VenLogic L.L.C.
1011 Boren Ave. Suite 318, Seattle, WA 98104 (206) 726-9656 (206) 726-1019 fax
Info@VenLogic.com

Laws of the New World

Strategies for successfully navigating the world of private equity.

1. Law of Messages

- Messages must be exact, concise and targeted to get mind share of ANYONE. Accurate product and deal positioning is critical.
- Messages must be relationship driven, ideally through PR and word-of-mouth. It otherwise takes a substantial advertising budget to rise above the media noise level.

2. Law of Focus

- Startups must have no more than three complimentary revenue lines, ideally one. Too many revenue lines, requires too many messages, which strains resources, creates bureaucracy, and breaks the Law of Messages.
- Must be intellectually honest and focus your team's core competencies on what you can reasonably deliver.
- You must partner or outsource the other value required and not try to do it all, or else break the Law of Messages on "what you do."

3. Law of Relationships

- Law of Messages implies that successful use of word-of-mouth leverages networks for success.
- Large order sales (i.e. equity, expensive products, partnerships) requires relationship selling, which takes time, trust and senior level expertise to complete. These deals always takes longer than you think and often force companies to run back for cash sooner than expected. Most deals fail because they didn't budget properly due to lack of experience.
- There is a finite limit to the number of relationships any one person can develop and maintain over time. Some experts say you can reasonably maintain no more than 150 "relationships" at a given time. Seek to find "connectors" between large developed networks.
- The half-life of a new relationship is about 90 days without constant maintenance.
- Proper balance is the key to maintaining a new relationship. If you take more than you give, the relationship will erode. This is a very difficult to maintain in referral-based network, where the value change has natural order and some providers receive more than they refer.

4. Law of Collaboration

- Critical knowledge required to build successful companies has been unaggregated to general the public, and hoarded by the capital providers.
- Partners in the New World collaborate for the mutual benefit of each other.

5. Law of "Added Value" Expectations

- Every investor will be measured by their ability to increase company valuations between rounds.
- Failure to add value promised will result in investor dilution at a rate faster than management.
- Management need to be especially selective in their choice of investors and establish a "contract" for their value add promises when tied to their investment. Investors will be docked, either by this contract or the next round, for failure to deliver.

6. Law of Rising Costs of Development

- The cost to add value and develop companies has risen about $3M per year, or 15% CAGR over the past 15 years. What used to take $7M in 1985, can take $50M to take a company from Idea to IPO.
- Failure to budget properly, hire the correct domain experts, and design a flexible capital structure for raising interim rounds to preserve the value - will result in executive/founder dilution and/or release from their obligations.