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CAPITAL STRATEGY FOR ENTREPRENEURS

c. Joey Tamer, capital strategist <www.joeytamer.com>

Capital Strategy

From the beginning of a venture until its exit, capital strategy is focused on accepting the best kind of capital from the best source at the best time to create the highest valuation. Capital is more than outside funding in the form of cash and/or debt for equity. Building a strategy around capital means considering all sources of capital:

- Funding from various sources
- Intellectual property, patents and copyrights
- Human capital, including expertise in market segments, product lines, technology and worldwide territories
- Strategic market alliances, including those that bring access to customers, distribution channels, markets, territories, co-branding and co-marketing, and endorsements
- Strategic product alliances, including those that provide product and technology synergies, such as licensing opportunities and/or integration with strategic products to create and deliver new products to target new markets

Any venture's success requires access to each of these capital sources and an effective strategy for their combined use.

Investor concerns

Investors are conservative again, as they were historically. The craziness of the boom has passed, and the get-rich-quick artists (both investors and entrepreneurs) are gone. There is less pressure on them to invest than in the boom days, and investors' deal offerings are tough on performance of the young company. On the other hand, there has been so little investment in the last couple of years, that there is a general restlessness to get into play again, and a recent new optimism, if the country can maintain any sense of economic stability.

Investors and economists worry about threats to the continuing stability: about another terrorist attack; about a setback in the general

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economy's recent growth; about another Enron-scale scandal. This helps to maintain the conservative nature of investment.

Preston Gates Ellis LLP

Sources of equity capital and how to leverage them

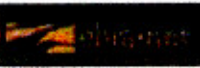


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- Venture capital firms only consider companies with this profile: investment requirements in the \$3-5 million range; proven product in the marketplace; on-going revenues from at least two major accounts; profitability now or in the immediate future (that future determined by sensible projections, and certainly within 12 months); the usual interest in strong management and defensibility of market position; and a good potential for an IPO within 3-5 years (or a significant multiplier in an acquisition by an already-targeted strategic company - although the VCs often won't admit this out loud).

Key issue: if you do not match this profile, do not waste your time approaching these VC firms.

- Some small boutique venture firms (there are not many) will consider early stage companies seeking \$1-4 million (i.e., product ready for launch or in development; no revenues), but usually your company must fit in some strategic way with other companies in their portfolios. *Key issue: do your homework online and through your network to see if your company is a fit for these boutique firms; if you can get access to anyone at one of their portfolio companies, seek an introduction through them; expect some pressure to form alliances with some of their portfolio companies, not always in your best interest, but to shore up the firm's previous investment.*
- Angel investors exist in groups (Tech Coast Angels in S. California, Band of Angels in NYC, etc.) or as pro-active high net worth individuals. These invest in early stage companies, in multiples of \$100K, usually \$250K - \$750K, and are willing to consider an acquisition exit. *Key issue: find these players through your network within your industry; look for "smart money" that understands your field and can bring other allies to the table for strategic advantage; it is too time-costly to educate dumb money just to get the capital. Do not change strategic direction to get the dumb money.*

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Exit Strategy First

Exit strategy is critical at the beginning. You must know if you are exiting by acquisition, as a spin off from your larger corporation, or as an IPO, since your exit strategy determines your capital strategy, entry, growth, positioning, pricing and distribution strategies. *Key issue: If your obvious exit is through acquisition (and multiples are low now: generally 3-5 times EBIDTA once profitable), do not seek venture money, look for private and corporate strategic capital. If your exit is through IPO, carefully build your growth profile to sustain the company through weak market times to an optimum IPO market.*

Finders



Find your own money. I have rarely known a "finder" that could be trusted, or who delivered as promised. Certainly you may reward your network of colleagues for referrals that lead to investment or revenue, but avoid strangers with promises.

Non-equity strategic capital



Look for non-equity capital from strategic alliances with larger corporations which might benefit from a synergy with your company's products or services. Strategies for finding strategic revenue can take less time than seeking equity capital in today's market, and leave you in greater control of your company or corporate division. I am always surprised that my clients so rarely pursue this source of capital. *Key issue: Look for strategic corporate money; licensing deals in vertical markets; international distribution deals, and other strategies that bring in capital in the form of deal-driven revenue, with no stock leaving the company. I once seed-capitalized a startup with \$2.2 million in dealflow revenue, with no equity leaving the company, so I know it can be done.*



This overview seems to presage better times to come. Certainly, as my clients learned, the last three years have been excellent times to develop new businesses. With continuing recovery, these businesses will catch the next wave.

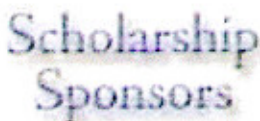


Joey Tamer (www.joeytamer.com) is an internationally-acclaimed strategic consultant. Her work helps create wealth for founders and investors of entrepreneurial ventures, and a high return on investment for Fortune 1000 intrapreneurial ventures.



Material included in this article was first published June 2003 in "We Thought You'd Like to Know" at www.cfoforrent.com/publications. A variation was also published as the lead article in About.com's January 19, 2004 Entrepreneur's Guide.

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