

# An Alternative Route to Entrepreneurship

What do you do if you have a burning desire to be an entrepreneur but you haven't had that "light bulb" moment, that business idea that drives you to start your own company. One option is the search fund model, a specialized form of private equity that provides entrepreneurs with a subsistence salary while they search for an existing company to buy.



The search fund model has proven successful for MBAs and other entrepreneurs in the United States, and to a lesser extent, in the United Kingdom. One of the earliest U.K. entrepreneurs to use the model, Simon Webster, explained how it works at a Search Fund Panel held at IESE Business School's Barcelona campus on Nov. 18. The event formed part of the Global Entrepreneurship Week program and was organized by the school's Center for Family-Owned Business and Entrepreneurship.

Rob Johnson, visiting professor in IESE's Department of Entrepreneurship and a successful entrepreneur and venture capital investor, joined Webster on the panel. It was Johnson who introduced Webster to the search fund model while the professor and MBA candidate, respectively, were at **London Business School** in the early 1990s. Mark P. Egan, managing partner of **Marion Equity Partners** in Boston, was the third panel member.

Under the model, the entrepreneur convinces a group of around 10 investors to provide some funding, typically \$20,000 to \$30,000 per investor, to live off while he or she looks for a company to buy. The model has gained momentum in the U.S. and is well-known among the investor community. But as a pioneer in the field in the U.K., Webster had to overcome a lack of familiarity with the concept. He is now keen to make MBA graduates aware of this career option.

## Finding funding

The LBS graduate tapped into the school's network and sought personal introductions to alumni and faculty. After seven months living off his own money, he had assembled a group of "seasoned busi-

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ness people who wanted to see a young entrepreneur succeed," Webster said.

This group provided the young entrepreneur with more than just cash over the years, though. "All of them to a man took off their jackets and rolled up their sleeves and said 'How can I help?' when needed."

But it's not just the rosy glow of helping a young entrepreneur to fulfil his dream that motivates investors. According to a study by Stanford's Graduate School of Business, search funds have provided an average internal rate of return of 37 percent. And as Egan of **Marion Equity Partners** pointed out, investors can spend \$30,000 each on a number of extremely motivated entrepreneurs rather than hire one associate, as in traditional private equity.

### Buying into the person

At this early stage, however, faith in the entrepreneur is paramount in the search fund model because at this point, there is

no business. "Search fund is a process in which an entrepreneur has an opportunity to run and own his or her own company and the investor has a first right, but not an obligation, to buy into that company," IESE Prof. Johnson explained.

Egan, whose father - like Johnson - invested in Webster back in the 1990s, said that while around a third of entrepreneurs using the model are MBAs, their profile is all over the board. "What we are looking for is a person's story that all ties together," he said. With MBA graduates from top business schools, Egan said there is an advantage that they've gone through a tough screening process already.

MBAs are also familiar with the "opportunity cost" of foregoing an income for one or two years to study. MBA entrepreneurs following the model have to accept the "opportunity cost" of missing out on a steady income to fulfil their dream. And it can be a long hard slog; Webster spent three and a half years "kicking the tires" of a lot of companies and "kissing a lot of frogs" before finding the right target.

At this point, the entrepreneur asks the initial investors for cash to help fund the acquisition, but they are not obliged to do so. Search fund entrepreneurs typically look for companies in fragmented industries, perhaps with succession issues.

### Close the deal

After a few near misses, Webster reached a takeover deal with RSL, a prosthetics and orthotics company in 1995. The firm had an 8 percent market share and a turnover of £3.5 million. He sold the company to a private equity buyer 10 years later, having grown sales to £30 million and EBITDA from £0.4 million to £2.4 million.

As Webster's story illustrates, the model is a career commitment rather than a get-rich-quick scheme. Many times, the entrepreneur felt he was "only one or two steps away from disaster." But in the end it was all worth it, "I achieved my dream of being an equity-owning manager of a company," he said.



Prof. Rob Johnson, Mark P. Egan and Simon Webster

# Entrepreneurs Making a Perfect Pitch

## IESE GROWTH & INVESTMENT FORUM SPOTLIGHTS NEW IDEAS

After hitting a few initial speed bumps, Timo Bütefisch (MBA '04) is picking up velocity in his entrepreneurial career, as co-founder and CEO of the scooter company, **Cooltra**. Since opening **Cooltra**, turnover has risen from €110,000 in 2006 to a projected €1.3 million in 2008. And the German aims to drive the company much further.

For this reason, Bütefisch was among the entrepreneurs seeking funding at the first annual IESE Growth & Investment Forum, organized by the Center for Family-Owned Business and Entrepreneurship (CEFIE) together with FINAVES and IESE Private Investors Network. The forum, held at the school's Barcelona campus on November 18, formed part of IESE's Global Entrepreneurship Week program of events.

After graduating in 2004, Bütefisch launched **Lilium** – a floral distribution company. Two years later, a chance encounter led his career down a completely different road. The young entrepreneur met someone with 50 scooters sitting in a garage in Barcelona who did not know what to do with them.

Bütefisch and his business partners sought funding from angel investors, securing €675,000 in the first round. Before long, the IESE MBA had the **Cooltra** scooters up and running all over the city, with the company clocking up revenue as well as kilometers. The company operates on a low-cost model, offering well-designed products at competitive rates.

From 50 scooters sitting in a garage, **Cooltra** now has a fleet of over 500 scooters with premises in Madrid, Zaragoza, Valencia and Seville, as well as on the islands of Mallorca and Ibiza. On top of short- and long-term scooter rental, the company offers tours and B2B leasing with specially branded vehicles.

Looking ahead, the company aims to expand even more aggressively, principally through franchising and direct sales of branded scooters such as **Cooltra** Vintage and **Cooltra** Kukuxumusú. As a result, **Cooltra** was looking for funding of €1 million from the investors attending IESE's Growth and Investment Forum.

Bütefisch was one of seven entrepreneurs pitching to the investors at the event and **Cooltra** was one of four entrepreneurs seeking growth steam funding, along with **nuubo**, **Easy@prof** and **Sí, se puede**. **Nuubo** is focused on applications for intelligent fibers, **Sí, se puede** is a free weekly newspaper for the immigrant community in Spain and **Easy@prof** provides multimedia content management software.

### IESE MBAs in the Early Stream

Among the three entrepreneurs seeking funds in the early stage stream were two IESE alumni, Blanca López García (MBA '03) and Greg Golebiebiewski (Global Executive MBA '07), a U.S. citizen who grew up in Poland.

López aims to leverage her experience in corporate finance for the hotel indus-

try, as well as her family's background in the sector, to launch **Urban Host** – a chain of hostals and guest houses. **Urban Host** will offer simple, modern, low-cost rooms in central locations, targeting travelers using two- to three- star hotels. Demand in this sector has risen by 30 percent in the last year.

Golebiebiewski plans to launch his online micropayment model, **Znak It!**, in Poland where the local market is more concentrated. **Znak It!** allows publishers of premium web content to monetize their work via micropayments. The user can buy "znaks" or tokens worth 5, 10 or 25 cents with a credit card or alternative payment method and then choose to buy the sealed premium content where he or she chooses.



Timo Bütefisch