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A note to entrepreneurs: Fight on!

Equity Line

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Difficult times are largely internalized in two ways. The pessimistic reaction sees a time to retrench, slow down and wilt from challenge. On days like those that just passed, it literally is a challenge to leave the embracing comfort of the bed to get up and face a barrage of rough economic news, declining customer demand and probable layoffs. It's a brutal economic environment and it doesn't mind slapping you around a bit. Even worse, we're not used to it. We haven't seen a downturn for nearly nine years.

However, seasoned entrepreneurs and investors know that economic dislocation creates the greatest economic opportunities. For example, venture capital dollars that were invested in the 1991 period just after the Gulf War were among the best performing funds of the past 10 years. This is not a time to retrench — it is a time of great opportunity.

As a corporate leader, this is a time to test your mettle. Great leaders are not born out of good times — they are born out of severe challenge. Don't wilt! This economy is hammering everyone. It's punishing with equal opportunity.

Now is the time to dig deep and lead. The reaction entrepreneurs have to this era will define their true leadership skills.

For entrepreneurs seeking financing, this environment is particularly tough. Venture investors have abandoned their Frisbee speeches and gone underground. Banks have completely forgotten that lending has something to do with their business, and if you can locate an investor, they want 150 percent of the ownership and you to assume all liabilities.

It seems dire. However, all is not lost. The good news is that there's still more than $100 billion in venture money out there, ready for deal-making. But to bring home the bacon in this environment requires new tactics and views. Several points are paramount:

■ **Profits.** The business plan you show to venture capitalists must be tighter and better researched than ever. The plan must be impenetrable in its logic, with tangible business barriers to entry and profits — not losses — projected.

■ **Valuation.** Sorry, but if you want to get a deal done, your valuation expectations must come down. The old world of frothy valuations is gone and will not be seen again for several years. Be realistic, and do what it takes to get a deal done. Don't be overly proud: a smaller percentage of a pie is superior to a large interest in a busted company.

■ **Vigilance.** Never have venture investors been more buried. We all have numerous portfolio company challenges and we're paddling as hard as we can to stay above water. A new plan must scream out before it will get attention, and responding to calls is harder than ever. As such, entrepreneurs must be more vigilant than ever in getting heard. Prepare to call, fax, write, e-mail and beg several times before you get a response. Don't be daunted or insulted; this is simply the environment.

On the investor side, all investors know this is a time when the greatest equity value will be created. Economic dislocation and attractive valuations always equal big opportunity. But sometimes it's hard to get back on the horse after you've been knocked off so many times. Also, it's tough to invest when you don't know where the bottom is. But I'm sure the bottom is near, and it's time to make some bets.

Action in hard times defines us, and it's a great, albeit bumpy, time to be an equity investor.

Here are some of the key characteristics we're looking for:

■ **Barriers to entry.** The business must be protected based upon some barrier such as intellectual property, large capital requirements, proprietary distribution agreements or regional dominance. If there are low barriers, there will be low profits, period.

■ **Recurring revenues.** The business must be more than just a people shop. The relationship with the customer must be locked in by more than a handshake. A business needs facilities, management contracts or network monitoring contracts; some predictable revenue stream.

■ **Seasoned management.** In times like this, we turn to managers who have lived through a downturn. These are managers who know how to cut costs and manage down, not just growth-oriented builders. Experience always matters, but never more than now.

■ **Competitive advantage.** Never has clearly identifying all of the primary competitors in their strengths and weaknesses, and your specific differentiation and advantage, been more important.

Fortune really does favor the bold, and in these challenging times, the bold entrepreneur must be more thoughtful, analytical, persistent, careful and methodical than ever to get a deal done.

But deals will get done, because there's big cash out there and this country is still without peer in its system of backing entrepreneurs to build companies.

It's not a time to wilt. It's time to fight on!