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Personal Motivation Will Likely Determine Source of Business Capital

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As you prepare to navigate the somewhat confusing waters of raising capital for your existing business or new idea, answer this question first: why did you or will you start the business in the first place? The answer to this fundamental question has a large impact on the type of capital you should pursue.

Venture capitalists generally classify entrepreneurial businesses into two types: growth businesses and lifestyle or legacy businesses.

Lifestyle businesses are generally started by entrepreneurs who, not surprisingly, are interested in the lifestyle of running their own business. This does not mean that they are lazy or unwilling to work – quite the opposite. These entrepreneurs are hard-working and driven, but their primary goals are to be their own boss and to have control over what they do. Lifestyle entrepreneurs closely control all aspects of their business, including finances, sales and marketing, and operations. They tend to be focused on a local market need, and they usually do not have an exit strategy – they expect to own and run the business indefinitely.

By contrast, entrepreneurs in growth businesses tend to be motivated more by a desire to get rich. Often this means identifying a market that is national or global in scope, and which they can easily reach with limited personnel from few locations. They do not care about control or even running the business for a long period of time – they want to build as much value as they can, and then exit the opportunity for a significant amount of money. Many of them are so-called serial entrepreneurs who will do this again and again, turning new deals every 4-6 years.

How do these approaches impact access to capital? The primary issues are control and exit.

The first thing that an entrepreneur has to learn about his or her business when taking equity money from a venture capital firm like ours is that it is no longer his or her business, it is now *our* business. For an entrepreneur who left a well-paying job for the opportunity to control his or her own destiny, this is not a good fit. While there is nothing wrong with wanting to be your own boss, it is only a problem if you also want to use someone else's money to do it.

Exit can often be an even larger issue. Venture capitalists generally make money one way: by selling our interest in a company for much more than we paid for it. For venture capitalists, this

means making an equity investment, helping management grow and develop the company, and then selling that investment for substantially more than we paid once the company has matured. This is not generally consistent with entrepreneurs who plan to run their companies indefinitely. While there are mechanisms to allow investors to recoup their investments without selling the entire business, these solutions seldom produce the level of return that equity investors require.

So how do you determine what source of capital is best for you? Start with self-reflection. By understanding your personal motivations for starting and growing your entrepreneurial enterprise, you can identify the right capital partner. If you are more interested in building a business and selling it for a lot of money – the definition of growth – then venture capital and other sources of equity financing may well be right for you. If your goals are more personal – control, long-term employment and a legacy to pass on to your children or others – then recognize that early, and approach the right sources of capital (likely debt) that can best work with you in building a lifestyle company.

Each type of entrepreneurial endeavor is equally valid and each has contributed significantly to the creation of wealth and jobs in America in the last half century. But each creates distinct investment returns, and requires distinct capital partners to maximize the chances for success.

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