

# **Business Planning, Intangible Assets and Finance**

***Dr. Guriqbal Singh Jaiya***

**Director**

**Small and Medium-Sized Enterprises Division**

**World Intellectual Property Organization**

**[www.wipo.int/sme](http://www.wipo.int/sme)**

# Lifecycle of a Startup

▶ Conception / Invention

▶ Seed Stage

- Formation / incorporation
- Market research
- Product research

▶ Early Stage

- Product development
- Team formation
- Infrastructure build-out

▶ **Launch**

▶ **Growth Stage**

▶ **Expansion Phase**

▶ **Exit**

▶ **Post-Exit**

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- ▶ Growth Stage
- ▶ Expansion Phase
- ▶ Exit
- ▶ Post-Exit

# Startup Fundamentals

**Solid foundation =  
best chance of  
funding your venture**



# Pour a Solid Foundation

- ▶ **Market-driven concept**
  - Talk to prospective customers
  - Assess market and competition
- ▶ **Resolve legal issues upfront**
  - Satisfy prior employment obligations
  - Incorporate properly
  - Check intellectual property rights (patents, trademarks, copyrights and NDAs)
  - Spin-out cleanly
- ▶ **Form a solid team**
  - Management, board, advisors, professionals
  - Teamwork begets success
- ▶ **If possible, kick-start the business**
  - Spin-out / acquisition
  - Key customer

# Be Market-Driven!

- ▶ Purchase decisions are based on relationships – understand your customer's needs:  
trust/branding
- ▶ Understand and model your customers' economic benefit:
  - How are they currently solving the problem?
  - How will their work processes change by using your product?
  - What is their economic benefit / ROI?
- ▶ Your product/service must be **better, faster and cheaper**

# Cash Flow is Your Life Blood!

- ▶ **Cash flow comes ultimately and most importantly from customers, NOT from investors**
- ▶ **Profit is not cash flow**
- ▶ **Capitalize properly**

# Business Planning

- ▶ **"The plan is useless; it's the planning that's important."**
  - *General Dwight D. Eisenhower, on the success of his D-Day invasion plan*
- ▶ **The process of uncovering and identifying what creates and drives value in your business, and the risks involved**
- ▶ **A business plan is an output of the business planning process**



# Output of the Business Planning Process

- ▶ **Business plan (narrative)**
- ▶ **Pro forma financial statements**
- ▶ **PowerPoint pitch (12-13 pages)**
- ▶ **Elevator pitch (1-2 minutes)**

# A Business Plan...

- ▶ **Describes all the critical internal and external elements and strategies for guiding the direction of your company**
- ▶ **Communicates how you will create sustainable value**
- ▶ **Identifies risks and uncertainties and communicates how you will manage them**
- ▶ **Describes the company's structure, objectives and future plans**

# Uses of a Business Plan (Internal)

- ▶ Refining your product / service strategy
- ▶ Identifying key customers
- ▶ Identifying milestones and timelines
- ▶ Helping set objectives & performance metrics
- ▶ Managing risk and uncertainty
- ▶ Motivating and focusing employees
- ▶ Analyzing capital budgeting decisions
- ▶ Facilitating new product development
- ▶ Integrating new acquisitions
- ▶ Facilitating restarts, restructuring and turnarounds

# Uses of a Business Plan (External)

- ▶ **Attracting key employees**
- ▶ **Educating potential investors**
- ▶ **Arranging strategic alliances**
- ▶ **Obtaining large contracts with strategic customers**
- ▶ **Facilitating mergers and acquisitions**

# The PowerPoint Pitch

## ▶ 1: Summary

- Mission statement
- What is the idea?
- How will it create value?
- Timeline / milestones
- Expected results
- Specific request (e.g., \$)

# The Mission Statement

To create [value/EVA]  
by [product/service] for/to [customer(s)]  
by...

Strategic  
Objective 1

Strategic  
Objective 2

Strategic  
Objective 3

# The Mission Statement



# Mission Statement Example

- ▶ **To be Uzbekistan's leading producer of "A-class" widgets to the natural gas sector by:**
  - **Securing exclusive purchase contracts with 3 of the top 10 customers of A-class widgets in Uzbekistan;**
  - **Creating proprietary manufacturing methods for the highest yield of A-class widgets; and**
  - **Building a world-class team of research & development scientists and engineers.**



# The PowerPoint Pitch

## ▶ 2: Market Overview

- Substantiation of need
- The opportunity (size, trends, etc.)
- Market validation
- Identification of prospective customers

# Major Pain Points

- ▶ **What is the major pain your customers face currently and/or in the future?**
  - **Cost**
  - **Convenience**
  - **Growth**
  - **Focus**
  - **Time-to-market**
  - **Regulatory compliance**
- ▶ **Why are alternative products/services not addressing the pain (fully)?**
- ▶ **Why won't this change?**

# Favorable Market Dynamics

- ▶ The market is large for our product/service:
  - Size stat 1
  - Size stat 2
  - Size stat 3
- ▶ The market is growing for our product / service:
  - Growth stat 1
  - Growth stat 2
  - Growth stat 3
- ▶ Market trends favor us:
  - Trend 1
  - Trend 2
  - Trend 3

# The PowerPoint Pitch

- ▶ **3: Description of Product/Service**
  - Overview of product / service, including high-level technology description
  - Specific value proposition (including qualitative & quantitative customer benefits)
  - Correlate product / service features & benefits with market needs
  - Value chain dynamics

# The PowerPoint Pitch

## ▶ 4: Operating Plan

- Production / manufacturing
- Marketing / distribution
- Sales & marketing plan

## ▶ 5: Competitive Environment

- **Sustainable competitive advantages**
- Alternatives
- Competition (existing and potential)

# What's Proprietary About Your Idea?

## ▶ **Competitive Advantages**

- **Proprietary IPR**
- **Exclusive distribution**
- **Exclusive content / sources**
- **Proprietary manufacturing**
- **Proprietary integration**
- **Installed base / customer contracts**
- **Unparalleled capital structure**
- **Unparalleled scale, scope and/or focus**
- **Team with unique expertise and/or access**
- **First mover advantage**

▶ **Distinguish between momentary and sustainable**

▶ **Must correlate to strategic objectives**

# The PowerPoint Pitch

## ▶ 6: Financials

- Pro forma snapshot
- Key metrics / drivers
- Funding requirements (optional)

# Financial Projections

*(in thousands)*

	2007	2008	2009	2010
Revenue driver 1 (1)				
Revenue driver 2 (2)				
Cost driver 1 (3)				
Net Revenue				
– Cost of Sales (4)				
= <u>Gross Profit</u>				
– SG&A (5)				
= <u>Pre-tax Income</u> (Loss)				

**Key is to understand drivers and assumptions since...**

**Numbers will prove wrong!**

- Notes**
- (1) Assumption 1**
  - (2) Assumption 2**
  - (3) Assumption 3**
  - (4) Assumption 4**
  - (5) Assumption 5**



# Funding Requirements

- ▶ **Does your venture need external financing?**
  - How much & when?
  - Venture capital, debt, etc.
- ▶ **Capital structure considerations**
  - Options plans, etc.
  - Position vis-à-vis in-kind contributions
- ▶ **Use of proceeds; e.g.:**

Staff	\$200,000
Technology & IPR development	150,000
Equipment & facilities	200,000
Other legal, operations, SG&A and misc.	100,000
Reserve (net of cash on hand)	100,000
<hr/>	
Total	\$750,000

# The PowerPoint Pitch

## ▶ 7: Road Map

- Major accomplishments
- 90-day plan
- Horizon

# The PowerPoint Pitch

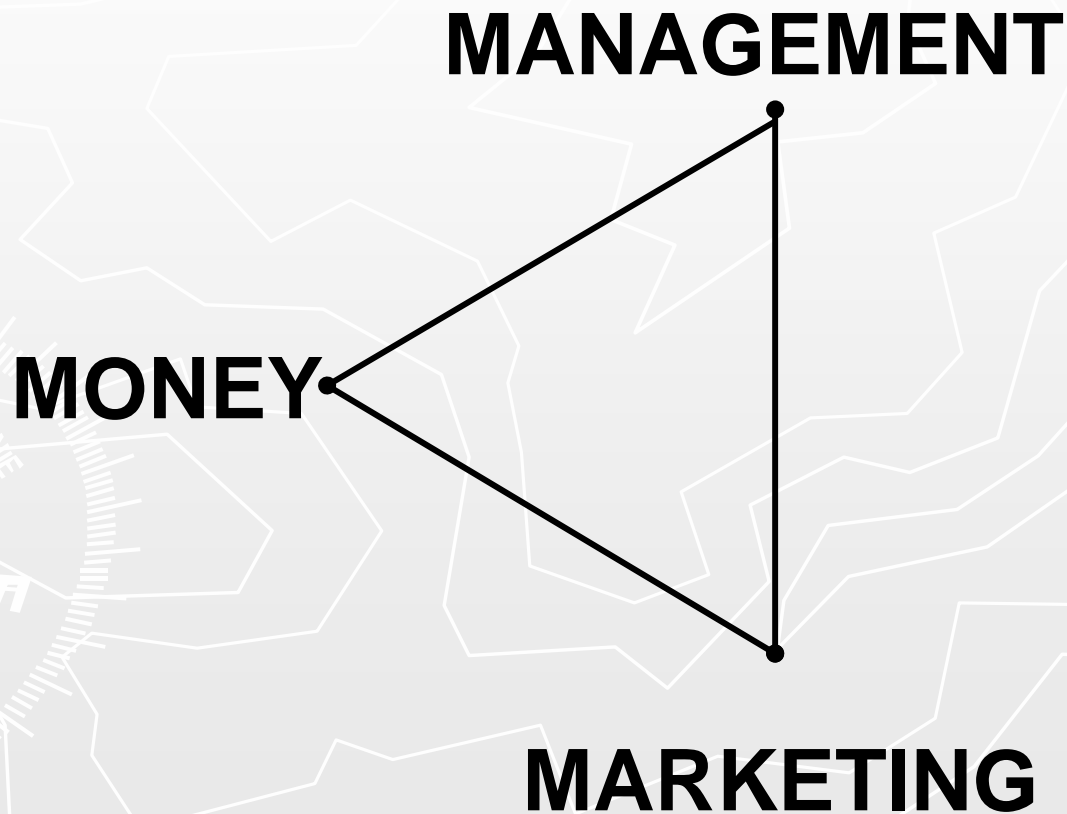
## ▶ Appendix (as long as you want)

- Market details (e.g., surveys)
- Product details
- Operating & financial details
- Résumés (CVs)
- Articles / research reports
- **Portfolio of IP Assets**
- Key contracts
- Brochures

# Summary

- ▶ **Pour a solid foundation**
- ▶ **Protect your strategic assets (like IPRs)**
- ▶ **Value is in the business planning, not the business plan**
- ▶ **Be concise and to the point with pitch materials**
- ▶ **Be top-down customer-driven, not bottom-up product-driven**

# 3 M's of ENTREPRENEURSHIP



# IS A COMPANY READY?

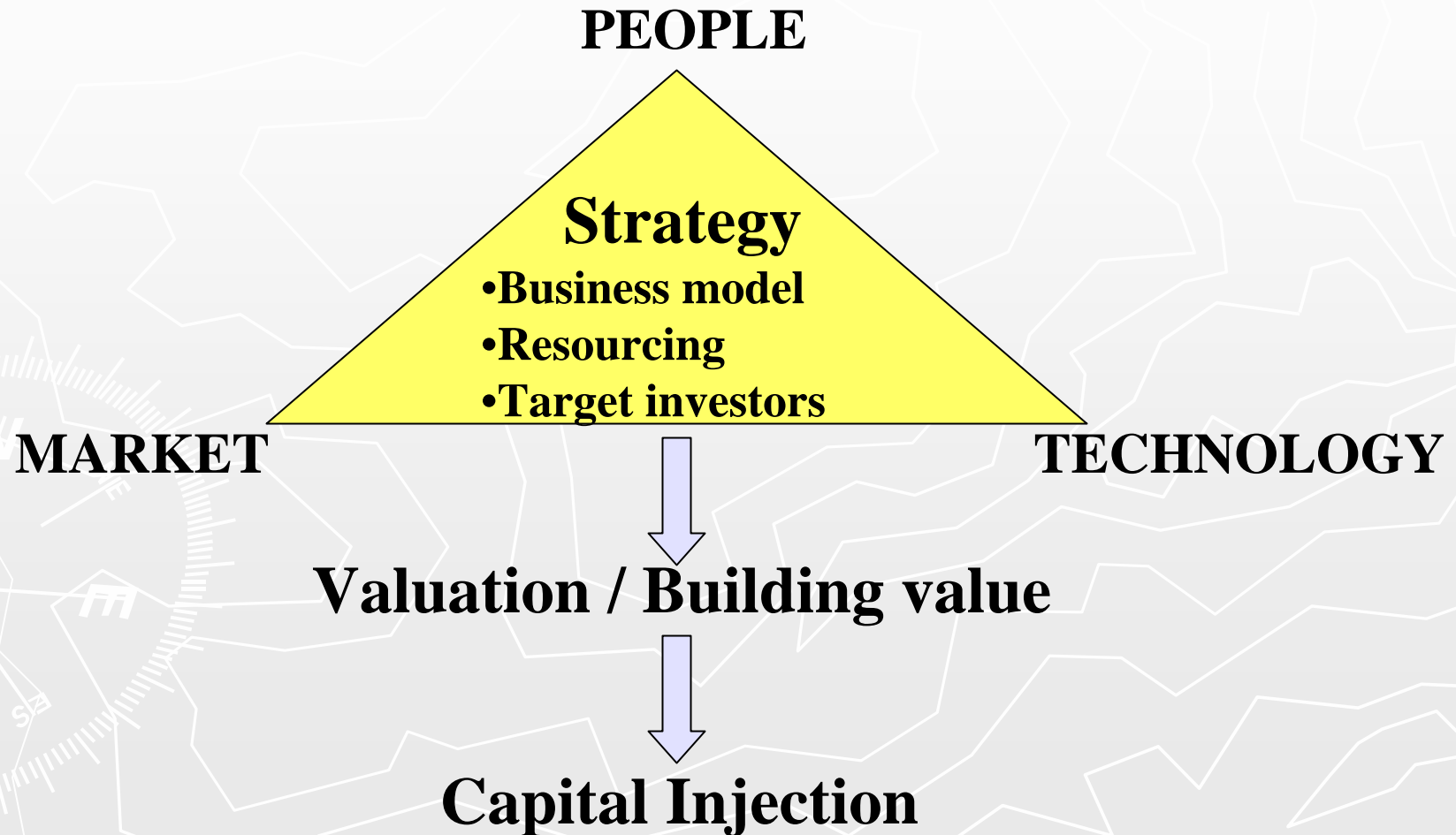
- Business plan?
- Stage of development of the company
- Type of investment?
- Valuation?
- Management team ready?



- Has the management team enough time and energy to raise funds?
- Is the team shaped to talk to investors?
- Does the company know where to go?



# Positioning for a Capital Injection



# Add value before raising capital

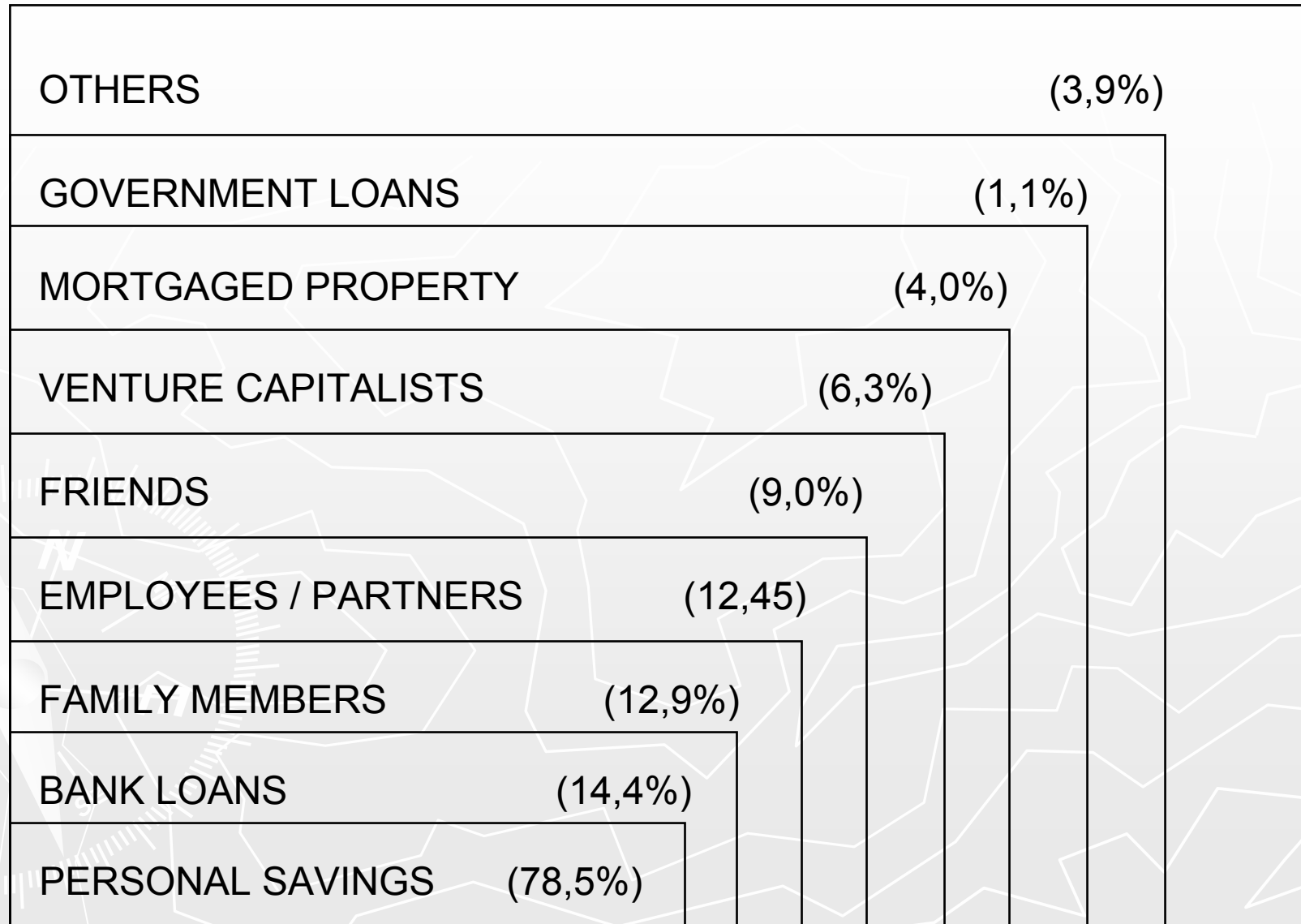
- ▶ Documentation and Presentation
- ▶ Government grants
- ▶ **Intellectual Property Protection**
- ▶ R&D Partners
- ▶ In principle agreements
  - ▶ Licences
  - ▶ Customers



# The “Ask and Offer”

- ▶ Financial Projections
- ▶ **Business and IP valuation**
  - ▶ Critical negotiating tools
  - ▶ Justifies assumptions
  - ▶ Forces in depth research
  - ▶ Forces decision making
  - ▶ Makes you strong and confident

# SOURCES OF START-UP CAPITAL (USA)



# START-UP CAPITAL

- ▶ 25% start with less than \$5,000
- ▶ 50% start with less than \$25,000
- ▶ 75% start with less than \$75,000
- ▶ Less than 5 % with \$ 1,000,000 or more

# The Paradox of Access to Finance

- ▶ Banks
- ▶ Venture Capitalists
- ▶ Stock Exchange



have money

But argue that there aren't enough good projects

**What is a good project?**

# A Good Project!

**A good project is a project presenting in the**

**eyes of an investor:**

- ▶ **acceptable risk profile**
- ▶ **a good perspective of return**

**this means:**

- ▶ **access to market = innovation**
- ▶ **profits**

# Sources of High Risks Money

**Which are today these sources ? we may regroup these in 3 major groups:**

■ **Business Angels**: we are basically talking here about **rich private individuals** who are ready to invest much needed “**seed capital**” at a very early stage of development of a company, i.e. for new and speculative projects. Their role is extremely important, when we talk about raising money between USD 0.5 and 2 million.

■ **Venture capital investors**: these are usually **private equity funds** managed by professionals. They seek to identify and finance the rapid growth of high potential young firms that embrace innovative products, processes or technologies. This way, they generate substantial rewards from successfully overtaking existing business paradigms. *Note that very often, traditional finance institutions do invest a small part of their funds into alternative investments such as these V.C. funds.*

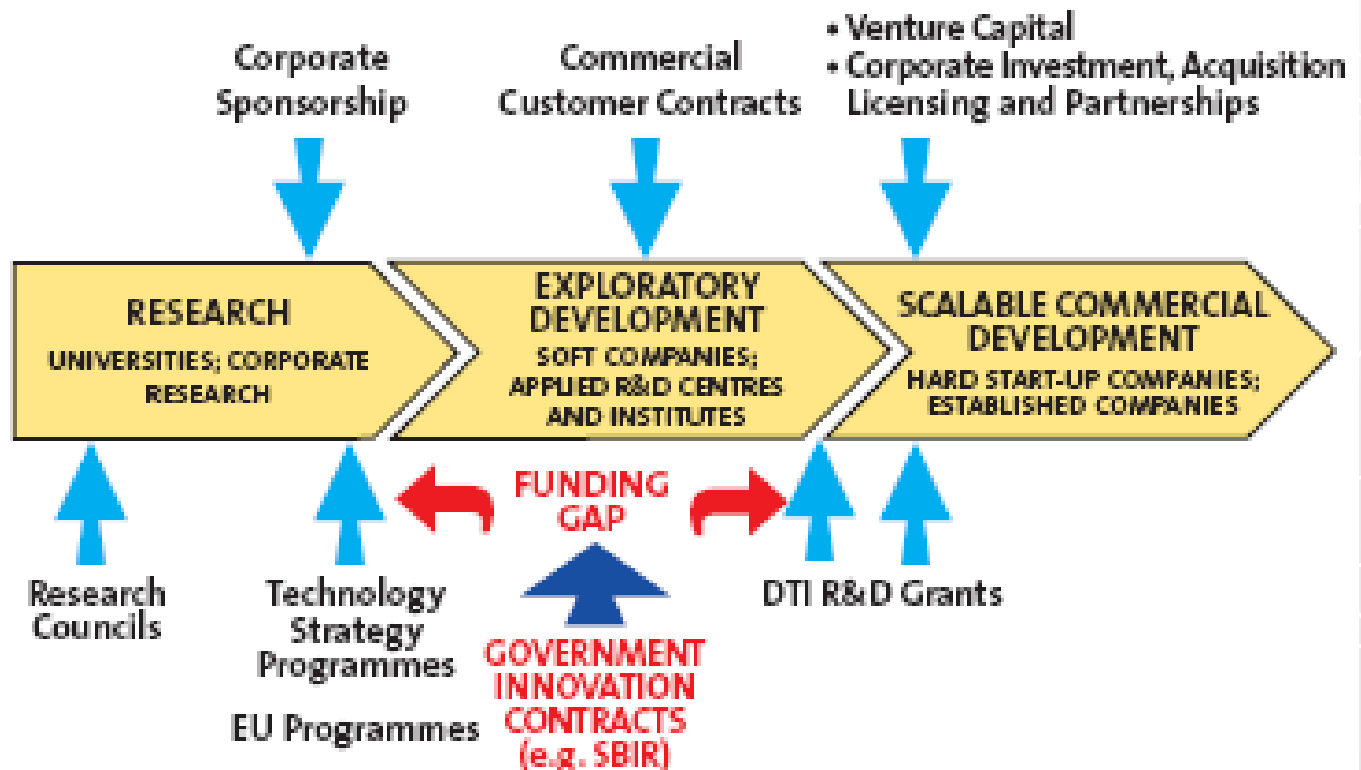
■ Last but not least, **Governments**: The first computers, the first commercial jet planes were built in the U.S.A. as funded by DoD contracts. The U.S.A and Europe have set up specific programs to promote new science and technology businesses. These are key tools in helping scientists to engage into new business ventures.

**N.B: A business environment – laws, taxes, etc... – which encourages private and commercial investors to invest into risk taking ventures is an absolute prerequisite.**

# Government First: U.S.A.

## The U.S. example – the **Small Business Innovation Research** program

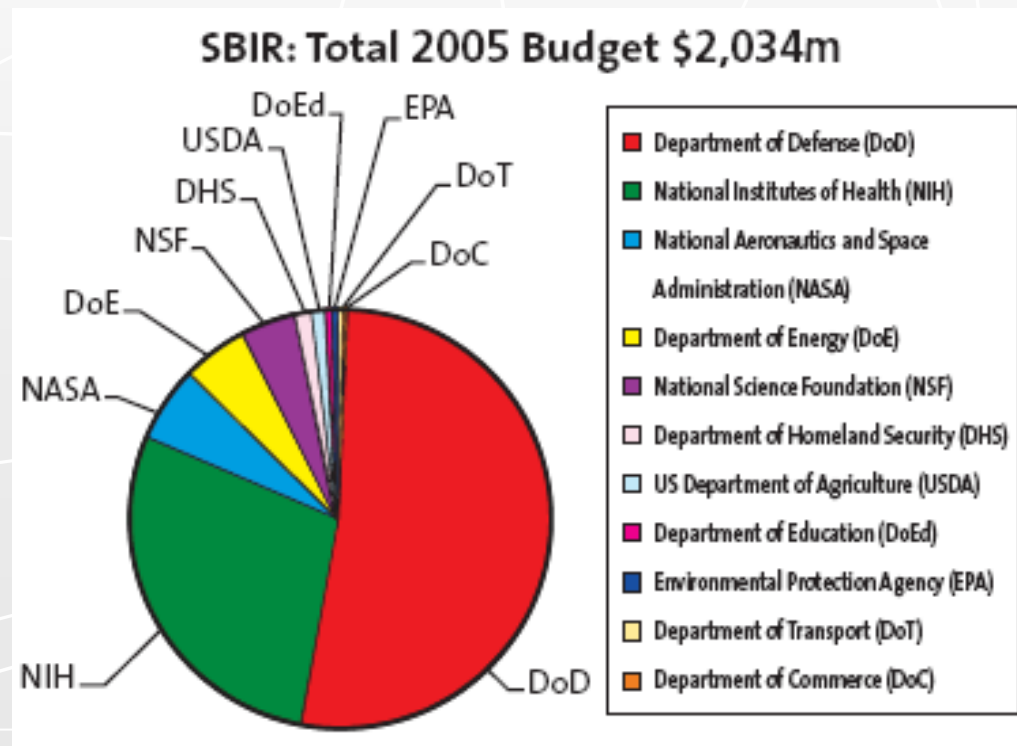
■ SBIR awards take the form of contracts for the development of technologies required by agencies of the US Government. They provide 100% of the funding needed plus a small profit element. The “norm” is USD 850 K for each project. Small business can win and run multiple projects in parallel. The SBIR analysis below is done for the UK Government in an attempt to copy and adapt it:



# Government First: U.S.A.

## The U.S. example – the **Small Business Innovation Research** program

- Established in 1982, it is the World's largest seed capital program for science and technology business.
- The law stipulates that 2.5% of all federal agencies' external R&D research must be done through SBIR. Furthermore, the US has established a very large set of policies to favor small US businesses in government procurement.





# Government First: The European Union

The first program in Europe: **COST** – an international framework for European Co-operation in the field of Basic Scientific and Technical Research ( [www.cost.esf.org](http://www.cost.esf.org) )

■ Established in 1971, COST allows the co-ordination of nationally funded research by maximising European synergy and raising the level of scientific interaction at the scale of Europe. Its budget for the period of 2002-2006 was of 1.5 Billion Euro.

■ **COST Actions cover basic and pre-competitive research. Ukraine as a Non-COST country took part in 15 actions.**

■ **From March 2006, Ukraine initiated consultation to discuss potential full membership.**

## Number of Non-COST Participation 2005

Total number of participations in running Actions: 120 (incl. 5 NGO)



# Government First: The European Union



**EUREKA – an international framework for European Co-operation in the field of Marketable Scientific and Technical Research ( [www.eureka.be](http://www.eureka.be) )**

- The primary goal of EUREKA has always been to raise the productivity and competitiveness of European industry and national economies through its 'bottom-up' approach to technological innovation. Since its inception in 1985, substantial public and private funding has been mobilized to support the research and development carried out within the EUREKA framework.
- Through its flexible and decentralized Network, EUREKA offers project partners rapid access to a wealth of knowledge, skills and expertise across Europe and facilitates access to national public and private funding schemes.
- The internationally recognized EUREKA label adds value to a project and gives participants a competitive edge in their dealings with financial, technical and commercial partners.
- Through a EUREKA project, partners develop new technologies for which they agree the Intellectual Property Rights and build partnerships to penetrate new markets.
- Ukraine was granted full membership on 9 June 2006. Currently a total of 15 projects have been developed with Ukrainian participants for a total of 1.1 M. Euro.

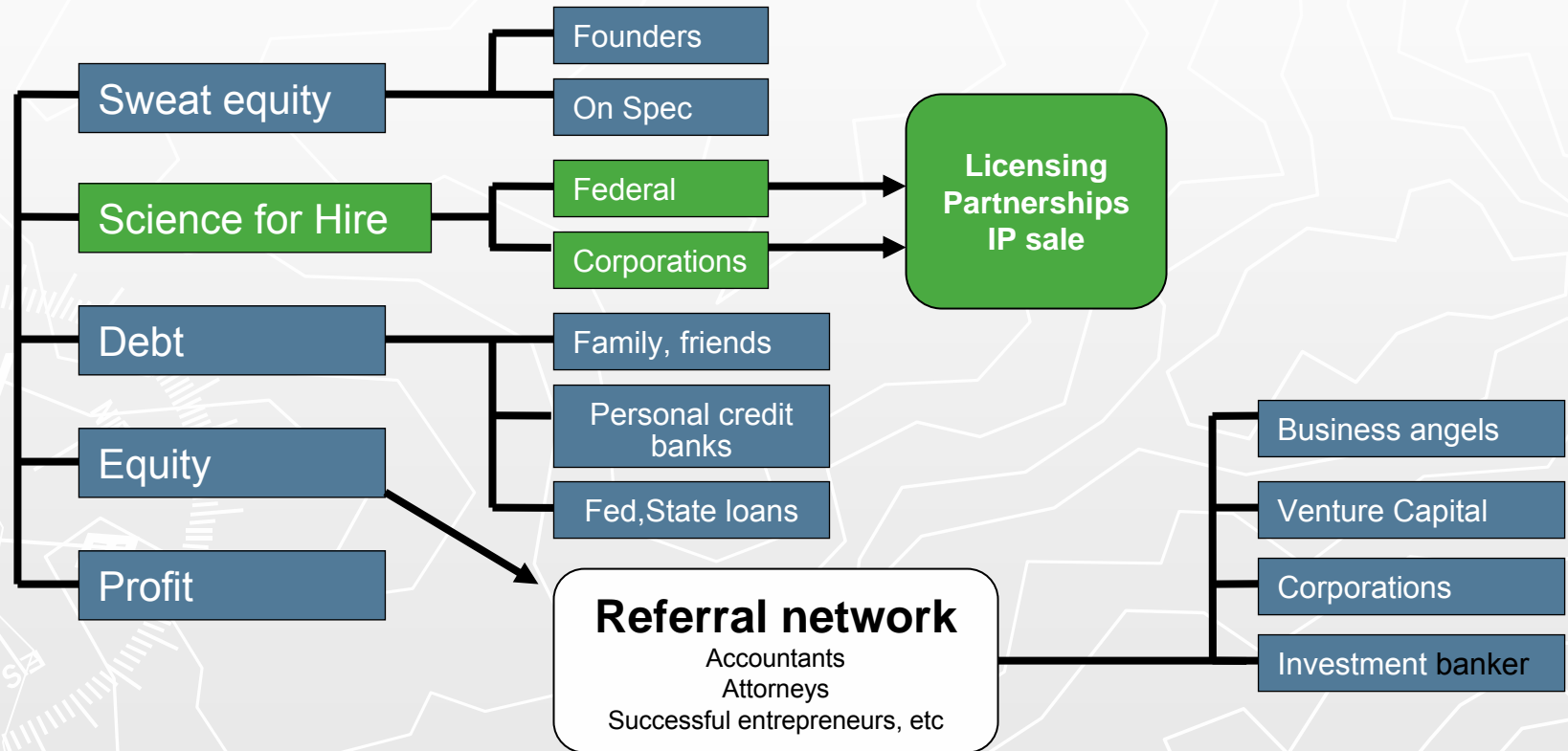
# Public Interventions

**Mix of non-financial and financial support services**

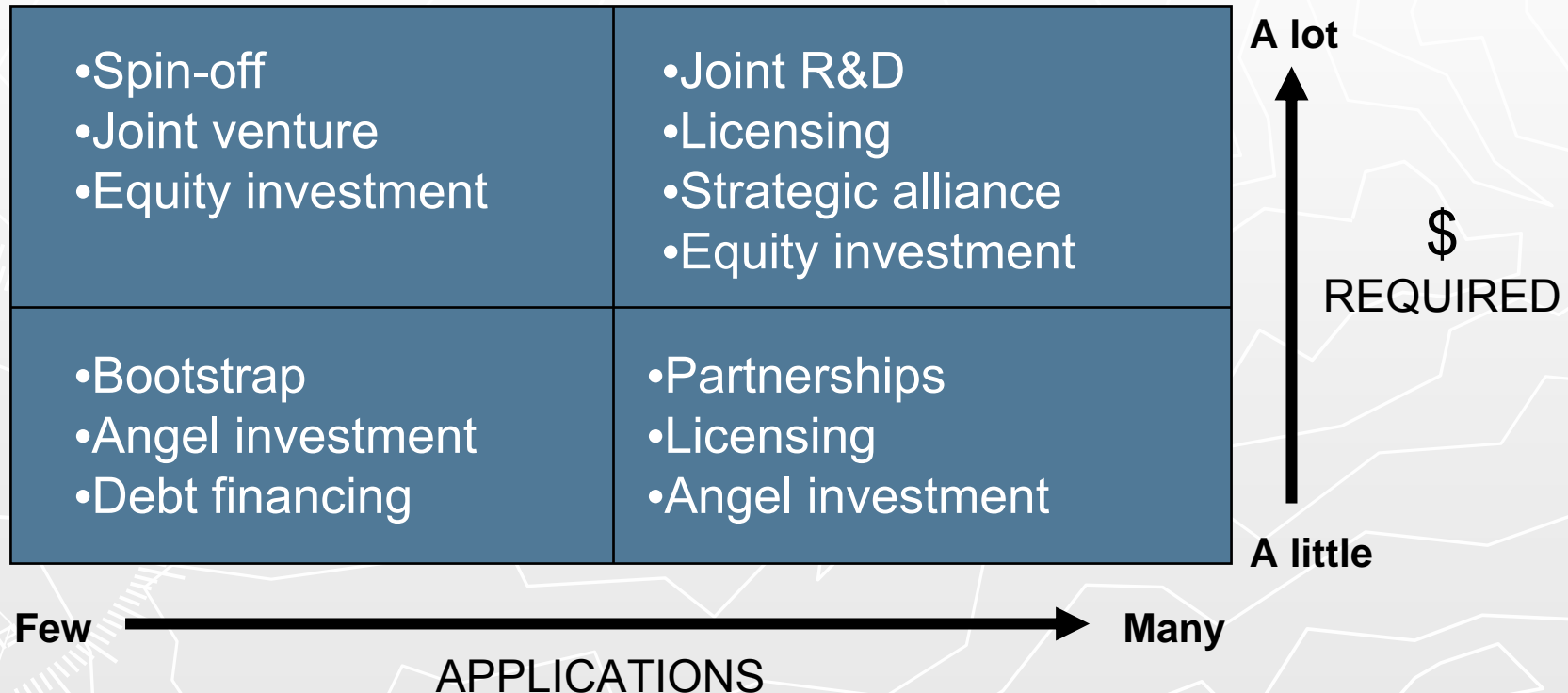
**This means that intermediaries have to**

- (1) provide value-added services; and**
- (2) become more professional**

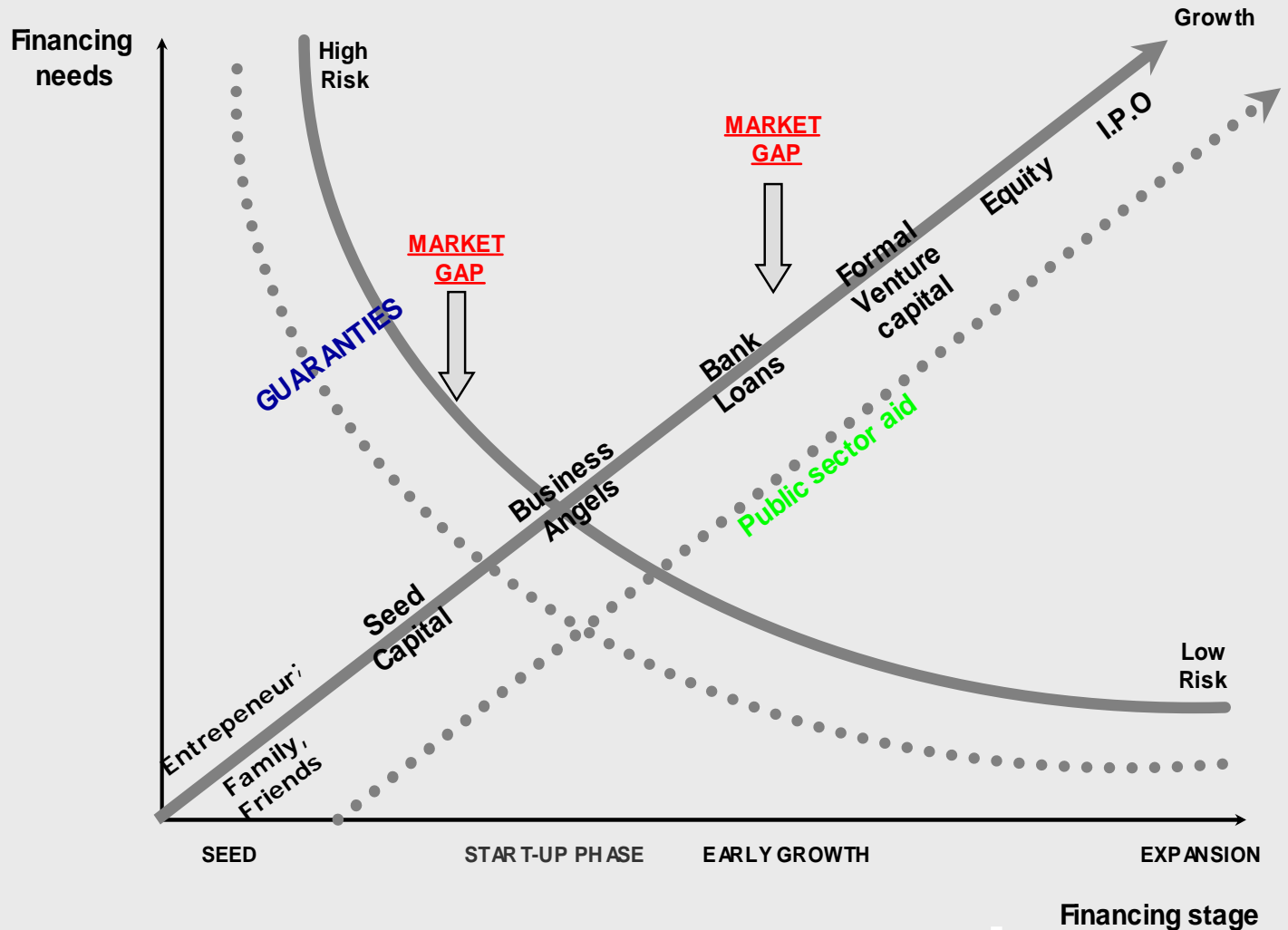
# Roadmap to Financing Options



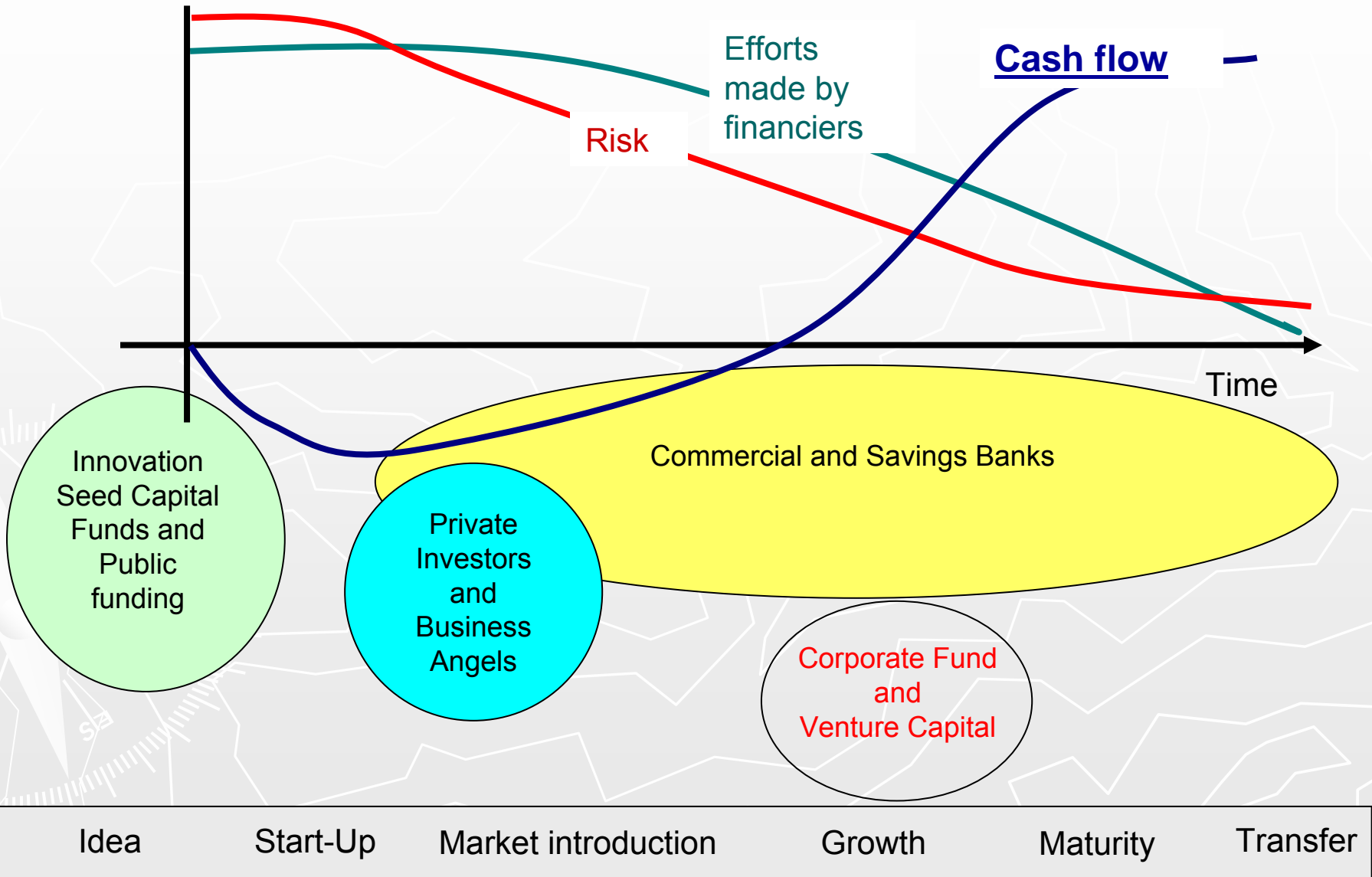
# Financing Options as a Function of Application & Resources Required



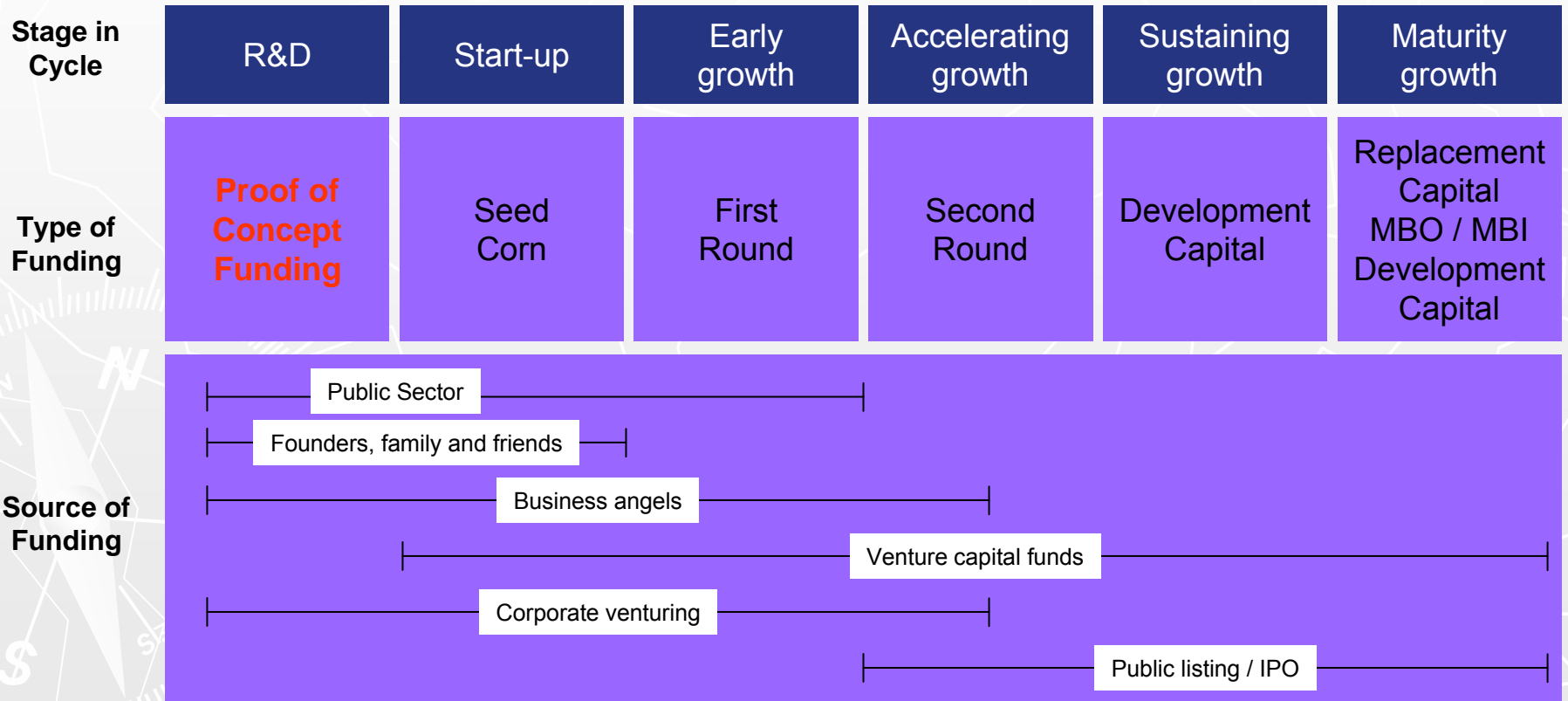
# THE ENTERPRISE FINANCING PROCESS



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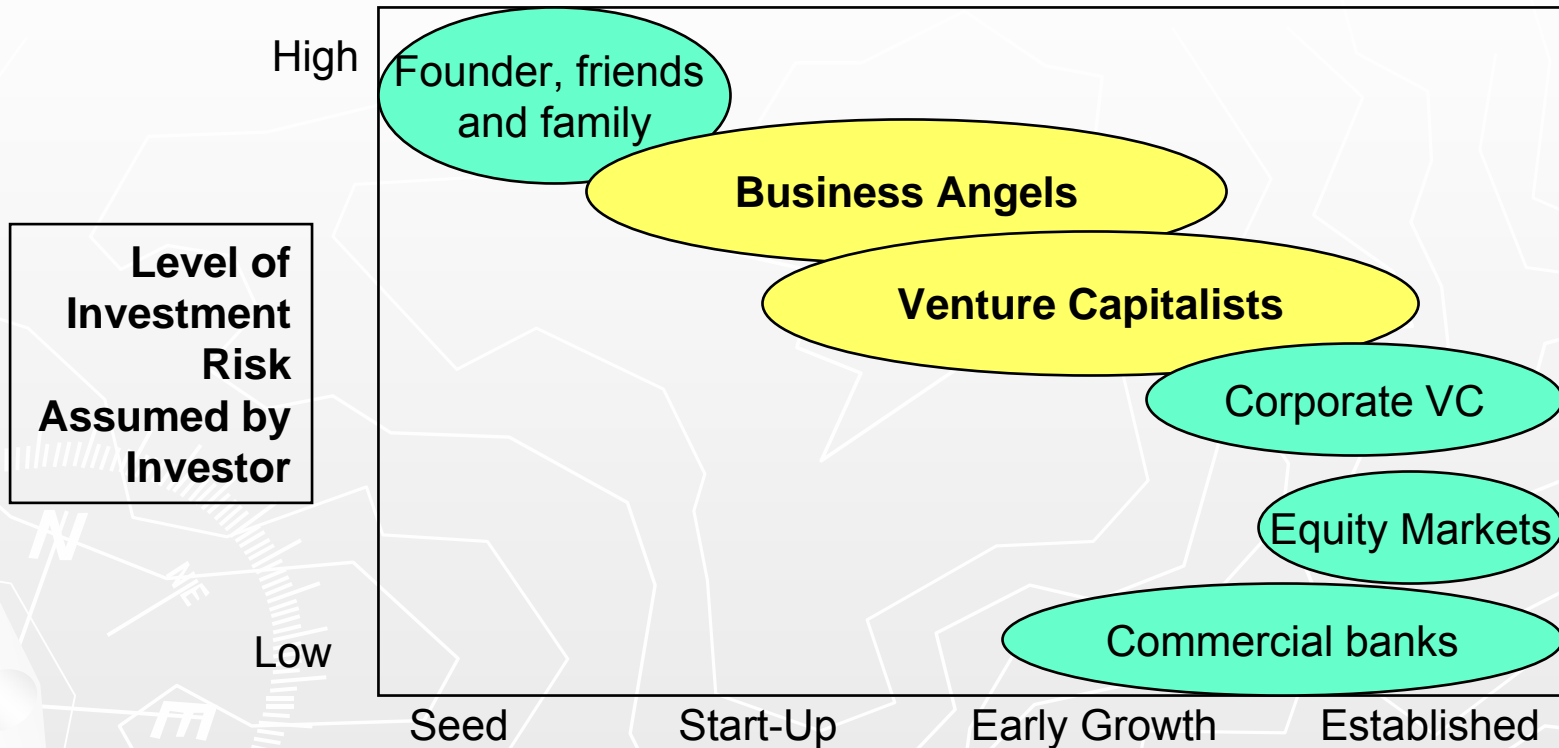


# THE ENTERPRISE FINANCING PROCESS





# Investment Continuum



\* "Angel Investing"  
Osnabrugge &  
Robinson

**Angel market addresses the \$500K  
investment gap between love money  
and serious money**

# VENTURE CAPITAL (Formal & Informal)

- ▶ **Institutional operators** (formal venture capital)
  - ▶ Private subjects
  - ▶ Banks
  - ▶ Insurance
  - ▶ Corporate venture capital
- ▶ **Non-institutional operators**  
(informal venture capital)
  - ▶ Business Angels

# FORMAL AND INFORMAL EQUITY PROVIDERS

	<b>Business Angels</b>	<b>Formal venture capital</b>
Personnel	Entrepreneurs	Investors
Firms funded	Small, early stage	Large, mature
Due diligence	Minimal	Extensive
Investment's location	Of concern	Not important
Contracts used	Simple	Comprehensive
Monitoring ex-post	Active 'hands-on'	Strategic
Exiting the firm	Of lesser concern	Highly important
Rates of return	Of lesser concern	Highly important

\* Source: van Osnabrugge, 1998, p.2

# FORMAL AND INFORMAL EQUITY PROVIDERS

## VC

- Easy to find via directories
- Your request is only one among many hundred a VC receives
- Can often via syndication provide large investment
- Thorough and formal due diligence and investment process
- Exit route very important

## BA

- Difficult to find
- Request often strong personal involvement
- Limited amount to invest
- Investment decisions often quick and less formal
- Syndication more and more usual
- Exit route less in focus

# ANGEL STRATEGY

**High-growth start-ups: *new businesses that are likely to see sales grow to around € 1M and employment to between 10 and 20 people in early years and export oriented.***

**Key selection criteria of risk capital investors (generally):**

- New products or technological improved products in an existing market
- A product or service that can be taken to market without further development (i.e., past the initial concept stage)
- Creation of new markets
- Company's growth should be expected to be higher than market growth
- Increase of market share against competitors
- Superiority regarding competitors

# ANGEL DUE DILIGENCE PROCESS

## Technology

Technology development  
Product development  
Process development  
Product supply  
Deliveries

## Market

Marketing  
Sales  
PR  
Competitors  
**IPR**

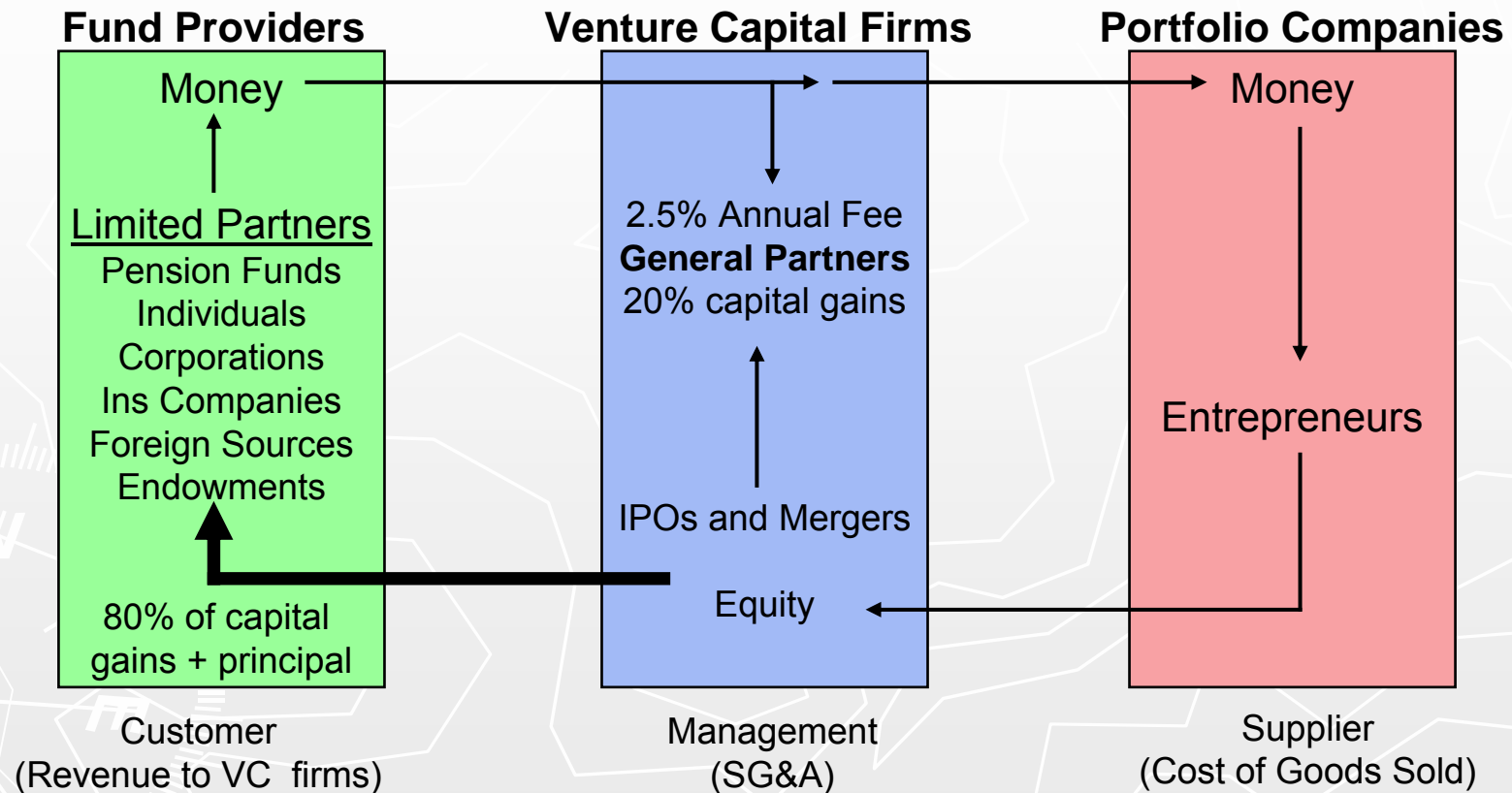
## Organization

Recruitment  
Board  
Network of service suppliers  
Office

## Economy / Finance

Cash forecast  
Finance activities  
Cost estimate  
Budget

# Venture Capital Drivers



**Venture Capital is a money distribution business where entrepreneurs compete for “shelf space” and where only 1 in 100 companies get funded!**

# What VCs are Looking for *Products*

- ▶ A novel biological or chemical hypothesis
- ▶ A well understood mechanism of action
- ▶ Proof of principle
- ▶ Significant unmet need
- ▶ **A strong IP position (both freedom to operate and power to exclude)**
- ▶ A strategy for partnering so that the risks associated with the timing of FDA approval can be passed on to someone else (although clear clinical endpoints are a plus)



# Start-Up Pitfalls

## *Venture Capital Nightmares*

- ▶ **Undocumented commitments to co-founders or promoters who assist in arranging the initial round of financing**
- ▶ **Unconventional corporate or capital structures**
- ▶ **Equity arrangements that are not tied to future performance of services; everyone must have "skin in the game"**
- ▶ **A management team lacking a critical skill set**
- ▶ **An unwieldy or dysfunctional board of directors**

# Thank you for your attention!

- ▶ GURIQBAL SINGH JAIYA
- ▶ DIRECTOR, SMEs DIVISION, WIPO
- ▶ [guriqbal.jaiya@wipo.int](mailto:guriqbal.jaiya@wipo.int)
- ▶ [www.wipo.int/sme](http://www.wipo.int/sme)