

# **The importance of venture catalysts**

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### Summary

To successfully obtain equity capital, the entrepreneur must necessarily pass through several stages like writing the business plan, selecting investors, contacts, financial planning and negotiations, which are not easy and that's why the Anglo-Saxon markets turn to specialized operators as something fundamental to the success of venture capital operations.

“There are three types of companies: the ones that make it happen, the ones who watch things happen and the ones who question themselves about what happened”

-- Anonymous --

## **I – Introduction**

Though the last years are characterized by a great “non-interpose” of the financial activities in general, allowing companies to have direct access to financial markets without the intermediaries, the same isn't happening in venture capital, development capital and transmission capital activities, where the presence of an intermediary is still necessary because:

- it's a financing of high risk;
- the projects and strategies' analyses of SMEs still are an issue to experts;
- financial engineer to introduce is sometimes complex;
- is an union between capitals and management assistance;

In addition, still are the entrepreneur's fears, related to suspicion that venture capital societies might “steal their ideas” and/or take control of their businesses to satisfy their objectives costing the entrepreneur's well being and projects.

To overcome the present characteristics on which venture capital industry's success depends on, has been possible, in the last year, both in Anglo-Saxon countries, France, and Spain, through specialized operators in raising equity capital to financing companies of high technology or investments which have further high profits that are called “venture catalysts.”

## II – “venture catalyst” activity

*Venture catalyst* is a specialized intermediary in venture capital sector, which has privileged relations with investors both institutional and private (like business angels) which allows them to assist and to support financing entrepreneurs’ start-ups.

Since the project’s study to the business’s conclusion with the investor, the *venture Catalyst* acts like a catalyst to accelerate the way through different phases, which the entrepreneur must get through to obtain financing from the Venture Capital Society.

These are *venture catalyst*’s functions:

Analyse and make the “apport” of suggestions in the business plan;

Identify and select potential investors, which overcome the entrepreneur’s necessities;

Assist and attend the entrepreneur in the negotiation process (presentations, operation’s financial set, social agreement, etc.);

Build professional management teams that allow facilitating the realization of the plan.

However, *venture catalyst*’s functions are not only at entrepreneur’s level but also at investor’s level like in:

The creation of an investor’s club (business angels) that allow them to have access to new capital’s opportunities;

Selection and presentation of high growth potential projects;

Keep up with *venture catalyst*’s team following the investment project;

Looks for disinvestment opportunities and further profits of the investments made.

At investor’s level, *venture catalyst* functions have particular importance once they allow accelerating selection processes of investment’s opportunities (the involvement of *venture catalysts* in one project means, many times, the entrepreneur’s capacity), gaining time, which is in nowadays, increasingly precious.

In the other hand, entrepreneurs can take advantage of the *venture catalyst*’s experience and knowledge of the market, which allows them to maximize the business’ value because of their privileged access to a number of potential buyers including, obviously, foreign investors.

This fact is more important when we know that the identification of equity capital is a hard and difficult thing and that many investors do not make it. Not only because the investment process isn’t designed in the right way (activity not specified, not clear, insufficient ambition, a business plan that is only focused in technology and in the

product or a business plan that is focused only in financial part, are motifs of rejection) but mainly because entrepreneurs don't know how to locate the adequate investor.

We should refer that, besides raising capital, there is another learning function of a *venture catalyst*. It can teach to an entrepreneur that although there is competition he can beat it. Like for example, make the entrepreneur imagine that he's playing a chess game with a world level champion in the other side of the board, having the necessity of guessing how to win in fifteen plays and how to do it without the competition knowing it, this is, make the entrepreneur "think big."

### **III – conclusion**

While the change rhythm increases, the companies are not able to trust in their old commercial practices to maintain prosperity. They have necessarily to search present approaches more efficient to profit in their businesses through a better knowledge of their clients, technologies of connection to the client and knowledge of client's economic aspects.

For that to happen, it is necessary the collaboration and network operations with other companies and the usage of specialized companies in outsourcing. This is increasingly important in the creation of differential factors in the several industries, because we believe that also the Portuguese Venture Capital Societies will analyse new ways of creation and innovation in their marketing, namely through specialized operators like *venture catalysts* to create more value in their target market, which are entrepreneurs.

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