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Strategies and Techniques for Venture Investing

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Some of the smartest business deals have been made when a sector is out of favor. Therefore, while keeping an eye on the ups and downs of the dot-com world that continues to captivate the media's attention, we've selected topics outside the Internet for a good portion of this issue. Out-of-favor territory may hold some great bargains over the long term, and is worthy of careful review.

We begin with what has to be the biggest out-of-favor sector in the world of start-ups: healthcare. This sector is so big — 14% of our nation's economy — that it's hard to ignore. Recalling just a bit of history, we recognize that for decades it was a mainstay of start-up capital. Arthur Klausner and Bob More call up a host of excellent reasons why healthcare, over the long haul, may reemerge as one of the hot investment sectors. Just a few of their reasons: It's big, it's growing, it's inefficient, technology-dependent, and underserved, and it's certainly not going away. These are powerful motivations to stay in touch with this area.

Our second article stays with healthcare but swerves into the Web world to present and analyze a round-up of announcements in the e-commerce sphere of healthcare. John Gruber weaves through eleven recent transactions that may change the face of healthcare on the Web. His take on this market offers a fascinating examination of the way different transactions interact with each other and with existing healthcare systems.

Keeping with our long-term interest in things international, Noam Wasserman and Daniel Nye visit Israel and India to compare and contrast the development of their respective venture capital industries. These countries appear rich in both scientific and entrepreneurial talent. Israel has had noted successes, such as CheckPoint Software Technologies, which holds over 40% of the market for network firewall systems. India, in spite of its greater size, seems less able to provide start-ups with an adequate launching pad. The authors' analysis helps us understand why.

Utility deregulation is another area that doesn't get much play in the traditional media. However, this is a giant sector very quietly undergoing significant change. There will be many

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opportunities along the way, just as there were when the telecommunications industry was deregulated. To help readers formulate a rational approach to this issue, Todd Crockett and Russell Pyle have noted the changes most likely to occur, their list forming an eye-opening set of dislocations, each with its own upside. They call attention to applications of new technology, outsourced non-core operations, private equity infusions, and outside consultants being relied upon for advice. They also caution that the pace of change may be slow and uneven. To give you a special flavor of this industry, we include in an appendix the interview notes assembled while researching this article.

Of all the Internet areas of interest, perhaps none has attracted as much attention as e-retailing. Steven Hart dissects the e-commerce companies you've heard about and helps illuminate what it is that makes them successful. In looking at the worldwide web, we are peering into the future. Steven demonstrates how several new e-commerce companies, such as mySimon, Deja.com, Engage Technologies, Younology, Linkshare, and several others, exemplify models of new business strategy. By critically thinking through the strategies of these new entities, we can better understand just how they are likely to impact our future.

In our final article, Daniel Adashek takes us through twenty roll-up IPOs to discover the effects of industry consolidation on operating income, asset utilization, capital expenditures, cash flow, stock price, and market capitalization. A summary of each of these twenty companies reveals the particulars of each venture.

James E. Schrager
Editor