjoy a legendary status in Silicon Valley and the broader technology industry. That's partly due to the remarkable gains and spectacular wealth that some in the VC community have managed to achieve time and again. But those investments also qualify as the literal financial lifeblood of IT. Without VCs willing to take a risk, it is difficult or impossible to discern how companies, including Apple, Microsoft, Google, Facebook and countless others could have survived and thrived to change the modern world.

But less well known in industry is corporate venture capital (CVC) investing where well-established vendors make their own bets on up and coming companies. To gain a better understanding of this corner of the IT financial market, we recently sat down for a conversation with Jim Lussier, currently the managing director and head of Dell Ventures.

Lussier joined Dell late in 2011 to re-launch the company's VC organization (originally established in 1999, then wound down in 2004). The organization was initially funded with \$60M for what the company called its Fluid Data Storage Fund. Then at Dell World 2013 last December, the commitment to Lussier's group was expanded to \$300M in capital, along with a broader mandate on investment areas. Though the value and influence of CVC may not be widely recognized today, if Dell Ventures continues to deliver as it has since Lussier took the helm, we expect the subject to spark increasing interest, admiration and, perhaps, even envy.

**Pund-IT:** To start off, I'm not sure how many of us clearly understand VC terminology. Would you mind defining some of the terms you'll be using today as they relate to Dell?

**Lussier:** Not at all. Shoot.

**Pund-IT:** Organic vs. inorganic investment

**Lussier:** Organic refers to dollars spent by Dell on internal R&D on existing and new products. Inorganic refers to dollars spent on acquiring external assets, as through mergers and acquisitions (M&A).

**Pund-IT:** Venture

**Lussier:** Refers to VC investments in start-ups. Also another form of inorganic investment.

**Pund-IT:** Seed funding

**Lussier:** Seed funding is relatively small amounts (usually less than \$1 million) that fund the very earliest stage of a company, usually when it is not much more than an idea, per-

haps a small team, perhaps a prototype. Most often these funds come from friends and family or “angels,” successful individuals who make investments (\$25 to \$250K) in startups and help mentor the founder.

**Pund-IT:** Series or rounds

**Lussier:** In VC terminology, Series A is the first round where VCs and other institutional investors become involved in funding a company and follows the seed funding mentioned earlier. That can progress to Series D, E or beyond.

**Pund-IT:** Passive vs. active investors

**Lussier:** Passive investors simply put money in and do little to help or influence the company. Active investors get more deeply involved in the company and exert some degree of influence as board members, partners and advisors.

**Pund-IT:** Financial or pure financial investors

**Lussier:** Financial investors are motivated largely or purely by financial return on investment. They typically measure this as a “cash on cash” multiple, e.g., I invested \$5 million and got \$15 million back when the company sold for a cash on cash multiple of 3X, or as an “IRR,” or internal rate of return, e.g. I doubled my money in 5 years for an IRR of 16% per year.

**Pund-IT:** Business development

**Lussier:** Refers to activities—generally non-cash, in-kind support—that a company such as Dell offers to help increase the revenues of a company it is working with. Business development activities include reselling the company’s product, introducing the company to customers, providing marketing support, technical expertise, etc.

**Pund-IT:** Excellent. Thanks. Can you tell me a bit about your background and your work prior to joining Dell?

**Lussier:** Sure. After getting my BS in finance at Wharton, I was really looking to have as much impact as I could for someone my age, to travel and make a difference in helping improve how business worked. That led me to management consulting with Booz Allen in San Francisco during the late ’70s and early ’80s, working on corporate and business unit strategy and organization for large companies across industries. After a few years, I went to Stanford for my MBA. Since Booz Allen picked up the tab, I spent an additional five years afterwards there working on general corporate and business unit strategy and market opportunity assessment, which is where I became interested in technology and IT. You could see that technology was going to change everything—it certainly changed management consulting.

**Pund-IT:** An exciting time.

**Lussier:** Exactly. That led me to move directly into IT with a position with Metaphor Computer Systems, a Kleiner Perkins-backed start-up that was one of the early pioneers in business intelligence and was ultimately acquired by IBM. At that point, I went on to Accenture to manage the high tech strategy practice for North America with a 100 percent focus on IT suppliers across hardware, systems, communications equipment and software. As the internet started to emerge, we helped companies figure out how it was going to change their business and take advantage of that. I was there '92 to '98 and then joined an e-commerce startup selling software over the internet that went public, called Beyond.com, and was GM of a division that did e-commerce outsourcing, designing, building, and operating e-commerce sites much like Digital River or Amazon does today.

**Pund-IT:** Ground zero for the dot.com boom.

**Lussier:** Yes. We really had a good run, and then I started to look around for my next opportunity. Thought about being a CEO, looked at multiple different companies, and realized that I'd like to actually work with more than one company at a time. That led me to venture capital, and I became a partner at Norwest Venture Partners here in Silicon Valley in 2000. Norwest has \$3.7 billion under management, sixteen partners, 80 portfolio companies, global footprint, and investments in companies like PeopleSoft, Tivoli Forte, Brocade, Extreme Networks and more recently, companies like RackSpace, KACE (which Dell acquired in 2010) and FireEye.

**Pund-IT:** Did you meet any of the companies you eventually worked with at Dell?

**Lussier:** In fact, I got to know the founders of KACE on the other side of the deal table at Norwest. It was fun because after KACE was acquired by Dell and I then joined Dell, the KACE founders asked if I wanted to set up my Dell Ventures office within the KACE headquarters in the Valley, which I did. So it was interesting that the founders of KACE, now part of Dell, also helped incubate Dell Ventures. Everyone knows everyone here in Silicon Valley; we all just change t-shirts from time to time. So, in a nutshell, my career has encompassed a mix of management consulting, entrepreneurship, and investment.

**Pund-IT:** Why did you decide to take the position with Dell?

**Lussier:** There were really two factors. First was the kind of personal challenge and opportunity that the job represented. The second had to do with the situation that Dell itself is in, which I found to be extremely fascinating and intriguing. As you know, five years ago, Michael set in motion a strategy and process of evolving the company from being purely a hardware company to being an end-to-end solutions provider. And to do that, he knew that he would need to get into many new businesses. He would need to access new technology and build ecosystems around Dell's core strengths of server and PC hardware. The first tool he pulled out of the toolbox was M&A. So over the last five years, Dell has acquired over 25 companies and spent in excess of \$13 billion dollars to build out that stack with significant deals like EqualLogic, Compellent, Force10, KACE, Quest, SonicWall and Perot.

**Pund-IT:** It's one of the most rapid organizational transformations I've ever witnessed. What comes next?

**Lussier:** The next step was to recognize that while M&A is one tool, there are others to add to the arsenal to access innovation, and venture investing is one of them. I looked at the opportunity to re-launch Dell Ventures—we had what I'll call Dell Ventures 1.0 from 1999 to 2004. The opportunity to go from being one of sixteen partners to being THE person responsible for setting the strategy was an entrepreneurial challenge. And at the same time, to do that in a company like Dell that's going through this transformation and is one of the more active, deal-making companies around I found to be really exciting. Overall, I found it to be an attractive personal challenge and an opportunity to help a great company during a really interesting time.

**Pund-IT:** Could you talk about what makes a successful corporate venture program?

**Lussier:** The thing you need more than anything else is senior executive support, and we have that in spades, going all the way up to Michael who, along with being a successful entrepreneur, really likes startups and entrepreneurship. Second is having clear objectives and priorities. We're very clear about being interested in financial return but also focus on areas that are strategically relevant to Dell, and we also spend a lot of time working with the business units (BUs) to identify their priorities for organic investment, M&A and venture investment. Third, you also need to have continuity of staff and a really strong training program. One of the mistakes I see some corporate VCs make is having junior people rotating through board seats, and that leaves a bad impression. So the fourth point is that it's much better to have senior people who take their board roles seriously and will be there for a long period. Fifth, you have to generate financial returns, and often the best groups act as service organizations to their BUs, which is very important. Finally, establishing and maintaining VC-industry relationships and credibility is absolutely critical. If I were to boil it down, those would be the six things that I would say make a successful corporate venturing program.

**Pund-IT:** Prior to Michael's return to the CEO position in 2007, the company wasn't heavily known for being active in M&A or venturing. But it sounds like there's been a real sea change in attitude.

**Lussier:** That's right. I mean Dell Ventures 1.0 was very much of its time. It started in 1999 and really was focused on late stage investing, which leveraged Dell's considerable balance sheet to generate capital gains. That worked well for a while, but when the markets crashed and adjusted, Dell made a decision to sell off their portfolio. This time, it's very much more strategically focused on the areas that are going to help Dell be successful with its customers and its strategy.

**Pund-IT:** I know that Dell is working with some established venture capital companies. Could you talk about why those relationships are strategically important?

**Lussier:** Let me frame that a bit. I don't know that everyone does this, but what we do at Dell is work to understand what each of our business units needs to do organically, along with their gaps relative to where the market's moving. Those become candidates for inorganic activity, whether it's M&A or investment. So we have a pretty clear road map and priorities in each of those areas. Then we like to proactively reach out to the entrepreneurial community and to VCs as a key constituency. We do that with road shows where senior Dell executives will go through Silicon Valley or Israel or Boston and meet with the VCs to let them know about the key areas that we consider strategically relevant to us and to meet with relevant startups. We compare notes with them on where the puck is moving and to identify deal flow, right? And so that process and those relationships are very important in terms of identifying both new technology trends and potential investment candidates.

**Pund-IT:** What are other vendors doing in the venture area? Could you talk a little bit about any differences that you see between Dell's approach and what companies like Google and IBM and HP and so on are doing?

**Lussier:** All of these companies have great people and strong franchises and are working with entrepreneurs. Yet at the same time, they're all different. I think Google will say that they're acting as a financial investor purely. As long as it looks like a good investment opportunity, they will jump in whether it has something to do with Google or not. Plus, more of their investments are seed-focused, early-stage investments. I think they're very successful at what they do.

**Pund-IT:** How about more traditional systems and technology vendors?

**Lussier:** IBM and HP do not typically invest in startups. Most of their activity around startups is along the line of business development relationships and in-kind partnerships. Intel is really the granddaddy of the corporate venture movement with a large team of fulltime investment professionals that makes numerous investments every year. So they're very financially oriented and want to invest in things that will help Intel's product ecosystem, but that leaves a fairly broad landscape. I think SAP has evolved in a similar direction as well. While their venture group was tightly coupled with SAP originally, they have spun off as a separate organization that maintains the SAP name and has SAP as a limited partner, and yet at the same time they're more independent. These are all very interesting models but are a little bit different from what we do.

**Pund-IT:** So how would you describe Dell Ventures?

**Lussier:** At Dell World, we announced a new \$300M fund that's an expansion of the original \$60M fund focused on storage. With that expansion in capital, we've also expanded the areas that we're investing in. So in addition to storage, we're investing in cloud, big data, data center, mobile, and security companies. We've got the capital commitment and focus on domains and the priorities, and our model is to invest anywhere from \$2M to \$15M per round. We can do and have done more and less, but our average so far is in the \$3M to \$5M dollar range, focusing on early to growth stage companies. Typically, we'll invest in

rounds A up through D or E, with the sweet spot being Series B or C. Series B, the second institutional round, is where a company's got a product, a team, a plan and some early customers, and they're really looking to scale. That's where we can bring our unique value.

**Pund-IT:** What comes next?

**Lussier:** We generally want to co-invest with top tier VCs, not compete with them. I know the value that a financial VC can bring, and it's around sitting on the board, helping set up the company to succeed from a governance and recruiting standpoint, advising the CEO, and really bringing a lot of company-building skills day to day. We complement that by joining the board as observers and then bringing some combination of our deep technology and product expertise, our brand, our channel and go-to-market programs to help companies access our 10 million business customers and our 20,000 salespeople.

**Pund-IT:** How does that work practically?

**Lussier:** Well, we help those early stage companies access our channel and reseller programs to sell their products directly or to incorporate it as a Dell SKU and sell it as an OEM product on the Dell price list. If you're an appliance company that wants to ship a hardware SKU under your own name, we've got an OEM business unit where we can leverage the supply chain capabilities that we use in our own products to design, build, ship and support products anywhere in the world with the startup's bezel on it instead of Dell's. That OEM BU is one more example of Dell's entrepreneurial nature. It's an idea some company executives came up with a few years ago that's now a multi-billion dollar business with over 2000 customers.

**Pund-IT:** So rather than just offering kind of a financial hand-up, Dell's approach brings in the companies you invest in almost as full partners. You're providing mentoring skills, but you're also offering partnership opportunities that supply them the means to act and be perceived as much more experienced and broadly established companies.

**Lussier:** That's right. We're bringing the financial component typical in venture investing but also have some unique assets that entrepreneurs value and financial VCs don't provide. Plus, it's a different package each time. If we were to try to take the product of a really early stage company to market, we could overwhelm them. So we have to crawl, walk and then run. If the company's in a really early stage, we'll help them with technical advice on where the market's moving and arrange meetings with some of our executives and customers, but not necessarily push them into a full blown partnership. So it's a package that we tailor for each company and do our best to add value.

**Pund-IT:** Could you talk a bit about whether or not the Dell Ventures effort has changed since Dell went private, and how that may or may not affect your venture activities?

**Lussier:** Ever since I've been here, my marching orders have been simple: Do more, grow faster and keep going. That hasn't changed since before the go-private activity happened, during the process, or after it concluded. If anything, being private really cleared away a lot

of the uncertainty, and the \$300M funding announcement of Dell World really made it clear that we are here, we are actively investing and it's our strategic intent to do so. We're going to be bold and we're going to make investments.

**Pund-IT:** Let's touch on specific Dell Venture investments. Are there any companies you invested in and then exited?

**Lussier:** Yes, there are some investments that we exited successfully, including FusionIO and SeaMicro. Fusion IO is a solid state Flash storage player that had an IPO in 2011. SeaMicro is a low power server company that was acquired by AMD in 2012. We were investors in and had nice gains from both companies.

**Pund-IT:** How about more recent activities?

**Lussier:** In early 2013, we announced a \$51.6M investment in Skyera, a company that includes executives who came out of SandForce (which was acquired by LSI) who are now developing a very disruptive, super-high-capacity, high-performance, high-density, low-power storage array. Marantis is another company we've invested in. It's a leader in the area of open stack software and services, leading with professional services but moving into software, and they now have their own OpenStack distribution. That's obviously a fit with virtualization and cloud computing, two of the key themes in business computing and where Dell is going, namely.

**Pund-IT:** Any others?

**Lussier:** I'll mention one more that I think is pretty interesting called Invincea, which delivers advanced threat protection software for endpoint devices. We have a commercial OEM deal with them where we've installed their software and will be shipping it on 10 million Dell laptops and PCs, over the next year or so. This is an example of aligning our incentives with an investment and making the company hopefully more valuable. Plus, we're benefiting the company, ourselves and our customers in the process.

**Pund-IT:** I'm curious why storage has been such a significant focal point for Dell Ventures. Many people in the industry would insist that, like systems, storage is becoming increasingly commoditized. So why is Dell willing to put money there?

**Lussier:** Three reasons. Number one, we see enormous innovation in storage right now, so it's an area with a lot of potential. Second, if you think about how the amount of data being stored is doubling every 18 months, the demand for innovative storage solutions will only expand. Finally, the use cases for storage continue to grow, from storing data that companies increasingly must retain (sometimes forever) at the lowest possible cost to super-high-performance solutions.

**Pund-IT:** And that's just the hardware side of the market.

**Lussier:** Exactly. Everything is moving to software. Marc Andreessen talks about how software is eating the world, right? Increasingly storage is moving to software, so you've got a



whole movement around software-defined storage. Networking is becoming software-defined networking. All of that plays to Dell's strengths as the dominant server vendor and resonates with the investments we're making in software. Down the road, it's easy to imagine our systems being shipped preloaded with state-of-the-art, software-based storage systems. Working with startups gives us a chance to mobilize early stage innovation and next generation technologies for our customers.

**Pund-IT:** How has your experience with Dell Ventures changed your view on what to look for and what to avoid in potential investments?

**Lussier:** I had some great training at Norwest Partners, and there's a specific set of things that you look for as a financial VC. If anything, my experience at Dell has reinforced that. What you're looking for is much more than an idea. Good ideas are everywhere, but what really matters is having all of the ingredients around that idea to execute it. Folks that have less VC experience can get fascinated by the idea, and we see this sometimes in the BUs. What I encourage everyone to do (and it involves some evangelism, education, training and missionary work) is to look beyond the idea to make sure all the business ingredients are in place.

**Pund-IT:** So, take the idea out of the box and consider it in terms of the broader marketplace?

**Lussier:** Yes. Of course, to execute successfully, you need a very large, rapidly growing market opportunity and the potential to build a big company combined with a compelling and unique product idea that's different and better than the alternatives, as well as a passionate, experienced team. It really comes back to the team and their experience level, and how entrepreneurial they are.

**Pund-IT:** Why is that important?

**Lussier:** There are skills you learn from being an entrepreneur in a smaller company that are quite different from what you learn in a larger company. Large company skills can help, but it's even more important to understand how to operate on a tight cash budget with limited resources and still get things done. Every startup believes they're going to go public and consume a minimum amount of cash, but how you get there—the product and go-to-market plans—have to be simultaneously aggressive and realistic.

**Pund-IT:** How about the role of the management?

**Lussier:** The board and the investors around the entrepreneur are often overlooked. Plus, I believe in and look for experienced, credible, strong venture capitalists. We see a lot of plans that are missing one or more of those ingredients. While it's easy to get enamored whether we're at Dell or elsewhere, I find that bringing people back to the same issues financial VCs focus on is helpful in screening ideas.

**Pund-IT:** There's never a shortage of ideas in IT. But there's always a shortage of good ideas.

**Lussier:** Yes, and there's sometimes a shortage of entrepreneurial talent. We've seen boom-bust cycles in IT before, along with incubators that come in and out of fashion. Incubators tend to see their core purpose as helping less experienced people become entrepreneurs, and tend to flourish when there's a view that the number of good ideas is outstripping the number of experienced entrepreneurs. But those kinds of efforts have a mixed track record over the long term.

**Pund-IT:** Related to that, can we talk about the Dell Founders Club and Center for Entrepreneurship?

**Lussier:** The key thing to remember is that Dell is a company of, by and for entrepreneurs. That starts at the top with Michael, but it also works throughout the company and is apparent in things like the OEM organization we discussed earlier and many other efforts. The focus of the Center for Entrepreneurship is to communicate to the marketplace broadly that Dell is the entrepreneur's best friend. As part of that, the Founders Club provides networking opportunities for entrepreneurs to meet and compare best practices with other entrepreneurs. That can include introductions into Dell, participation in marketing programs and generally getting plugged into Dell from a partnership standpoint. Plus, if you're interested in growing your business with Dell products and services, the Dell Innovators Credit Fund provides advantaged financing terms. So the Center for Entrepreneurship and the Founders Club are tools that Dell Ventures uses for the startups that are strategic to us, yet they have a broader purview, as well as encompassing all flavors of startups.

**Pund-IT:** Do you believe the environment for IT corporate venture is changing?

**Lussier:** I think it is changing and that it's changing in our favor. In years past, there was a certain hesitancy that some entrepreneurs might have had in getting involved with major vendors like us and some of our competitors. That may have been because they were concerned about losing their "Switzerland" status, if you will, and wanted to keep their options open. Yet I think what more and more entrepreneurs are seeing is that if you consider the benefits of working with a strategic investor like Dell, it's a pretty unique package that's not really available elsewhere, particularly in the pure financial community.

**Pund-IT:** So the times are changing.

**Lussier:** Exactly. There's always been a large set of entrepreneurs that have been open to our approach, but it's increasing as people see what we bring to the party and how we can add value. Plus, some of the turbulence that's happening within the financial VC industry has led to restructuring in that part of the business. So in some cases, there's less stability there than there is in corporate venture.

**Pund-IT:** The great thing about building a track record is that it can become self-perpetuating.

**Lussier:** Yes, and we've got some good stories. We've only been at this for a couple of years and already we've had multiple companies with "up rounds," where the next round of investment is higher, indicating increasing value. We have one company right now that's considering being acquired. That would be a nice gain for us if that happens, but we're also comfortable if the founders decide to continue building the company instead. So there are some good signs.

**Pund-IT:** Do you think people understand Dell Ventures? If not, what would you like people to understand about what Dell is doing?

**Lussier:** I believe that in the circles that matter to us, in the VC and the entrepreneurial communities, we're pretty well known and understood, along with the package that we bring and our value proposition. Of course, we could always do more and get the word out, but I think we work at it. If they don't know us, what I want them to understand is that Dell is here to support entrepreneurship that's relevant to us and our customers. That we bring a unique package that involves capital, but also provides much more than money. That we're here to be a resource to entrepreneurs and VCs for the long term. The goal of Dell Ventures is to be here not just next year or the year after, but in ten years, twenty years down the road as a resource for both Dell and the entrepreneurial community.

**Pund-IT:** So at Dell, the concept of venture capital extends well beyond the bank.

**Lussier:** Yes. By investing in the future of entrepreneurship, we're also investing in our own future.

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