Deep Dive with Robert Cohen from Benson Oak Ventures on Venture Capital

Posted on 03/19/2019

This interview is partner content from Sovereign Wealth Ltd.

Many institutional investors are playing more of an active role in the venture capital space, which suits their long-term investment nature, focus on growth, and desire for strategic investments in technology. While many VC funds focus on a "spray and pray" approach, investing in multiple companies hoping that some will be wildly successful, there is one investment manager who believes in the high-conviction, true value-add model when it comes to venture capital.

Robert Cohen heads the activities of Benson Oak Ventures, leveraging deep understanding of the technology market for consumers and small businesses, including operational experience in building global brands and developing and scaling business models through 20 years of early stage investing.

As both an investor and a manager, Robert was the driving force behind one of the most successful venture capital investments in consumer security – AVG (NYSE) – helping it become the global leader in Internet Security, and delivering over 100x return to investors.

In this interview with Rachel Pether, CEO & Co-Founder of Sovereign Wealth Ltd, Robert provides insight into their investment thesis, why doubling and tripling down is a derisking strategy in and of itself, and how the Israeli mindset makes them perfectly suited to entrepreneurship.

RACHEL PETHER: Why don't we start off by telling me a little bit about yourself and why you started Benson Oak Ventures?

ROBERT COHEN: I'm American, originally from Philadelphia, but I've lived outside the US for the last 25 years. I moved to Prague – somewhat accidentally – when I was 26. I was supposed to go for six weeks and ended up staying for 18 years. I moved there in partnership with Benson Oak, before joining Benson Oak a year later. We started investing in the early 2000s and saw there was a gap in the market for start-ups or midmarket funding. My business partner Gabriel Eichler, the founding partner of Benson Oak, had deep management experience, and we focused our investments on consumer brands, companies that already had some revenue but needed additional help. In the early 2000s this help came in the form of finance, marketing and management – bearing in mind this was just a brief time after the fall of communism.

We came upon AVG, which was started in 1989 as an anti-virus company focused on consumers. It was a deal we initially advised on, and then we decided to buy the company in 2004. We saw the global potential repeated the mantra of “there’s no reason a small company from Brno, Czech Republic can’t become a global leader.” Eventually we exited AVG via an IPO on the New York Stock Exchange, returning 100x money to our investors.

> *There’s no reason a small company from Brno, Czech Republic can’t become a global leader.*

I joined management ahead of our IPO and led five acquisitions for AVG of which two were in Israel, so that’s what brought me to Israel seven years ago, with the intention of staying for a much shorter time period than that! In Israel, we invested personal money and that of other family offices, through a syndicate structure. We had a similar focus on the consumer sector, B2C and brands, going after quality not quantity, following on with the winners, and getting involved with the operations of the company. We did three deals in Israel and last year decided to formalize it in a fund structure, taking the approach and the lessons accumulated from 20 years of investing.

PETHER: I want to talk a bit more about why you’re not in the typical “fund management” business, but can you tell me more about the context in 2000 when you started investing? It seems like your style was venture capital focused, but maybe before VC existed as the concept that it does now. Can you tell me a bit more about your approach back then?

COHEN: A lot of the approach I realize now came from those roots, which were steeped in the advisory business. Even when we were advising large corporates, there was a lot of education and training. Remember this was only 5 years into capitalism, so many of our companies had no idea how to access the bond markets, or raise money. We had to educate our clients on what to do, how to do it, but also on basic business concepts. So when we started investing, it was a natural evolution to be an advisor on marketing, finance, management, helping to supplement their skills. At that time Czech and Slovak Republic had high quality technical people, but they just didn’t have the experience of a more developed market. It was part of forming a partnership with the management of our companies, and that's an approach we maintain to this day.

PETHER: Let's talk a bit more about this approach. You are vocal about your non-belief in diversification, instead favoring concentration and high conviction. What is your approach to investing?

COHEN: Diversification is definitely appropriate across investment classes and from a portfolio perspective, but in the context of venture capital, I look at the concept of diversification as the wrong way to approach it. People talk about "spray and pray", but this is really "hope and pray" rather than any real strategy.

> *People talk about "spray and pray", but this is really "hope and pray" rather than any real strategy.*

Most start-ups won't make it, but the winners can be 100x. And then of course there's a lot in between. So the key to VC investing is not just how to assess the winners before you invest, because in the beginning you have little to none real information, but to identify those winners as you invest, along the way, as you see those companies grow. You can then accumulate larger stakes in the winners, which is a form of diversification.

If you're doubling and tripling down you're usually investing at higher valuations along the way, but you're taking less risk because you've seen the companies grow, you've seen the team develop, you've seen the culture. So that's the real way to win in venture capital – identify the winners through data, through information with your own eyes, and then double and triple down to get the best returns. It's only by working closely with these companies that you get an unfair advantage – you know the companies better than anyone else.

If you assume there are going to be limited winners, it's only math to say "I want to own as much as I can of the winners."

PETHER: So that's essentially your derisking strategy?

COHEN: Exactly. It is a derisking strategy. Throwing a lot of money around at multiple companies isn't derisking – it may feel like derisking, but you're really just hoping and praying. The real derisking is using information and knowledge to make smart investment decisions.

PETHER: Let's dive into a bit more detail about what that hands-on role looks like, how you get closer to these investments? You're not in the fund

management business, but the “building big businesses” business, which means you place a lot of emphasis on having a hands-on role with your investments. Tell me about your strategy and approach within that.

COHEN: I’ve just listened to a Tim Ferriss podcast interviewing Jim Collins … he talks about the flywheel concept, where one thing leads to another in a virtuous cycle. So I was thinking “what’s our flywheel?”

It starts with being **founder friendly** – we’re here to help companies, to help them succeed. We take pride in that every company we meet, even if we reject them, we give them feedback. Our approach is to be founder friendly, it’s not shareholders vs founders, we’re all one team.

And that leads to **focusing on what you’re investing in**. We have a very disciplined focus on where we invest – business to mass market companies. And that covers B2C (classic consumer investing), SMB tech, and then platforms, which combine a business offering with a community. These are companies that have products that can solve real problems, and most importantly, can create brands that scale and acquire new companies. That’s where we’ve always invested.

By focusing on business to mass market companies, this allows us to **add value**. Whether it’s pattern recognition, to strategic value, to actually getting involved. In a fund structure, I can’t do full-time operations, but the idea behind the fund is that if need be we have people that get much more deeply involved, to work with the entrepreneurs. This helps the companies grow, but it also leads to the next element…

The strategy of doubling and tripling down. In order to make those smarter bets, you need to be involved with the companies. It’s not just showing up to quarterly board meetings. You need to be involved with the team, see the numbers, see the culture from the inside.

The last element is **firepower**. Brands win by being known… The faster the companies can deploy money, the faster they can scale and the more success they get. It’s common in the VC industry that you raise money and then you have to stop and lose momentum to raise money again. The whole model of our fund is to triple down – we want to use consortiums that have the ability to follow on quickly.

Success breeds success. It also enables us to build up this reputation of really being founder-friendly, encouraging more founders to come to you, giving you the best deal flow. We even plan to do a program where we give carried interest in the fund to our founders, which increases the notion that we’re all working together.

PETHER: Let’s talk about the founder point a bit more. You’re doubled and tripled down in a number of your investments…. What do you think makes a great founder?

COHEN: You know, there’s really no one thing, but even more than this, it’s a combination of things that every great founder has to have:

Passion – it is not an easy thing to be founder. Many times you wonder what on earth are you doing, so you need passion to remind yourself why you started and to keep going and leading

Perseverance – there are going to be tough times, you’ll need to fire employees, have down turns, raise money. You just need to keep going.

Discipline – Start-ups often run in many different directions. You should impose your founder DNA on the company, but then put in place processes that enable execution. Discipline to execute is key.

Surround yourself with A players – people that are better and smarter than you in different areas. The founders that fail are the ones who want to control everything, are insecure about having other people there. This is actually something that Israelis are fantastic at, they don’t care where good ideas come from. Building an A team is not just an ability to find those A players, it’s also a desire to find those people, which many people subconsciously do not have.

PETHER: You mentioned the Israeli entrepreneurs are very well attuned to that. Tell me more about the Israeli market. You went for one year, and you’re still there seven years later. What is it about the Israeli market that attracted you in the first place, and then kept you there?

COHEN: There’s an expression that “start-up founders fall in two buckets, they either want to be king, or they want the cash”. 90% of Israeli startup founders want the cash. There are many founders in Israel who have voluntarily given up the CEO position if it’s in the best interests of the company. In many other countries, the CEO would go kicking and screaming. Egos are the biggest problem in business, and probably in life, and Israelis in general just don’t have the ego that would get in the way of building a business.

> *There are many founders in Israel who have voluntarily given up the CEO position if it’s in the best interests of the company…. Egos are the biggest problem in business, and probably in life, and Israelis in general just don’t have the ego that would get in the way of building a business.*

This is representative of the macro picture. Israel is a small country trying to grow into another market. In their mind, they start on a Monday, and on Tuesday they’re already in the US.

Secondly, the amazing creativity. The whole ecosystem is built on creativity. Digital marketing has become a success in Israel, and that’s been a big step change in the Israeli start-up ecosystem in the last five years – through most of its history, Israel was known as a place that was very good at producing products for enterprises – it was very strong in cyber security, industry, selling to enterprises. Now you’re seeing a new generation that are thinking much bigger, building global brands and global companies, such as Fiverr and Wix – many companies that nobody even knows are Israeli because they’re just another brand.

So you’re seeing a lot of entrepreneurs who have the aspirations to build brands globally from Israel. This dovetails with my passion and skillset of building brands that scale globally.

PETHER: Give me some examples of recent transactions that you've closed, the strategy behind them and how you took them to market.

COHEN: Our biggest deal and the one that's most applicable to the conviction model is Promo. We invested $500K in 2012. It was originally part of slidely, helping consumers create better photos and slideshows and collages. It had 200MM people globally on the platform, but little revenue, so we pivoted to business and ended up creating an industry – enabling small businesses to create marketing videos in 30 seconds or less.

Promo went from zero to $1.5MM monthly revenue in about 18 months. We had funded slidely through 3 different rounds, and then when the time came to pivot into Promo, I was involved with the company almost day-to-day…. Without that hands-on operations I might not have had that inside information. We decided we would support the launch of Promo and did a $6MM financing round. Using that money, the company was able to grow quickly, and for the next two years I was there supporting the CEO & founder in every way I could – including executing on partnerships and even one acquisition. We've put in almost $20MM over time and Promo is now the number 1 player in video marketing solutions for small businesses.

This is a great example of our conviction model. Owning a meaningful percentage of a very successful company, adding value, backing a great team, working in tandem in order to help the business grow into a global leader.

We also focus on Business-to-Mass-Market companies, which we have coined as B2M2, the platforms and brands of the Web 3.0 future that are being built as we speak. These platforms will combine communities with business offerings to create new markets and economies at mass market scale. Blockchain and tokenization are innovations used to further attract, incentivize and reward the community. One such example of this is loungebuddy, which was recently acquired by American Express. We invested in the Series A round back in 2015.

In terms of the new fund, one of the three deals was an investment into a **Cryptocurrency wallet**. I always boil our investments down into 4 basic questions, and this one was a good example of it:

1. Are you attacking a mass market?
2. How will you win?
3. Can we add value?
4. Do you have a sustainable business model?

In the case of this crypto wallet, they have four amazing founders, three of them are technical guys, and the fourth (also the CEO) is a fantastic marketing person. He's the one who will infuse the product with his marketing DNA and really be responsible for building the brand. In the seed round – when you don't have any evidence of traction – having a great marketing person is important.

The last deal to talk about is **Spitball**. It’s a company we’ve invested in before so again, it’s part of the conviction model. I’ve known the founder for eight years and it’s a company that’s pivoted the business model while keeping the core product, showing the perseverance that a founder needs. Spitball has created a peer-to-peer marketplace for students around academic content, particularly tutoring. The idea is to utilize blockchain as a technology and a database to allow students to transact directly with each other. They can sell notes, they can sell services, they can sell knowledge, they can tutor each other. Any student can become a teacher, and any student can get access to a global knowledge base at a much lower cost and with the actual provider of the service getting the benefit rather than a middle man. The company already has over 200K users on its blockchain based marketplace, and it’s going to be launching its tutoring app next month. This is a huge potential market, disrupting an existing field in an area where we can add a tremendous amount of value.

PETHER: Now let’s take a step back, you’ve been active in this space for quite a while. There’s been a growing role from institutional investors in the venture capital community, in terms of sovereign wealth funds and public pensions. Why are they starting to take more of an interest? What role do you think they can play?

COHEN: They are looking for diversification, which is good. If you think of the top companies in the world, most of them have been started by venture capital. In a lot of those cases, the companies have business models that they didn’t even think of in the beginning. So as an investor in VC, you need patience and a long-term outlook. You have to know that this is going to take 5-10 years, but the reward is going to be great.

Sovereign wealth funds and pension are really built for venture capital investing, because they’re thinking 10, 20, 50 years out in terms of investment horizon. It’s not just about money, it’s about patient money. It’s hugely beneficial for the VC community to have this investor base that has large sums of money and equal amounts of patience.