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Loans for Legacy, Equity for Growth

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Anyone looking for a business investor must examine their personal goals before looking for funding – different reasons for starting a business mean different ways of finding money.

Venture capitalists classify entrepreneurial businesses into two groups: growth businesses and lifestyle, or legacy, businesses. Only growth businesses will be attractive to venture-capital firms.

Lifestyle businesses are those started by people who want to have control over what they do and how they spend their time. These businesses tend to be focused on a local market, and entrepreneurs expect to own and run the business indefinitely. Heads of families sometimes start these businesses to provide a legacy that can be passed on to children, ensuring future family security through ownership and employment.

Growth business entrepreneurs are interested in getting rich. Often, this means identifying a national or global market that can be reached with limited personnel from limited locations. These business owners want to build as much value as they can and sell for a profit. “Serial entrepreneurs” expect to do this repeatedly, turning new deals about every six years.

The first thing an entrepreneur has to learn when taking equity money is that the investor is now also an owner. Venture capitalists, like successful stock market players, make money one way — by buying low and selling high. This means making an investment, helping management develop the company, then selling that investment for a substantial profit once the company has matured. This may be acceptable to the owner of a growth business but it is contrary to the lifestyle-business owner’s need to retain control. And while there are mechanisms to allow investors to recoup their investments without selling the entire business, these solutions seldom produce a venture capitalist’s required level of return.

By understanding personal motivations for starting an enterprise, entrepreneurs can identify the right capital partner. Entrepreneurs interested in building a business and selling it for a lot of money will find venture capital appropriate. If goals are personal, business owners will be better off looking for loans or other sources of funding. Both are equally valid and both have contributed significantly to the creation of wealth and jobs in America.

New Mexico's Small Business Development Centers offer workshops on finding appropriate business capital. Visit www.nmsbdc.org for workshops held in 20 locations around the state.

For more information about Verge Fund, visit www.vergefund.com

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC) and its partners to assist individuals and businesses in obtaining skills and funding-resources for their business or idea. To learn more, go to www.FinanceNewMexico.org.

