The new money game

How growing a business has changed with a shift in the financial landscape

San Francisco Business Times - April 7, 2006

by Mark Calvey


Spencer Brown
Ryan Gilbert, CEO of PropertyBridge
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The money rules are changing for entrepreneurs launching small businesses as they take advantage of new technology, lower start-up costs and other opportunities to build businesses faster and cheaper.

"What took me 20 years to build at Odwalla will take me six or seven years to do at Adina," said Greg Steltenpohl, the founder of Odwalla. He is now CEO of San Francisco startup Adina For Life Inc., which is working to build what it calls a "lifestyle brand" in the beverage and media sectors. Adina anticipates saving a significant amount of capital by outsourcing the manufacturing of its beverages.

Adina is not alone. Even as the economic climate becomes more encouraging to startups, thriftiness is definitely in fashion.

Entrepreneurs pitching angel investors and venture capitalists talk of getting great pricing on a variety of goods and services. They also say they're saving cash through outsourcing and corporate partnerships, allowing them to build a business on a shoestring.

The Internet helps, of course. It allows companies to build a low-cost distribution channel, and for startups seeking a mass market, encourages retailers to take a chance on an unproven product.

The online channels of major retailers such as Costco and Target frequently carry innovative products from small businesses. Online sales give these retailers an indication of consumer demand for a new product. Selling online is also cheaper than taking up expensive real estate on a store shelf.

Then there's the once-declassé idea of selling through TV shopping channels like QVC and the Home Shopping Network.

"QVC can give an entrepreneur instant distribution without the infrastructure and provide marketing information quickly," Keith Halford, a QVC co-founder and former HSN executive, told angel investors attending last month's Keiretsu Forum meeting. "If an entrepreneur wants to know whether the red shirt or blue shirt is more popular, we can let him know in four minutes."

Getting real

Some Bay Area entrepreneurs are getting great rates on fancy office digs by signing short-term leases.

Eileen Gittins, founder and CEO of San Francisco custom-book publisher Blurb Inc., got a great deal on space across the street from the Bank of America Building by agreeing to take a lease for just two years on offices formerly occupied by Charles Schwab.

PropertyBridge Inc., which allows tenants to make rent payments using any of six payment vehicles including credit cards and e-checks, cut a similar deal for Class A space in downtown Oakland. The company punched a hole in the wall and took the additional space it needed next door under a two-year lease. Making a good deal even better, the company picked up all the furniture and computer equipment left in the space for just $2,000.

PropertyBridge, which received $2 million in a venture round led by Claremont Creek Ventures earlier this year, was heavily courted by landlords in downtown Oakland, including one who said if his available space was more than the company needed, they could just put tape around the company's desks and servers and pay for the space it used. The fast-growing company, whose corporate partners include Visa USA, processes the largest dollar volume of automated electronic payments in the multifamily housing industry.

"We're taking a lot of the lessons learned in building Google," said PropertyBridge CEO Ryan Gilbert, who was among the many entrepreneurs building companies during the boom as well. He recalls the days when no thought was given to dropping several thousand dollars on business-class airline tickets for three.

But times have changed.

"Southwest is our company airline and Best Western is our hotel of choice," said Gilbert, who was eager to share another travel tip to cut costs: When visiting major corporate partners, ask whether they have a corporate rate at a nearby hotel.

Shifting sources

With the lower cost of starting and building a business, some entrepreneurs are bypassing the deep pockets of venture capitalists to raise smaller amounts from organized angel groups, or just taking modest sums from VCs.

That's a far cry from an earlier era when entrepreneurs courted venture investors on their way to cashing in via initial public offerings.

One entrepreneur described the change as a "seismic shift" in startup funding.

Many entrepreneurs are selling smaller stakes in their businesses to angel investors and then cashing in by selling to larger companies.

"Angel groups are democratizing access to capital," said investment banker Ted Ridgway, managing director of Cascadia Capital. Ridgway and others interviewed for this story were quick to say that venture capitalists still have an essential role in the startup ecosystem.

But building a company with scarce capital has its benefits, entrepreneurs say.

"Less capital drives better decisions," said Gittins at Blurb. "It drives discipline around what is most important to spend your time and money on.

"My husband designs and builds houses. One of the things he says, 'If you have a client with an unlimited budget, the design will be a mess,' " Gittins said.

Mark Calvey covers banking and finance for the San Francisco Business Times.