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## Editor's Letter

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# *The Journal of* **PRIVATE EQUITY**

Strategies and Techniques for Venture Investing

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As world stock markets continue to move sideways—or worse—we present herein articles ordered around three themes to help us think about private equity and take the action necessary to move forward. We consider first, three looks at the basics of our business. These include ideas about the essential differences between the management of private versus public firms, a look at the skills required to predict the success of new products, and a study of how entrepreneurs versus venture capitalists differ in their methods and skills when looking at new opportunities. Next, we journey to Japan and Mexico. Finally, ESOPs and the essentials of bridge financing are brought up to date for our current conditions.

First up is an article by Paul Rogers, Tom Holland, and Dan Haas which examines how, from a management perspective, private businesses have been able to rack up such stunning records of return. After studying over 2,000 transactions over the past 10 years, the authors propose five essential elements that drive private equity firms to their success. The crispness of their answers reaffirms the essential mission of the private equity sector of the economy.

Thomas Åstebro presents a fascinating study of how skilled engineers evaluate new products. In this article, he reports on over 150 new projects that were reviewed according to a wide range of factors. Out of the 37 factors used as potential markers of success or failure, he found four that were compelling. Yes, expected profitability was among them. In addition, he was also able to rate the accuracy of his panel of experts. Their rate of success may surprise you.

Everyone talks about the issues surrounding opportunity evaluation, and, in fact, the Åstebro article speaks directly to that issue. Noel Lindsay and Justin Craig have taken a different approach. They wonder about opportunity recognition, rather than evaluation. How do entrepreneurs discover potential opportunities? Do their methods differ from those used by venture capitalists? Although both groups may use highly similar approaches, some intriguing differences are reported.

It is hard for anyone not involved to evaluate what the Japanese stock markets have been through since late 1989. The fall in the Nikkei most closely measures the Dow Jones Index starting

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in 1929, yet the Japanese economy struggles on as the second largest economy in the world. Surprisingly, Japan has the largest pool of personal savings and the highest foreign exchange reserves to be found anywhere in the world. Is it time to think about direct investments in Japan? Edward Martin suggests potential areas of investment and strategies for finding success in this sleeping giant.

Mexico is another country that has lurched from difficulty to crisis and back again. Given proximity to the vast capital available in the U.S., this nation deserves careful analysis. Roberto Charvel and Juan Carlos de Yeregui provide exactly that for us, including a wide-ranging report on what to look for and expect from investments in this emerging market. Wonder about the Mexican stock exchange? How about the judicial structure, or the rule of law? How strong is the role of commercial banks in Mexico? It's all here.

Our final two articles present techniques for working with the capital markets of today. Pete Stavros makes us think twice about the concept of using an employee stock ownership plan as a method of financing a buyout. So, what ever happened to the fabled ESOP? And how do these darn things work, anyway? Want to see examples? How about Dan River? Remember Avis Rent-a-Car or Simmons Company? They are each examined in this article.

Bridge loans are something everyone uses at times, even though their effect has changed dramatically over the past five years. During boom times, bridge loans are simply an advance against the next round of finance. But today, they can be something quite different. Timothy Harris takes us through the ins and outs of this important tool, and offers some hints on how to make sure you are up-to-date in your practices.

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