

Brownfield Versus Greenfield Opportunities

Alternatives when searching for diamonds in the rough – the search for an acquisition target

By Bruce Bahlmann ■ *Sedna Services*

These days, Fiber to the Home providers consider greenfield opportunities as too obvious to ignore. FTTH using proven technology is about as easy to install as copper in new construction, and offers lower maintenance costs with vastly higher bandwidth. But what about brownfields – overbuilding existing construction, taking over failed FTTH projects, or gaining access to underused but promising technology? The best long-term business strategies consider both. Here's a primer.

Brownfield opportunities are indeed the opposite of greenfield in many ways – technical complexity, payback timing, the number of parties at the table, it is all different. To a person not skilled in the art of property acquisition, a brownfield opportunity might represent some kind of public works program or an initiative to improve the storefronts of a particular area of a city.

What makes a good brownfield opportunity is not so much any products that the company has developed, but rather what intellectual property, rights of way, or real estate can be purchased on the cheap.

Greenfield Opportunities

When someone mentions a greenfield opportunity to you, several things may come to mind including the chance to be the first to develop and sell products, a virtually non-competitive landscape, infinite opportunities to patent technology, and a wide open field with lots of room to grow in multiple directions.

Greenfield deals offer potentially huge financial rewards. But along with those rewards come gigantic risks and major investments of management energy, money, time, and personal sacrifice. If there is little or no competition, it

may mean that other companies looked and saw insufficient interest from potential customers. Greenfield opportunities also represent such a new field that in most cases potential customers won't understand the value proposition. Thus, a significant amount of education is required to get them to buy.

In many cases, the use or need of such products does not yet exist or customers must be trained to understand how they can extract value from your product. This lack of obviousness creates large market growth cycles. Educating a whole industry or even each customer is a daunting task that could postpone many entries into such an area.

Brownfield Opportunities

When someone mentions a brownfield project, most providers get even more nervous. Even the term "brownfield" is not commonly used when applied to the development business. The term describes companies that have been left out in the pasture too long. They have overgrazed, and have left the growth brown or stripped of all vegetation that could sustain life.

Such companies are typically past their prime, void of most of the staffing required to make a successful go at making it within their specialty. They might even be on life support, or have filed for bankruptcy. The most inviting brownfield opportunities involve companies that perhaps entered a greenfield deal with vigor and amassed significant intellectual property but were ahead of their time. They were unable to successfully market and sell their products, possessed inadequate leadership to sustain the company, or were unable to secure continued funding.

In the final days of a company, or in the post-collapse liquidation, assets of companies that have fallen out of grace

are available at fire-sale prices to satisfy creditors. During such times anything worth money is sold to the top bidder. If you are the only bidder, such prices can be dirt cheap – especially in the case of intellectual property.

At some fire sales an intelligent buyer can acquire a whole property or technology portfolio for cents on the dollar of what it cost to amass the portfolio in the first place.

Determining whether a technology is any good depends on a detailed analysis of the patents as well as whether such technology is still commonly used. Such patents in the hands of the right deep pockets could be easily worth many times their purchase price. But the key is to know the industry covered by the patents and have some insight as to how such technology is currently being used or could be used in the near-term future.

Forward Thinking

Risking nothing other than time and money invested in submitting patent applications costs less than hiring a team of engineers, is less risky, and could be worth a lot someday – potentially much more than any product one could ever develop.

There are companies doing this today, of course. Their product is actually intellectual property rather than something tangible. Such companies ultimately amass a wealth of intellectual property surrounding key areas and then either license or spin a licensing pall around these key technology areas. **BBP**

About the Author

Bruce Bahlmann is Vice President of Data Technology at Sedna Services in Philadelphia. He can be reached via email at bruce.bahlmann@sedna.com.



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