FINANCING THE BLITZSCALE

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MobileSolve Group is a boutique investment bank providing M&A, Capital Raising and Financial Advisory services to technology growth companies.*

This newsletter presents short articles on industry or transaction topics of current interest.

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FINANCING THE BLITZSCALE

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Background

Many believe it is the startup phase that is the most difficult when creating a great company. It is easy to understand why. Funds are raised based only on a concept of a business, there is no clear path forward, and there are few people to shoulder the work.

But conversely, much less is risked at the pre-seed stage. Little cash is as yet committed, it is easy to fix mistakes and not much is lost if you have to start over. Thus experienced entrepreneurs say the most difficult phase is the scale-up, now sometimes referred to in its most aggressive form as the "blitzscale," a word coined by Reid Hoffman, co-founder of Paypal and LinkedIn, and now a partner at the Silicon Valley venture capital firm Greylock.

They argue it is the phase of sudden acceleration, the push for rapid growth, and the consequent demand for cash to finance such growth that creates the biggest risk of a crash and burn. Startup executives assume this period will be financed by equity investment, often from VCs. But they should understand their other options to obtain the cash to finance the blitzscale, many of which are less expensive than selling more shares of the Company.

The Blitzscale

Hoffman had hesitations about the World War II association with the term "blitzkrieg," but found the intellectual parallels compelling. In business terms, blitzscale is the rapid build out of a company whose goal is to serve a large global market to be among the first movers to achieve significant scale.

Speed is necessary for offensive and defensive reasons. Offensively, a business, such as one built on the economies of network effects, may require huge scale to be valuable. Hoffman's LinkedIn is a good example; its value to users was limited until millions joined. The same for eBay, which needed large numbers of both buyers and sellers before it became hugely valuable. Such businesses with low margins require high volumes to be profitable, and similarly must be among the first to achieve scale to succeed.

Defensively, a business wants to stay ahead of its competitors by getting bigger faster.

Only one or two online global businesses will dominate a sector. Consider Amazon in e-commerce. Sometimes competitors remain under the radar, and the only safe course to success is to get big quickly.

It is some time after the Series A round that the Company is ready to rapidly scale. The product-market fit has been tested, the Company has traction with customers and the organization is poised to grow.

Entrepreneurs think of financing the blitzscale with a large Series B round, which is right, as committed permanent capital should form the foundation of the required funds. But other opportunities, such as those below, to raise the large amount of money necessary to become a leader should also be explored.

Financing the Blitzscale

Build up multiple sources of funding.

Start by looking beyond the usual private equity investors, and think of the financing as combining multiple potential sources, such as banks, suppliers, public agency funds, customers, and even employees who are willing to take equity as compensation. Such sources can be faster to obtain, and are certainly less dilutive.

Develop customer financing.

Customers can provide financing through the terms of trade. This may include various structures such as down or up-front payments, pre-payments, or sharing of development expenses. Customers will have to be convinced it is in their interests to provide the financing, so a compelling pitch is required. This can be built around their most important needs, such as adopting the profile of a long-term supplier, or providing technology or other things that will give them a sustainable competitive advantage. A financial incentive, such a discount on their future purchases can help.

Manage supplier financing.

If you have a history, albeit short, of carefully managing your payables by paying on time, and developing a profile of a good, long-term customer, then supplier financing may be available to you. Suppliers will want your company to succeed, and will extend favorable financing terms to help.

Use debt to get equity.

Somewhat surprisingly, debt from more conservative sources such as banks that have specialized lending arms serving early stage companies can be leveraged to get good terms from equity investors. Being in good stead with banks indicates your Company is seen as a good risk. Moreover, the debt offers an investment incentive to equity shareholders because it leverages returns. Banks can also serve as an early warning signal to equity investors of a potential problem at the company if a payment is overdue. Thus it may not seem intuitive, but debt can attract more equity.

Be opportunistic.

Take opportunities to raise funds when they come about, even if unplanned. The status of economies and capital markets change, sometimes suddenly, and an anticipated source of capital may one day no longer be available. If funds are offered or can be raised on reasonable terms, take them. Businesses can fail because they run of cash, but not because the shareholders suffered too much dilution.

In summary, think expansively about sources of funds. They potentially can come from almost any relationships involving the company, including customers, suppliers, employees, lenders, national and local governments, private organizations and of course, investors.

Note: This newsletter if for informational purposes only, and not for the purpose of providing legal, financial or other advice

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Most-Read Articles

Tap The Family Office

Preparing for the Sale

Valuation Is Only The Beginning

Transactions

The following are notable M&A transactions and capital financings announced or completed in the last month.

Notable M&A Transactions

Microsoft acquires LinkedIn - a professional networking site, for $26.2 B. See details here ...

Symantec acquires Blue Coat - a market leader in enterprise security, for $4.65 B. See details here ...

Axel Springer acquires eMarketer - a digital market data analyst, for $242 M. See details here ...

Noosphere acquires Fiksu - a Mobile marketing tech company. See details here ...

Syniverse acquires Vibes - a wallet manager enables marketers to create, distribute, optimize and measure their mobile wallet programs through an integrated platform, for $45 million. See details here ...

Spearhead Integrated Marketing Communication acquires Smaato - a Mobile Ad tech firm, for $148M. See details here ...

BroadSoft acquires Intellinote - an enterprise messaging-based team communication and collaboration software application. See details here ...

Notable Capital Financings

Amplitude, a Mobile analytics for decision makers, raises $15M, led by Battery Ventures. See funding details ...

When I Work, a Mobile App for employee scheduling and communication using the web, mobile apps, text messaging, social media, and email, raises $15B, led by Drive Capital. See details here ...

Cloud Alliance , a mobile games company from Singapore, raises $5M Series A funding led by Aetius Capital. See details here ...

Gamer Sensei , an e-sports platform that wants to connect ambitious players with knowledgeable coaches, raises $2.3M in seed funding, led by investment groups Accomplice and Boston Seed Capital. See details here ...

RockYou, a cross-platform game publisher, raises $10M, funding led by FastPay. See details here ...

MadRat, a pioneer in learning games & has to its credit, the World's First Hindi Board Game, World's First Roll-up Puzzle & World's First Wearable Gaming Platform, raises $2.5M. See details here ...

Helpshift, a mobile based CRM solution provider, raises $23M Series B, from Microsoft Ventures and Salesforce Ventures. See details here...

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