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College Town Ventures

Investors Look to Unleash the Intellectual Power of New England Communities

MATT HARRIS AND BO PEABODY

Brian Rigney recalls the concerns he heard most often when he was looking for early-stage financing for BlueTarp, his Portland, Maine-based Internet startup. “The VCs in Boston would ask me if Portland really was a six-hour drive,” says Rigney. “The other thing we heard, whether it was from venture capitalists in Boston or on Sand Hill Road, was: ‘Sure, we’ll fund you. But you’ll have to move.’”

RIGNEY’S ODYSSEY is typical for entrepreneurs who want to build businesses in communities that lie beyond national venture capital centers. In the spring of 2000, BlueTarp received early-stage financing from Williamstown, Mass.-based Village Ventures Inc., and from its affiliate fund in Maine. The money enabled the company to roll out its business model. BlueTarp offers a purchasing card that allows building contractors to buy materials at their local suppliers, view details of the purchases on the Internet, then download job-costing information into their accounting systems.

Two-thirds of all early-stage venture capital is invested in companies within a one-hour drive of the venture capital firm’s offices. Because early-stage venture capital investing is truly a local business, it is highly concentrated. In fact, 76 percent of all venture

capital dollars in the United States are invested in just 10 geographic markets.

The venture capital scene in New England is a microcosm of the national picture. Thanks to the fertile corridors around Routes 128 and 495, Boston ranks second among U.S. metro areas in venture capital with \$6.4 billion invested in 1999. The rest of the region neither generates nor receives nearly that level of seed funds.

Beyond Boston

It’s no secret that a handful of major research universities around Boston have contributed significantly to the Massachusetts economy through research and development (R&D)—about \$1.1 billion worth at just 10 Boston-area colleges and universities in 1998.

The economic impact is underscored by a recent BankBoston report noting that faculty, students and graduates of the Massachusetts Institute of Technology (MIT)—which alone captured \$413 million in 1998 R&D funds—had founded Metro Boston companies with annual revenues exceeding \$50 billion.

Boston's technological power notwithstanding, R&D dollars are far more evenly distributed in New England than are venture capital dollars. Indeed, for every \$1 spent on R&D at Boston's major research universities, an additional 84 cents is spent at New England university labs outside the city. But for every

How Village Ventures Began ...

In 1997, Matt Harris became the first fund manager for Williamstown, Mass.-based Berkshires Capital Investors (BCI).

Investors in the \$5 million fund included local individuals and institutions, as well as Williams College. Among the companies seeded by BCI are Tripod Inc. (co-founded by Village Ventures co-founder and chairman Bo Peabody and subsequently sold to Lycos Inc. for \$58 million), Employease Inc. (named one of the 100 most important private companies in the world by *Red Herring* magazine last spring), and MindBranch Inc. (Village Ventures led a group that invested \$18.5 million to acquire a controlling interest in MindBranch in August).

BCI fund I, which has had an annual rate of return greater than 60 percent, has also had a noticeable impact on the laggard northern Berkshires economy. The northern Berkshires has begun to experience a renaissance as BCI companies continue to grow and succeed. These companies now employ 750 people, 390 of whom are based in Berkshire County, including many Williams College alumni and faculty spouses. (In November 2000, Cerida Corp., a BCI investment, announced it was opening a regional office in southern Berkshire County that will create 155 jobs). The companies in BCI fund I portfolio also attracted over \$150 million follow-on financing from other investors to the Berkshires over the past three years.

Buoyed by the success of BCI, and convinced that areas with intellectual capital could support successful businesses with the proper venture capital infusion, Harris and Peabody founded Village Ventures in January 2000. The company was launched in June after it secured commitments of \$80 million from Bain Capital, Highland Capital Partners and Sandler Capital Management.

\$1 of venture capital invested in Boston, just 11 cents goes to those other promising New England communities. This imbalance provides Village Ventures with a golden opportunity.

Village Ventures has identified 50 markets that are as rich in intellectual capital as the current top 10 venture markets but 25 percent cheaper to live in. Primarily college towns or "second-tier cities," they are positioned to be the next Austins or Seattles in terms of nurturing technology companies. What they are missing, and what Village Ventures is designed to deliver, is venture capital—not simply money, mind you, but also the business savvy, experience and networking connections that venture capital firms can bring to the companies they fund.

Village Ventures is an operating company that manages a national network of early-stage venture capital funds and invests in the most promising companies emerging from those portfolios. As of November 2000, Village Ventures had 35 employees and was operating nine early-stage venture capital funds in seven states. The firm has six funds in New England, which are located in Williamstown, Amherst and Worcester, Mass., Providence, R.I., Burlington, Vt., and Portland. The typical fund is \$10 million to \$15 million and is focused on early-stage investments in technology-driven companies like BlueTarp.

Building Businesses

Early-stage venture capital investing can have an enormous impact on local economies. A 1999 study by the Arizona Venture Capital Association found that \$1 million of venture capital, over five years, will create 27 permanent jobs and generate \$6 million of revenue in the community.

Still, it's not easy to build successful, technology-driven companies in nontraditional communities. These places tend to lack fundraising expertise; early-stage investment experience; professional service providers, including technology experts, attorneys, marketers, recruiters and accountants; a network of business contacts extending beyond the particular market who can provide advice and support; and later-stage financing for successful startups. And larger funds want to invest within those 10 big VC centers.

To overcome these deficiencies, Village Ventures applies a four-step approach to building companies. The firm identifies communities with high potential for launching technology companies and recruits managers to oversee an investment fund in each market; helps its managers raise money from local limited partners and co-invests its own capital alongside its partner funds; provides both fund managers and entrepreneurs with extensive support in terms of technology, recruiting, branding, marketing, accounting and legal services; and acquires significant interests in the most promising companies emerging from the network of funds.

R&D DOLLARS ARE FAR MORE EVENLY DISTRIBUTED IN NEW ENGLAND THAN ARE VENTURE CAPITAL DOLLARS. INDEED, FOR EVERY \$1 SPENT ON R&D AT BOSTON'S MAJOR RESEARCH UNIVERSITIES, AN ADDITIONAL 84 CENTS IS SPENT AT NEW ENGLAND UNIVERSITY LABS OUTSIDE THE CITY. BUT FOR EVERY \$1 OF VENTURE CAPITAL INVESTED IN BOSTON, JUST 11 CENTS GOES TO THOSE OTHER PROMISING NEW ENGLAND COMMUNITIES.

One of the most important attributes of the Village Ventures offering is the strength of its network. The network concept overcomes the "island fever" that the lone VC or entrepreneur in a nontraditional venture market is exposed to. Not only do fund managers have easy access to consultants and support personnel at Village Ventures, they also can reach out to one another for shared experience. To increase information flow and encourage collaboration, Village Ventures is building a proprietary software package to facilitate communication within the network. Quarterly meetings for all fund managers will further strengthen the Village Ventures community.

Boon for Berkshires

Local institutions are positioned to reap many benefits by investing in early-stage ventures. Williams College, for example, has invested \$4 million in Berkshires Capital Investors (BCI), an early-stage venture capital fund that is the prototype for the Village Ventures network of funds. Williams invested in BCI expecting both a strong return on its investment and a boost for sustainable development in the northern Berkshires.

"The school has certainly seen direct financial gain from the collaboration, but there have been other important benefits as well," says Williams College Vice President of Administration Helen Ouelette. "The vitality of the local economy and the quality of life in the area, which are so important to our own vitality, are on an upswing."

Williams is connected with BCI and Village Ventures on several levels. For example, Berkshire startups are creating new professional opportunities for the spouses of Williams faculty and staff. Former Williams Professor Dick Sabot, a co-founder of eZiba.com, a website that allows consumers to purchase handcrafted artifacts from around the world, sits on the board at Village Ventures. Says Ouelette: "The success of the entrepreneurs from Williams—alumni, faculty and students—reflects favorably on the college, and a number of them have been generous in giving back to the school."

Recognizing these benefits, other colleges, including Hampshire, Middlebury and Worcester Polytechnic Institute, have committed to invest in Village Ventures affiliate funds.

Investors such as Banknorth Group have invested across multiple funds. In November, Banknorth com-

mitted \$7 million to four Village Ventures funds in New England. Banknorth not only expects high returns on its investments, but also sees a chance to invest in the communities in which it is chartered and to create greater wealth for its customers. The locally chartered banks of Banknorth stand to add to the commercial client roster of their organizations as local entrepreneurs expand their companies. This investment allows Banknorth to spread its risk across multiple funds in different markets managed by different individuals. Negotiations are underway with other banks for similar investments.

Village Ventures funds and portfolio companies are giving back to the community. Village Ventures, BCI and portfolio companies of both banded together to form the Prospect Foundation, seeded with \$1 million and pledged securities expected to yield in excess of \$10 million, to train Berkshire County youth in the skills they need to benefit from the emergence of technology industries in the area. The foundation's classes will be held at the Massachusetts Museum of Contemporary Art in North Adams, Mass.—Williamstown's gritty neighbor that was economically devastated by the loss of manufacturing jobs and is now banking on growth in the technology sector.

As the Village Ventures network expands into new communities, it is attracting a number of highly qualified fund managers, many of whom have learned their craft in urban areas and now seek to live and work in communities where they see a better quality of life. The Village Ventures fund in Nashville is managed by Tuff Yen, a veteran venture capitalist from Silicon Valley who moved to Tennessee when his wife took a teaching position at Vanderbilt University. By aligning itself with fund managers like Yen, Village Ventures is attempting to unleash the intellectual capital of its target markets. In doing so, the firm hopes to encourage sustainable business development and a brighter economic future for many places heretofore bypassed by the technology revolution, while it generates outstanding returns for its investors.

Matt Harris and Bo Peabody are co-founders of Village Ventures Inc. Kevin McCormack and Wilmot Harkey of Village Ventures assisted with this article.