

A Case of the JA-'s (pronounced "jah")

It all started with JAMMBOG. At Parish Capital's 2005 annual meeting we used the term "Just Another Mid-Market BuyOut Group" to describe a phenomena that we observed in private equity. Most buyout groups look similar. Mid-market buyout groups (those that buy companies with \$50 mm - \$250 MM in revenue) looked even more similar. I don't think we coined JAMMBOG, but the term struck a chord. For those in asset management who were constantly scouting for new investment opportunities, JAMMBOG was a real problem – how do you tell these groups apart?

"Just Another" served as a pejorative preposition. Over four years we evaluated some 2,000 private equity opportunities – about 30% of which could have been labeled JAMMBOG. Meeting after meeting, call after call, these groups would sit across and try in vain to differentiate themselves from their peers. Differentiation was a tough assignment.

JAJAA (jah-jah) stands for Just Another "Just Another" Acronym. "JA-" exists beyond the walls of the private equity industry. Since joining Elmarco to run US Sales and Marketing, I've been dealing with a pair of triplets; JANTI, JANFI and JANMI.

JANTI (jan-tee) is short for Just Another NanoTech Idea; JANFI (jan-fee) for Just Another NanoFiber Idea and JANMI (jan-mee) for Just Another NanoMaterial Idea. There should be one for Cleantech – suggestions are welcome. As a nanofiber equipment supplier, we see a great many ideas wrapped in nano. Like their distant brethren in private equity they are often difficult to differentiate. Where the private equity groups were all, "value-added, operationally-focused, bottom line driven and buying proprietary deal flow," the JANTI triplets have, "easily scalable technology, high surface area, novel properties at market parity pricing."

Over breakfast this morning with a local VC and fellow entrepreneur, we discussed that the RTP area here in NC was going through another JARAG phase. Just Another Regional Angel Group. Several are being formed, as there were in the late 1990's and the early 2000's. They are everywhere, difficult to tell apart and it is uncertain how long they will persist.

The JA-Problem and Solutions

Is there a JAJAP? A Just Another Just Another Problem? A JA-problem?

The JAJAP only exists in the eyes of those who are evaluating a market. Those who are promoting JANTI, JANMI, JANFI or JAMMBOG concepts – they may even benefit from being part of the pack. In economics we see the 'theory of minimum differentiation' also known as Hotelling's law, which explains why we always see McDonald's and Burger King across the street from each other. If you're in the pack, and the

pack is a good place to be, then the rational player would avoid differentiation at all costs. Any player who emerged would be chased – like the leader of the Tour de France emerging from the peloton.

The JAJAP requires inspection to occur, along with a sufficient number of participants, and a lack of clear differentiation in the participants. Further, if the JA-players are following Hotelling's law, then they are actively attempting to render any differentiation.

What should the evaluator do? What is best for the tech scout? Or the agent looking to allocate money?

The first goal is to list the facets of the objects that are of interest. By laying out the components of the object, we begin a process of understanding what the evaluator is looking for. Second, look to quantify the facets that are most important. In private equity – returns were an easy area to focus on. For the JANTI triplets, cost of the end material is usually a good proxy for market suitability and technology maturity.

Finally, in JA-problems, instead of looking for 'winners' it is often good protocol to quickly bin out the losers; in the same way a manufacturing operation puts defective parts in the 'bad' bin. When mediocrity is the norm, make a mediocre pile. The excellent options will stand out.

If you are a participant in a JA-market, the goal if you are mediocre is to ensure that the pack persists. If someone emerges – imitate them. If those making decisions about who to work with are confused – make sure the confusion persists. Fight industry standards. Hide behind secrecy. If you are a JA-participant with a solid product and leadership potential, the goal becomes breaking away from the pack.

Summary

For a JA-choice to exist, we would need:

1. At least N options, such that evaluation of N requires skill and time.
2. No master list of the options.
3. Incoherent or incomparable data on the options available.
4. Once a ranking can be assembled, it could be expected that the key variable or facet would show kurtosis; potentially a Cauchy distribution or power-law.

Outline:

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 - 1.1. JAJAA
 - 1.2. Origins – JAMMBOG
 - 1.3. Triplets – JANTI, JANFI, JANMI
 - 1.4. JARAG
2. What is the JAJAP?
 - 2.1. Statement
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