Cash for Ideas

This guide helps New Zealanders turn their ideas into world-beating products, businesses and brands. Whether you've got an idea of your own, you're working on other people's ideas or you'd simply like your company to be more innovative, you'll find essential answers in these pages

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CREATED WITH THE HELP OF EXPERTS FROM
BNZ Partners
DNA Design
Hayes Knight
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IRL
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SO FAR, SO GOOD– SO WHAT?

Okay, so you made it this far. Maybe you made it through a whole year without going bankrupt, you're still married and your family is still talking to you, even though you owe them all a lot of money.

Your idea has stood up to the battering of reality checks from the world and, like Indiana Jones, it is still staggering along, older, wiser, and with a chance of making it to the buried treasure. There are plenty of creepy-crawlies and traps to get through yet, but the adventure continues.

So how do you know when it's really taking off, and what you need to do next? While giving birth to an idea is like giving birth to a baby—it's painful, messy and terrifying but the result can be magical—this next stage is a bit like raising a child. It's no good thinking that at some point, things will stabilise and go back to normal, because they won't. And you are going to need help.

Jonathan Kirkpatrick, chief executive of the AUT Business Innovation Centre, has some words for the unwary. "A lot of people don't get to the later stages, because it's hard work. Anybody starting a business based on innovation, especially technical innovation, needs to understand how hard it is. There are a million and one things that can go wrong, and the fragility of being a new business is ever-present. You will be working a lot of hours and

there is a lot of uncertainty about the future. A lot of people can't cope with that."

The biggest challenge at this point is to pull your head up from the day-to-day battlefield to look at the bigger picture and keep sight of your goals. "In the early phase," says BNZ advisor Sue Lindsay, "you're really focused on getting runs on the board by making sales. The challenge then is to step out, look at the business model that has been created and ask whether it's the best it can be."

Grenville Main, managing and creative director of DNA design, agrees. "When you are a brand new startup, as an entrepreneur you're a bit naive and optimistic, which is a good thing because otherwise you wouldn't get out of bed. But it is always slower than you think. There are all sorts of challenges and problems that come up. How you deal with a setback defines not just how good your idea is, but how good a business you are building. The idea is not the business. It is just the start of the business."

If you're not a people person, you're not a business person

You won't have got this far without some expert advice and support, but now is the time to draw this closer, and build it into your core team.

It can be anathema to the spirit of the entrepreneurial maverick, but you have to get used to letting people tell you what to do. If you don't listen, why should anybody listen to you? And if you don't learn, you will quickly make big mistakes or simply drive yourself into the floor.

Jon Perry, partner at innovation software company Sopheon, has seen it happen all too often. "People end up focusing on the things they don't do well, like marketing or finance, because they think they are expensive, and then take their eye off the operational stuff they are good at. They end up getting a mate or a neighbour to do their marketing, or they go to a single-practice accountant because they are cheap."

You can't cut corners if you want to be world beating. A cutting-edge business needs cutting-edge advice.

"You have to be realistic about your time and resources," says Mike Atkinson, business improvement senior manager at specialist accountants Hayes Knight. "People want to save money by doing it all themselves, but they can't do everything. They won't build the infrastructure that will let it go to the next level, and end up strangling the thing."

Getting yourself an advisory board is a good place to start. It gets you in the vital habit of listening and tapping into talent, and will give an all-important signal to potential investors that you are serious and professional. Even if your enterprise is tiny at this point, a couple of experienced friends can help you stay focused and introduce fresh thinking.

Brett Walters, national managing partner at BNZ, says "An entrepreneur can have a world-beating product, but where they let themselves down is in not doing the homework and seeking expert advice." Atkinson puts this down to the dark side of the number 8 wire mentality—a reluctance to pay other people for things you think you can do yourself.

All our partners in this guide recommend you talk to specialist lawyers, accountants, branding experts and business advisors on a regular basis—and they aren't just drumming up trade. It's like the dentist: you can put off a costly and potentially painful experience, but this will almost certainly lead to a very costly and very painful experience later on.

Hire and hire

Along with external help, you're eventually going to need some staff. This is a quantum leap in the development and complexity of any business, says Kirkpatrick. "You've gone from innovator to manager. You suddenly have legal and moral obligations to pay people on time, whether you are paid on time or not."

And it goes well beyond money. Your company is based on innovation. To survive and thrive, it must become an incubator for further innovation, with a secure yet creative working environment that attracts top talent and enables them to do the best work of their lives.

You must share your ideas and enthusiasm, so your staff can be inspired by having real, meaningful input into something inspiring, real and meaningful. And if you want their ideas to add value to the company, you have to make listening to them a part of your daily work.

Whatever element of risk remains at this point will limit your options when it comes to choosing employees, as someone with a family and a mortgage is unlikely to join you if they don't think you'll be around in six month's time.

"You can't assume that employees will have your passion for the idea," says Kirkpatrick. "They haven't got as much invested in it, or as much to gain from it, as you do. You never really get the team quite right. It's like putting a band together. You get who is available. If nobody plays double bass, you get a double bass player in. And sometimes from that you will get a group that will do what is required."

Hiring more people means getting what you have in your head out where your people can work with it. You need to maintain a clear sense of the game plan, which should be reviewed and refined regularly.

This is Perry's specialty. "Typically at the beginning we find that companies have all the information they need to further an idea and to work out whether it's good or bad," he says. "That information is only about 10 percent of the amassed information. The rest is garbage.The biggest challenge is to wrestle that information out of the people that are gatekeepers for it, to share it and collaborate."

Congratulations, your idea has gained some followers. Now you need to work out where to lead them.

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PUTTING OTHER PEOPLE'S MONEY WHERE YOUR MOUTH IS

The money that got you this far has either run out or is about to. You have borrowed from everyone you can with a relatively clean conscience and a straight face, plus a few others that were a bit borderline.

But you know you will need more, much more, to achieve your goals. And, in your most wildly optimistic moments, you may even be starting to daydream about getting some money out of this yourself, if only to get your mortgage down to something less terrifying.

The good news

No matter what watch they wear or car they drive, you are not the only entrepreneur with their financial arse hanging out of their trousers. Financing your first startup is like putting your bank balance into a nosedive then hoping you have the nerve to hold on long enough and pull up in time.

You will probably be more in debt than you have ever been; then, if you're lucky, you might start to break even. Possibly, there might even be an opportunity to get filthy rich.

"There are three things you can do with profits when you get them," says Mike Atkinson, business improvement senior manager at specialist accountants Hayes Knight. "One, reinvest to grow; two, reduce debt to stabilise; three, take it home. Businesses tend to pass through these stages in that order. The trick is to know what stage you're in."

So think of it like this: right now you are a lean and hungry leopard, not a fat cat. That might just get you through the long nervous nights and the red bills in the morning—and it could also be a good thing. Grenville Main from DNA reckons too much support can make you lose your edge. "We know companies that have had so much backing that it helped prevent them from making some tough calls early enough," he says. "If you don't have that big bucket of cash, you have to make every decision work for you."

But even in a relatively small industrialised country like New Zealand, there is plenty of money around for a good idea. Specifically, there is a small contingent of angel investors ready to fund startups if there is real money to be made.

The way to prise open their wallets is to demonstrate you have a robust plan to produce a successful product, which will scale up to something colossal. As these investors are looking to make around 10 percent a year on six or seven figure sums, scale is vital. And, crucially, you have to prove you have the ability to execute the plan.

This means that all the way through the process of building your business you need to think about what the investor is looking for, and make sure that they find it. Once again, you plan and prepare to perform. And if you haven't started to think about this before you need the money, you're almost certainly too late to get any.

Mark Robotham is general manager of New Zealand Trade and Enterprise's Escalator Service, which gets businesses investor-ready and helps connect the good ideas with the money. "Not enough businesses are thinking about this from day one," he says. "You should be thinking about raising money at least two years in advance. And don't expect the money to come overnight. We say six to 12 months. This is because investors like to court people and familiarise themselves with them, to really get to know them."

People don't invest millions in strangers. To get on their spreadsheets, you need to get on their radar. This means things like pressing the flesh at the right awards ceremonies and conferences, all the time giving the distinct impression that you're bound to be up at the podium next time, thanking your mum and your high school economics teacher.

Jonathan Kirkpatrick from AUT's Business Innovation Centre says, "For those that will make it, we estimate about three years from first contact with us to becoming a company with a serious capital valuation that a venture capitalist will look at. It's the point at which you have got real traction, and have taken it from a technical idea to a real product that has been prototyped and tested."

There are certain key points in the commercialisation process where you are likely to need large injections of cash, including the moment you start hiring people, the first time you begin exporting, and when you launch a new product.

"You also need to think about the most appropriate time to raise money," says Robotham. "It's going to take at least 200 hours of your time, time you can't spend selling or working with your staff, and it can slow the growth of your business."

When doing the rounds, there's a balance to be struck. You don't want to get a reputation for constantly having your hand out. But if you estimate it will take several million to get you through the next five years, you might be wise to get one million now and then be in a better position to ask for the rest once you have some sales figures to wave around.

> ***"People buying intellectual property-loaded businesses are not your average buyer. It's not like they're buying a dairy. They are strategic investors"***
> ***—Wayne Hudson***

The challenge

It should come as no shock to know that these people want details. They don't just dot the i's and cross the t's, they check the font size and the colour while they are at it, in several languages.

"People buying intellectual property-loaded businesses are not your average buyer," says Wayne Hudson of intellectual property lawyers Hudson Gavin Martin. "It's not like they are buying a dairy. They are strategic investors that want to add you to their portfolio.

"These people are going to be absolutely adamant that your intellectual property is watertight. Their due diligence is very, very thorough."

Pitches and players

Investors have been described as being like a business partner that

you can never get rid of. Although your temptation, if not your habit, may be to take money from whoever is mad enough to offer it, many is the entrepreneur who has accepted investment in haste and rued the day at their leisure.

At the very least you will end up with someone else to whom you must justify everything you do. This can be a good thing, as it makes you think things through, but it can be suffocating if you never seem to be on the same page. The investor has their own strategy and goals to work to.

" Entrepreneurs are often surprised that investors are reluctant to sign non-disclosure agreements"
—Mark Robotham

Meet an angel
Spend a day with an angel investor—for free. Idealog and Escalator are hosting a full day seminar on April 17 with Bill Payne, America's leading angel investor. Included is one-on-one coaching with Kiwi angels.
It's free and it's here: www.escalator.co.nz.

Fortunately, if you really aren't meant for each other, the investment courtship process should show this up pretty rapidly, says Robotham. "The people are such a huge part. There are a lot of deals not done simply because the investor doesn't like the people."

This means you can't afford to be unfriendly if you want to find the right partner. "To be an entrepreneur you have to be confident, but not goddamn arrogant," says Robotham. "The investor community is very close and word gets around town. You don't want to become one of the untouchables."

Up until now you have probably been desperately trying to sell your product. This is different. Robotham has some simple advice: "The investors only want to know how it is going to make money, is it happening at the right time and when it gets 100 times bigger do you have the right structures in place?"

Given that the typical investor will see more than 300 businesses in a year and invest in only half a dozen, they simply don't have time for 100-page documents and two-hour presentations. They are also acutely aware that if it takes that long for you to explain it to them, then it will take that long to convince the customers, which means there won't be any.

"Entrepreneurs are often surprised that investors are reluctant to sign non-disclosure agreements," says Robotham. "But what tends to happen if they do is that the entrepreneur then gets carried away explaining exactly how the product works, when all the investor wants to know is the impact it has on the customer and how they are going to make money out of it."

The investor will only want all the details if the basic deal stacks up. Whether the investor is giving their time to you deliberately, or whether you have stolen it by following them to the toilets and striking up a conversation, your 'elevator' pitch is your best shot. It should take about three minutes to cover the whole business, and only one of those minutes should be about the product, which means you should be well into it by the time you are drying your hands.

You should have studied your prey at least as carefully as they will study you. For instance, some investors have a two-hour-drive rule; they won't invest in a business that is more than two hours' drive away. If so, you should know where they are based.

Many deals have been killed when an overenthusiastic innovator slags off the competition, unaware that the angel has already invested heavily in them. It's worth checking the company register, and asking CEOs of companies that the angels have already invested in about their experiences.

No business is perfect. Don't try to pretend yours is. Investors got rich by knowing that if something looks too good to be true, it is. You should be upfront about any weaknesses your business has. A decent investor will spot them anyway, may be able to help, and your level of awareness will impress.

And when it comes to talking turkey, you need to be ready and willing to do a sensible deal. For a big piece of cash, the investor is going to want a big chunk of your business, says Robotham. "Some people have a completely and utterly unrealistic view of the value of their business. They turn people away because the risk is so high. It is about balancing risk versus value, and it is risky."

With all this emphasis on investment, its also important to remember that the number one way to raise capital is to make sales. If you are selling stuff, your business is worth a lot more. Ultimately, that changes it from a concept into a business and is the best way of proving you can make it work.

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A FORMULA FOR SECRETS

If every Coca Cola factory in the world burned down tonight it wasn't me—I was busy writing this—and it wouldn't make much difference because the company would still exist and be profitable, based on its patents, trademarks and confidential information.

This is the holy grail of intellectual property, but if your idea is going to make it that far, you have to ensure nobody nicks it before you build the sort of legal muscle Coca-Cola can now flex.

Wayne Hudson of technology and IP lawyers Hudson Gavin Martin points out the main pitfalls: "At startup level, most businesses don't have the very best form of contract management," he says. "Where this becomes apparent is when you engage with third parties: people writing advertising copy for you, or computer code. It's in areas like this that you can get intellectual property leakage. If you don't have the contract management, you can find yourself in a discussion over control of something you thought you already owned."

In business, if you are relying on trust, it's because you haven't done the

right paperwork. Mark Robotham's experience as general manager of New Zealand Trade and Enterprise's Escalator Service has taught him that careless talk can cost profits. "People talk about trade secrets, then I ask them how many of their staff and customers know about it. It's then they realise it is actually common knowledge."

Unfortunately a lot of Kiwi entrepreneurs close the stable door after their thoroughbred horse has been cloned in China. Unless you have gained legal protection over there, the best you can do is stop them at the border where you do have protection and prevent them selling in your target markets.

"Very seldom do we see people coming in to us to draft what they need beforehand," says Hudson. "It is perceived to be expensive, so most startups are going to prefer to focus on sales and clients. It's like insurance, and 99 percent of the time they get away with not having any."

The risks are high. Investors will walk if they don't think this is nailed down, and every time your idea gets copied you lose a big chunk of a market. But the truth is you can't ever completely stop the imitators. There's nothing *that* new in the world, and if patent protection were too broad it would be almost impossible to start new businesses in the first place and we'd still be in the age of steam.

The game is to hold up the competition long enough to get a head start. Normally you've got about six months from when your product first goes public to when it gets copied. And that's with all the IP protection in the world. The time you buy is your window of opportunity to make money from your idea, innovate on the base product and stay ahead.

Industrial Research Limited is a Crown Research Institute specialising in developing and prototyping new technologies. Shaun Coffey, CEO, says this is the reality of the innovation marketplace. "Over the years, battles between rival products have usually been won by the product that best meets consumer needs. A good example is the videotape war between VHS and Betamax. Despite VHS entering the market two years after Betamax, the longer playing time of VHS tapes enabled that format to quickly become dominant."

Here today, Taiwan tomorrow?

There are particular risks associated with moving production, distribution or even marketing elements overseas. So it's a good idea to talk to an IP lawyer before your business gets airborne. Reading the terms and conditions of trade of whoever you are dealing with and getting a non-competition clause in the contract are your basic belt and braces. They should not be overlooked if you don't want to be caught with your pants down.

Hudson says, "The only way to stop people copying what you are doing is a contract with a no-competition clause in it. Otherwise they will buy a couple of products, re-engineer them, get their tech people on it and begin selling. At that point, even if you do have a contract, you have to be prepared to sue them."

His colleague Jason Rudkin-Binks believes that when it comes to the worst offenders, you don't have much choice but to take action if you want to stay in business.

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>
> ***—Mark Robotham***

"You have got to stop absolute copies and those cases where people think they are buying your product but they aren't," he says. "And you have to act on blatant patent infringements—otherwise, what's the point of obtaining a legal monopoly in the first place?"

Other than that, what you do depends on the strength of the opposition, how much money you have, how much time you wish to spend in law courts and what your global growth strategy looks like.

It's perfectly acceptable to abandon whole areas of the globe in terms of your intellectual property rights to focus on your key markets. That way you can fund continued advancements in your product that hopefully the counterfeiters can't match, always leaving them a step behind you in terms of quality, reliability and features. Yours

remains the premium product, and you can get on with honing your distribution network. Meanwhile they act as free advertising for the basic idea and can even test markets for you to exploit later.

DNA's Grenville Main cites another example where resorting to law may not be the way to go. "When Napster arrived, the industry response tended to be that it was infringing their market," he says. "But when you look at the numbers, they have gone from millions of people being a potential market to tens of millions, without having to pay for the advertising. It just requires a new way to cash in."

Trademark infringements are easy to identify almost anywhere in the world as long as their logo looks like yours and you registered it first. But for a small startup, a full-blown patent battle is best avoided. There are fairly uniform legal structures on patents around the world but unless you are up against a very feeble opponent, the process will draw in so much time, money and energy that it's rarely going to be worth it.

If you have a patent, the first thing your opponent will tend to do is claim your patent is not valid. The opposition will try to prove 'prior art': that somebody prior to you had already made the same thing in your country. If they find it, you have no patent and no protection. Patent offices themselves are not able to do full checks of everything out there before issuing their patents, so this can come as a nasty shock.

There's plenty of sabre-rattling, but what it usually comes down to is doing a deal. Whoever has the strongest claim or the scariest legal team may offer to license the other to continue trading with the disputed intellectual property.

This is especially common when the victorious company has no intention of exploiting the market its victim is in anyway. Many large corporate patent owners will often consider their market share and position, and then license their disputed rights to each other to ensure that both entities continue to profit.

"As competition you may be able to reach customers or markets they can't," says Hudson, "but they will want a share in that."

All this means you had better have done your originality checks thoroughly, patent or no patent. The best way to avoid the possibility of losing big chunks of your business plan is to do your homework in the first place. A really thorough check to see if your idea is new from the outset is crucial. You are planning to base your life on that knowledge for the next few years and you will be betting all your money on it.

One of the easiest things to overlook is that 'competition' does not necessarily mean someone producing the same product as you, points out Jonathan Kirkpatrick, chief executive of AUT incubator Business Innovation Centre. "'Competition' is the people going after the same dollar that you are."

When Henry Ford started pumping out motor cars, he didn't say, 'Well, virtually nobody has a car yet, so there's no competition.' There was competition—from trains, horses, or even saving the money and not going anywhere. It is especially easy to underestimate the power of this last form of competition. If your value proposition isn't strong, and your product is not needed, it may be irrelevant how clever it is, because nobody will want it.

Hudson says, "The first thing everybody should do is see if it has been done before. If it failed the first time you can go on and do something else. If someone else already has the technology, maybe you save yourself time and money by buying into it. If we can get people doing more forward-planning and checking, it will avoid the process of reinvention. You will enhance the payback by not closing your eyes and hoping for the best."

IP help on the cheap

A thorough search of the following websites may tell you if you have just reinvented the axle-based circular locomotion device.

- www.google.com/patents
- www.freepatentsonline.com
- ep.espacenet.com

When doing your searches, you will need to think laterally: how might someone describe what you are doing in another language or in another time? And don't mistake your quick search for the advice of an expert; consider it, at best, a sanity check.

If you are producing software, the New Zealand Software Association has basic contracts available for $300.

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LET'S GET PERSONAL

Some business disciplines have an unfortunate habit of wearing out words. 'Branding' and 'marketing' have been around since someone first raised their voice at the village market. But the process has now developed and changed to such an extent that these original terms no longer cover it.

Branding can erroneously be seen as something you scorch onto the outside of your product once it's ready to sell and marketing as something you do at the market, and not before.

Today you must create personalities for your products and your businesses that are as intrinsic to them as your personality is to you. It is on this that your relationship with others, principally your customers, will depend.

In order to understand this relationship, like any relationship, you have to

ask the other person how they feel about you. Then you have to really listen to their answers, and be able to analyse them dispassionately and accurately.

From this you will develop a much deeper understanding of what your business and products must do to keep customers coming back for more—and what to avoid doing if you don't want to lose them.

Mark Robotham from New Zealand Enterprises's Escalator service says, "People see the brand as a public relations exercise. But if they really know what their business is, this becomes integral to the whole strategy, so you can make the right decisions on a daily basis."

The key to creating attractive personalities is to let people see clearly who you are and where you stand. And this may not be what you first think. Virgin started out as a record shop, but now includes branded mobile phone technology, transportation, financial services, media and even Virgin Active fitness centres. It's clear it no longer just sells vinyl, it sells a sense of escape, blended with adventure and innovation. Similarly, Amazon.com does not sell books, it sells effortless access to a range of products.

Grenville Main from design agency DNA earns his pay telling businesses what they really are. "Some people set up a business and have no idea what business they are in," he says. "Trade Me, for example, seemed to be based on the idea of helping people with their garage sales. But what it has now is a reputation for being intuitive and helpful. "

For Main, a key aspect of a successful brand is one that is understandable and approachable. This means not getting too carried away with the supposed uniqueness of what you have to offer. "Often the last thing you want is for something to look too new. We don't necessarily crave new, we crave good. Excitement is good, but you nearly always have to line something up against what it is competing with, replacing or superseding. The consumers have to understand what you are selling."

This is especially true of business-to-business sales, where dependability and reliability are sacrosanct, so need to be reaffirmed at every opportunity.

Without the market research, if you don't make sales, you will have no idea what to change to get them. Maybe your story isn't resonating. Or maybe it hasn't reached enough people yet. Or it could be that your business plan is based on incorrect assumptions, or the product itself is actually crap. On the other hand if you are doing well, you could just be lucky. And if you don't understand the true nature of that luck, you won't be able to repeat it, or capitalise on it in the long term.

"You can get carried away with your wonderful idea and the brand," says Main, "and stop listening in detail to what the customer is telling you. You can get a bit sidetracked with ... winning awards. But the real test is sustained increase in sales."

The process of creating your product personality is really just another way of checking the fundamentals of your idea and promoting them clearly. To succeed, your product must make a clearly identifiable and positive impact on people's lives. If it does, marketing is just a matter of telling the right people that it exists and how they can get it. If it doesn't, the world's flashest branding consultant won't be able to shift the units over the long haul.

"You can spend a lot of money generating passion around a product, but as soon as you stop spending money, the passion is gone"

—Grenville Main

"You can only fool some of the people some of the time," says Main. "You can spend a lot of money generating passion around a product, but as soon as you stop spending money, the passion is gone. There will always be those geeks who get wildly excited about something. The worst thing you can do is think they are big enough to be your market. The people you really need to form a market are the ambivalent everyman."

Business guru and BNZ advisor Sue Lindsay says the best thing you can do is ask yourself two questions: "Are you getting your fair share of everybody in your target category? Are you doing enough to ensure you have a client for life?"

Getting the personality right can also help you to gauge which other products and businesses yours should be hanging out with. If you find the right partners, this can lead to lucrative deals and massively increased sales. For instance, slotting a Product [RED] Apple iPod Nano into the specially designed interface in a BMW offers the joys of three top brands in perfect harmony, plus the chance to help battle AIDS and HIV.

By combining brands you can also add exponentially to the complexity of your story, but you'll be wedding your success or failure to that of your partner. If you get it wrong, you can waste a lot of time and money and betray your core market.

Ultimately, the modern customer is looking for you to behave with integrity. If you build your brand around the fact your products are robust, they had better be bomb proof; if you say you are cutting edge, your R&D needs to be there before others even know 'there' exists.

Once you've got it right, you have to keep the thing fresh, even if it is simply finding new ways to tell the same story. Complacency is not attractive. Don't think the competition is so crap there's no need to worry about your branding and marketing. You still need to keep working at it, all the time, to stay ahead.