Funding your business? Good time for a strategic partner

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The global credit crisis has highlighted an interesting psychological difference between financial and strategic investors.

Financial investors have become very cautious (if not nervous) about investing whereas strategic investors understand the importance of countercyclical investing to ensure that their businesses are even stronger as markets turn – ready to take advantage of the inevitable growth surge that will follow.

Interestingly, the largest (by dollar value) investor in Europe in the second quarter 2008 was Intel Capital (a strategic fund), evidencing this short-term trend.

Very focused financial investors may have a similar strategy to the strategic investors, but in Australia there are very few financial investors with such a depth of sector-based expertise and immersion that they can adopt this approach with confidence.

Also, financial investors are more tightly governed by the timing of their funds. If public markets are weak (and they are!!) then this diminishes a potential exit route which, in turn, decreases appetite for increasing short-term exposures.

In a previous blog, we compared and contrasted the pros and cons of taking financial and corporate strategic investment – but more so from the high end – that is, institutionally backed VC funds and investment funds run by multinational corporations (such as Intel Capital, Lend Lease Ventures etc).

There is, however, a lower tier of strategic investor constantly active in our market but rarely (if ever) picked up in the literature because they don’t report on their activity. The medium to large scale local business sector (often either family or individually owned) is out there and always hungry for quality opportunities that complement their existing core businesses.

Sometimes, groups of such businesses – who may already have supply chain relationships – see value in combining their financial power to jointly pursue new initiatives. More often than not they have ideas, even a well-defined vision, but they lack the human resources to make it happen.

The sorts of new business ventures that lend themselves to such support are not generally high-tech VC styled businesses, but rather solid services/distribution styled businesses that can leverage off the customer base of the investing business or consortium.

It’s important that any proposition to such groups is very well thought through in terms of how it will complement (ideally enhance) existing core businesses. No matter how interested the proprietors may be in your ideas, they are still facing a slowing economy and so won’t be keen on longer-term/high-risk propositions.

The message for my entrepreneurial colleagues is that while more traditional sources of funding may be hard to come by, if your business is well suited to align itself with known medium to large scale operations, then it may be time to reassess your strategy and look for strategic partners that share your vision, rather than investors with a purely financial focus.
Doron Ben-Meir has been an active venture capital manager for the last eight years. He founded Prescient Venture Capital and prior to that was a consulting investment director of Momentum Funds Management. He was a serial entrepreneur over a 12 year period, co-founding five new technology based businesses. SOURCE: Smart Company., 23rd October, 2008. Article used by permission., Doron Ben-Meir of Prescient Venture Capital.