

'Small companies need to look for non-VC sources of funding'

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Because of the changing venture capital environment, many small companies need to look for non-VC sources of funding.

One that is too often overlooked in the valley is corporate venture funding, in which a smaller company forms a strategic alliance for such things as global marketing, production or a product tie-in with a much larger company.

The larger corporation will form an alliance because it gets a technology that it does not have in-house, or a tweaking of an existing product line at a lower cost with more efficiency. Larger companies also realize that they are often less creative than smaller ones because they are hampered by their own bureaucracy.

Small companies are free to create new technologies, but they can't scale them because they don't have the resources. CV funding gives one-product companies the money they need as well as some management assistance.

With strategic alliances, small companies don't need to compete directly with larger, established ones. A small company that creates customer relationship management software will have to compete with Siebel, a battle that it is not likely to win. But if it has a niche product, it would be beneficial to have Siebel as a partner.

The smaller company also gains credibility for fund raising if a large, respected company invests in it. This increased credibility also makes it easier to open new markets, especially overseas. Another advantage is that a CV investor takes a much smaller percentage of a company than a VC will.

On the other hand, with VC money there is often both active management and multiple layers of funding. CV funding tends to be more passive. Also, most large corporations will only look at a new technology that is a strategic fit for the company and is close to beta testing.

This means that CV money is not usually the primary funding source. A corporate investor may fund \$500,000 to \$5 million in stages. And the investor may want exclusivity for a specific market, or at least a long lead time before the product can be offered to other companies.

Another issue in dealing with corporate funding is time. Although it is much harder today, a company can still get its money from VCs more quickly than the six to 12 months it typically takes a corporation to screen the company and approve the funds. Even then, their tech people may decide that the technology is not a good fit.

Another pitfall in finding a corporate partner is learning which department to approach. Most people are comfortable dealing with professional counterparts, so a company with a customer relationship management product may try to deal with the corporation's CRM group, but those people may not be involved with corporate venturing or strategic planning.

Companies that simply want to sell a product should approach the corporation's business group directly. However, to obtain CV funding it is better to talk with the venture group first and have its people make introductions to the appropriate business groups.

Although sometimes arduous, the effort it takes to create a strategic alliance can produce great rewards. For small tech companies, either in hardware or service, finding corporate partners to strengthen or accelerate launching into the market is a viable way to obtain money, penetrate the market faster and gain that all important credibility.

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