



Article 49

September 7, 2008

## **Current Venture Investment Opportunities: The End of the Beginning**

*By Trevor Loy, Managing Partner, Flywheel Ventures*

With America's high-tech industries showing signs of maturity, some observers have predicted the demise of the venture-capital economy. Were it true, this would be troubling news, as entrepreneurs funded by venture capital have been the flywheel of the American economy in recent decades, producing 10 percent of all private-sector jobs and 10 percent of gross domestic product from investments of just two-tenths of a percent of GDP in the past 30 years.

Those of us in the business of investing venture capital see maturity in high-tech sectors as the short-term masking of a promising adjustment by entrepreneurs and investors to the changing realities of expanding global market opportunities with a broader base of technology innovations than ever before.

### **A World of Needs**

In recent years, many international markets for innovation-based products — especially energy, physical infrastructure, human health, mobile computing and communications and security — have grown faster than the U.S. market for those products. Because developing economies need to satisfy their needs in more sustainable ways for cost and environmental reasons, a higher level of technological innovation is called for. Given that the venture-capital industry's core skill is investing in highly innovative technologies to address large, rapidly growing markets, we believe venture-capital investment is more broadly relevant than ever.

While traditional areas of life sciences and computer sciences remain important, new domains of innovation — materials science, chemistry, optics, energy and other areas that involve more physics than computer or DNA code — are becoming more significant. Higher levels of innovation are rapidly changing even such mundane product sectors as building materials, food production and water treatment.

But the global economy has also changed what's required to build an entrepreneurial company. The global spread of market-based economies, mobile telecommunications and the Internet is accelerating the rate at which companies can reach customers and increase their revenue. The need to compete from Day One on such a global playing field also requires more resources at the start to build sales, distribution, customer support and supply-chain capabilities.

### **Changing Markets Require New Strategies**

The economics of venture investing are also changing as venture capitalists cope with the changing demands of innovation-based companies. Investors accustomed to short-term investments with the potential for high returns now are being asked to invest in technologies that require massive infusions of capital at the start in order to compete in the global arena and also require more time to become attractive to other investors.

Mostly gone are the days when a venture capitalist could count on a quick return on his or her investment by taking the company public through a sale of stock. Most venture capitalists now withdraw from an investment through a merger with — or sale to — a larger corporation or by offering stock for sale in overseas financial markets.

Furthermore, it's taking longer for technology companies to reach the stage when venture capitalists can exit. Because the average return on an investment at the time of a venture-capital exit is smaller than the average size of a traditional IPO, many entrepreneurs and investors are reluctant to invest the large amounts of capital such businesses need.

### **Survival of the Adaptable**

Venture-backed entrepreneurs and investors today have broader opportunities to make money than ever before — but only if they can craft fundraising strategies adapted to the changing requirements of technology businesses in the global marketplace.

Because the old rules that governed the venture-capital process no longer work, some observers predict it's the “beginning of the end.” But, to paraphrase Winston Churchill, what we're seeing is perhaps “the end of the beginning” as the venture-backed entrepreneurial economy moves to a new era of even greater opportunity.

*Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to [www.FinanceNewMexico.org](http://www.FinanceNewMexico.org).*

