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Businesses, Like Lives, Have Stages

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Few businesses follow a predictable path and timeline from one stage of life to the next. Some linger for a long time as startups, while others dash directly from startup to rapid growth. Knowing the life cycle of a typical business can help an entrepreneur know where to find capital to reach the next stage.

The seed or startup stage starts with an idea or a prototype for a product or service. At this stage, entrepreneurs either tap friends, family members or other personal contacts for funds, or they seek angel investors, SBIR grants, micro loans or very early stage venture capital.

When a company is preparing its product or service for a market launch, it's in the early stage of life. As it begins to produce products and secure customers, the business might need a cash infusion for inventory or equipment and is most likely to find it through a bank loan, micro loan, angel investor or venture capitalist.

When the company outgrows its initial goals, it's in the expansion or growth stage. Banks, SBA lenders and venture capitalists are interested in companies like these that are moving into new markets, gaining more market share, introducing new products or services, acquiring new customers and rapidly accelerating revenues and profitability.

Changes in the economy or market conditions can cause sales to decrease and a company to decline. Faced with a negative cash flow, the owner must decide whether to seek another opportunity or find ways to salvage the business. Possible funders at this point include suppliers, customers, co-owners or partners.

At the exit stage, an owner is either selling or shutting down a business. Accountants and financial advisers can help decide the best exit strategy, but common ways to raise money at this stage are through management buybacks, Employee Stock Ownership Plans or Initial Public Offerings.

Capital at any stage

Satisfying a business's appetite for capital requires knowing which kinds of investors to approach at each stage.

Funding sources have their own guidelines for when to help — and how much to give — a company that's hungry for capital. But the first thing all investors want to know is what stage a company has reached and what chance it has to grow and make money.

The number of equity funding sources in New Mexico has increased significantly in the past decade. Several companies collaborate with the New Mexico Small Business Investment Corp. to get capital where it's needed.

ACCION New Mexico, The Loan Fund and WESST provide small to mid-sized loans to all types of businesses. Flywheel Ventures, the Kickstart Fund and Verge provide early stage venture capital primarily to technology-based companies; Flywheel also manages the Gap Fund, which typically invests in technology companies just getting on their feet. New Mexico Community Capital provides growth stage venture capital to manufacturing, distribution and service companies. The Mezzanine Fund is a hybrid of debt and equity and is appropriate for special situations.

More information on the various funds doing business in New Mexico can be found at www.financenewmexico.org.

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.

