

COMMERCIAL GOOD PRACTICE PART II – PREPARING YOUR BUSINESS FOR FUNDING

Written

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In last month's issue of Inventique, Dr Rosanna Cooper discussed the common modes of business that you can adopt in the exploitation of your invention/innovation. This month's article focuses on preparing your business for external funding.

If you have developed an invention/innovation and wish to commercialise it, your next steps should be how to protect your intellectual property rights - trade marks, patents, copyright, know-how and designs (IPR's), get your product to the marketplace and secure funding and/or manufacturers/distributors to licence your invention/innovation.

If you wish to secure investment, then you must prepare a business plan. Potential investors will normally be looking for an entity carrying on business as a limited company, which would allow them to subscribe for shares, acquire board membership, and its potential tax efficiency.

Assuming you have formed a limited company and now plan to go before investors to showcase your invention/innovation – what are investors looking for? It is likely that no two investors will look for all the same criteria when reviewing potential investment projects. However, the considerations below will always enter into their review of your plan.

Due Diligence and Risk Management

An investor may undertake due diligence of your business and/or the invention/innovation. Therefore your business must have all the right measures in place to adequately protect and secure it, such as:

- Using signed confidentiality agreements for negotiations with third parties
- Obtaining insurance for your business and/or professional indemnity insurance
- Obtaining specialist intellectual property insurance to adequately protect your IPR's
- Implementing safeguards to protect your assets such as using copyright notices on all original copyright works, using trade mark symbols TM or [®] and certain information security measures
- Ensuring that you own or have the authorisations/licences to use the IPR's associated with your business and registering your IPR's
- Ensuring you have well drafted commercial contracts, including employment contracts and terms and conditions for your business
- Ensuring your advertising complies with the relevant advertising legislations and codes of advertising and promotions; and
- Obtaining consents and authorisations for your website

Business Plan

A business plan is paramount to securing funding, its importance cannot be overstated. It is what you will be using to convey to potential investors that your business is a sound proposition. Its other function is to effectively assist you in planning and monitoring the progress of your business. The business plan should contain the following sections (these are not the only business plan format available):

- **Executive Summary** – This is the ‘sales’ element of the plan and it is usually this document that an investor will review and decide whether it is worthwhile investing in a project. Investors often request this part of the plan on its own.
- **Management and Organisation** – In order for investors to put their capital into your business they must have confidence in the all-round ability of your management team.
- **The Proposition** – This should set out plainly the details of your invention/innovation especially its uniqueness.
- **The Market** - You must demonstrate a sound understanding of your market and the strengths of your proposition relative to competitors in that market.
- **Marketing Plan** – A great proposition becomes poor if you cannot reach the target market. You must have a marketing plan for the route to market of your product.
- **Operating Model** – This section is vital in convincing the investor that you can convert your concept into a

successful operating business. An investor should be told how you intend to mitigate the risks for the proposed funds.

- **Projections Financial Plan**– Your projections would indicate to the investor your projected turnover/revenue stream/profit for the next 3-5 years as investors usually have a 3-5 years exit route. Furthermore, it is imperative that your business meets the investor’s criteria for investment. If your plan, for example, conveys the need for £50,000 investment and the said investor does not invest in businesses seeking less than £300,000, then your efforts are likely to be wasted. This is where researching the investors you intend to approach is crucial.
- **Protection of IPR’s** – An investor needs to know that you have taken all steps to adequately protect your business and IPR’s. List your IPR’s and steps taken to protect them and whether you own the IPR’s.

The key aspects of the business plan, some may argue, are the executive summary and management team:

The Executive Summary

This is a concise yet persuasive documentation of your proposition and should describe clearly the business you are embarking on, the relevant experience of the key management team, the invention/innovation you wish to exploit, what is required of the company in bringing the invention/innovation to the market, your target market including your market share, the competitiveness of

your product, and sources of any competitive advantage such as a barriers to entry and switching costs.

You must indicate the amount of funding you require. You should state whether this amount is required in debt or equity funding, i.e. whether you will be taking loans or granting shares in the company in return for capital respectively. The investor will also want to be able to decipher at a glance what the potential return on investment is likely to be – this is an investor’s main concern.

Management and Organisation

The company structure, ownership, location, trading history, employee details and management structure should all be discussed in this section.

Conclusion

A sound business plan does not guarantee funding, but does increase

The members of the management team could make a difference between securing funding and failing to do so. An investor would like to invest knowing that the capital invested would yield substantial returns. It is therefore important to summarise the skills and attributes of the key members along with their roles and responsibilities. This will increase an investor’s confidence in the ability of the proposition to succeed. It is often the case that a start-up company may not have the requisite expertise and key members. Therefore, highlight this in your business plan, as it conveys to an investor that you are aware of this risk and your knowledge of the need for this expertise in your business.

your chances. All the above steps should assist you in securing funding.

Next month Dr Rosanna Cooper will be advancing this topic by looking at protecting key intellectual property rights, knowing your market, and exit routes for investors.

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