Venture Capital and Fund Management

TAM UK

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In all organisations there is a serious need to raise performance levels. However senior management have become sceptical of any method which involves the active participation of employees. There is also a reluctance to commit funds and time to techniques which are not widely practised nor generally understood.

Ironically, TAM is the most effective method of solving just the very problems that stand in the way of its initial acceptance: shortage of time to deal with anything but the most urgent; a series of operating crisis which occupy the immediate attention of senior managers to the exclusion of working out longer term solutions; fear of unleashing catastrophic industrial problems by trying to change established procedures too quickly.

The great strength of the TAM process is that it enables the diverse interests to solve a problem or improve an existing method to work quickly and effectively together. It makes possible mutual understanding of one another's problems and sets out corrective actions; the production staff sees the problems faced by accountants, buyers see the problems met by salesmen, administrators see the difficulties of practitioners, and so on. It is simple, reliable and fast (hours and days, not weeks and months).

TAM results in a plan to which all who take part in the programme are committed and actions which can then be monitored from day to day. The financial effects and implications of the plan can be seen at a glance allowing modifications and adjustments.

Venture Capital Activities

Traditional “Venture Capital” operations are sub-optimal in the following areas:

1. **Capital Recovery**: capital recovery can be often slow. From the time of the initial investment to the point when the equity can be sold and the loans recovered is often longer than planned and in some cases the investment can be locked in for a very long time.

2. **Screening Process**: investment success often depends heavily on the technical characteristics of the product and the potential market. This calls for something novel/new/innovative; hence uncertain. Thus there is a dependence on the inventor or key personality to carry the management load. Often technical people are not skilled in people management and financial skills. This can put a demand on the investment backers to spend valuable time or to add “track record” managers which can financially burden the project.

3. **The Management Process**: to support the venture capital operations there is a requirement to impose management fees on what could be an already stretched investment. In view of the risks to the investors, Board meetings tend to be financially oriented, with reliance on explanations from those on the payroll. Explanations can be superficial, even distorted. Non-executive Board members cannot afford the time required to become sufficient involved to control, monitor or contribute directly, in a hands-on-sense, to the internal communications and motivation required for successful development work. Indeed, there is often a policy against such involvement even though the executive team may be underperforming. This can lead to misunderstanding, deferred (too late) or unnecessary replacement of senior employees.

4. **The Investment Process**: because of the risks (failures as high as 3 out of 5) the financial stake and the terms of investment must flavour the Venture Capital Company. Terms often call for loan capital which bears interest, management fees as a means to recover capital, plus an equity position in case the venture succeeds (the kicker). This severely restricts the number of investments which can be made, and slows down the potential capital return of those investments which are made.

5. **Business Development**: managing the business growth is traditionally left to the “Key Man” who, though technically competent may lack the necessary hands-on-management skills required for solid cash flow management. Friction often develops between the technical people and the financial people due to lack of understanding and management skills. Also, attention to the business requirements are often left to the pre-occupation and personal interests of that single key man who might better be left in his original development role. For this reason both the technical and the business aspects can suffer.

Add TAM To Improve Financial Rewards From Venture Capital Investments

1 Capital recovery can be speeded up, because TAM brings forward in time, the required development work and gets the maximum out of those involved in the day-to-day building of the business.

2 The screening process can be streamlined, made more realistic and comprehensive by requiring the key man to include all his people in producing plans and budgets. In this way a clearly visible, in-depth analysis of the product, the market, the management requirements, the production/distribution and the cash flow projections, which are based on the realities of the real world as seen by all the employees and not on a simple supercalc model of a sales projection concocted by an altogether too optimistic promoter?

3 The management control process is simplified because actions are individually assigned and formally scheduled. Budgeting is made easier to review and control, with year-end forecasts routinely flagged for timelier re-direction. Non-executive directors can both control the internal activities, due to the visibility of the actions, work statements, schedules and budgets, and make personal contributions in those areas where their own skills can be brought to bear in speeding up the development work. Using TAM, the imposed management fee is cost effective.

4 The investment process is less risky making it possible to invest in less dramatic ventures, increasing the number of investments and imposing less of a financial demand on the individual business. A higher return and a faster return are possible, with a lower investment of capital.

5 Business development is accelerated by making it possible for all people to work more quickly and intelligently on issues that count.

6 Managing change is now possible using TAM-mechanics where before it depended on the personal skills of those involved. Less gifted managers can now perform at a level normally associated with extremely gifted executives.

The Organisation

With TAM, visibility is afforded to the investor, the central Venture Capital operations can now readily and more timely provide important new support, otherwise not possible, such as:

1 New management, as required in each departmental function.

2 New staff and skilled labour, as required for each functional area.

3 More effective financial planning and management of cash, as required to support growth.

4 More reliable business planning which anticipates and corrects before the event.

5 A board of directors who can be more effective in maintaining high employee motivation and productivity.

6 A higher investment income which permits sufficient support to the central activity without restraining or crippling the client company.

7 Continued management training and development of the middle and top management teams.

8 Organisational development along with the development of advanced process plant and equipment, plus efficient subcontract support.

Investment Criteria Can Be Successfully Introduced To Increase Financial Returns from “Low Tech” As Well As “High Tech” Start Ups

Revitalising Ailing Businesses

Over the past 15-20 years the idea of asset stripping, i.e. buying a company for less than its real value, then selling off its tangible assets, thus allowing the purchaser to own the business for a nil investment and perhaps even being given cash to boot; has been widely practiced. So common has this practice been that there are few such opportunities about these days.

Another common practice is for the shareholders of underperforming companies to form a ginger group whose purpose is to force the management to improve the profits of that company so that share price increases and dividends paid, thus enabling these shareholders to exit with a profit. A more recent variation of this theme has been introduced by Carl Ichan in New York, called "Green Mail" where a share purchaser, buying cheaply, has such a bad record that existing shareholders in the company offer to buy him out for a profit.

More recently we have seen the advent of the "Company Doctor" who is quietly put into a business (usually at the investigation of banks interested in redeeming their loans) to raise the immediate value of the company to cover large repayments but with no long term interest for the shareholder.

There is also the Company Doctor put in by the owners who want to see a short term improvement so that either they can sell the business and transfer their liability to subsidize the operation.

The Company Doctor's approach is always to reduce costs by cutting out and hiving off assets and loss making operations to leave a hard core of something called a business that, if it survives at all, is at least profitable. The process may take anything up to 2 years or in the UK or US up to 3 years. For a variety of reasons, company doctoring has not had a good track record.

Team Action Management - An Alternative Approach

The better way to approach ailing business is to take positive steps to raise earning per share (E.P.S.). Sustained uplift in share prices comes from continued and consistent increases in E.P.S. The period of time to establish market confidence usually is about 3 years. If consistent E.P.S. enhancement is maintained then credibility is re-established and above-average share price multiples can be created.

Sustained E.P.S. improvements generally require constant support from motivated and dedicated employees. This is where TAM is an important factor.

By introducing TAM, an MD could increase the productivity of the operation by about 45%. This means that the profitability of a business might move from a 20% loss on sales to a 20% profit on sales in about 3 to 9 months. Thus within a 12 month period it is possible to recoup any accumulated losses and wind up with an annual statement showing an overall year to date profit, simply by applying TAM - not by applying extensive surgery or hiring special skills but by harnessing the existing skills of the company and applying them in a concerted planned programme. Following this recovery it is then possible to consider expanding the business leading to greater uplifts in profit.

A far cry from the “bleeding to death” fate of so many companies in the hands of “Company Doctors” and Asset Strippers.

TAM is an exciting programme which provides the format for creating unity of purpose and action. It is a vehicle which allows an organisation to create the climate whereby the employees become the innovative force driving the company towards the creation of new wealth.

It is a certain formula for success.

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