



Statement of the U.S. Chamber of Commerce

ON: “Examining the Small Business Investment Company Program”

TO: The House Committee on Small Business, Subcommittee on Investigations, Oversight and Regulations

BY: Philip Alexander, CEO of Brandmuscle, on behalf of the U.S. Chamber of Commerce

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The Chamber’s mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on issues are developed by Chamber members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

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“Examining the Small Business Investment Company Program”
Submitted to
THE HOUSE COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT AND
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on behalf of the
U.S. CHAMBER OF COMMERCE
By
Philip Alexander, CEO of Brandmuscle
Cleveland, Ohio
July 25, 2013

Chairman Schweikert, Ranking Member Clarke and distinguished members of the Subcommittee, thank you for inviting me to testify before you today on the Small Business Administration’s (SBA) Small Business Investment Company (SBIC) program and its impact on the ability of U.S. businesses and entrepreneurs to compete, innovate and create jobs. I commend your efforts in holding this important hearing to better understand the SBIC program and the critical role it has played in the success and growth of my business.

I am Philip Alexander, President and CEO of Brandmuscle, a recently SBIC funded small business that is currently headquartered in Chicago, with offices in Cleveland, Austin and Los Angeles. I am here to speak with you today, not only as CEO of Brandmuscle, but also on behalf of the U.S. Chamber of Commerce.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses and organizations of every size, sector, and region. More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. Therefore, the Chamber is particularly cognizant of the problems of smaller businesses, as well as the issues facing the business community at large.

I came to the United States over thirty years ago with little more than the determination to obtain a first class education. After obtaining an MBA degree at Case Western Reserve University, in Cleveland, Ohio, I pursued a career in marketing and quickly ascended to senior positions with national and international retailers, serving as vice president of brand management for Pearle Vision as well as vice president of marketing for Western Auto, a subsidiary of Sears, Roebuck and Co.

Although very successful within the corporate world, I always knew my entrepreneurial spirit would lead me to even greater opportunities should I strike out on my own. In 2000, I left the comfort and security of my company job and Brandmuscle was born. It was a solution to a common problem within the marketing industry that had challenged me for years; how do you roll out a national marketing campaign relevant to potential consumers within local markets and diverse

communities? For a national company, building consistent brand equity across all markets is extremely important, yet many local perceptions influenced the purchasing decision.

There are close similarities in politics that parallel this marketing dilemma. Former Speaker of the U.S. House Tip O’Neill coined the phrase, “All politics is local.” This axiom encapsulates the principle that your success is directly tied to your ability to understand and influence the issues of local constituents or communities. As you know only too clearly, attempting to communicate to the varying interests within a congressional district is a challenge, and trying to broaden a message and outreach nationally can be extremely daunting, especially when control of that message is distributed to many well-intentioned supporters throughout the country.

Brandmuscle was launched as a powerful solution to unleash a company’s brand where the buying decisions are made—in the local marketplace. Our local marketing software enables companies to empower their network of local distributors, dealers, franchisees and salespeople with everything they need to deliver brand-approved marketing tactics customized to local needs, tastes and other relevant differences that can affect the sale.

Today, Brandmuscle, has reinvented the local market place and evolved into a world class suite of marketing services and solutions. We are proud to have as clients some of the most well-known corporate Fortune 500 companies. Some of our current products and services include the following:

1. BrandBuilder® allows a company to customize and execute local marketing campaigns with legally compliant advertising for virtually any type of media on our local marketing platform and ad builder.
2. DesignTracker® allows a company to efficiently manage local marketing and in-house graphics activity. A large percentage of on-and-off premise marketing materials are designed and produced locally by distributors or branches. This business workflow typically has a lack of cost controls, minimal compliance with branding guidelines, and inferior production capability.
3. DisplayTracker™ a web-based solution that allows distributors to create customized Point-of-Sale (POS) materials at the retail level. The application uses Variable Data Print technology to add personal messages and account names to POS material that is kitted for retailer distribution. This provides a dramatic reduction in per unit pricing of POS material to more closely assimilate long run print pricing.

Since its launch, Brandmuscle has been honored to receive numerous awards in recognition of our involvement with the community and our business integrity:

- 2012 Medical Mutual Pillar Share Award, Community Service
- 2012 Crain’s Cleveland Business Leading EDGE Award, Entrepreneurs EDGE
- 2011 Best Internship Program Award Finalist, Northeast Ohio Software Association
- 2011 Richard Shatten Civic Distinction Award, Entrepreneurs EDGE
- 2010 Weatherhead 100 Award, Council of Smaller Enterprises (COSE)
- 2010 Crain’s Leading EDGE Award, Entrepreneurs EDGE

- 2009 Crain’s Cleveland Business Leading EDGE Award, Entrepreneurs EDGE
- 2002 Innovation in Business Award, Smart Business Network Magazine
- 2002 Philip Alexander named “Visionary”, 4th Annual SBN Innovation in Business Conference

Today, Brandmuscle employs over 550 well-paid professionals in the United States, many of whom are still located in downtown Cleveland, Ohio, where the company was started. Given Brandmuscle’s quick rise to success, it is easy to overlook important factors that brought the company to this level. Like many small business owners across the nation with a great idea and limited resources, ‘pulling yourself up by your own bootstraps’ is the primary way I began my journey to achieve the American dream.

With limited resources and no staff, convincing my first corporate client to purchase services from my fledgling company required almost as much innovation and marketing skills as it did to develop the product. Even though it was a memorable event when the first dollar arrived, there was little time to celebrate. Delivering on your commitments during the early stages of business development requires hiring capable employees and developing internal procedures that exceed the client’s expectations. It takes extraordinary amounts of both human and financial capital to build a business. While I had confidence in my business and marketing expertise, acquiring enough resources to foster the accelerated growth needed to propel Brandmuscle to its current level of market dominance took an incredible amount of time and energy.

There is one commonly misunderstood fact; for a fast-growing, job-generating company like Brandmuscle to thrive, many diverse avenues of funding are essential. Irrespective of a company’s profits, the inability to access a robust supply of external capital during critical times in the growth cycle can severely impact revenues, profit, jobs, and even the ability to survive.

For Brandmuscle, early stage funding came from savings and an early Angel. Not long afterwards, several successive infusions of “venture funds” provided the foundation to drive revenue growth to a level that would support a payroll of approximately one-hundred and fifty jobs. Under that business debt/equity structure, Brandmuscle had reached a point in which the growth rate could only comfortably add another three or four jobs a year. We had not yet reached our full potential; our existing capital structure would limit our progress.

While “angel” and “venture capital” funding had served the purpose in filling the gap between start-up financing and our current level of market maturity, different funding sources were needed to cash-out original investors and reposition us for further expansion. Brandmuscle was too small and did not have the resources to go public. Additional liquidity through venture capital funding from additional private equity placement was an expensive way to recapitalize, given our proven history of success. And we needed to do more than just recapitalize to grow – we needed additional capital, products and people.

Commercial bank debt financing is typically not available to companies with the level of investment risk required that Brandmuscle had in 2012. Since most of our assets were intangible property, convincing banks to lend based on collateralizing those assets, was not practical.

The SBAs SBIC program was unique in its ability to provide Brandmuscle with the resources for our next phase of innovation and aggressive growth within the distributed marketing landscape. This federal government program, which has zero cost to the taxpayers, allows for a SBIC fund manager to leverage up to twice the amount of their private capital in order to provide a company like Brandmuscle cost-effective, mezzanine debt financing in order to recapitalize and position us to foster more job growth.

In February of 2012, The Riverside Company, equipped with assets from their recently SBIC backed Riverside Micro-Cap Fund II, signed a purchase agreement to fully acquire Brandmuscle through a mezzanine debt restructuring arrangement. Brandmuscle had instant access to the extraordinary managerial talents and financial backing of the Riverside team, a well-respected leader in PE management.

Riverside's SBIC fund provided financial backing for the acquisition and merger of several other companies within their portfolio family providing us added opportunities. Brandmuscle was immediately able to integrate with Riverside's platform Centiv Services, a Chicago Illinois-based provider of marketing automation technology and digital print fulfillment services and TradeOne Marketing, an Austin, Texas-based trade promotion management company, to build out our distributed marketing platform. As a result of Riverside's funding and counsel, in just over a year, Brandmuscle's newly acquired market strength and vertical alignment had dramatically increased income and earnings. This was not done at the expense of cutting jobs; we not only sustained our combined level of employment, but created an additional forty-two jobs.

The Riverside Company is one of the largest and oldest global private equity firms in the nation with over \$3.5 billion in assets under management. With more than twenty-five years in business, they have completed over three-hundred acquisitions and have over two-hundred people worldwide. It was welcome news when Brandmuscle was able to obtain the cost-effective, capital needed to make it to the next level. Just as important as the funding, was Riverside's commitment to nurture Brandmuscle with the goal of building it into a more effective enterprise through time-tested management techniques, organic growth and add-on acquisitions.

Chairman Schweikert and Ranking Member Clarke, without the SBAs SBIC program, a company with the talent and resources of Riverside would unlikely seen value in engaging with an enterprise the size of Brandmuscle. Their SBIC backed Micro-Cap funds represents only a fraction of their massive portfolio. I am convinced that it was the incentives that were afforded to Riverside by the SBIC program which made us an attractive candidate for their consideration.

In conclusion, from the day that I conceived the idea of Brandmuscle, to the present, obtaining sufficient capital has always been a challenge. I know firsthand that in order for a company to successfully grow, expand and create jobs, it requires the right type of capital at the right time. Seed money, start-up capital and different stages of growth capital all come at different costs, maturities and expectations. All sources of capital play a distinct and vital role in bringing a company to the next level as a business progresses through its life-cycle.

At no expense to the taxpayer, the SBAs SBIC program fills a void by providing access to capital, especially mezzanine structured debt, for fueling the growth of small businesses where

alternative funding is not available in the private sector. On behalf of the U.S. Chamber of Commerce's small business membership, and myself, I strongly recommend that you retain, enhance and strengthen this critical source of capital for small businesses. To that end, I urge you to pass the bi-partisan bill, H.R. 1106, the 'Small Business Investment Company Modernization Act of 2013' into law.

I thank you for inviting me to testify and look forward to answering any questions.