

VENTURES

QUARTERLY NEWSLETTER FOR SMALL, MINORITY- AND WOMAN-OWNED BUSINESSES

How Should I Finance My New Business?

A Guide to the World of Angel Investors, Venture Capital and Debt Financing

By Florian Hauswiesner, Managing Partner of Hauswiesner King LLP.

Every business faces the question of raising capital: from entrepreneurs in the process of starting a new business, to companies that need to finance the next level of growth to go national, acquire other companies or start selling their product globally to large publicly listed companies.

Emerging companies usually have two options to finance growth: debt financing or equity financing. Debt financing means acquiring loans from private, commercial or institutional lenders. Equity financing means capital that is received in exchange for a share of ownership in the business which typically amounts to additional shareholders in your company. Each option has its pros and cons. A combination of both often makes sense for most businesses.

After analyzing their capital need, entrepreneurs should consider that debt financing makes more sense in certain circumstances. In others, equity investors are the preferred option.

Debt Financing: Private, Commercial Loans and SBA Guarantees

When seeking private or commercial loans you remain in full managerial control of your company and do not have to give up any ownership or future profits of your business. Another advantage is that interest paid on the loan is generally tax deductible. All that a lender can require is for you to pay back your loan.

If you are just getting started and do not require much capital, you may qualify for one of the Small Business Administration (SBA)'s programs. The SBA works with banks, intermediaries, and other lending companies to guarantee loans and to make loans to small businesses that are unable to obtain debt financing through regular lending channels. Generally, SBA programs do not make sense if you require more than

\$150,000. Another option for Virginia businesses is the Virginia Small Business Financing Authority (VSBFA), which provides loans, guarantees, insurance and other assistance to small businesses.

Disadvantages of commercial loans:

- Your company must have sufficient cash flow to repay its loans. This means that loans are often not an option if you will "burn" a lot of cash and it will take a while before you generate any profits.
- The riskier the loan is, the higher the interest rate, which is a problem for many startups with a new or untested business model.
- Most banks require small business loans to be co-signed or guaranteed by the business owners. You will be liable personally for the loan if your business goes under.
- Loans usually require collateral. If you cannot repay your loan, the lender has a right to seize your collateral.
- In case of bankruptcy, bondholders and secured lenders have preference over shareholders when the assets of the company are liquidated.
- Too much debt may affect your credit rating and impair your ability to raise money in the future.

Equity Financing: "Friends, Families, Business Angels & Venture Capitalists"

Most entrepreneurs that start a new business will first ask friends or family if they can fund the business idea in exchange for an ownership interest in the company.

If family and friends are not an option because they do not have the required financial means or lack faith in your business idea, outside equity investors are another option.

Angel investors are wealthy individuals that invest money in start-up businesses. Venture capitalists (VCs) invest funds raised from institutional and private investors.

The choice to approach business angels or venture capitalists depends on your product and the capital needed. While business angels invest on average \$300,000 in a company, VCs generally invest between \$500,000 and \$7 million. Sometimes it makes sense to seek angel capital first, and then obtain subsequent funding from VCs as your company and its capital needs grow.

The good news is that VC funds have raised significant funds in recent years and invested more than \$1.24 billion in local companies. In the first quarter of this year, VCs invested \$264.6 million in the Washington area, which is up 13.9 percent from the comparable period a year ago. This means that while many commercial banks are making it harder to obtain loans, there is a lot of VC money available for your company.

The bad news is that while there are hundreds of VC funds in the United States, many of them receive hundreds of business plans from entrepreneurs each week. Make sure you analyze venture capitalists who might be a good fit for your company and the financing you are seeking, and talk to an expert such as a lawyer, banker or economic development professional, who can introduce you to VCs or angel investors. It is also imperative to do your homework and draft business plans and executive summaries that work hard to attract interest from potential investors.

Advantages of equity financing:

- Access to capital will increase, since you can contact more potential investors.
- Your company might become more widely known.
- You might obtain financing more easily in the future if investor interest in your company grows.
- Business angels and VCs can offer business advice, professional experience and a business network.
- Your company might be able to attract and retain more highly qualified personnel if stock options and other equity incentives are available.

The main reasons why many entrepreneurs shy away from angel investors or VCs are:

- Some managerial control is lost.
- There is an obligation to keep shareholders informed about the company's business operations, financial condition and management.
- There is potential for liability because of new legal obligations.

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SUPERLATIVES

Fairfax County Companies Shine in Minority Business Rankings

11 Fairfax County Companies Make Annual Hispanic Business List

Eleven Fairfax County-based companies, including eight in technology fields, are among the 500 largest Hispanic- or Latino-owned businesses in the nation based on revenue, according to the June issue of *Hispanic Business* magazine.

The Fairfax County companies are among 17 from Virginia on the *Hispanic Business* 500 list. Only 13 states have more companies on the list. The state of Maryland has 11 companies on the list, and the District of Columbia has four.

“Being home to 11 of the 17 Virginia companies on the *Hispanic Business* list, and having the same number of companies on the list as the state of Maryland, underscores the role that Fairfax County plays in the Washington area economy,” said Gerald L. Gordon, Ph.D., FCEDA President and CEO.

Ranked by revenue, here are the 11 Fairfax County companies on the 2008 *Hispanic Business* 500.

- 42 MVM, Inc. (www.mvminc.com)
- 88 GeoLogics Corporation (www.geologics.com)
- 91 Tessada & Associates (www.tessada.com)
- 141 Priority One Services, Inc. (www.priorityoneservices.com)
- 147 COmputing TechnologIeS, Inc. (www.cots.com)
- 159 Kemron Environmental Services (www.kemron.com)
- 211 SCI Consulting Services, Inc. (www.sciworld.com)
- 303 Citizant (www.citizant.com)
- 356 Engineering Management & Integration (www.em-i.com)
- 405 MicroTech LLC (www.microtechllc.com)
- 476 MAC Aerospace Corporation (www.macaerospace.com)

Together these companies generated \$400 million in sales and employed 4,895 workers in 2007. ■

FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY

8300 Boone Boulevard, Suite 450, Vienna, Virginia 22182-2633
Voice: 703-790-0600 • Fax: 703-893-1269
info@fceda.org • www.FairfaxCountyEDA.org

The Fairfax County Economic Development Authority (FCEDA) is an independent authority created under state law, operating under the direction of seven Commissioners appointed by the Fairfax County Board of Supervisors. Its activities are funded by Fairfax County.

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The FCEDA assists businesses interested in locating, relocating or expanding their commercial office or industrial operations in Fairfax County. The FCEDA's services are available on a confidential, no-cost basis.

Five Fairfax County Firms Named to 2008 Black Enterprise 100 List

Five Fairfax County-based companies—almost half of the Washington, D.C., regional total of 11—are on *Black Enterprise* magazine's 2008 list of the 100 largest African American-owned industrial/service businesses in the nation. Statewide, Virginia had eight companies on the list. Only six other states have five or more companies on the list: California, Georgia, Illinois, Michigan, Ohio and Texas.

“Once again Fairfax County demonstrates that it is the economic engine of the Washington area and Virginia, and we are very proud of our reputation as one of the best place in the country for minority-owned companies to grow and succeed,” said Gerald L. Gordon, Ph.D., president and CEO of the Fairfax County Economic Development Authority.

Four of the five Fairfax County companies on the 2008 BE 100 list are federal contractors in information technology fields. Here are all five, ranked by revenue:

- 23 Thompson Hospitality (www.thompsonhospitality.com)
- 44 Universal Systems & Technology (UNITECH) (www.unitech1.com)
- 48 Omniplex World Services Corp. (www.omniplex.com)
- 64 Communication Technologies, Inc. (COMTek) (www.comtechnologies.com)
- 80 CMI Management, Inc. (www.cmimgmt.com)

Together, the five companies earned more than \$530.65 million in sales revenue and employed 8,155 workers in 2007. ■

Fairfax County EDA, Virginia and U.S. Commerce Department Honor Five Local Entrepreneurs

Five business people received certificates for completing the 2008 “Exporting 101” series of workshops, organized by the Fairfax County Economic Development Authority (FCEDA), Virginia Economic Development Partnership (VEDP) and U.S. Commercial Service – U.S. Department of Commerce. The series, in January, February and March 2008, focused on exporting basics, including state and federal government resources for exporters, market research strategies and export financing.

Certificate recipients were Jose Luis Ayala, who exports goods to Colombia; Tim Francis, who has a two-year-old computer sales and service business; Maritza Muñoz, who wants to export women's clothing and accessories to South America; Rane Peppard, whose services include electrical contracting; and Humphrey Rutherford, a customer service firm owner.

“These workshops help local business people expand into new markets, which builds their companies and creates jobs and wealth for Fairfax County,” said Gerald L. Gordon, Ph.D., president and CEO of the FCEDA.

In addition to this export workshop series, the FCEDA provides counseling services on international trade through an arrangement with the VEDP. Counseling is free, but appointments are required. For more information, call 703-790-0600. ■



Attendees of the most recent “Exporting 101” series are joined by Gus Grace (back row, fifth from left) of the U.S. Commercial Service, Gerald L. Gordon, Ph.D. (back row, sixth from left), President and CEO of the Fairfax County Economic Development Authority, and Jenee Andreev (front row, sixth from left) of the Virginia Economic Development Partnership.

Put Focus Into Your New Business and Define Your Market Positioning

By David Krauskopf, SCORE

When I meet with entrepreneurs, I often observe that they have more things they want to sell than is humanly possible. One of their classic problems is focus. Many small businesses and start ups stagnate because they dilute their efforts on different products and customers. Determining exactly what you want to sell (and can deliver on) and who will benefit, ensures growth.

The key is to identify what aspect of your business and products fit the “low hanging fruit” model. In other words, what can you pursue to allow you to build your business quickly and operate smoothly without you. If you can set up a system to get regular ongoing sales with one product, you can evaluate expansion.

This simple yet powerful template will help to refine focus and enable better customer communication. Using the template, first write an overall positioning statement. You’ll retool this statement later for other marketing uses, so take the time to make it concise and powerful.

Summarize your offering in terms of a positioning statement

- To (target—who is the customer?)
- x is the brand or (frame of reference, which we are with, company name or product name)
- that (primary one or two benefits you provide that this customer needs)

- because (key attributes or arguments that back up the benefit)

Targeting benefits and attributes will quickly grab a customer’s attention. The customer is reassured that the message is specific to their needs. The positioning statement should only be a few words total or certainly not longer than a few concise sentences.

A “Value Proposition” is a positioning statement :

“A concise statement of the compelling promises that your product or company makes to a set of target customers that is differentiated from available alternatives, and supported by reasons to believe in the promise.”

When writing a positioning statement, check to see if it fits this value proposition definition as well. If it does, you are probably in good shape.

After you have this written and defined, ask a few directed questions about the goal.

- How big is the target market?
- How will the message be delivered to the target market?
- How will the company close sales?
- Can the company deliver on these sales—even if the demand is great?

Answering these questions will help refine the offering and create a more efficient sales process.

With many products or services to sell, take each definable product or service and write its own “sub-positioning statement.” Working through this process determines how best to reach many “channels” using the least resources, and which targets have overlap in and how to best serve them. Next, prioritize the company’s time and energy.

*Hint: If selling multiple products is necessary, look for products that complement each other in terms of customer and similarity as well as efficiency of production and delivery.

After defining and refining positioning, the company becomes more efficient and more effective at selling more products to the right people. In the end, this is a very profitable way to do business. ■

For more information, contact David Krauskopf at 703-790-0600 or info@fceda.org.

FCEDA Expands SCORE Counseling Services

Paul Robberson joins David Krauskopf as a SCORE counselor at the FCEDA headquarters location in Tysons Corner.

The growing number of attendees participating in the Fairfax County Economic Development Authority’s (FCEDA) monthly Entrepreneurship 101: Starting a Business in Fairfax County workshops and the high demand for business counseling services necessitates the expansion of the FCEDA’s free SCORE counseling services.

Robberson is a Fellow of the Society of Actuaries with over 30 years experience in the consulting business. He started his own consulting firm in 1982. Robberson also served as president of a nonprofit organization for two years. He spent time with Watson Wyatt Worldwide as Practice Leader in their Chicago office, and recently retired after creating a specialty systems development group in the Watson Wyatt Virginia headquarters.

Krauskopf is an experienced entrepreneur who served as general manager of Apple Computer of Russia from 1993 to 1999 and owned the exclusive representative rights for Apple Computer in Russia and Ukraine. He developed, and is a shareholder in, a resort in Belize, Central America and holds an advisory board position in tech start-up Payment Pathways, Inc.

“Our small businesses are extraordinarily fortunate to have access to expert advice from seasoned professionals,” says Gerald Gordon, PhD, President and CEO of the FCEDA in announcing the expansion. “We are even more gratified to have SCORE counselors on-site who have such rich and successful business backgrounds and who are willing to share their time and expertise with others.”

An initiative of the U.S. Small Business Administration, SCORE is a non-profit association dedicated to entrepreneurial education and the growth and success of small businesses nationwide.

Krauskopf and Robberson are available for appointments every Tuesday and Wednesday, conducting business counseling sessions for business start-ups, existing business owners, non-profit organizations and associations, and current FCEDA clients. Counseling sessions are one hour in length, and follow-up appointments may be scheduled. There is no charge for the service; however, you must schedule an appointment in order to meet with a counselor. ■

For more information about SCORE, visit www.score.org. To schedule an appointment with David Krauskopf or Paul Robberson, contact the FCEDA at 703-790-0600 or info@fceda.org.

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- Some flexibility and privacy in managing your company’s affairs is lost.
- A private offering takes time and money to accomplish (consulting and legal fees)

It is important to keep these things in mind when deciding how to finance your business:

- The amount of money needed.
- The number and type of investors necessary to reach the goal.
- The costs for professional services of lawyers, accountants and other professionals.
- The affinity groups that would be interested in investing in the business.
- The liability and management responsibilities to investors.

It is essential that you discuss these factors with your business partners early and incorporate your capital need in your business plan. If you have a great idea but lack the capital to execute it, your business will never get off the ground. A careful analysis of your capital needs is important from the start because the way you structure your business legally will affect the choices you have later with regard to investors. ■

Florian Hauswiesner advises entrepreneurs and companies on a wide variety of business law matters ranging from structuring startup operations over corporate finance strategies to M&A transactions. He is a partner at the law firm Hauswiesner King LLP’s Tysons Corner office. You can contact him directly at florian@hkslaw.com, or visit the firm’s Web site at www.hkslaw.com for additional information.



FIVE-STAR BUSINESS TIPS

Tips for Networking and Increasing Sales

By Melvin Murphy

Five-Star Business Tips provides concise, useful information on a variety of issues from industry experts. If you are interested in contributing to this column, contact Karen Smaw at ksmaw@fceda.org.

When networking to increase company sales, the one thing to remember is that it's all about people. That may seem obvious, but the reality is that it's not. Many professionals put their ambition over providing a service to potential customers. Here are five specific and very important tips to help build a network, avoid certain pitfalls and increase your sales.

1. It's About People, Not Titles

There are professionals who focus on their title or position over allowing their true personality to emerge. Yes, having a title is important; however, bring on the real personality when decisions are needed, sales require generating, introductions are requested, and deals need closing. People do business with people they know and with people they really like. How well liked are you?

2. It's About People, Not Being An Individual

No man or woman is an island. Yet many professionals, especially sales professionals, often make the mistake of attempting to go it alone. Teaming and collaborating can help make business life easier. An effective leader knows when to ask for help. A successful person knows that the "power of one" is sometimes a negative. Have you ever tried to put on a pair of cuff links by yourself? It's easier with help.

3. It's About People, Not Empty Referrals

In sales, having a warm introduction is far better than a cold one. If you plan to make an introduction, it is best if you make the call personally. Why? It's more sincere and credible. Remember: it's about respect, and that means you never relinquish control over your network.

4. It's About People, Not Procrastination

Don't procrastinate when your network needs you. If you've ever waited for a telephone call on your

behalf, or a call from a contact that could facilitate a sales meeting, you know it can be like being hungry and waiting for a pot of water to boil. It's best to remember that your agenda is not their agenda. It's not a priority for them. The best thing to do is ask them to take action sooner rather than later. It's all too easy to forget that today's business people have busy schedules.

5. It's About People—and It's About You

Treat your network the way you wish to be treated when it comes to forwarding your agenda. Be well-prepared. Anticipate questions and problems to keep the agenda moving and make less work for those contacts willing to help. Juvenal once said that people long for only two things: bread and circuses. In other words, feed your network, and then entertain them. Do that, and half the battle is won. ■

Melvin Murphy is a speaker and author of *I'm Somebody, Who are you? Choosing the Right People to Help You Build Alliances and Partnerships* due out in the second quarter of 2008. Comments to mmurphy833@aol.com or 703-218-3888.

Fairfax County Economic Development Authority
8300 Boone Boulevard, Suite 450
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