Building Businesses

An Interview with
Ned Stringham, Managing Director, 42 Ventures

Ned Stringham

EDITORS' NOTE *Ned Stringham started 42 Ventures in 2006 after successfully selling SBI Group, a digital marketing and technology consulting firm that he co-founded in 1998 and then grew to nearly 1,000 employees with 13 offices across the U.S. and Europe. He guided SBI through the dot-com bust, acquiring several well-known public firms including Lante, MarchFirst, Scient, and Razorfish. SBI was acquired by Aquantive where Stringham joined the board. Prior to SBI Group, he founded and ran Impact Partners, a management consulting firm based in Sydney, Australia that served several leading industrial companies and the largest hotel and casino operation in the country. He began his career at McKinsey & Company in their Texas and Sydney offices. Stringham earned an M.B.A. from Harvard Business School and degrees in Philosophy and Political Science from the University of Utah.*

COMPANY BRIEF *42 Ventures (42ventures.com; 42v) was founded in 2006 by Ned Stringham, an experienced business builder, Internet expert, and growth company investor. Everyone involved with 42v has started and grown their own businesses, and since the investment capital comes from Stringham, his team, and a tight circle of advisors, they are true partners in building the businesses they invest in. 42v is not a fit for companies that simply need capital, but when entrepreneurs desire a partner that can help make the business grow, the 42v model really works. It invests between $250,000 and $1.5 million in a typical deal. There is no time frame on exit, nor is there a fixed structure for investing. The firm maintains an evergreen fund of capital meaning that having enough time to support a new portfolio company is the primary constraint, not money. 42v seeks out businesses with well-defined markets generally focused on a specific industry or specialized function. Since 2006, 42v has invested in 12 businesses and has experienced tremendous success.*

What made you see the opportunity for this company in 2006?

Prior to 2006, I co-founded SBI Group, which was formed in 1998. We consolidated most of the top-tier digital marketing firms during the dot-com bust, acquiring 13 of the most respected companies in the space. We integrated those businesses into the largest digital marketing firm in North America that was not affiliated with one of the top agency networks.

By 2003, we got the business growing organically and generating profit, and we operated it under the Razorfish brand, which was the best known. That brand continues today, and it is one of the leading digital firms serving the biggest brands throughout the world.

We sold Razorfish in the mid-2000s to a company called Aquantive, which was a Nasdaq listed company of about equal size. I joined their board, and that business was subsequently sold to Microsoft for between $5 and $6 billion.

At that point, I had seen the powerful trends around Internet software and the opportunities to build browser and now mobile applications that run in the cloud. I could see there would be opportunities for literally thousands of companies to emerge, and if those companies could solve real problems for customers and grow to even minimal scale, they would deliver significant value to their investors. Given that, I decided to start by directly investing my own capital in companies in that space where I thought I could use my experience and relationships to help them succeed.

It's from that simple idea that 42 Ventures has grown. I'm now involved in 12 companies which are returning four times on my invested capital.

It has been a great run for me and I'm doing things I love and building businesses.

How does your business model work?

My model is unlike that of a traditional venture capital firm that has institutional money that is committed for 10 years under defined investing parameters and no say in which deals get done.

It's also different from small angel investors that put $25,000 to $50,000 dollars into, say 20 deals, and hope for one to hit big and make up for losses on the other 19.

My model is based on primarily using my own capital with a small group of pledge fund investors who invest deal by deal. Because I lead the investments, they sleep well knowing I make my money the same way they do and not through annual management fees.

We target software-driven companies with innovative products and services that usually haven't had any institutional or professional investment to date. We tailor the deal in terms of the amount and type of capital, whether debt or equity, that meets the needs of that unique business rather than being constrained by a formula that institutional investors have put on us.

We are also patient; we don't have to exit to raise our next fund – my capital is 'evergreen' so we can take a long time with the investment if need be.

It's always appealing to companies seeking investment when I say, I'm writing a check from my own personal funds and betting on your business the same way you are.

The businesses we're involved in generally have a management team in place, they have products in place, and customers. They're often profitable, and they have upward growth trajectory. They're all software-driven businesses focused on a specific industry, leveraging the latest technology, operating in the cloud, and employing a software-as-a-service model.

Do you see significant further opportunity?

Yes. There are many young companies that started in today's cloud-based and mobile world. They may have taken on capital from modern day incubators like Techstars or Kickstarter, but that funding has only taken them so far. They've had success, but need more fuel and guidance. If we can make sense of the valuations these companies have in mind, they can be very interesting.

There are also older, more traditional software companies that have a strong legacy customer base, but need to make the transition to newer technologies and business models. These can be great opportunities as well.

Our deals are often smaller than what many private equity groups will pursue and larger than angel investors can go after; they're companies focused on industries or narrower markets that don't meet the multi-billion-dollar expectations of traditional venture firms. These are real gaps in the market we are filling.

What type of team have you assembled?

My team is unique in that all of them have started a business at some point in their past. This gives them a good perspective on the challenges of making a business grow. They have also worked in larger enterprises and seen how sophisticated companies operate. This helps them provide seasoned support to our portfolio companies as they transition through critical points in their growth. ●

