

The Dollars and Sense of Strategic Partners

Have you ever watched the Dragon's Den on CBC, or its sister on the US networks The Shark Tank, and wondered how those venture capitalists are alive without a heart beating in their chests? Well you wouldn't be alone. So why do budding entrepreneurs subject themselves to the scrutiny and sometimes utter humiliation on these shows?

The answer is that these entrepreneurs understand that venture capital is a unique form of funding – and it brings benefits far beyond the dollars and cents that are provided. Imagine being a software company and having your interests aligned with an investor that has made billions in this industry, or having a product that you are trying to get on the shelves of retail stores and having access to one of the country's foremost experts on marketing strategies because as an investor she also sits on your Board. This is the attraction of venture capital investment partners like those on the Dragon's Den.

Venture Capitalists are true strategic partners. The investment type is predicated on the provision of equity capital. Very few deals are structured without some form of equity participation in the growth of a company. It is this potential to share in the upside that provides the returns necessary to offset the risk of investing in smaller primarily private ventures. Yes, you will have to share the ownership of your company, but your investment partners' interests are strategically aligned as they are also owners. In most transactions, the investment amount of the venture capital partner far outweighs the cash invested by the entrepreneur themselves. If you don't succeed, well, quite frankly your VC partner doesn't succeed either.

What is refreshing about a venture capital investor is that there is no question as to their motivation for investing: to grow the business and generate a return. Sometimes that means that they will be asking the hard questions. On the Dragon's Den, the hard questions, mixed with a little sarcasm and the right lighting makes for good ratings. In real life, the hard questions may mean the difference between a business succeeding and a business that fails. One of the most difficult issues to deal with in a growing company is that more often than not the entrepreneur that launched the business is not the right person to lead it to the next level. That doesn't mean that there isn't a role for the entrepreneur in the growing operation but it does require that everyone take a good hard look at the fit between their skillset and what the company needs.

Venture capital investors aren't the only players that understand the benefit of strategic partnerships. More and more, businesses are recognizing that to remain competitive they need to band together to create synergies – where the value of the whole is greater than the sum of its parts. In a market like the one that we've seen in the past 18 months, with unprecedented value swings and the fall of some of the world's largest companies – strategic partnerships are becoming a common strategy to mitigate risk. These partnerships are opening up new markets and untapped client bases for products and services, and sometimes help to reduce the distribution and administration costs for companies trimming anywhere they can to remain competitive.

At the end of the day, what business boils down to is dollars and cents. Do strategic partnerships translate into value for



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the business? Valuation is a complex process, but don't kid yourself – good strategic partnerships can translate into big money.

The right investment partners bring instant credibility and open doors for your company. A firm that has invested capital into your business has completed extensive due diligence on the product that you produce, the market you serve, and the business' potential for growth. The fact that the investment transaction was completed tells other investors, suppliers and clients that this company has passed the test.

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Board members and advisors are another form of strategic partner. As a small private company, investors are essentially betting on management to deliver on their promise of growth. The right advisory team with expertise and established business networks, not only in the core operations of the business but also in areas that will grow those operations, help to reduce the risk associated with the fate of the business resting solely on management's shoulders.

The right industry partners can provide access to restricted markets, help to solidify long term agreements or provide new and unique distribution channels. Any of these provide an advantage over the competition, increase a company's potential for success and help to reduce risk to investors.

One of the key stages of a company's life cycle that is often significantly affected by the company's relationship with strategic partners is the exit. Brokering the successful exit of an investment is one of the most important parts of the deal. The exit scenario ultimately determines the investment return and in the world of venture capital, the exit strategies are almost endless. Strong advisors with expertise in building and exiting business not only help guide a company smoothly through the exit transaction, but may also be the catalyst by influencing the company's strategic plan or using an existing network to source willing buyers.

Very few companies succeed without solid relationships with strategic partners. This is a concept that investors understand well, and the value of these partnerships is built into the pricing of a deal. Building early strategic relationships will help to reduce the risk to potential investors down the road. Because risk and return is a direct relationship for investors, reduced risk means less expensive investment capital for you to grow your business. They say it takes a village to raise a child, well in the business community it takes the right strategic partners to build a successful business and with venture capital investment partners you can take that to the bank!

