086. A DIFFERENT KIND OF VENTURE

Running a high-growth company and feel like you've tried all possible sources of funding to no avail? Venture lending might be the answer.

BY RICK GIBSON

I AM GOING THROUGH A catharsis. Yep, there is a bit of shock involved, but it's the good kind. I have a new gig. I recently became a general partner and president of a new Tucson-based venture-lending company, Clear Blue Ventures.

My old firm, HOTventures, will continue to operate, as it contains my continuing interest in three investment funds—plus the seven or eight other private IT and biosciences companies in which I have equity interests. However, Clear Blue Ventures will take up most of my time and attention.

How did this happen? And why? Well, as I looked around, I came to the conclusion that the world was getting more diverse, yet, despite that, sources of funding for growing companies continue to converge into a few categories. And, lending is one standout area that is becoming even more important to growth companies.

It's like this: Investors always serve two masters. First, we serve our partners, who put money into our funds and are always seeking to better their return while lowering their risk. Second, we serve market forces. These days, market forces have required that companies be better informed about the pitfalls of raising funds: cost, dilution and loss of control.

So when your company is out there seeking funds, you need to reduce these pitfalls wherever you can. Borrowing funds instead of selling shares can often reduce your risks. Thus, borrowing (or in lender speak, venture lending) might be an attractive alternative to equity funding for some companies.

You need to do some massive soul-searching to figure out what's right for your company. Do you need your money quickly? Do you care about giving up a lot of equity? Do you need the money for a short term or do you want it "permanently"? Have you recently received a purchase order or contract? Have you been to a bank and been turned down for not being in business long enough or not being profitable yet?

As a comparison to venture lending, the other common fund-raising methods (and their disadvantages) are credit cards (but, will Visa or MasterCard advise you on your most pivotal business decisions when you call their 800 number?); friends and family (pay them back quickly or your family weekends and holiday dinners could be ruined for the rest of your life); your vendors (these people actually have something to gain from your success, but are extremely hard to find); strategic partners (they already know your industry, though sometimes better than you do); angels/high-net-worth individuals (sure, they're rich people, but what do they know about your company?); and venture-capital firms (there are only about 10 investing in Arizona, so good luck being one of the precious few who get to work with them).

Most of these methods are pretty good, though no one category by itself is good for all companies. (Repeat after me, there is no one funding niche that's right for all companies. There is no one funding niche that's right for all companies…)

So where does Clear Blue Ventures fit in? While we did not invent venture lending, we might be working to perfect it.

Venture lending is perfect for companies that have received purchase orders or a contract but are running out of cash. This kind of company would have a finished product or service but be in need of funds for cost of goods or to enable production. Its customer is waiting, but the company might not be able to ship without this funding.

The company might have been to a bank, but the bank was not able to fund because the company is not profitable yet, or perhaps has been around for fewer than three years. Or this might not be the right time for the company to do an equity funding, where 20% to 50% of the firm might have to be given up.

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With venture lending, a small percentage of company warrants will suffice, and because the venture lender gets solid company security, the lender is thus able to justify its risk. And venture lending does not require a change in the company's banking relationship.

Let's take, for example, one of the companies that Clear Blue is looking at funding. The company provides products and services for the electronics and software markets. Its business has just begun to explode and the company has several large orders it needs to ship soon or it will lose them. While the company had been self-funding, it now needs to finance much larger production runs for new customers—which will in turn generate greater gross margins, so that later the company can obtain regular bank financing.

They only need the funds for six to eight months. What's great is there will be no interruption in the regular depository relationship with the bank that suggested us to them. Clear Blue can help the client out with this short-term/bridge loan, and the bank can continue to work with the client when our bridge phase is completed.

So you can see why, when the opportunity to join Clear Blue Ventures came up, I jumped at the chance. It is an exciting position, and while I still can't fund every deal I see, I can help fund more of them now. biz

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