

Business opportunities abound, even in bad times

Brent Bowers



Charles Burckmyer, right, and Scott Noll, are co-founders of Knob Hill Partners, which is seeking to acquire small businesses.

Job losses, falling property values, more people without health insurance. With the current state of the economy so bleak, those are the issues getting a lot of attention. But they are not the whole picture.

Some entrepreneurs are actually doing well in part because times are hard. This is a story about four of them.

One, Craig Brandman, founder of Mediling, a provider of medical discounts for low-income people, predicted in a recent interview that his company would increase the number of its participants by more than sixfold this year, to 200,000 from 30,000 at the end of 2008.

Another is Peter George, the 49-year-old chief executive and part owner of Fidelis Security Systems in Boston, whose company provides protection against data breaches. Mr. George said sales rose 55 percent last year.

And Charles L. Burckmyer and Scott Noll, co-founders of Knob Hill Partners in Boston, are in the enviable position of sitting on about \$500,000 in cash and looking for a company to buy at a favorable price in a weak market.

Dr. Brandman, a 60-year-old cardiologist who founded Mediling in Houston in March 2004, described the company's target customers as the working poor and the self-employed who are both uninsured and ineligible for Medicaid. They pay \$24.95 a month for steep discounts on medical bills that the company has negotiated and that, he said, "are competitive with those offered by the Aetnas and the Cignas of the world." Health care providers support his product, he said, because the company makes sure most bills are paid within 10 days, in contrast to the industry average of 75 days, and because it eliminates the paperwork that can eat up 25 percent of their revenue. "Mediling is a sort of a Costco and PayPal mode for health care," Dr. Brandman said.

As the number of people without access to health care grows and as billing headaches become more acute, he added: "We're looking at having a big year this year. Economic hard times are a good opportunity for us."

Mr. George, of Fidelis Security Systems, said that in the past, companies' loss of digital assets like design documents and marketing plans was generally inadvertent, as the data slipped through holes in the computer system.

But in a recession, he said, there is an increased chance that disgruntled or laid-off employees might purposely disseminate intellectual property to potential rivals.

"The big threat to computer systems until now has been hackers from the outside," he said. "Data leakage by insiders is the next big threat, and we can stop it in its tracks."

Fidelis's orders jumped 99 percent last year, he said. In 2009, "our operating projection is to grow faster." Fidelis also hopes to add to its work force in the second half of this year. It doubled last year to 50.

Skeptics might suppose that the recession would temper Mr. George's ambitions. But he says he joined the company last March just as it was completing \$22 million in venture capital financing. The timing, he said, was fortuitous — or "plain dumb luck." That nest egg should tide the company over for the next couple of years, eliminating the need to go out again with cup in hand when options for financing are limited, he said.

A partnership with International Business Machines, which markets his products, helps as well, he said. But however slow the nation's economic recovery might be, he said, he predicts substantial growth for Fidelis.

There were 19 major data breaches in the United States in January alone, costing companies hundreds of millions of dollars, he said, and the market to protect against such breaches is expected to grow to \$1.2 billion in 2011, from \$500 million this year.

"My ambition is to build this into a \$50 million to \$100 million company within three years," he said.

Mr. Burckmyer and Mr. Noll, both 32 years old and with entrepreneurial and sales backgrounds, set up Knob Hill Partners last summer and persuaded a dozen investors to provide them with a total of \$500,000 in operating capital to look for promising businesses whose owners were interested in selling. They are searching especially for companies with strong growth potential and price tags of \$10 million to \$30 million in energy efficiency, specialty software or information technology. Once they locate a company, they said, their investors are prepared to contribute the funds for them to acquire it and manage it.

With prices falling, the recession is a good time to be shopping for a business. But Mr. Burckmyer and Mr. Noll say they have a competitive advantage over others who are prowling the market with the intention of re-engineering a company and flipping it after two or three years.

Typically, owners who have nurtured their ventures for decades "want to protect continuity," Mr. Burckmyer said. "Their workers are like family to them." Unlike the bargain hunters, he said, he and Mr. Noll promise to stay in their new management roles for the long haul and to avoid layoffs if possible.

He cited inconclusive talks the two men held with the owner of an electronics equipment recycling company. "He wanted somebody who was committed to sticking around," he said. "Once people understand what we're doing, we get a better reception."

Knob Hill Partners is known as a "search fund." Such funds have been around for a quarter-century, but because they have consistently produced double-digit returns, they are gaining popularity with wealthy people in this recession as an alternative to stocks, bonds, real estate and other traditional investments.

Mr. Burckmyer and Mr. Noll closed their fund in December when they got enough funds to conduct their search. Once they find a company they want — and what their investors, who are savvy business people and their de facto consultants, also want — they will be able to go back to their investors and get the resources to quickly seal a deal.

Nobody enjoys witnessing the pain that the recession is inflicting on ordinary people, Mr. Burckmyer said. Still, the troubled economy offers openings for entrepreneurs with sharp eyes and sharp elbows.

"We're now in what I humbly concede to be an enviable position of going out to find a business to buy as pricing multiples fall through the floor," he said.

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