

beta

CHARMING
ANGELS & SLAYING
G DRAGONS

THE ENTREPRENEURS:

CHARMING
ANGELS & SLAYING
G DRAGONS

AN INFORMATIVE GRAPHIC NOVEL BY DILL HILL, SUE KEOGH & CONG CONG BO
BASED ON AN IDEA BY PHILIP BADDELEY

Copyrighted material

First published in Great Britain in 2011
by Bo Publishing

© 2011 Philip Baddeley

All rights reserved. No part of this publication
may be reproduced, stored in a retrieval system,
or transmitted, in any form or by any means
without the prior written permission of the
publisher, nor be otherwise circulated in any
form of binding or cover other than that in which
it is published and without a similar condition
being imposed on the subsequent purchaser.

All characters in this publication are fictitious
and any resemblance to real persons, living or
dead, is purely coincidental.

ISBN 978-0-9565927-0-5

Printed and bound by...

CONTENTS

Foreword	7
What makes a great idea?	12
CHAPTER 1 – GETTING STARTED	14
Understanding customers	18
Registering your company	19
Financing your idea	22
Marketing strategies	27
CHAPTER 2 – IMPRESSING INVESTORS	30
Pitching your idea	36
Venture capitalists	40
CHAPTER 3 – INTELLECTUAL PROPERTY	42
Protecting your idea	46
Clusters	52
CHAPTER 4 – EQUITY DILUTION	54
Dilution explained	58
CHAPTER 5 – STAYING FOCUSED	64
Planning your exit	74
CHAPTER 6 – GOING GLOBAL	78
Business plan checklist	80
Top tips	84
Glossary	88
Planning your journey	92
Notes	94
Acknowledgements	96

FOREWORD

Foreword TBC

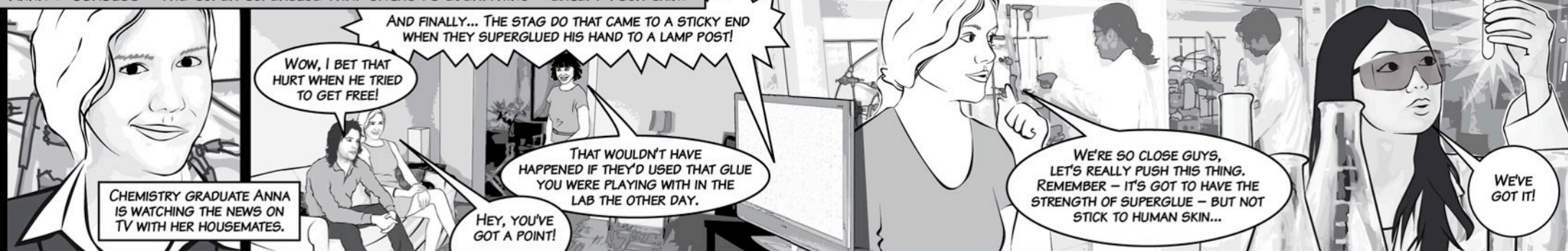
AMBITIOUS, INVENTIVE AND DETERMINED TO SUCCEED IN BUSINESS, FOUR YOUNG ENTREPRENEURS MEET REGULARLY OVER A COFFEE TO SHARE THEIR PROGRESS, SUCCESSES AND DREAMS.



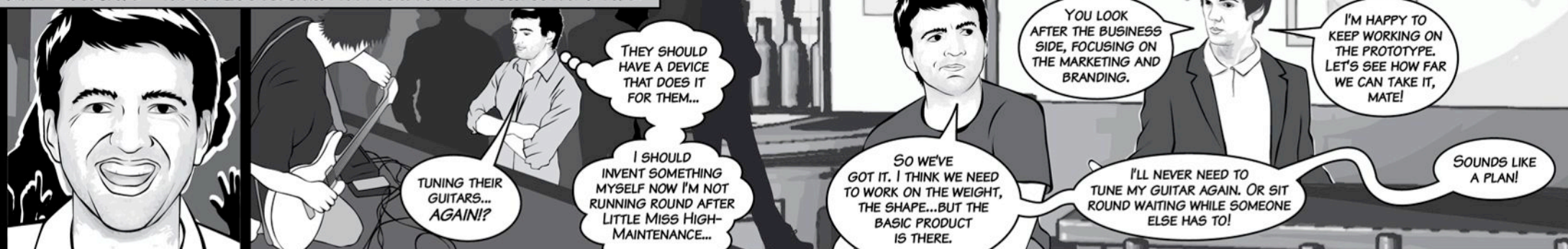
BUT IT'S NOT JUST FRIENDSHIP
THAT BINDS THEM TOGETHER. THEY
SHARE A COMMON GOAL...

...TO BUILD A GLOBAL BUSINESS
FROM A BRILLIANT IDEA AND MAKE
THEIR FORTUNE...

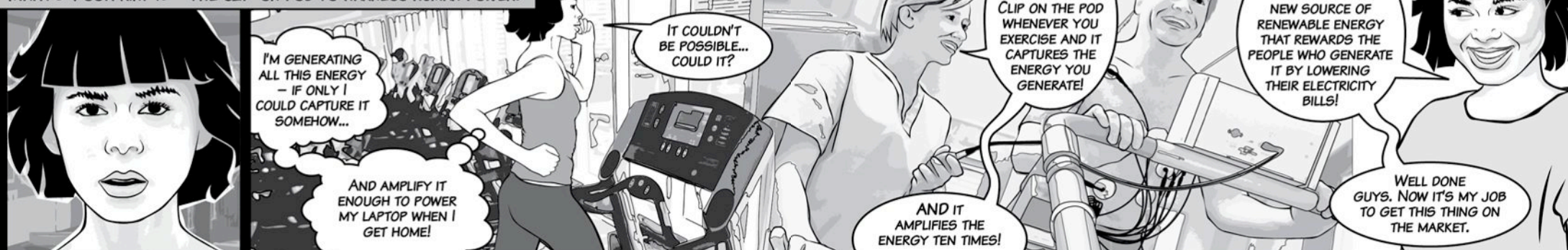
ANNA & UBAGLOO - THE SUPER SUPERGLUE THAT STICKS TO EVERYTHING - EXCEPT YOUR SKIN!



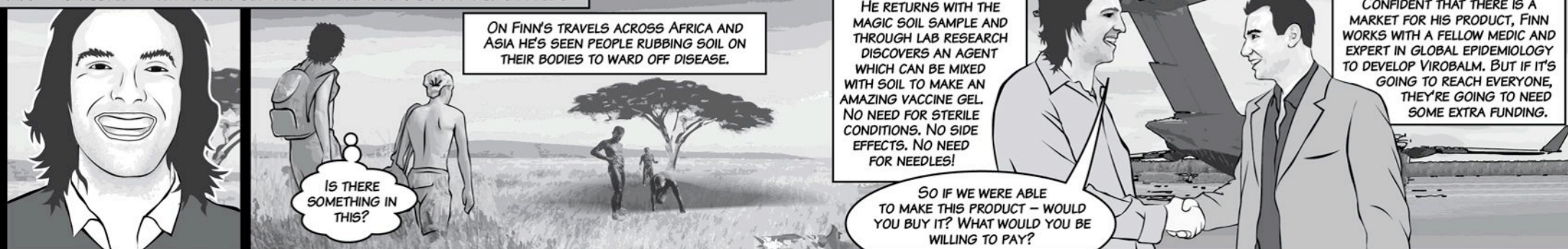
MATT & PLECTUNE - THE AMAZING PLECTRUM THAT ALWAYS KEEPS YOUR GUITAR IN TUNE!



MAYA & FOOTPRINT 10 - THE CLIP-ON POD TO HARNESS HUMAN POWER!



FINN & VIROBARM - THE INCREDIBLE VACCINE GEL WITH NO NEED FOR NEEDLES!



WHAT MAKES A GREAT IDEA? POP!

The best ideas come from knowledge and experience. Create a product or service where you understand your customers' needs and engage with them from the outset.

MAKE YOUR IDEA POP!

Potential

This book is about starting the next big thing, and discovering, in the words of technology entrepreneur, Jack Lang, a solution to the next "global, sustainable, underserved market need". Great ideas have the ability to scale, i.e. be able to adapt to increased demand and larger markets.

Originality

A great idea is truly innovative. In many cases, where a technology is disruptive, people don't realise they need it yet. Can you imagine life without your mobile phone, the Internet, social networks? Disruptive innovation has the power to change people's behaviour and replace the status quo.

People

What makes a idea great is ultimately its execution. Location, Location, Location is to property as Team, Team, Team is to entrepreneurship. Anyone can have an idea, but what you do about it is the distinguishing factor. The real question to ask is, "what makes a great team?"



REGISTERING A COMPANY

Many people start off as sole traders, which doesn't require any formal procedure other than registering as self-employed and completing your annual tax return. Importantly, however, forming a company (incorporation) enables:

- **Security** to minimise your liability and protect your personal assets should the company go bust or make a loss
- **Shared ownership** to build a team, bring on talent and resources

How to incorporate

The procedures vary from country to country, but generally involve submitting the articles of incorporation to the appropriate state office with a registration fee. In the UK, Companies House is the national registrar. You can either fill in the application form yourself, or engage a company formation service for a fee.

Main types of companies

- **Private Limited Company (Ltd)**
a limited liability company that does not sell shares to the public
- **Limited Liability Partnership (LLP)**
a partnership in which some or all partners have limited liability
- **Public Limited Company (PLC)**
a limited liability company that sells shares to the public, either listed or unlisted on stock exchanges
- **Community Interest Company (CIC)**
a social enterprise that uses its profits and assets for the greater good – not a charity

Naming your company

Try to choose a name that your company will not grow out of. Great names are simple to remember and use in conversation. You need to check company name databases and domain names for exact matches, and make sure that any close variations are found in a completely different industry. And never copy a famous brand!



GETTING STARTED

CHAPTER 1

IT'S TIME FOR THE REGULAR FRIDAY MORNING LATTE AT FAT TONY'S. THINGS ARE STILL ROCKY BETWEEN MATT AND ANNA SINCE THEIR BREAK-UP.



ANNA GETS THE BALL ROLLING AS USUAL.



THIS WEEK I'VE BEEN THINKING HARD ABOUT PRICING...



THING IS, YOU'VE GOT TO SET IT JUST RIGHT.



TOO HIGH AND NO ONE WILL BUY IT, TOO LOW AND IT LOOKS LIKE AN INFERIOR PRODUCT.



THAT'S WHY YOUR COFFEE IS SO EXPENSIVE, EH TONY!



THE EASY WAY TO SET THE PRICE IS TO SEE WHAT YOUR COMPETITORS ARE DOING.

BUT THERE'S NOTHING LIKE MY PRODUCT ON THE MARKET. SO I'VE GOT NO COMPETITORS TO UNDERCUT!

DON'T REST EASY - THERE WILL ALWAYS BE COMPETITORS EVEN IF IT'S NOT OBVIOUS. IT'S HARD TO CHANGE PEOPLES BEHAVIOUR AND BUYING HABITS.

* IMPORTANT

Engaging with your customers early on will be a vital part of your success.

Seek out the people with the authority to place orders for your product. They will be able to offer advice on the market, pricing and distribution.



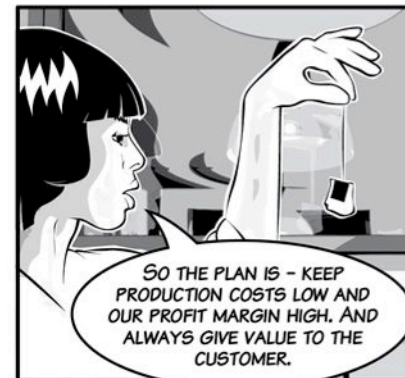
DON'T WORRY - I'M ON TOP OF IT!



WE'RE ALSO THINKING AHEAD TO FUTURE PRODUCTS WE COULD LAUNCH ONCE FOOTPRINT 10 IS ON THE SHELVES.

PODS FOR CAPTURING OTHER FORMS OF ENERGY, SUCH AS WIND, WAVE AND HYDROELECTRIC...

BUT FOR NOW WE'RE JUST FOCUSING ON GETTING THE FOOTPRINT 10 LAUNCHED!



SO THE PLAN IS - KEEP PRODUCTION COSTS LOW AND OUR PROFIT MARGIN HIGH. AND ALWAYS GIVE VALUE TO THE CUSTOMER.



HOW ABOUT YOU MATT, AND YOUR PLECTUNE?

* IMPORTANT

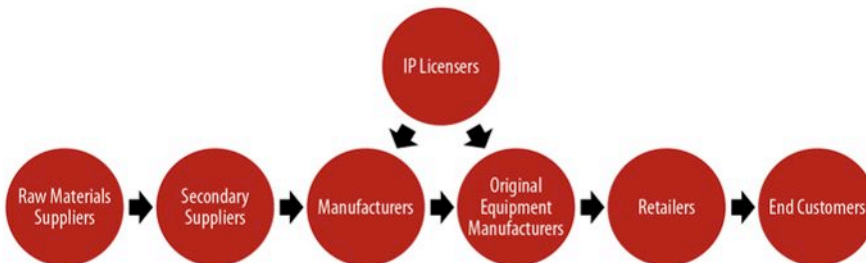
Focus on launching your first product, but always think about future products and how to keep ahead of the competition.

UNDERSTANDING CUSTOMERS

Maximising value

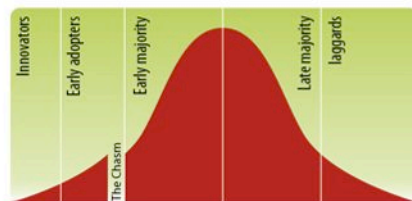
When you come up with your business model, you need to decide where you will position yourself in the value chain. Your company can be more than one link in the chain. The more links you hold, the greater the value you can capture, translating to

greater revenue. However this comes at the cost of a less focused approach. It is about striking the right balance to maximise value without compromising quality. Only by understanding the value chain will you know who precisely your customers are.



Crossing the Chasm

Geoffrey Moore's model of the technology adoption lifecycle can apply to any industry. The meatiest part of the curve is the middle, so it is tempting to bite there first but the majority of these people will ignore you.



The area under the curve represents the number of customers.

The group that is likely to listen is the early adopters, specifically those individuals who "sneeze" and spread the "ideavirus" (from marketing guru Seth Godin's Purple Cow). Identify the sneezers and market to them: What do they read? How do they communicate? Where do they meet? What social networks do they use? Get to know them and reward them.

When designing your ideavirus, try to make it promiscuous, i.e. a product that is easy to transmit through the population and persistent in it. Taking the virus analogy further, mutate your virus over time to enhance its appeal according to your customers' needs.

- Innovators are those who feel compelled to be the first ones to get hold of a new product whether they need it or not – they just want it! Not only do they use your product, they experiment and improve it as well.
- Early adopters actually benefit from your product and will seek it out. They are technology enthusiasts and visionaries.
- The early and late majority will listen to their influential early adopter friends and follow suit.
- The laggards will never use anything new until it's no longer new.



* IMPORTANT

The benefits of brand extension:

- create a buzz around your product – reinforce brand identity
- enter new markets
- reinforce consumer perception of brand



* IMPORTANT

Brand extension does carry some risk. Be careful not to:

- create undesirable associations
- dilute the meaning of the core brand
- overexpose the brand



ALRIGHT MATE. SHE JUST WINDS ME UP! TELL US HOW YOU'RE GETTING ON. YOU'VE GOT CUSTOMERS BANGING ON YOUR DOOR TRYING TO ORDER VIROBALM. ANY THOUGHTS ON RAISING THE FUNDS?



* IMPORTANT

Government grants are a great way to fund research and development and make you more attractive to future investors – but you have to be prepared to do the paperwork.



* IMPORTANT

Banks can offer new businesses advice and small loans to start-ups – but you have to be willing to provide a guarantee. You might lose your house if things go wrong...



■ Add cup

* IMPORTANT

Taking investment from a family member can get you off to a great start. Just make sure you pay the money back one day. Or Sunday lunch will never be the same again!



FINANCING YOUR IDEA

WITHOUT EQUITY DILUTION

Grants

Depending on the sector in which your business lies, seek out grants from:

- **Government bodies** offering grants for research and development and feasibility studies or proof of concept
- **The European Union** offering large sums to international consortia, who work together developing different aspects of a common goal
- **Charities** funding social enterprises

Bank loans

Banks are a valuable source of advice, business resources and potential funding. However, banks tend to be risk-averse, so make sure you can provide evidence of your success and can demonstrate orders from your customers. Some banks offer special lending schemes for small companies.

Customers

Customers are an obvious source of funding, but often overlooked! The profits made on sales can be reinvested to grow company. You may need to do extra research and development (R&D) before your product is ready for the customer. Consider developing commercial partnership agreements where your customers pay you an advance to develop a product tailored to their needs.

Get creative

- **Large companies** may sponsor you if you contribute to their corporate social responsibility agendas or can improve the welfare of their employees
- **Business plan competitions** are a great way to win cash and benefit from mentorship, investment and PR

WITH EQUITY DILUTION

Friends, family and fools!

In the beginning asking your loved ones to invest can be a simple way to raise start-up capital. You may not get as much money as you need but it may be enough to start you off. Friends and family are unlikely to be cutthroat business people and will not demand high interest, quick profit, or a say in the running of the business.

Angels

Angel investors are high-net-worth individuals with sector-specific knowledge who get actively involved with the companies they invest in, offering them contacts, mentoring and follow-on investment. They may want a seat on the board so they can have a say in the company's future. Angels often invest as part of a consortium to reduce the risk for individuals.

One in perhaps one hundred angels is a reference angel – a much sought-after individual who by their very involvement significantly increases the value of the business. Examples include Sergey Brin (of Google) and Marc Andreessen (Founder of Netscape who sits on the board of Facebook, eBay, amongst others).

Accelerator schemes and business parks

Consider accelerator schemes, where promising teams are selected to participate in intense mentorship and networking programmes lasting up to six months. Companies usually also receive a set amount of seed funding for a fixed equity share at the beginning or end of the programme. These are competitive and well-worth applying for. Examples include Y Combinator in the US and Seedcamp in Europe.

Venture Capital

If you need larger amounts of funding, you need a venture capitalist, commonly known as VCs or dragons.

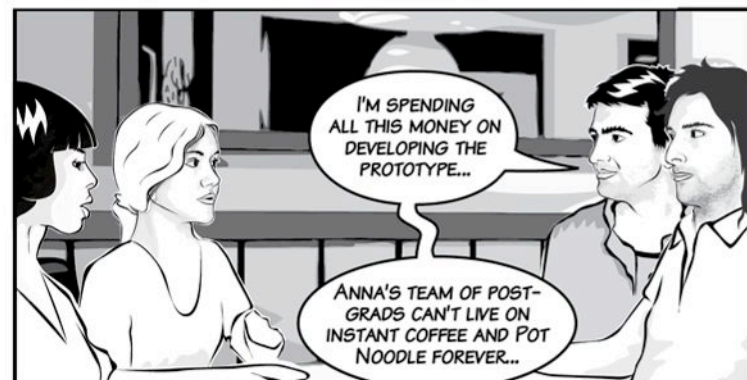
Remember that you can always say no if the terms are unfavourable or they are demanding too much control. Try to engage several investors so you can choose can investors who can help you build your company as well as fund it.





*** IMPORTANT**

Networking events, including business lectures, award ceremonies and workshops are a great way to meet useful people and market yourself. Don't get carried away though: networking is only one letter away from not working!



*** IMPORTANT**

An impressive prototype can be key to securing funding. The main reason you build a prototype is to reduce risk. This makes your company more valuable. Identify your biggest risk - is it the technology, the team or the market? Then work out how you can spend least time, money and resources on reducing it.



MARKETING STRATEGIES

The marketing checklist traditionally includes: Product, Packaging, People, Promotion, Positioning, Publicity, Price.

The next P: Phenomenal

Most people are unwilling to take a risk – it's easier to play it safe than to take a chance at being phenomenal. Don't be scared of criticism and failure: as marketing guru and entrepreneur Seth Godin explains, "boring always leads to failure, except when boring is, in and of itself, remarkable."

Picking an underserved niche

In traditional marketing, there is no such thing as dog food for every dog – you cannot be everything to everyone. You start by targeting a group within your market that is underserved, direct your product and marketing at that group and dominate it.

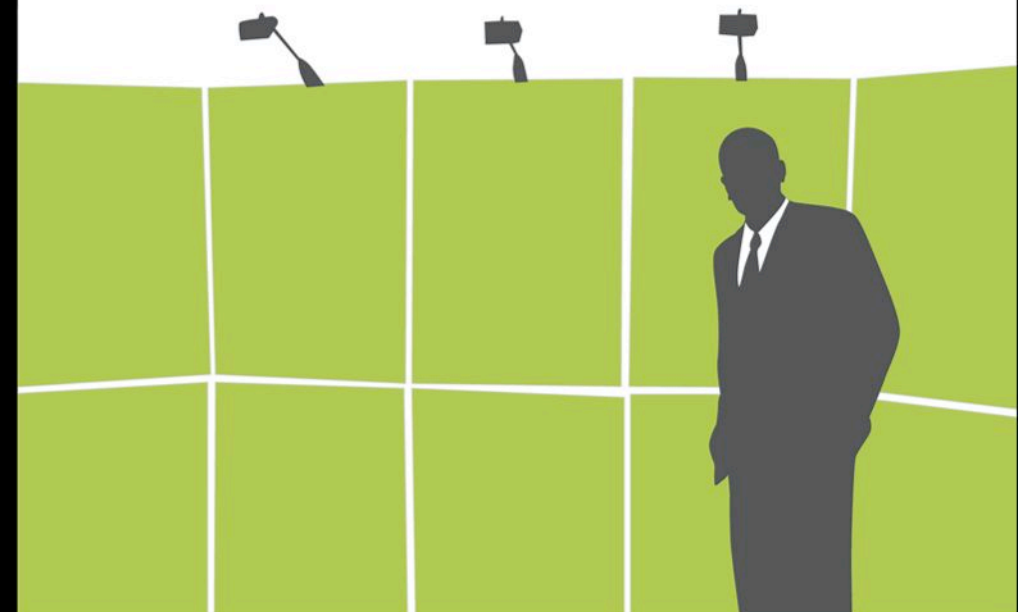
However, if you suddenly find that your product is rapidly gaining customer engagement across the board, track their usage and respond to their evolving needs, focusing on usability.

Viral Marketing

"Marketing is too important to be left to the marketing department!"

David Packard, co-Founder of Hewlett Packard

Today, your customers are your key marketers. Viral marketing uses social platforms such as Facebook, Twitter and YouTube to increase brand awareness through customers promoting the brand. This could be making comments online, sharing video clips and images or forwarding content on through emails and text messages. It need to be carefully monitored so you can respond immediately to problems, new challenges and ideas.





*** IMPORTANT**

Don't let failure put you off. Be determined and learn from your experiences – whether good or bad.





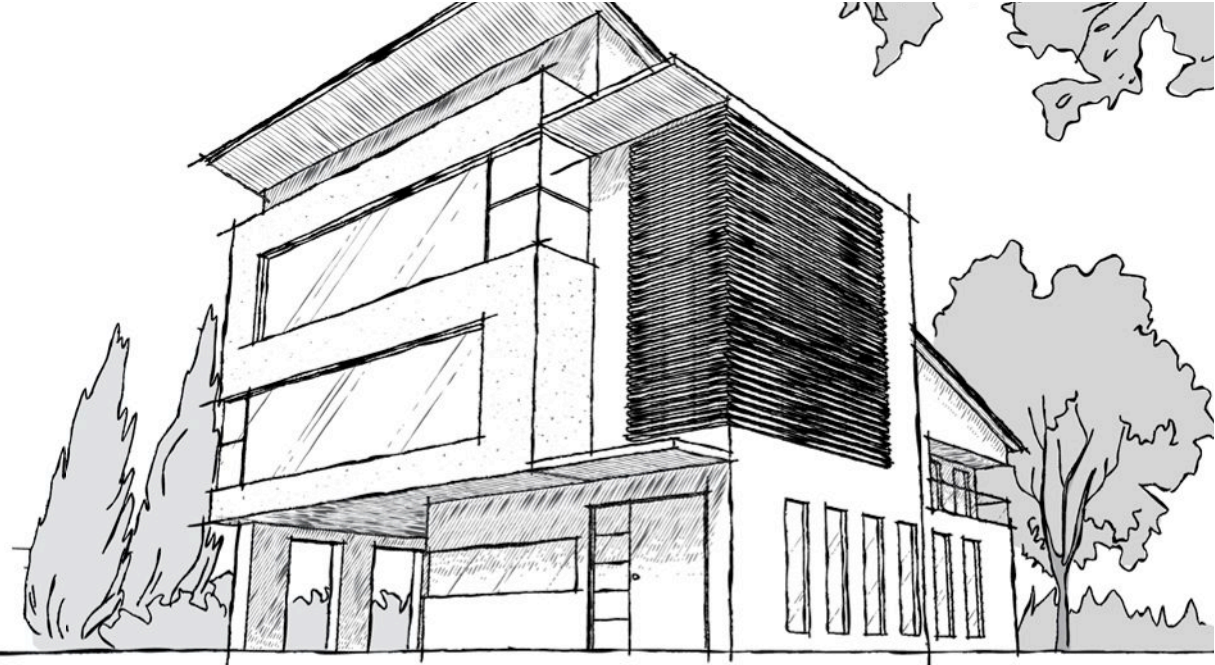
IMPRESSING INVESTORS
CHAPTER 2

THE NEXT DAY, MATT AND HIS BUSINESS PARTNER ARE HURRYING TO THE MOST IMPORTANT MEETING OF THEIR LIVES – WITH THE VENTURE CAPITALIST WHO COULD GIVE THEM THE FUNDING THEY DESPERATELY NEED.



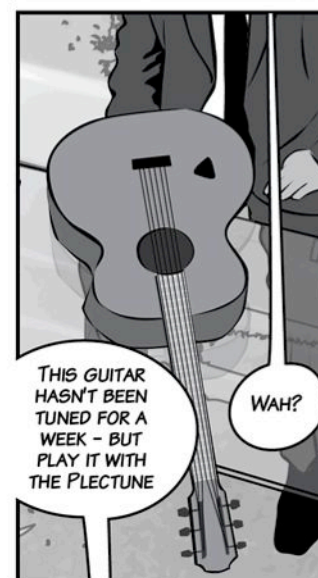
* IMPORTANT

Writing a business plan is a worthwhile process not just for impressing investors, but also for thinking through the essential aspects of your business. Most plans will evolve with time. See page 80 for a business plan checklist.



*** IMPORTANT**

Make sure your audience will understand your product. Investors from outside your industry may be put off by lots of data they can't take in.



PITCHING YOUR IDEA

Being able to pitch is essential to raising investment, engaging customers, building a great team and ultimately selling your company.

A memorable pitch has a strong beginning and end, covers all the key points and tells a story. One CEO opens with, "My job is to get women pregnant!" before going on to describe how his own conception inspired him to invent a medical device to predict ovulation (Dr. Shamus Husheer, CEO of Cambridge Temperature Concepts).

You should prepare an elevator pitch – one that allows you to communicate your idea in the time span of a ride in a lift (30 seconds to 2 minutes in practice) – as they are very useful for those fortuitous moments at networking events, or indeed in elevators.

Key things to include in your pitch:

- What the product is
- Who is it for
- Proof, backed up with statistics and examples that there is demand.
- What stage your product is at – How advanced your product is (in development, proof-of-concept, prototype, clinical trials, manufacturing or on the shelf)
- How it's going to be sustainable and generate revenue
- Why you and your team will succeed in building the business
- How much money you seek to raise
- Visual or auditory aids

If you use slides, keep them simple or your investors will be reading the text rather than listening to what you're saying.

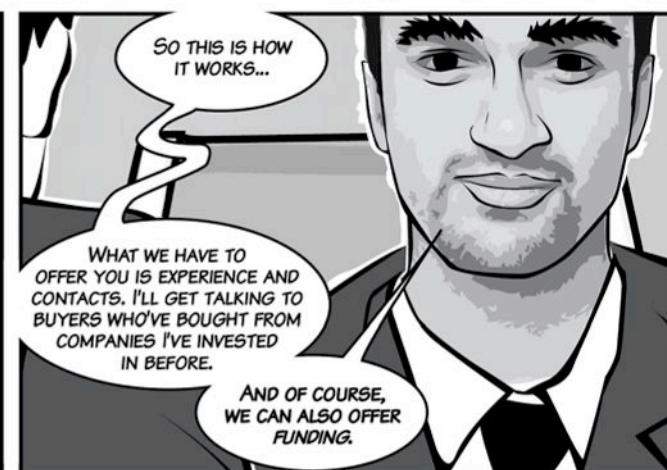
A good way to finish the pitch is to provide a succinct and compelling summary of the investment opportunity.



*** IMPORTANT**

What makes a great pitch?

- Get straight to the point
- Show passion for your product
- Have a great team behind you
- Show proof of existing orders
- Know who you're pitching to
- Know what you're asking for





*** IMPORTANT**

A term sheet is a document outlining the material terms and conditions of a business agreement.



VENTURE CAPITALISTS

Venture Capitalists (VCs) make investments on behalf of others, raising their fund from third party investors, such as large companies and pension funds. Each VC has a specific range of investment size and preferred sectors, for example cleantech, biomedical, pharmaceutical or software and types of businesses, for example early or late stage, or specific business models. The investments are usually very high risk. VCs work on the basis that only one in about ten investments will really pay off.

The benefits

VCs can offer you more money if you need it, provide business advice and help you with recruitment and finding the key decision-makers in the companies you are targeting. VC backing brings publicity for your company and helps validate the business.

How the VC cycle works

VC funds usually run on a ten-year cycle: the first two years are spent making investments, the next six years building them, and the final two years selling them. At each round, you need to find new investors to raise the share price.

How to find and approach VCs

It's best to talk to VCs early so they can see your plans evolve and be part of them. Also, it can take months to complete a round. VCs have very small teams, but receive huge volumes of business plans, so it is difficult to get their attention. Get an introduction to a partner in the firm through a mentor, angel, friend or non-executive director. Get on their radar by gaining market traction and being in the media.

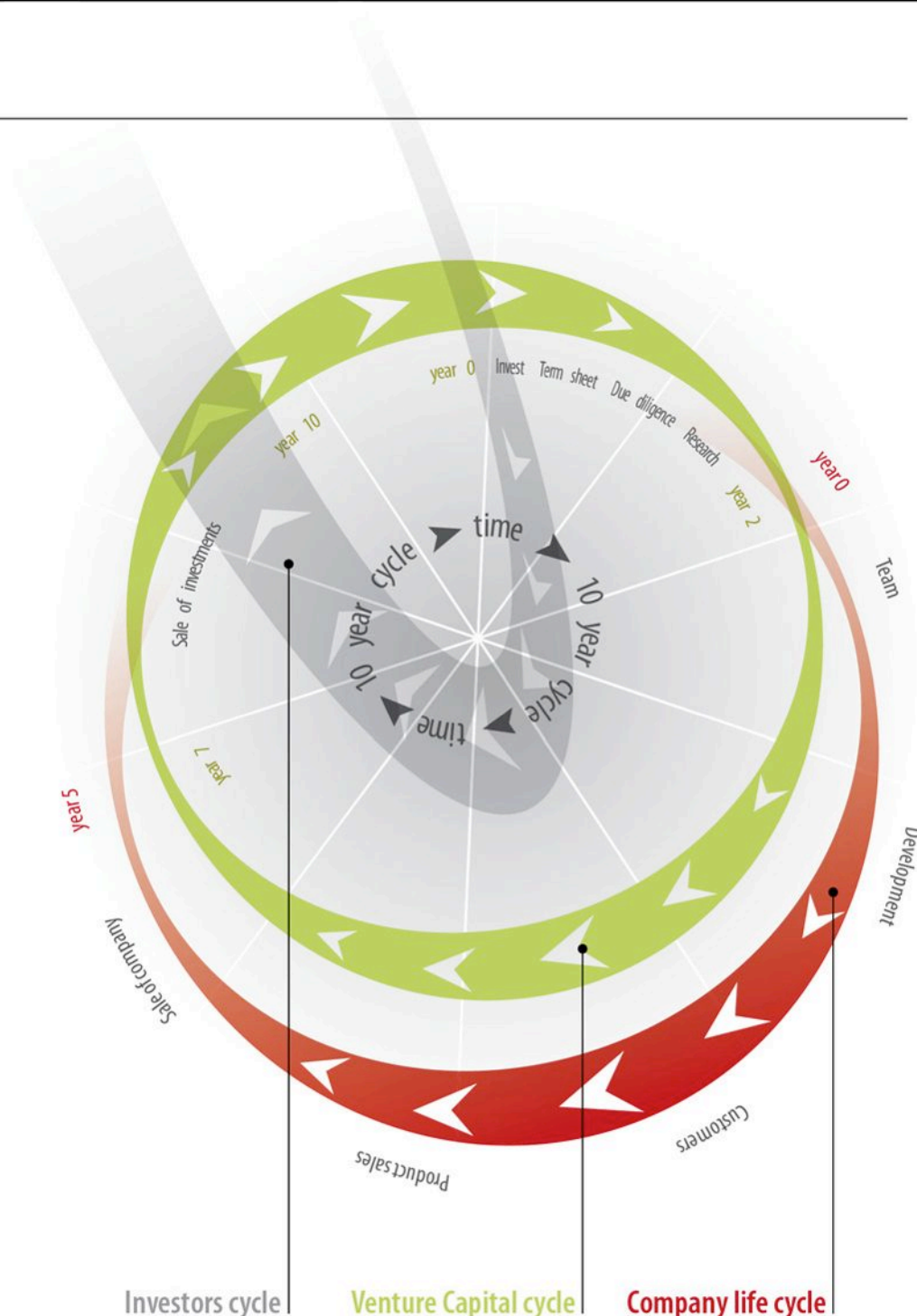
When you approach a VC first take a look at their investment portfolio to make sure you fit their criteria and talk to founders they have backed. Prepare an investment pack that includes an executive summary, presentation and business plan. Familiarise yourself with term sheets and capitalisation tables. Find a good solicitor and accountant used to working in this area – but don't forget to check their fees first.

The term sheet

VCs will want special shares and agreements to safeguard their investment. You should get advice from mentors and angels about the terms, which will vary based on the appetite for the deal and the economic climate. They also want a seat on the board, and to keep it small and focused. They are unlikely to offer sympathy if you find yourself working 18-hour days, seven days a week, for five years! However your hard work plus their investment can propel you into dizzying financial heights and industry fame.

Due diligence checklist

Be prepared for thorough due diligence from the VC. You will need to provide a lot of detailed information supporting all your projections, including proof that the product works, details of customers and orders, details of existing investors and potential co-investors, team CVs, references, legal and accountancy services and intangibles such as intellectual property (IP), know-how, influence and leverage.





INTELLECTUAL PROPERTY
CHAPTER 3



* IMPORTANT

Start building networks early to:

- Find quality staff
- Share industry information
- Build strategic alliances
- Meet customers and mentors
- Get used to pitching
- Scout the competition
- Develop communication skills
- Have fun!

* IMPORTANT

When you go to networking events don't forget to bring your business cards!

If you make a good impression on the night don't forget to follow it up with an email or a call while you're still fresh in their mind.



PROTECTING YOUR IDEA: INTELLECTUAL PROPERTY

Many people are afraid to talk about their ideas because they fear they will be stolen. You can avoid this by being careful about what you say. Talk about the *what* (what is the problem you're solving) and the *who* for (who is your customer), but not the *how* (how you're going to do it). If unsure, ask the person to sign a non-disclosure agreement (NDA).

Intellectual property results from the expression of an idea, so it can be a brand, an invention, a design, a process, a piece of writing or a song. The most common forms of IP are patents, trade secrets, copyright, trademarks, and design rights. IP can be owned, bought and sold by individuals, groups and companies.

Investors will want to see evidence that your idea is well protected, so secure your IP.

Patents

A patent is a set of exclusive rights granted to the inventor by a government for a limited period of time (usually 20 years) to prevent others from making, using, selling or distributing the invention without your permission.

Patents are country-specific and patent laws vary, so you need to cover all the regions you are operating or hope to be operating in. You can do this by filing under the European Patent Convention (EPC) and the Patent Cooperation Treaty (PCT), which covers over 140 countries.

Is your technology or invention patentable?

- It cannot have been publically disclosed.
- It needs to be new, have an inventive step that is not obvious to someone with experience in the sector and be able to be made or used in industry.
- It must not infringe someone else's patent, as your patent could be invalidated or you could be sued. You or your patent attorney need to perform a freedom-to-operate search.

Your patent application is published 18 months after you have filed it. You need to renew it on the 4th anniversary of the filing date and every year thereafter for up to 20 years at which point the patent expires.

Patent renewals can become expensive when you build a patent portfolio, so make sure you budget for it.

Trade secrets

Patents are not always the best way of protecting your IP, as your competitors will know what you are doing as soon as they are published. If your competitors are well-established companies, patents may offer you little protection since taking legal action against a multi-national would almost certainly bankrupt your start-up.

This is one reason why many companies choose to keep their information secret. Secret formulas known only to a select few, have served big brands, such as Coca Cola and KFC, well. Keep your trade secrets secret by getting your employees and partners to sign non-disclosure and non-compete agreements.

Copyright

Copyright is automatically assigned to written, artistic, musical, theatrical works, software, databases, broadcasts, recordings and layouts. You should mark your work with a © symbol, the creator and the date. You can also send yourself a copy of your work by special delivery and leave the envelope unopened, or file a copy with your solicitor or bank. Copyright generally runs out 70 years after the death of the creator, but may vary depending on the country or the genre.

Trademarks

Your brand is valuable and you can protect it by registering it as a trademark. It may be a word or combination of words, logos, label, signature, shape of product, shape of packaging, jingle or a combination of these. There are 45 classes (1-34 are goods; 35-45 are services), defined by the International Classification of Goods and Services and you need to decide which class(es) your trademark falls into. When you search trademark databases, don't forget to check for significant elements individually and for similar-sounding variations.

What your trademarks solicitors will neglect to tell you about are the costs of responding to queries made by other companies (£150 a time!), which have automated scripts scrawling the web daily for possible infringement of their trademarks.

Getting advice

Seek out a reputable patent attorney, preferably with experience of working in your industry. If you're likely to be building up a portfolio, you can try to negotiate a special rate on the basis that you will be sticking with them for the long run. Patent attorney firms often run free workshops and consultations before you engage them – take advantage of these.

If you work or study at a university or institution, find out if there is a technology transfer office and who owns the IP rights. They may offer to pay your patenting costs for a greater share of the licensing fees and royalties.





*** IMPORTANT**

Business angels provide funds for start-ups in return for equity ownership.

Unlike VCs, the money they're investing is their own so they're taking a high personal risk. They demand a high return on their investment but will use contacts and knowledge to help fledgling entrepreneurs.



*** IMPORTANT**

Angels offer 'smart money': Knowledge, industry experience, advice and mentoring – as well as cash!



WORKING IN CLUSTERS

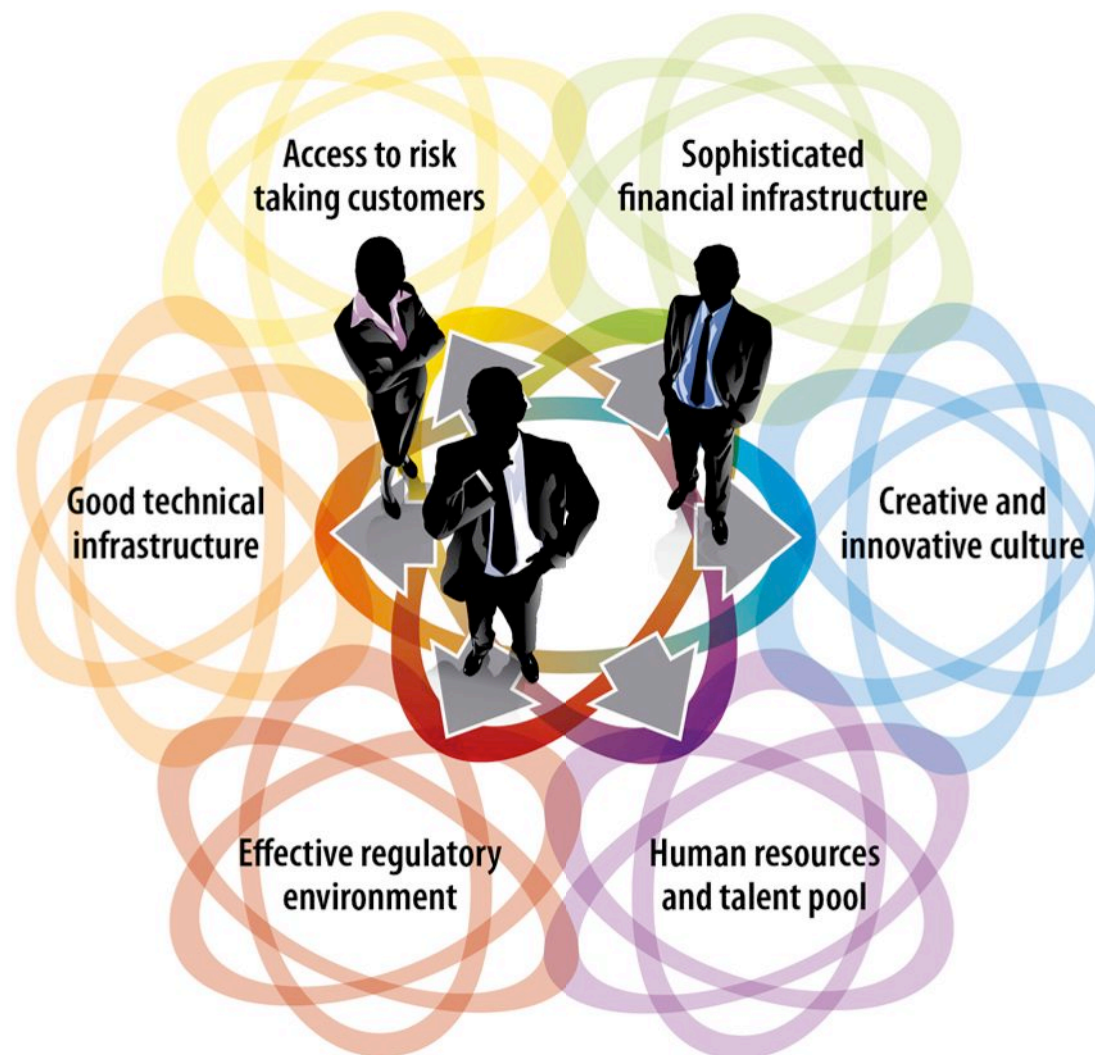
What is a cluster?

A cluster occurs where related companies and organisations set up close to one another and work together to develop their industry. Think the movie industry in Hollywood, haute couture in Paris, diamonds in Antwerp, the car industry in Detroit, banking in The City or Wall Street and technology in Silicon Valley and Bangalore.

Technology clusters are based around universities such as Cambridge, Stanford and MIT. Look out for incubators in a cluster that supports your industry.

How clusters benefit the entrepreneur?

Being in a cluster allows sharing of lab space and resources, access to professional services, recruitment opportunities, collaboration between disciplines, academics used to dealing with entrepreneurs, industry knowledge, common goals, investors, mentors, excitement and entrepreneurial spirit.



Clusters and the economy

Governments are keen to promote clusters because they increase productivity, drive innovation and stimulate new business, allowing nations to gain a sustainable competitive advantage and even world supremacy over other economies in a particular sector.

International clusters

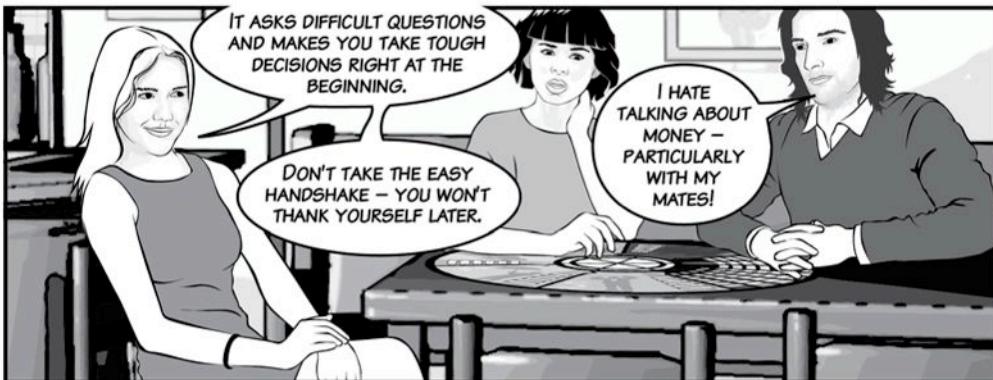
Many business parks around the world offer incentive schemes to attract novel technologies from other countries. These can include subsidised office space, government support, business services, networking, help entering the local market and cash in return for an equity stake. Such schemes are useful if you're looking to expand internationally, or just want to make your cash go further. Make sure you read the terms and conditions carefully though, and research the local IP laws and regulation.

With thanks to Prof Arnoud De Meyer



EQUITY DILUTION

CHAPTER 4



* IMPORTANT

The founders' agreement

A high growth company is rarely started by one person alone.

It is essential that you decide at the outset how the equity is split and what happens if someone leaves.



* IMPORTANT

Be very careful with your cash! A good entrepreneur takes as little money as is needed to safely get to the first milestone, never forgetting that the investors are seeking a return.



DILUTION EXPLAINED

Equity (or stock) represents the shares issued by the company. When others invest in your company your ownership becomes diluted. So if one founder owned 20% of the company and an investor invests in return for 10% ownership, the founder's share is diluted to 18%, which is 20% of the remaining 90%.

In an investment round,

$$\text{Post-money valuation} = \text{Pre-money valuation} + \text{Amount investment}$$

High growth or lifestyle company?

Most companies retain the same equity structure throughout their life cycle, growing quickly to start with, then more slowly. We refer to these as lifestyle or passive equity companies.

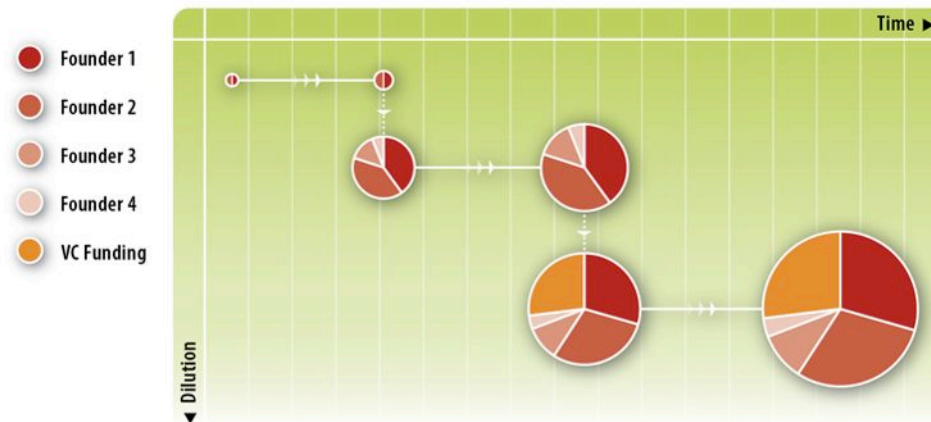
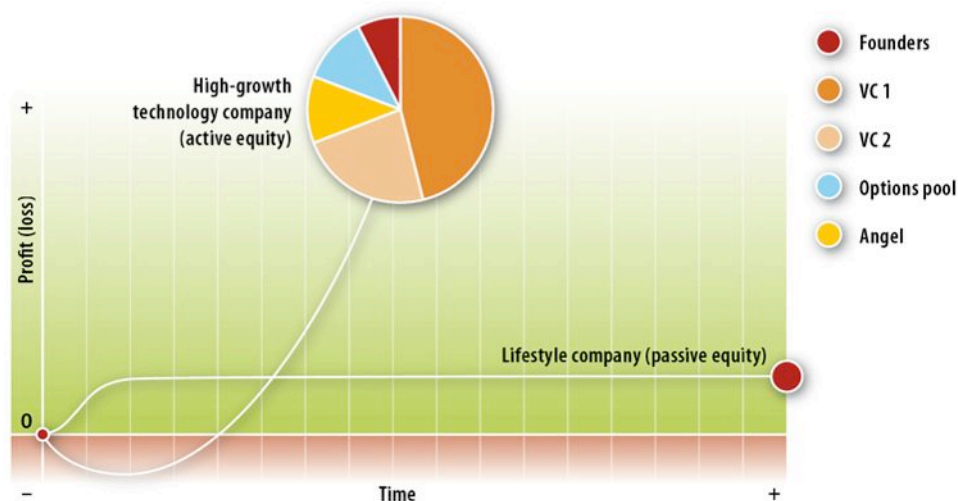
High-growth, or active equity companies, have an evolving equity structure, issuing equity to raise funds and attract talent. They require investment initially then become cash positive and grow

exponentially. Usually there is a team at the beginning. The equity is not generally split equally between the founders, but depends on their contribution to the start-up. The equity splitter, included with this book, is a useful tool to help you to get this right.

You need to decide at the beginning what equity structure you want, as it is difficult to change afterwards. Owning a small share of a billion-dollar company can be much more lucrative than having total ownership of a small business.

Capitalisation table and Equity Fingerprint

A capitalisation (cap) table lists who owns what over each funding round. You can visualise this using equity wheels, where each wheel is a pie chart representing the equity structure of the company and the size of the wheel represents its value, to build up an equity fingerprint, showing dilution against time.



Safeguarding your equity

Options normally vest over four years, meaning that they are not secured unless the person stays with the company for that period. Make sure you have a contract in place specifying what happens if a team member leaves the company early. Good leavers – those who leave due to retirement, redundancy or ill health – may keep some of their shares, whereas bad leavers will lose most of their shares.

Check the terms carefully, as VCs will demand preferred shares, which give them priority over dividends and trade sale or flotation.

Options pool

Equity can be used to as an incentive and to reward those who work for you. You do this by creating an options pool, where options are set aside for to be issued to employees at a later date. When you take on investment, be aware that the options pool is an important part of

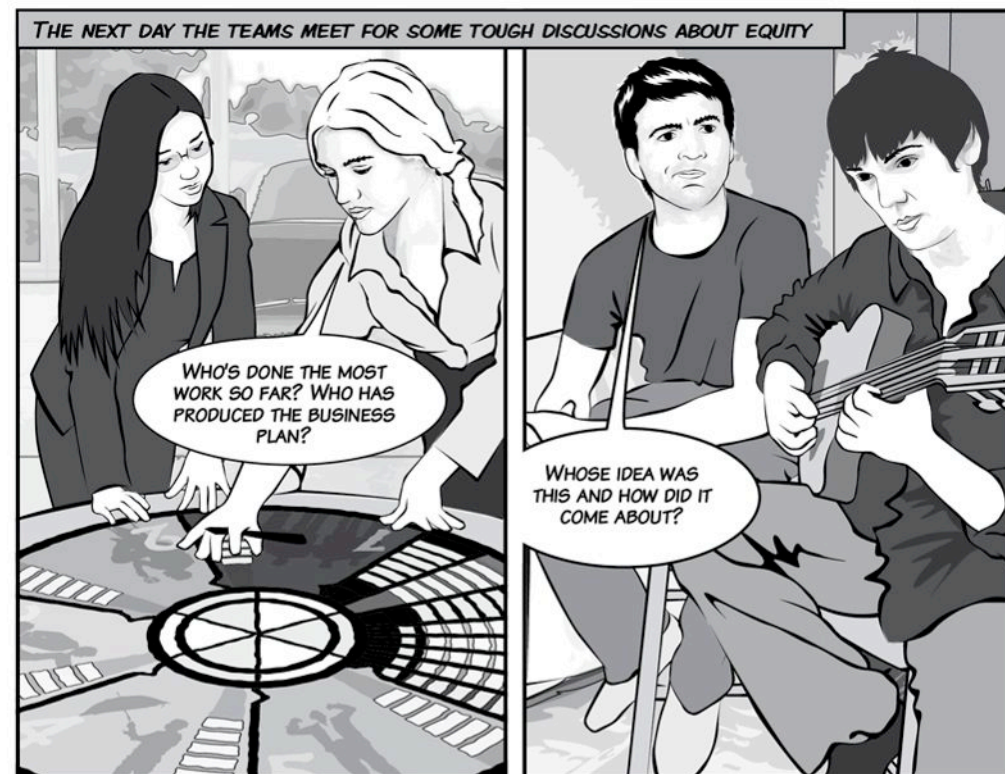
the negotiations: including it in the pre-money valuation lowers your effective valuation. Furthermore, if you sell the company before taking on any further investment, all unissued options are cancelled, creating a reverse dilution that benefits all shareholders proportionally.

Don't get washed out

If things are not going as planned and you are failing to achieve your targets, you may suffer a loss of value in a wash-out round, where you are left with a tiny percentage and loss of control of the company. Don't take on more investment than you need at each stage and keep growing the company!

Get advice

Seek out good mentors to help you structure your financing. Try to use standard documentation to keep costs down.

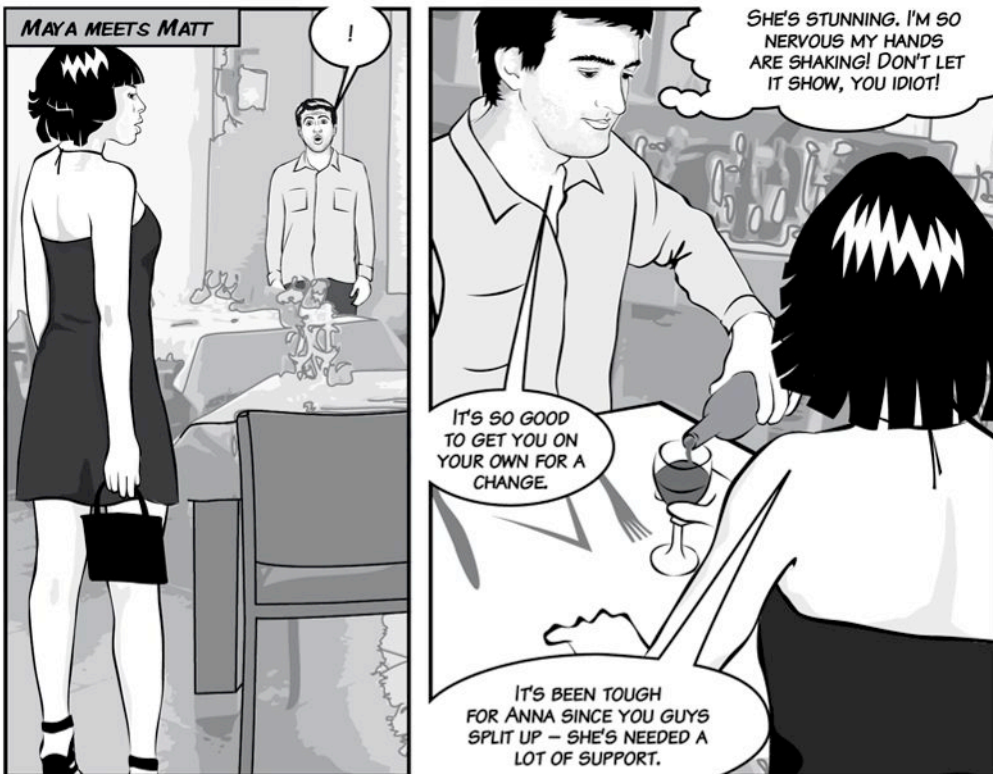






STAYING FOCUSED

CHAPTER 5



*** IMPORTANT**

A great entrepreneur will be:

- full of self-belief
- quick to recognise an opportunity
- able to inspire others
- an excellent communicator
- strong and decisive
- part of a highly skilled, diverse team
- eager to build networks



IT'S TIME FOR FRIDAY MORNING LATTE AT FAT TONY'S



SO I TOOK YOUR ADVICE AND GOT NETWORKING – WITH ANNA'S HELP!



AND I'VE MET SOME INVESTORS WHO UNDERSTAND MY NEED TO MAKE A PROFIT – AND MAKE THE WORLD A BETTER PLACE.



THEY'RE INTERESTED. WE REALLY HIT IT OFF. BUT THERE'S A FEW THINGS I NEED TO GO AND DO BEFORE I PITCH TO THEM.

* IMPORTANT

Before your meeting:

- ✓ Research investor portfolio
- ✓ Write business plan
- ✓ Practise your pitch
- ✓ Prepare cap table
- ✓ Prepare answers to common questions
- ✓ Decide who will talk about which topics
- ✓ Present a united front
- ✓ Arrive in plenty of time – don't be late!

THAT'S BRILLIANT, REALLY POSITIVE, WELL DONE MATE!



AND HE'S NOT THE ONLY ONE DOING WELL.

I'M SORRY I'VE BEEN MEAN TO YOU LATELY – JUST JEALOUS OF YOUR SUCCESS I SUPPOSE!





* IMPORTANT

Being an entrepreneur is demanding and you have to make some difficult choices. Build a great team at work and a supportive, resilient group of friends and never forget your family - you will need them all. Stay focused, stay positive, never give up and enjoy the ride!



ANNA FOCUSES ON THE FUTURE OF UBAGLOO WITH THE HELP OF HER NEW FRIEND.

BRUISED BY THE EXPERIENCE OF SEEING HER BEST FRIEND DATING HER EX-BOYFRIEND, ANNA TURNS HER ATTENTION BACK TO GROWING HER BUSINESS.

WE'VE JUST RECEIVED A BULK ORDER FROM A SUPERMARKET CHAIN! NOW IT'S TIME TO REALLY DRIVE THIS PRODUCT FORWARD!

I'M NOT LETTING EMOTIONS GET IN THE WAY ANYMORE

BUT IT IS OUR MONEY SO BE CAREFUL WITH IT!

WHILE HER FRIENDS SEE THEIR IDEAS TAKE GIANT LEAPS FORWARD WITH THE NEW INJECTION OF CASH, KNOWLEDGE AND EXPERIENCE

MATT GETS CELEBRITY ENDORSEMENT HE CRAVED AND SELLS PLECTUNE FOR MILLIONS.

SO THAT'S AGREED - YOU WANT TO ENDORSE THE PLECTUNE?

YEAH MAN! I TOTALLY WANT MY NAME ON THIS.



PLECTUNE
@FREDWILSON @SCOBLEIZER PLECTUNE
SOLD TO MUSIC GIANT! #MILLIONS
#BIGDEALS #ACQUISITIONS

Yes!

MAYA LOOKS FORWARD TO MAKING WAVES IN THE RENEWABLE ENERGY INDUSTRY.

I'M WORKING WITH THE BEST PEOPLE ON THIS. THEY'RE COMMITTED TO THE PROJECT 100%.

AND THE GREAT NEWS IS THAT THE CHAIN OF LEISURE CENTRES YOU INTRODUCED US TO WANTS TO RUN A TRIAL OF THE PODS IN TEN OF HIS GYMS!

THIS IS JUST THE BEGINNING. WE'RE ALREADY DEVELOPING A RANGE OF DEVICES THAT CAN BE INTEGRATED INTO HYDROELECTRIC SCHEMES AND WIND TURBINES.

FINN SETS OUT TO REVOLUTIONISE THE WAY VACCINES ARE DELIVERED.

YOU DON'T NEED TO BE SCARED OF NEEDLES ANY MORE. ALL I'M GOING TO DO IS RUB SOME OF THIS GEL ON YOUR ARM.

AND NOW YOU'RE PROTECTED!

THE DOCTORS AND PATIENTS LOVE IT! WE'RE GETTING ORDERS FROM CLINICS ALL OVER THE WORLD!

AND WE'VE WON A MASSIVE GRANT AND SPONSORSHIP TO TAKE IT TO DEVELOPING COUNTRIES!

THIS COULD BE AS REVOLUTIONARY AS PENICILLIN. I CAN'T MISS THIS OPPORTUNITY. I'M DEFINITELY INVESTING.

PLANNING YOUR EXIT

Investors need an exit in order to get a return on their investment and invest in new ventures. The main types of exit are by trade sale or by floating on a stock market.

- **Trade sale** is the purchase of a company by a trade buyer, who could be an individual or organisation.
- **Initial public offering (IPO)** is the offer from a company of shares to the public for the first time. Depending on the country, there are many different stock markets to float on.

Maximising valuation

When asked what the aim of a business is, people often think first of maximising profit. However it is really about maximising shareholder value – in a socially responsible way.

Social networks such as Facebook cannot compare to Apple and Microsoft in terms of annual profit, but they achieve massive customer engagement that can be monetised in the future, and hence valuations are of the same order of magnitude as blue-chip companies with billion dollar turnovers.

See if you can find any comparable acquisitions made in your industry. You can also calculate the net present value (NPV) of your company by discounting your projected total future cumulative profit for the lifetime of the company or patent(s) and use this to justify its value.

Finally, don't prejudge what people are willing to pay for your company. It is worth much more to some buyers than others, so make sure you seek out the best buyers. Some entrepreneurs start off with a few target buyers and tailor their products to meet their needs.

When to exit

Deciding when to exit is about knowing where in the company lifecycle your skillset and interest as an entrepreneur lies, and when it would be best to hand over to someone else. Are you good at generating ideas, creating start-ups, growing companies or leading a large corporate with layers of management?

A good time to exit is also when the next step – whether is it global expansion and distribution, or Phase III clinical trials – can be achieved far more efficiently by your potential buyer or new management team, but for you would require significant further financial investment and recruitment of new personnel as well as a transformation of company culture and mind-set.

Choosing the right time in the economic cycle to exit is also important, though not always in your control. If there's a bubble, don't wait until it's burst!



OUR FOUR ENTREPRENEURS ARE ON THEIR DIFFERENT PATHS TO SUCCESS. INNOVATIVE, SIMPLE IDEAS PLUS INVESTMENT FROM THE RIGHT PEOPLE AT THE RIGHT TIME HAS GIVEN THEM THE FOUNDATIONS THEY NEED TO DEVELOP HIGH-GROWTH, HIGHLY PROFITABLE BUSINESSES.





GOING GLOBAL
CHAPTER 6

TOP TIPS FOR BUSINESS

Cum sociis natoque penatibus et magnis dis parturient montes, nascetur ridiculus mus. Praesent commodo cursus magna, vel scelerisque nisl consectetur et.

LAURENCE GARRETT

Fringilla Ullamcorper Nibh Porta.

- Recruit grade-A people. Great teams win.
- Paranoia is healthy.
- Honesty is always the best policy for good and bad news. Spin will catch you out.
- If money is on offer take it. Pricing is truly secondary when you start off. However pick your investors wisely. They can be with you for a long time.
- Plans will always be wrong. It is the speed to which you adapt that is key.
- Get paying customers quickly.

JACK LANG

Fringilla Ullamcorper Nibh Porta.

- Understand your customer.
- Never lie, not to yourself, your customer, your employees, your investors.
- Fail early, fail often.

SHAMUS HUSHEER

Fringilla Ullamcorper Nibh Porta.

- The only value for your company is what other people are willing to pay. Forget the complex spreadsheets and find people who totally believe in the company and in you.
- While you're developing your product, try selling your closest competitor's product. This will give you insight into your market far before you launch, and

will probably bring positive changes in your product development.

- It often takes longer to partner with all the players than to just get to market by yourself. Big companies have the time to negotiate, you don't - so only think about blatantly obviously win-win partnerships.
- The 80/20 rule needs to be applied to absolutely everything, including sleep.
- The most useful time and money you can spend is taking experts to lunch/dinner. They will usually tell you 50% of what they would tell you if hired, but for the cost of lunch/dinner.

BUSINESS PLAN CHECKLIST

Your business plan doesn't need to be a huge tome as long as you cover all the key points. Don't forget to proofread it for typos and spelling/grammatical mistakes!

Executive Summary

- ❑ Make this a compelling summary of your business plan no longer than two pages in length - You should write this section last.
- ❑ What is the mission statement of your company?

Market Opportunity

- ❑ What is the gap in the market that your product is filling, or what problems are you trying to solve?
- ❑ Who are your customers?
- ❑ How big is the market for your product?
- ❑ Is it dominated by a few main players, or many smaller companies?
- ❑ What are the barriers to entry?
- ❑ What are the market trends?
- ❑ What are the economical and political climates that influence the growth and development of the market?
- ❑ What market research have you conducted or found that supports this? Remember to acknowledge any sources.
- ❑ Think about how you are representing data - graphs and pie charts are easier to take in than tables of numbers.

Competitor Analysis

- ❑ Who are your competitors? What are the current solutions to the problem? Remember, there are always competitors.
- ❑ What market share do they occupy? Are some companies growing more rapidly than others? Why?
- ❑ What are their existing products, what are they working on and what is their future direction?

Product/Service

- ❑ Describe your product/service.
- ❑ What benefits does it offer your customers?
- ❑ What features make it unique and better than what your competitors are offering? A useful way of presenting this is to list the features of your product in a table alongside your main competitors' products.

Technology

- ❑ Describe the technology, but don't get too bogged down in the detail. Imagine writing it so that your 10-year-old little sister could understand it.
- ❑ What is innovative about your technology?
- ❑ Is it a platform technology (one that enables the creation of products and processes that support present or future development)? It is a disruptive technology (one that helps create a new market and value network, eventually displacing an earlier technology)? Is it an incremental innovation?
- ❑ How does the technology integrate with current systems? Is there a retrofit option, or will you replace the entire existing systems?

Intellectual Property

- ❑ Have you filed any patents to protect your technology?
- ❑ List the patent names, numbers, dates and countries covered.
- ❑ What further patents will you need to file?

Business Model

- ❑ How will you build customer engagement and convert it into revenue?
- ❑ How will you stimulate and sustain accelerating growth?
- ❑ Where do you fit in in the supply chain? Will you license your technology and collect royalties (fabless model) or set up factories yourself?
- ❑ Are you a one-product company or do you have a pipeline of future products?

Management Team

- ❑ List the key people on your team, explaining their roles, what experience they have and why they are perfect for the role.
- ❑ Try to bring your passion for the product across.
- ❑ Make sure you cover all the roles in the company. If any essential roles are not covered, explain that you recognise this and are actively recruiting to fill it. Key roles include leadership (CEO), business development, operations (COO), marketing (VP Marketing), sales (VP Sales), technical lead (CTO), and scientific (CSO)/medical lead (CMO) if applicable. Remember that in a start-up, roles can overlap and one person often takes on more than one role.
- ❑ Who are your Chairman and non-executive directors? These roles should be filled strategically – invite people who have an in-depth knowledge of and some influence in your industry as well as a substantial number of contacts in the industry and to investors and customers.
- ❑ Have you thought of setting up an advisory board? This is a great way to take advantage of mentorship without giving away control.

BUSINESS PLAN CHECKLIST CONTINUED

Operational Strategy/Plan

- ❑ It is useful to show this as a Gantt chart, showing activity against time.
- ❑ Where will each component of your operations be based? Will you move to a science park to take advantage of clusters? Will you manufacture overseas and ship the products?
- ❑ What are your distribution channels? Will you partner with an existing distribution network or set up your own?
- ❑ How will you win customers?
- ❑ How will your product(s) scale? Do you have contacts that will help you expand your business nationally and internationally?
- ❑ For high-tech products, a useful measure of the stage of technology development is Technology Readiness Level (TRL), a scale developed by NASA.
- ❑ You need to work towards a proof-of-concept, build a prototype and run a feasibility study.
- ❑ What risks will you face and how will you overcome them?
- ❑ Are there regulatory barriers to overcome? Medical devices and therapeutic products need to gain FDA approval in the USA, and CE marking in the EU. Each country or state has its own Competent Authority responsible for this and it is important to find out from them what you need to do.
- ❑ Will you need to carry out clinical trials? Who will run them?

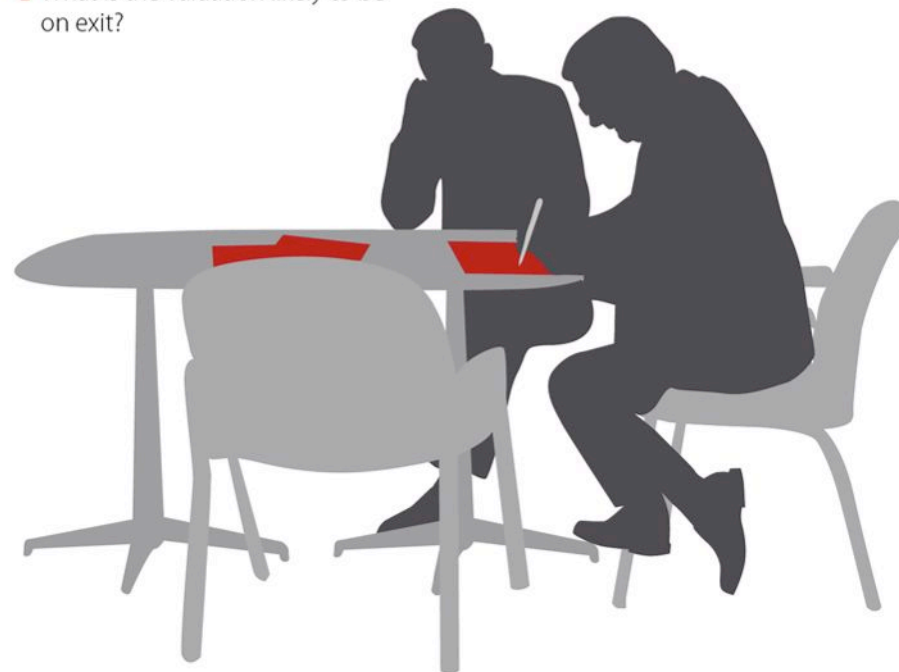
Financials and projections

- ❑ Create a spreadsheet to show actual cash flow to date and projected cash flow over the next three to five years.
- ❑ Your expenses are likely to include:
 - ❑ Cost of goods sold: raw materials, direct labour, manufacturing, overheads (rent, electricity, etc.)
 - ❑ Selling, General and Administrative expenses: salaries of directors and employees, administration, office overheads, accounting, insurance, legal, patents, marketing, recruitment, sales, executive expenses such as travel and meetings.
 - ❑ R&D costs, including research staff, lab space and resources.
- ❑ Your income may include: product sales, fees for customer support, grants, license fees, royalties and commercial partnership arrangements and any previous investment.
- ❑ Remember to list your assumptions when estimating future income and costs.
- ❑ You can provide more than one possible scenario: a worst-case scenario and an optimistic one, stating the assumptions in each case.
- ❑ How much investment are you seeking and what will you use this for? Are you going to raise the capital in stages?

- ❑ You should also include a capital table, showing current and future funding rounds with anticipated values of the business at each milestone and allow for an options scheme, to incentivise and reward your employees.

Exit Strategy

- ❑ Here you can list more than one possible exit, but you should definitely include this as your investors will want to know when they will get their money back and their rate of return on investment!
- ❑ Potential exits are by trade sale and initial public offering (IPO).
- ❑ If you exit by trade sale, who are potential acquirers? At what stage will you exit in order to maximise value?
- ❑ What is the valuation likely to be on exit?



GLOSSARY

Acquisition (or trade sale) – when one company buys another company. Acquisition refers to private companies, whilst **takeover** is used for publically listed companies.

Assets – things that can be owned or controlled to create value, including intangible assets, such as IP, current assets, such as cash and inventory, and fixed assets, such as buildings and equipment.

Board of directors – a group of people chosen to represent the company's shareholders and management. The board includes the executive directors, who have specific roles in the company, and the non-executive directors, who are involved with decision-making, but not directly employed by the company.

Bootstrapping – building a company whilst minimising external investment, e.g. through personal debt and sweat equity. It's more risky for you personally but you do keep more of the company.

Brand – a feature or features that distinguish a company's products or services. Brand can be protected by **trademarks**.

Bubble (or economic bubble) – an economic cycle characterised by dramatically rapid expansion of value, followed by collapse ("bursting" of the bubble), e.g. the Dot-com bubble of 1995-2000. Many companies went bust but a few survived, including Amazon, eBay and Google.

Business Angel – an individual investor who has built and sold a company (or companies) and contributes more than just money to his investments.

Business Plan – a document, usually written to raise investment, setting out the company's roadmap, supported by convincing reasons and plans to justify future success.

Capitalisation table – A table showing who owns what, over all past and projected future funding rounds.

Cash flow – really important, as so many companies fail simply by running out of cash! Cash flow is the movement of cash in and out of a company.

Chairman – person who chairs board meetings, coordinates board activities and reviews performance of other board members. The CEO can also be the Chairman, or it can be a separate role. Chairmen can be executive or non-executive.

Cluster (or business cluster) – a geographical concentration of interconnected businesses, suppliers and institutions, which lends its members a competitive advantage.

Competitor – someone offering a product or service that can take your customers away from you, directly or indirectly

Consortium – a group of people or organisations partnering to collaborate or pool resources, e.g. consortia for grant applications and groups of business angels.

Corporate Social Responsibility (CSR) – understanding the impact of your business on the world and taking measures to improve this, e.g. by sponsoring community projects or using renewable resources.

Dilution – reduction in ownership percentage when additional shares are issued when a company takes on investment.

Due diligence – A very detailed and thorough investigation and background checking of a company before signing a contract, or term sheet, or acquiring a company, which can take weeks or even months.

Elevator Pitch – a compelling verbal description of your company that lasts between 30-90 seconds, or the time of an elevator ride.

Entrepreneur – someone who creates value by taking risks and creating an enterprise.

Entrepreneurial spirit – having an innovative, thinking-outside-the-box, value-creating attitude towards whatever you do.

Equity – the value of shares issued by a company.

Equity fingerprint – a visual representation of the value and equity split of a company over time using equity wheels.

Equity wheel – a pie chart showing the equity split of a company in time where its area is proportion to the value of the company.

Exit – a way to transition ownership of the company so that founders and investors can get their money back, e.g. via trade sale or IPO.

Gantt Chart – a bar chart representing a project plan, showing activities against time.

Grant – a sum of money given by an organisation to help you achieve a particular goal.

Incorporation – registration of your company with the relevant state office in order to transfer liability and split equity.

Incubator – a place that offers flexible rents, support staff and equipment to new businesses that is usually in a cluster.

Initial Public Offering/Flotation – offering a company's shares for sale on a stock market for the first time

Innovation – creation of new ideas, products or methods

Intellectual Property (IP) – the result of a creative process that you can have rights to, e.g. through a patent, trademark or copyright.

Intrapreneur – someone who behaves entrepreneurially within an organisation.

Licensing – granting the right for someone else to use your IP in return for royalties.

Marketing – promoting and selling products or services

Market Share – the proportion of the total number of customers in a market you sell to.

Mentor – someone with useful experience who regularly gives you advice you can benefit from.

Mission Statement – a sentence that sums up what your goals and values are.

Non-disclosure agreement – a legal contract that prevents two or more parties from passing on IP they may learn from one another.

Open innovation – a process that incorporates expertise from outside as well as within and external as well as internal paths to the market.

GLOSSARY

Option (or stock option) – a contract that specifies that a share may be bought or sold in the future for a specified price within a set time period.

Patent – the exclusive right to make, use, distribute and sell an invention in a certain locality

Platform technology – technology that enables the creation of products and processes that support present or future development, e.g. operating systems as platforms for software programmes.

Profit = revenue - costs

Proof-of-concept – a demonstration of feasibility of an idea that has only previously been theoretically possible.

Prototype – preliminary model of your product.

Profit and loss statement (P&L, or income statement)

– a company's statement of financial performance over a period of time, showing income, costs and profit or loss.

Reference Angel – a business angel, usually an industry expert, whose investment significantly increases the value of the company.

Revenue – total income

Research and development (R&D) – creative activities that lead to innovation and incremental improvement of products and services.

Scalability – being able to adapt to increased demand and larger markets.

Shares – the lowest equal units of capital a company is divided into, which can be sold to raise money.

Social Enterprise – a company that uses trading activities for social good

Sponsorship – financial or in-kind support paid out for access to exploitable commercial opportunity.

Stock market – a public market for buying and selling shares of publically traded companies. There is at least one in almost every country.

Supply Chain – the sequence of processes and organisations in the production and distribution of a product.

Sustainability – being able to continue without additional investment

Sweat equity – receiving shares for your contribution to a company in return for accepting below-market-rate or zero salary.

SWOT analysis – analysis of strengths, weaknesses, opportunities and threats.

Technology Readiness Level (TRL) – a scale devised by NASA to describe the stage of development of a technology from basic research (TRL1) to actual exploitation of the technology in the market (TRL9)

Term sheet – a contract outlining the conditions and a business agreement.

Unique selling point (USP) – a benefit you can provide better than your competitors.

Usability – how easy and pleasant your product is to use.

User interface (UI) – the visual presentation and functionality of software and web solutions that enable a user to interact with a product or service. It should be intuitive, aesthetically pleasing and built with your customers in mind.

Valuation – estimate of your company's financial value.

Venture Capital – investment made on behalf of third parties where there is a significant risk.

Vesting – the process by which someone holding an option to buy shares can actually buy them and own them; the vesting period is usually four years.

Viral Marketing – getting customers to spread your ideas, products or services through social networks, messaging and word-of-mouth.

White-labelling – rebranding the producer's product or service so that other companies, the marketers appear as though they have made it.

THE EQUITY PLANNER

