

COMMERCIAL GOOD PRACTICE PART III – PREPARING YOUR BUSINESS FOR FUNDING

Written

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In Part III of this series, Dr Rosanna Cooper discusses the key aspects of preparing a start-up business for private equity and venture capital funding. In this third and final part, the focus will be on knowing and accessing your market, exit routes for investors and protecting your key intellectual property rights (IPR's).

Knowing and Assessing your Market

RT Coopers are legal advisors and business consultants working with inventors/innovators. We come across numerous, cutting edge technology, good quality products that commercially should succeed but which do not make it to the marketplace. The point is that if these products do not reach the marketplace there would be no consumer awareness and they would therefore not succeed. Similarly, if these products are aimed at the wrong market, they are more likely to fail and result in unnecessary expenditure including the costs of research and development, the costs of producing prototypes and intellectual property protection.

It is essential therefore for an inventor or start-up business to conduct effective market research as early as possible in the development of a product. Before conducting market research, an inventor should have already determined whether there was a 'commercial want' for this invention/innovation and whether it was worthwhile incurring the costs of developing a product and protecting its IPR's.

The extent of the market research may vary according to the target market, product range, competitors and market share, however, there should always be

a clear route to market. You should expect your market research to generate answers to questions such as:

- What is your target market? How large is this market? Is it a global or more centralised market?
- Is there a niche market that can be capitalised on?
- Who are your potential competitors?
- What is your likely market share?
- Are there any barriers to entry into this market?
- What about switching costs?
- What are the market trends?
- A SWOT analysis (Strengths, Weaknesses, Opportunities and Threats)
- What marketing strategy to adopt?

Once you have identified/investigated your market, the next step is to produce your marketing strategy -the means you are going to employ to get your product to the marketplace. Care and time should be taken in preparing your marketing strategy, as it is important to identify and plan your route to market. Investors want to see a "big picture", where there is an 'obvious, large market' that is easily accessible.

Your marketing strategy should:

- Identify your market
- Convey exactly how you intend to reach the market – your route to market (posters/adverts/e-mails/cold-calling etc.)
- How much time and resources would be allocated to successfully penetrate the market
- The likely success rate of each method of accessing the market; and
- Any contingency plans

Exit Routes

The key point to bear in mind is that an investor's main reason for investing in your invention/business is to obtain a good return on this investment (ROI). It is therefore vital for you to be able to convey to an investor that a sizeable ROI would be achieved were this investor to commit to your invention/business. Your business plan will of course assist in numerically articulating this. It is important when drawing up any forecasts, that you show a good return on investment for specific periods of the business. So for example, if your business will only start making a sizeable return in the fourth year of business, do not put a

three-year forecast in your business plan!

Investors usually look to exit from an investment within 3-5 years, depending on the level of investment and the industry sector. They expect to receive their initial investment and interests, or trade in shares which have appreciated in value.

The main exit routes open to investors are:

- The takeover of a company by a third party;
- The purchase of investor's shares by the company; or
- An Initial Public Offering (Flotation of the company)

Protecting Key Intellectual Property Rights

Intellectual property (IP) is one of the most important assets that a company will own. IP can be licensed, bought, sold, hired or mortgaged like any other form of property. In order for companies and individuals to maintain the value of their IP, they must ensure a sufficient level of protection and also safeguard against infringing a third party's IP.

An IPR is the right to use intellectual property. IPRs fall within two main categories, registered and unregistered rights. Patents, trade marks and registered designs are registrable

rights. Unregistered IPRs include copyright, designs, brands and know-how. Domain names can be classed as quasi-registered rights.

Patents

Patents protect inventions such as processes and products. Patents in the UK are obtained by filing an application with the UK Patent Office. On examination of the application, the Patent Office determines whether a patent should be granted.

The application goes through various stages and can take up to four years before it is granted, although under the UK system, the process can be expedited. It is always worthwhile to carry out relevant patent searches to establish the risk of infringement. To be patentable, an invention must satisfy each of the following conditions:

- It must be novel (i.e. not made or used anywhere in the world before the filing of the patent application);
- It must involve an inventive step (i.e. it cannot be an obvious step);
- It must be capable of industrial application(all industries apply); and
- It cannot fall within an excluded category i.e. a discovery, a literary work or mathematical model.

On the filing of the patent application, the owner of the invention has 12 months from the filing or priority date

in which to file foreign patent applications. It is good practice to decide, as early as possible, on an international patent filing strategy. An investor should be made aware of the significant costs involved in obtaining international patents. These costs should be included in your business plan. A registered patent protects inventions by giving the owner of the invention a 20 year monopoly right of exploitation. Patent protection applies only in the country in which the patent is granted. It gives a patent owner the right to bring an injunction to stop a third party infringing an invention protected by a patent i.e. a third party cannot use, sell, hire or import the patented products or processes without the authorisation of the owner.

The remedies available are damages (compensation for any loss suffered) or a percentage of profit made by a third party. The claimant can also obtain an order from the courts to have the infringing products destroyed.

Registered Designs Copyright Trade Marks

Registered designs, trade marks and copyright are covered in earlier publications of Inventique or are available from our website at www.rtcoopers.com.

Checklist

The following checklist is an aid to assess whether your business has sufficient levels of IP protection and risk management measures in place. The list is not in anyway exhaustive:

Patents

- Is your invention capable of patent protection?
- Have the relevant patent searches been carried out?
- Is there a risk of infringing a third party's patent?

- Has the invention been disclosed in any form to a third party?

Designs

- Is the design original?
- Is the design commonplace?
- Who owns the design?

It is important to note that changes in legislation now allows the owner of a design to market it for 12 months before filing an application to register that design called the "Grace Period".

Trade Marks and Brands

- Who owns the trade mark?
- Have the requisite trade mark clearance searches been carried out?
- What is the trade mark filing strategy?
- What is the risk of infringement and/or passing off?

Copyright

- Is the work original?
- Who owns the copyright in the work?
- Have copyright notices been placed on all original work?

Know-how

- Is the know-how kept secret and identifiable?
- Have any know-how licences been granted?

Risk Management

- Does the business own all its IPRs?

- Does the inventor or its employee's keep written records of developments?
- Are research notes written, dated and initialled?
- Does the business require a data protection certificate?

Insurance

- Does the business have adequate insurance cover?
- Does the business have a specialist IP or 'cyberliability' insurance?
- Is an IP audit required?
- If so, has the audit identified any other invention, which should be exploited?

Conclusion

This three-part series has given an overview of the legal and commercial considerations for businesses in the commercialisation of their inventions/innovations.

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