

Angel Investing in Latin America

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Chapter on a Venezuelan case by Lorenzo Lara-Carrero¹

The Negociosdigitales story

Negociosdigitales is a Venezuelan firm dedicated to venture capital investment, established in January 2000 by Vianney Sánchez-García, Fernando Núñez-Noda and myself. During 1999 we lead a group of new economy business people that created the Venezuelan Chamber of E-Commerce and came in close contact with Venezuela's dot com phenomena, which included not only local companies but many international ones that set up shop in our country. By the end of 1999, at the height of the Internet boom, we started developing Negociosdigitales' investment strategy focussing on business opportunities arising from the Internet and, more generally, digital technologies. This led us to study carefully many new economy SMEs and to create a methodology to guide our investment decisions. Since those days we have interviewed about 300 teams of technology oriented entrepreneurs, read their business plans and discussed with them the economic value of their dreams.

As so many entrepreneurs I have met through these years, my partners and I did not have a clear business model at the beginning of our initiative. We just went on to take advantage of a business opportunity and our personal backgrounds and social networks. Venezuela's entrepreneurial spirit had been kindled by a mix of Internet fever, business franchising opportunities and a deepening economic crisis that dried out employment for many young capable and creative individuals and weakened traditional and older family oriented businesses.

This awakening of business initiatives, was evident, for instance, in the monthly First Tuesday² meetings where several hundred people went to discuss new Internet business projects and hopefully find investors willing to support them. Negociosdigitales did not have investing funds readily available at those times. The founding team did have a strong background in business consulting and in the use of the Internet for marketing and commercial purposes. Thus, we boldly offered entrepreneurs *strategic capital*, meaning a combination of knowledge and financial assets supplied in proportions adequate to the needs of each

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<http://lorenzo.lara.net/>

² Inter-personal networking forum for venture capitalists, and specially for those seeking to partner with them, that met in hundreds of cities throughout the world each monthly first Tuesday. In <http://www.firsttuesday.ie/> interesting historical commentaries can be found.

business and to its development phase, in exchange for a reasonable amount of shares in the starting business.

What started as a selling pitch, with only some actual useful knowledge assets at hand and very little funds readily available, turned into the *strategic capital investment process*, a management and investment strategy³, that seeks to align the entrepreneurs and investors interests from the beginning of the investment process to the exit phase. This approach to Angel and Venture Capital investment, suited to Latin America's business environment, arose from our experience in Negociosdigitales.

By the end of 1999, even before establishing formally our company, we negotiated successfully our first knowledge assets investment with Tucarro.com⁴, a small startup challenging the traditional classified media leaders through an online service. In parallel we helped create Seguridadaldia.com, a crime prevention portal, in association with a well known Venezuelan writer and consultant on those issues, complementing his expertise with our knowledge of the Internet as a business environment. Tucarro.com has grown to become the leader in the classified online and printed media industry in Venezuela, with its sister brands Tuinmueble.co, Tulancha.com, Tuavion.com and Tumoto.com, with strong footholds in Colombia and Puerto Rico. Negociosdigitales' shares in Seguridadaldia.com were given back shortly to the other partner so that he could follow his personal vision and goals; this crime prevention portal is still widely quoted and followed.

With two strategic investment processes going on, my partner Vianney Sánchez and I *burned the ships* and devoted entirely our time and efforts to strengthening Negociosdigitales. Fernando continued in an advisory roll. During 2000, we identified a very capable group of software developers who had created an Internet online service, Hiperlist.com, that was intensively used by hundreds of thousands of people from all over the world to manage email lists and other groupware services with no cost to users. Advertising was supposed to pay for the entrepreneurs efforts. Unfortunately, Hiperlist was no good at making money but the software underlying it and the people who had developed it were great. Thus Negociosdigitales convinced them to change their business model and focus on developing services for large corporate clients in need of sending bills and newsletters to their large customer base. Together, the entrepreneurs and Negociosdigitales created Imolko in November 2000, a company that pioneered world class email list managing services to corporations and now provides all sorts of electronic messaging platforms. At the end of 2003, Negociosdigitales sold its shares in Imolko to Soluciones Láser, a Venezuelan IT company that has strengthened Imolko. Thus Negociosdigitales was able to execute its first exit strategy, with small

³ The details of these strategy are described in Lorenzo Lara-Carrero y Vianney Sánchez García. *Capital de riesgo: El caso de las pymes tecnológicas - Cómo alinear los intereses de los emprendedores y los capitalistas de riesgo*. Debates IESA, volumen IX, número 1, octubre – diciembre 2003, Caracas, Venezuela. An English version is available upon request to lorenzo@negociosdigitales.com.

⁴ [Http://www.tucarro.com/](http://www.tucarro.com/)

financial gains, much learning and the satisfaction of securing Imolko's advance with an adequate business partner.

Going back to the beginnings of formal life for Negociosdigitales in 2000, I should mention that we setup an alliance with Torres Plaz Araujo (TPA), one of Venezuela's leading legal firms, to share clients and to cooperate in consulting projects. This brought another strategic investment opportunity in Perfilnet⁵, a job site created by head hunter Angel Canakis and his collaborators. Negociosdigitales joined them in April 2001 to strengthen marketing strategies by investing knowledge assets in Perfilnet.

Most importantly, a strong Venezuelan family economic group, let's call it FMP, approached Negociosdigitales about developing an adequate investment strategy for Internet based initiatives. TPA was a very convincing reference that added credibility to Negociosdigitales' successful strategic investment record. Thus, in 2001, both FMP and TPA joined Negociosdigitales founding partners as shareholders and contributed working capital to strengthen the company. At the same time, FMP and Negociosdigitales signed a contract that provided a credit line for \$2 million that would finally allow the completion of the strategic investment process.

By March 2002, Negociosdigitales had made a couple of further strategic investments. One in ObraWeb, an online supplies catalogue for the construction industry in hispanic countries and in Tendenciasdigitales, a market research company specialized in the digital markets and in the use of Internet technologies for such purposes. During this year, the Corporación Andina de Fomento – CAF – chose Negociosdigitales as a vehicle for strengthening the development of innovative, technology based, small and medium enterprises in Venezuela. CAF supplied further working capital for Negociosdigitales and a small but prestigious credit line to complement its investment capabilities.

By the beginning of 2003, Negociosdigitales had accomplished two main objectives. First, we had learned to identify successful teams of entrepreneurs focussed on developing companies that took advantage of technology based business opportunities and, most importantly and difficult to accomplish, we had been able to negotiate with them partnerships involving strategic investments. As proof of this accomplishment, Negociosdigitales had an attractive portfolio of invested companies. Secondly, we had gained a reputation that allowed for establishing a network of Angel and institutional investors that would supply funds for investing venture capital in suitable business opportunities.

The seed for this Angel investors network, was an innovative investment process that we completed successfully by the end of 2003 in SinFlash, a small media group specialized in entertainment and life style topics. Five Angel investors lead by Negociosdigitales got together to create, following international standards, a small special Venture Capital fund that supplied cash to SinFlash for strengthening its web

⁵ [Http://www.perfilnet.com/](http://www.perfilnet.com/)

platform and the opening of SinFlash Imaging, a new business line developed jointly with one of the oldest and strongest Venezuelan photo retailers. A sixth Angel investor had committed funds earlier to SinFlash and now, of course, is also a part of Negociosdigitales network.

This process coincided with the creation of the Center for Entrepreneurship at IESA and Negociosdigitales has since been closely involved in its many activities, specially in the development of the still embryonic Angel investors association.

Currently, we are is focussed on strengthening our supply chain of investment opportunities through alliances with technology oriented business incubators in Venezuela, Colombia, Ecuador and Spain. Our CAF partners introduced us to IEBTA, which stands for *Incubadora de Empresas de Base Tecnológica de Antioquia*, a first rate business incubator in Medellín, Colombia, with a long successful record helping technology based business initiatives. A CAF meeting in Caracas in october 2004, that brought many interesting Latin American organizations committed to strengthening our regions competitive standing, and a trip to Medellin in February 2005 have been the starting events for cementing this alliance. We are now considering several investment opportunities amongst IEBTA's alumni and have extended our business network to several Medellin initiatives like Capitalia Colombia, Mercurius Ventures and Promotora de Proyectos de Antioquia.

Naturally, in Venezuela we have also strengthened ties with our two most important business incubators, at PTS Parque Tecnológica de Sartenejas and at the Parque Tecnológico de Mérida. These organizations are also oriented to technology based business initiatives. This focus in technology initiatives is due to a convergence of factors, lasting throughout the last fifty or sixty years of Venezuela's economic history, even in critical times. Huge investments were made in university education starting in the early 60's, with many programs devoted to information technology in response to our oil industry's and financial sector needs. Thus the academic world joined the oil and banking sectors in creating a high quality software cluster that has now gained international recognition, as shown for example in some recent studies by the Gartner Group about software factories. At the same time, Venezuela's strong marketing and advertising industries, working together with the software cluster, have created the right context for our most successful Internet startups, like Tucarro.com and SinFlash, mentioned earlier in this paper.

Complementing Negociosdigitales' experience investing in companies serving digital markets and as a consequence of our business networking activities, we are now broadening our investment scope to software houses and to manufacturing companies in the electronic and electric industries. Most recently we have invested funds, coming both from the FMP and CAF's credit lines, for the creation of *GENERGICA Gestión de Energía*, an innovative manufacturing company producing electronic equipment for the electric industry.

Most recently, I extended our network of contacts and investment opportunities to Spain thanks to an invitation by Professor Ricardo Hernández Mogollón, from Universidad de Extremadura, to take part in an event dedicated to academic and corporate *spin offs* as sources of innovative new firms⁶. This invitation came through our contacts with the GEM project, in which Professor Hernández takes part in Spain. The same GEM contact, through Professor Federico Fernández at IESA, lead us to Professors Ignacio de la Vega and Alvaro Sancho at the Instituto de Empresas (IE) in Madrid, who work in the GEM project and in the Entrepreneurial area. Through Professors Angel Díaz Matalobo and Oswaldo Lorenzo, both previously at IESA and now at the Operations and Technology area at IE, we have also met interesting Spanish entrepreneurs.

Besides meeting extremely interesting people, both entrepreneurs and promoters of the entrepreneurial process, the lecture⁷ I delivered in the Extremadura event, gave me a chance to look at Negociosdigitales experience from a different perspective. I am now much more aware of the importance of spin offs, recognizing that Negociosdigitales itself is a sort of academic spin off, as I explained in my talk, and that several firms in our portfolio are corporate spin offs such as Genérgica, Tendenciasdigitales and Perfilnet. Thus the entrepreneurial spirit found in educational institutions and in corporations, has indeed provided us with important investment opportunities and will certainly continue to be a source for such opportunities.

Having rediscovered through our own experience the basics of Venture Capital fund creation and management adapted to Latin America, at Negociosdigitales we are now committed to strengthening our alliances with Angel investors, recognizing their special, necessary and useful role in the business creation process.

⁶ IVº SEMINARIO DE INNOVACIÓN. Universidad-Empresa: binomio clave en la Sociedad del Conocimiento. April 15, 2005. The Xavier de Salas Foundation. Convent of La Coria. 10200 Trujillo. Cáceres. Spain. <http://www.fundacionxavierdesalas.com/>

⁷ Lorenzo Lara-Carrero. Creación de empresas de base tecnológica – La experiencia de Negociosdigitales. Available for download at the Fundación Xavier de Salas website.