



Thursday, March 05, 2009

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http://www.sddt.com

Source Code: 20090305crc

Starting up in a down economy: Local experts see incentives for entrepreneurs

By REBECCA GO

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Amid the economic doom and gloom, one positive refrain echoes in the minds of entrepreneurs: It's a really good time to start a business.

"This is the chance of a lifetime," said Bob Greenstone, chief executive officer of **Permission Interactive**, the TV marketing company behind AsSeenOnTvWholesale.com.

"If I were starting out with what I know now, I'd be licking my chops."

The idea seems counterintuitive, but venture veterans like Greenstone and other experts wax eloquent about the benefits: Costs have shrunk for materials, services, real estate and travel. Potential competitors are going out of business. And with the national unemployment rate approaching 8 percent, qualified job applicants abound.

"I get approached all the time by people wanting a job," said Bryan Pate, who co-founded **PT Motionworks** in 2007 and is working on launching an elliptical bicycle. "I get the attention of manufacturers in Taiwan who wouldn't have given me the time of day three years ago."

The federal economic stimulus provides additional incentives, including increased government backing for loans, thus making it more appealing for banks to take on risk and lend.

And indeed, funding is often the missing leg on the startup stool. The credit contagion has eroded an entrepreneur's chances at securing a loan.

Other typical financing routes, such as venture capital and angel investors, are narrowing. Many VC firms are focusing on companies already in portfolio, and angels are becoming more and more selective.

"Angel investors have been hurt in their personal portfolios just as much as everybody else," said Michael Elconin, president of San Diego Tech Coast Angels. "They're being conservative."

Still, the national network of Tech Coast Angels invested more than \$75 million in 15 first-time financings and 16 follow-on rounds in 2008, an increase from the number of companies financed in 2007.

Venture capital, on the other hand, fell 8 percent in 2008 to \$28.8 billion in 2,550 deals, with \$1.14 billion flowing to San Diego compared to \$1.91 billion the year before. The fourth quarter was the worst on record since 2005.

Yet entrepreneurship champions refer to these figures when they insist that funding hasn't dried up completely, especially in sectors that enjoy steady demand or look to heat up soon. Examples include clean technology and defense.

Aspiring business starters just have to try that much harder to convince sidelined capital that they're worth funding -- or perhaps consider bootstrapping.

Experts say the key is turning an innovative idea into a sound business plan. This requires a firm grip on reality, with a good understanding of market demand and reasonable projections for revenue and cash flow several years out.

Ideally, entrepreneurs should be able to prove their concept is workable before searching for strategic investors, Elconin and Greenstone agreed.

"Investors don't fund great ideas; they fund businesses," Elconin said. "You always need to have more than an idea."

And going from startup to success demands more, experts say.

Entrepreneurs must be nimble, constantly updating their business plans and watching market trends.

They must be focused, disciplined and able to make money stretch as far as possible, particularly when the economic climate is so unforgiving.

Entrepreneurs also must be able to lead their employees, thinking strategically and communicating constantly.

"There are a lot of people who have good business ideas who failed as leaders," said Holly G. Green, CEO and managing director of San Diego-based consulting firm **The Human Factor**. "You have to come with a bold set of leadership capabilities."

Of course, none of this is necessarily new to the savvy, indefatigable entrepreneur.

For the less seasoned, however, local resources are plentiful in a region that thrives on small business as well as scientific discovery.

For example, San Diego's SCORE chapter offers free counseling services for those looking to have their ideas vetted, as well as seminars on business basics.

Connect, a nonprofit supporting local entrepreneurship, features a range of workshops and programs designed to give startups a lift. Local universities house centers and programs devoted primarily to fostering entrepreneurship.

Existing businesses can tap many of these same resources or turn to organizations such as the Chairmen's Roundtable, which consists of CEOs who volunteer their time to advise other companies.

Many organizations expect activity to ramp up as the recession continues: In addition to an increase in struggling businesses, the unemployed historically have turned to entrepreneurship as an exit strategy.

Already, activity at San Diego's SCORE chapter is humming along at 2007 fiscal year levels. The number of people had fallen off dramatically in the last quarter of 2008 but picked up again in January, said Monty Dickinson, local SCORE chapter president.

Connect's flagship program, Springboard, which helps propel local companies toward commercialization, has 100 companies in the queue, said Duane Roth, CEO of Connect.

This doesn't mean starting a company is any easier, Roth said; it's really about making the most of opportunities.

For the most part, he and Dickinson note that the economic uncertainty has improved the quality of aspiring business owners.

"What we haven't seen is a lot of wannabes," Dickinson said. "They are mostly people who are pretty mature in their thinking."