

REGIONAL BUSINESS
INVESTMENT READY PROGRAM

Roadmap to Successful Commercialisation

Self-help workbook



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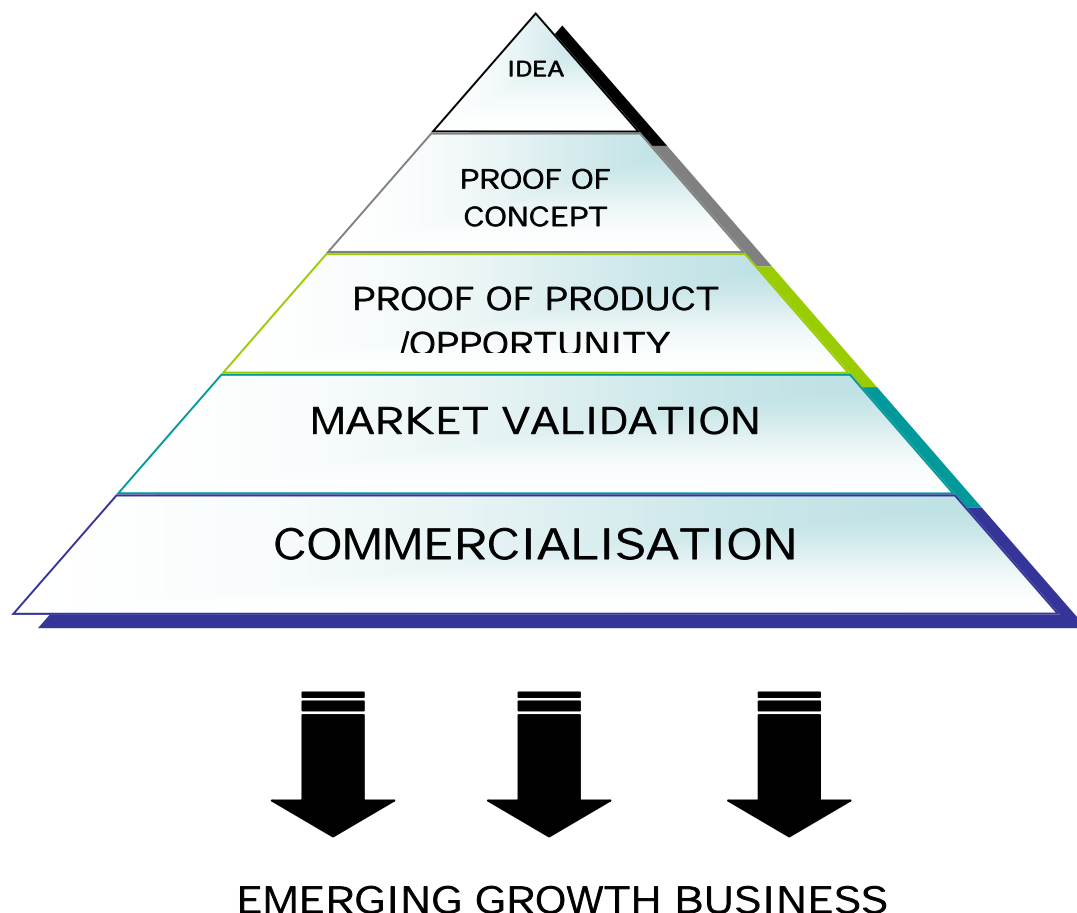
Introduction

Commercialisation of a new technology, product or service is clearly not for the faint-hearted. It requires passion, drive and at times a 'leap of faith' to achieve successful outcomes.

The Roadmap is not always as clear as the 'reality' of the trip – what looked like a main highway and short cut on the map may turn out to be a slow gravel road with lots of pot-holes and the unexpected flash flooding may cause long delays or a detour taking you via a different route. What is important is your focus on the end destination and having the flexibility to work with the 'realities' which will challenge you on the way.

This Self-Help Workbook is designed to provide you with a Roadmap for your commercialisation journey through the key stages of commercialisation and to provide you with some 'reality' check-points to self-assess where you are up to and the likelihood of 'the end' success for your journey.

The commercialisation journey will be addressed in the following stages from the initial 'idea' through to 'commercialisation':



The following Sections of this **Self-Help Workbook** will look at each of the key stages in the Commercialisation process and will provide :

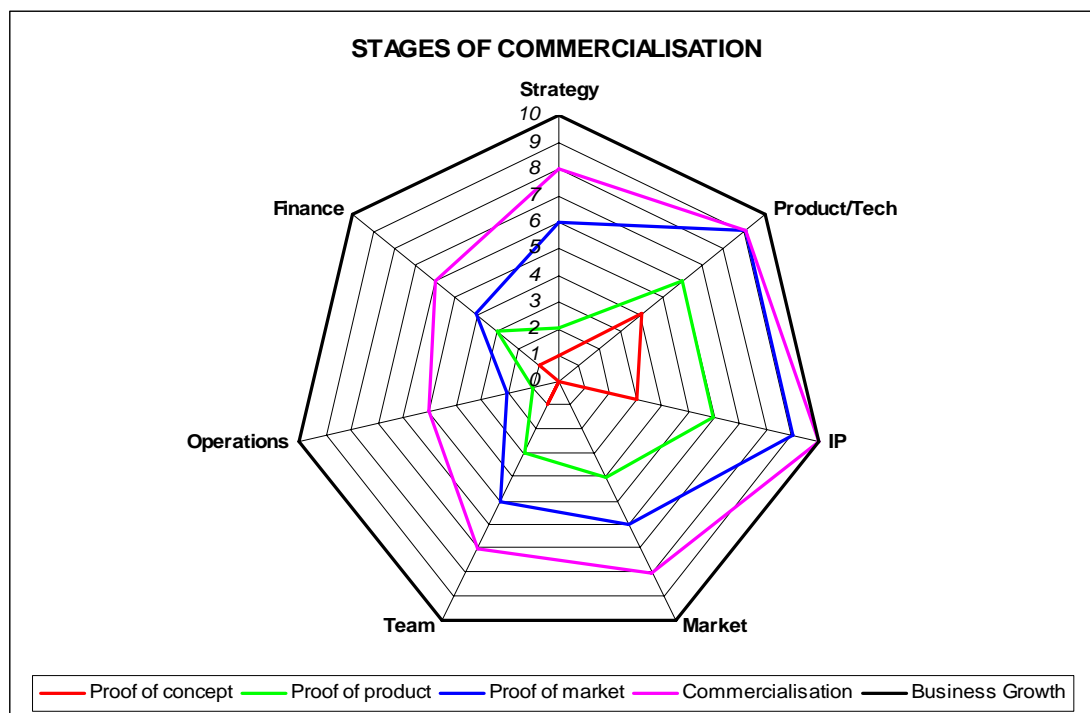
- A clear **definition** and expected **key outcomes** for each Stage
- Provide a **series of questions and tasks** relating to the expected challenges and activities to be addressed in each stage, and
- At the end of each section there is a **CHECKPOINT** to assess your readiness to move to the next stage.

This **Self-Help Workbook** is designed to provide you with a Roadmap for your journey rather than prescriptive set of activities. For many innovators they try to leap from Proof of Concept through to Commercialisation in a giant step and keep hitting brick walls with sales and fund raising. This is often an indicator that there are some weaknesses in your business case along the journey which have not yet been addressed.

If you find some areas of the **Self-Help Workbook** difficult to respond to or have major gaps in your activities it may be indication that you need to identify a Mentor to assist you in these areas of your commercialisation journey.

Each Section of the **Self-Help Workbook** will also provide the reader with a context of where the stage of commercialisation is at in comparison to an Emerging Growth Business who has already passed Commercialisation Stage.

The following graph provides an overview of all the Stages of Commercialisation in comparison to a typical 'emerging growth business' (10/10) who has achieved a strong balance across all areas of the business.



STAGE 1 : IDEA STAGE

The 'idea' stage can often be the most exhilarating stage for the innovator as it involves the visionary and creative process and this stage has no boundaries and can appear to solve 'the world'.

Unfortunately it is often harder to convince the rest of the world of the potential opportunity at the idea stage as the 'voice of reason and conservatism' wants to see the idea working in a finished product (*show me*) and wants to be sure that the market place needs this solution (*prove it to me*).

The idea stage is akin to a drop of water to the ocean and has a long road ahead to achieve successful commercialisation outcomes.

One of the critical issues at this stage is maintaining strict confidentiality over your idea / concept as your potential intellectual property is extremely vulnerable at this early stage.



Key Outcomes - Idea Stage :

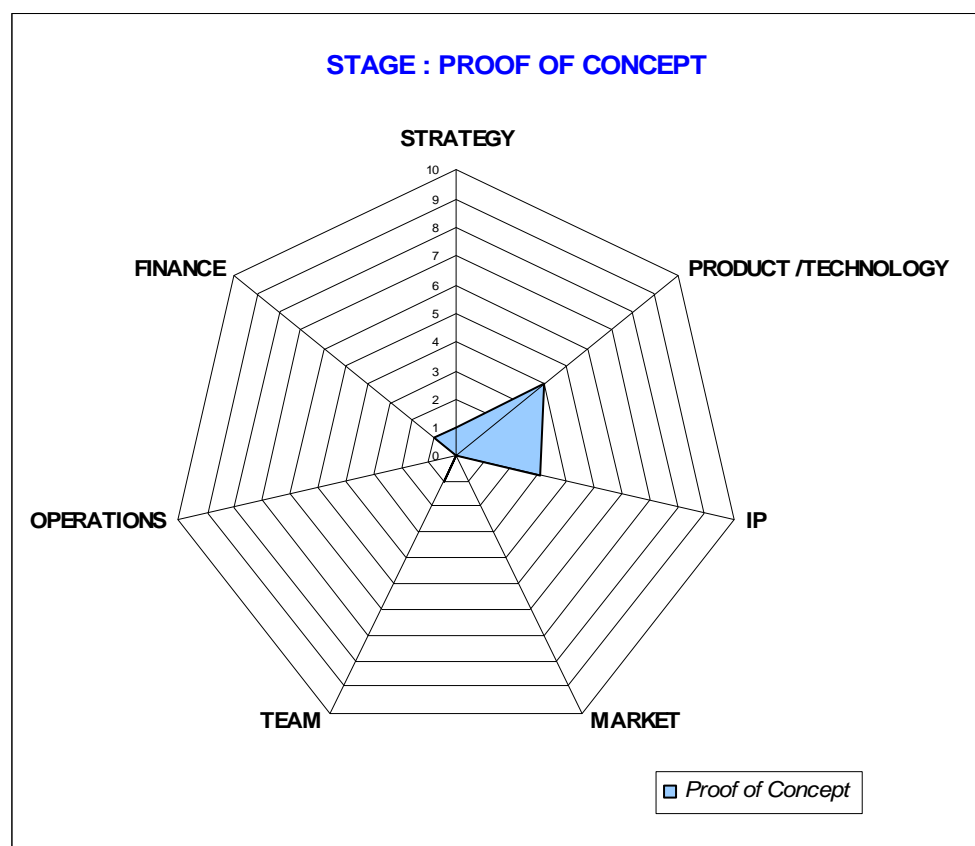
- ***Understand the context of where you are in the commercialisation process at the idea stage***
- ***Maintain strict confidentiality of your idea***

STAGE 2 : PROOF OF CONCEPT

The following graph depicts a ‘typical’ **Proof of Concept Stage** during commercialisation compared to a business at the ‘emerging growth business stage’ post commercialisation which would typically exhibit a strong balance in each of the following 7 key areas of business (10/10) :

- Product / technology
- Intellectual Property (IP)
- Market
- Team
- Operations, and
- Finance

In a successful growth business it is important that all of the above areas of the business are developed in a balanced approach to achieve success. For example if a business has a strong marketing position in place (10/10) but its operations or team cannot fulfil orders (4/10) or it does not have the working capital finance in place (3/10) then the business success is at risk.



In this **Proof of Concept Stage** of commercialisation it can be seen above that the primary focus is on the product / technology (4/10) and intellectual property (3/10). The innovator may need some early seed funding (1/10) for product development, testing and IP and will undertake some early business strategy (1/10). The other elements will essentially be dormant at this stage.

Key Outcomes - Proof of Concept Stage

- ***Ability to clearly articulate your innovation (technology, product or service) to a range of external parties (what it is, what it can do)***
- ***Completion of a working proto-type (physical proof)***
- ***External confirmation of the technology (testing, technical reports) (technical validation)***
- ***Clear direction of IP protection strategy***
- ***Appreciation of its market opportunity***

The following represents a series of questions which you should complete to confirm whether you have reached this stage.

1.0 BACKGROUND & OBJECTIVES

1.1 Identification of Key Parties Involved

Complete the following details :

| | |
|---|--|
| Inventor's Name | |
| Inventor's Address | |
| Owner's Name | |
| Entity name (if applicable) | |
| Key people involved in the innovation and/or development | |
| Name | <i>Nature of their involvement (financial, technical etc)</i> |
| | |
| | |
| | |
| | |
| | |
| | |
| | |

1.2 Formal and Informal arrangements in place

List any formal and informal arrangements or understandings with others you have in place or wish to fulfil in the future

eg. Employees to get 5% share of profits, local manufacturer who has helped you out with prototypes will get manufacturing contract, partner to get further 10% at some later time to reflect unpaid work put in early stage, XYZ Pty Ltd will have first rights for distribution in Australia etc

1.3 Vision for your idea / concept

What is your vision for your idea in the next 3-5 years ? (What do you want to achieve and where do you want this opportunity to go) ?

Eg. to get a distributor to make and sell your product, create a business to support your family, build a national business and then expand internationally and sell out in 5 year etc.

1.4 Describe your risk profile :

ie. High, medium, low. Are you prepared to invest significant time and funds to get the concept off the ground, prepared to access mortgage funds against your house, only prepared to invest significant time but minimal funds, want to minimise your personal risk and financial investment, prepared to go to family and friends to obtain early funding ?

1.5 Commitment of own time

Estimate the commitment of your own time you have invested to date.
Estimate the commitment of your own time you are prepared to invest in the next 6-18 months ?

Own time : to date

Own time : next 6 – 18 months

1.6 Commitment of own funds

Estimate the amount of your own funds you have invested in the concept to date ?
Estimate the amount of your own funds you have available to invest in getting to commercialisation ?

1.7 Expertise & skills access

Describe what expertise and skills you have to bring to the commercialisation stages. What other expertise and skills do you also have access to or have in your team ?

Eg. Knowledge of the industry and strong network contacts, technology expertise in your field, access to accountant and IP lawyer etc

1.8 What other commitments do you and your team have ?

Are you and/or your team available on a full time basis to focus on commercialisation or only say 1-2 days a week or only weekends ? Provide details of your availability.

2.0 PRODUCT / TECHNOLOGY CONCEPT

2.1 Industry type / classification

What industry type or classification is your technology, product or service in ?

2.2 Description of your technology (technology, product or service)

Provide a full description of your technology as if you were describing it to an investor (ie not too technical). This needs to include what is it, what does it do for its potential customers and who might use it.

Describe the features and benefits before summarising how it works. Keep in mind that you may be describing your technology to someone who has no prior knowledge – be careful not to skip what might seem basics to you.

2.3 What is the status of your working prototype?

Is it an early model, fully functional model with minor modifications to be made, is it made out of different materials or production processes to final commercial version ? Describe which functionality is demonstrated in the current working model etc.

Is it ready to show to a potential customer as a 'working prototype' to confirm what it does ?



2.4 How much more R&D is required to get to a 'commercial product'?

List the key things still to be done before the technology is ready to be produced as a commercial product to the market – both R&D development and/or testing internally or externally and any external certification that may still be required. Identify if this differs for different customer segments
eg. can be launched to SME market but 'x' is required before going to corporate customers.

You should also try to prepare an R&D plan of what is required which should include a costing estimate and timeline for completion.

In many instances innovators underestimate the time required to get to a finished product on the market and if you have engaged with customers who are ready to go 'now' you may lose them to alternative products while they wait too long for your final product.

2.5 What are the key technical hurdles to be resolved?

This may include technical functionality that the market will require in the future or may only involve getting past external industry certification or acceptance.

2.6 Estimate of R&D cost to complete & timelines

2.7 How long will it take to get product to market, is it < 2 years ?

2.8 Does your technology rely on access to another party's IP?

Describe what the level of reliance is on another party's IP (ie may be a platform technology upon which your technology sits, component part incorporated into your technology owned by someone else, joint project where you are both reliant on each other etc).

What formal arrangement do you got in place ?

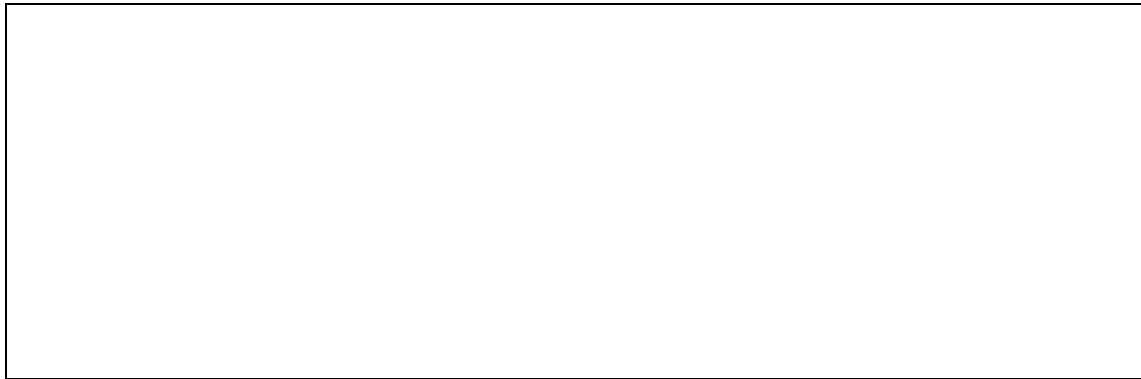
2.9 Describe the future enhancements you have planned after the first product release to customers eg. Mark II and Mark III.

2.10 What prototype testing has been done internally ?

2.11 What external party testing has been done?

2.12 What certification / approval process is required locally & overseas?

This may be legal requirements for a specific industry and they may differ in international markets. Eg. Electrical components, Ctick for computer technology or occupational health & safety requirements



2.13 Preparation of product specifications

Have you prepared proper product specifications for your product ie technical specs if it is a physical unit or computer specifications if it a software product. These will be required for brochures and in discussions with potential clients.



3.0 MARKET

3.1 List 4 key features of your technology

Describe 4 key features which make your technology innovative or distinctive compared to other products.

3.2 Who are your customers likely to be?

Describe what customer segments are likely to want to buy your product.

Eg. Defence industry, government departments, large engineering companies etc

3.3 What are the 4 key benefits your product delivers to customers?

Describe the 4 key benefits your product delivers to potential customers ?
You should complete this section from the customers perspective

3.4 Why will customers want to buy your product and what problem does it solve for them?

Why will customers want to buy your technology as opposed to your competitors or substitute products. What problem does it solve for the customer ?

Why will they want to leave their existing suppliers and come to an unknown start up alternative ?

3.5 How are these problems being solved now & by whom?

3.6 What level of improvement does your technology deliver compared to existing solutions?

Is it a 50% improvement in efficiency or 20% cost savings ?

3.7 Do you have a competitive advantage & is it sustainable ?

Describe your competitive advantage (why will you win with your product in the market place – what is special about it). Is this competitive advantage sustainable into the longer term eg. you may have patent protection which stops others competing or can they get around this and get into the market in 12 months time ? Does it have a long life cycle in the market ?

4.0 INTELLECTUAL PROPERTY (IP) REVIEW

4.1 How is your product/technology 'novel' or innovative ?

IP protection will be dependent on the novel nature of your technology (uniqueness / firstness) and assumes that it has not been exposed to the 'public at large'. During the early stage of your commercialisation you need to be very aware of maintaining strict confidentiality and secrecy of the nature of your intellectual property.

4.2 What are the key features and benefits which you want to protect as intellectual property, which cannot be used or copied ?

4.3 Who owns the intellectual property (IP)?

You need to be very clear as to who owns the intellectual property or parts that make up your innovation. In the early stages the owner is generally the party who invented or developed the technology, but not always as you may have acquired the IP. Refer to IP Australia website for detailed discussion of IP ownership. (www.ipaustralia.gov.au)

Detail any purchase of the technology or components and what documentation you have in place to confirm the change of ownership eg. legal agreement.

You also need to be aware of situations where you have contacted and paid for work to be done but the IP does not pass to you unless it is specifically assigned in a contract eg. design work, R&D, computer software development

4.4 Does your technology incorporate other IP which you do not own?

Provide details of any other IP which you do not own and the arrangements in place.

4.5 Who else has knowledge of your IP in part or whole?

These may be potential clients, employees, family / friends, consultants etc. Provide details of their level of knowledge and access to your IP, confidential information and trade secrets.

4.6 What informal arrangements / formal agreements do you have in place to protect the confidential nature of your IP?

Eg. confidentiality agreement, employee confidentiality contracts, assignment of IP clauses with contractors etc.

4.7 Does your IP include 'secrets', formulae, software code, know how, a business process, confidential information etc. Explain.

4.8 Do you have a Patent lodged? If so provide details and status

What type of patent is it ? eg standard, petty patent, innovation patent. What was date of original lodgement ? Are you at international stage yet ? If so what countries are you targeting ?

4.9 Do you have any Trademarks, logos, designs registered?

Refer to IP Australia's web site for explanation of these types of IP.

4.10 What domain names and addresses have you registered?

4.11 Have you identified an IP lawyer and/or patent attorney?

4.12 Evaluate potential costs for IP protection options and timings ?

5.0 FINANCE & FUNDING OPTIONS

5.1 What funding do you require to complete proof of concept stage ?

Eg. Seed funding for : R&D completion costs, testing and technology certification costs, initial intellectual property costs.

5.2 Identify funding options / grants for development of prototype

Have you considered grants such as - R&D tax concession 125% including cash rebate for companies in losses (companies only), AusIndustry COMET program or Commercial Ready Grant etc.

How will you fund Proof of Concept stage – own funds and time, family and friends, drawdown on mortgage, friendly angel investor ?

CHECKPOINT : Proof of Concept

Yes No Still in Progress

Technology / product /service is clearly defined

Working prototype is complete

Internal and external testing is complete

Product specifications are completed

Features & benefits of product are clearly documented

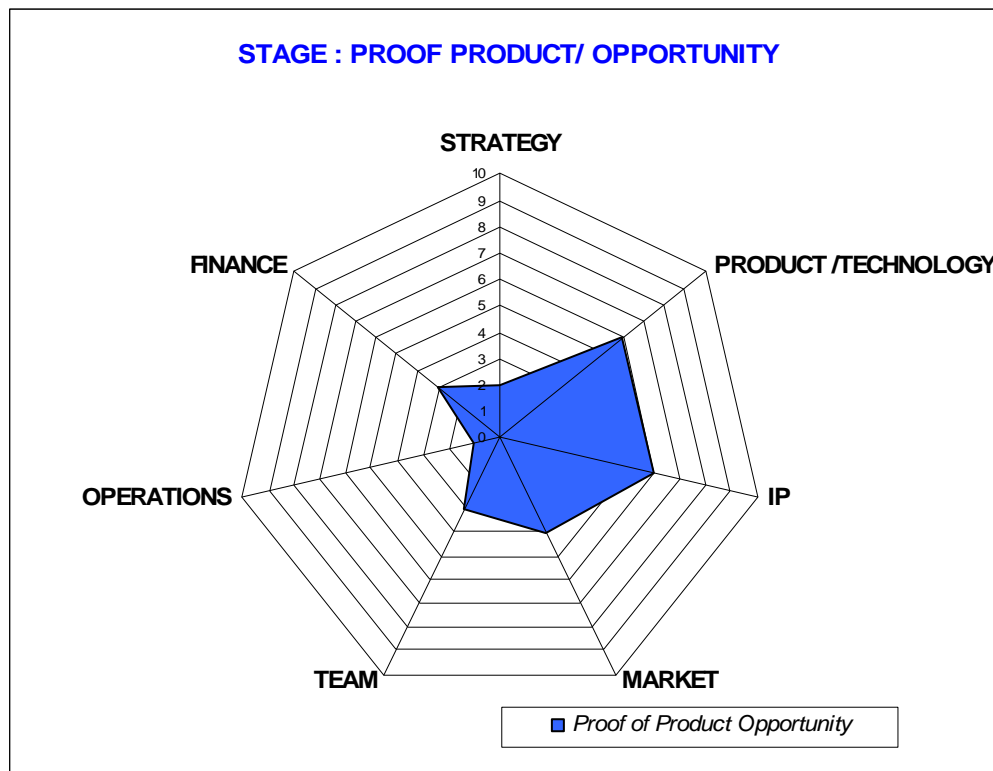
IP review is completed

Seed funding is in place for R&D and IP protection

READY TO PROCEED TO NEXT STAGE

STAGE 3 : PROOF OF PRODUCT / OPPORTUNITY

The following graph depicts a 'typical' **Proof of Product / Opportunity Stage** during commercialisation compared to a business at the 'emerging growth stage' post commercialisation which would typically exhibit a strong balance in each of the 7 key areas of business. (10/10)



Similar to the proof of concept stage – the primary focus for the **Proof of Product / Opportunity Stage** will be on the product / technology and IP areas of the business ie product development (with customer input) and implementing IP protection.

This stage will also see greater focus on market areas as it will involve validation of the product with the **market and customer feedback** which will feed back into the product development stage. Initial work will commence on identifying the right team members and what is required for production as well as putting in place further finance for completion of this stage.

Key Outcomes – Proof of Product / Opportunity Stage

- ***Secure IP protection prior to going to the market***
- ***Confirm commercial product offerings which meet market needs***
- ***Initial evaluation of market opportunity and customer feedback***
- ***Undertake initial commercial evaluation of the opportunity***
- ***Identify any fatal flaws prior to going forward***

6.0 BUSINESS STRATEGY SNAPSHOT

6.1 Describe how you envisage the 'business opportunity' rolling out for your technology, product or service

This is a good time to re-evaluate your understanding of what your business model may look like for your innovation. Has the feedback from the market and/or IP strategy review changed your view of the significant potential of commercialisation.

Eg. Have you found more competitors out there than first envisaged, is the customer feedback stronger or weaker than first thought, is the strength of the IP minimised, have you found new market niches for your technology etc ?

6.2 What are your revised business goals and/or objectives at this stage?

6.3 Where do you now see the business in the next 3 to 5 years - size, people, markets

6.6 What roles or key activities do you see your business fulfilling

Will the business take the primary role of for example : R&D and technology development, manufacturing or assembly of product, direct sales force or wholesale distribution, establishing distributors or licensees, setting up its own retail outlet, setting up offices interstate and/or internationally (ie what do you expect to be your business model)?

6.7 If you are going to outsource part of these roles how do you see this working?

Which areas of the business do you see yourself outsourcing and if so how do you see this working. Is this different in the short versus the long term ?

6.8 What strategic partnerships or alliances are you pursuing or are in place ?

6.9 What other 'solutions' / products are you competing with ?

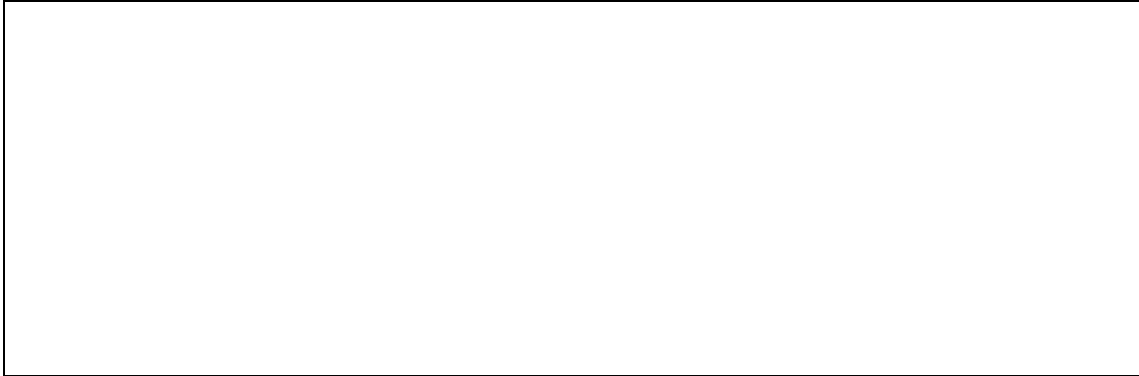
These may be direct competitors or may be indirect competitors (substitute products). Eg another video shop is a direct competitor and 'the movies' are an indirect competitor for entertainment.

6.10 Any fatal flaws in the technology and its ability to deliver outcomes ?

Are you having concerns about being able to deliver product features or benefits at this stage ? Are there any concerns regarding the customers expectations of what functionality will be available compared to R&D plans. Eg. Corporate customers want greater flexibility in functionality whereas R&D team has these features fixed.

6.11 How long will it take to get the product to market ?

This is referring to the final commercial version (production-ready) not just for a few samples. You need to keep evaluating this timeframe as it becomes important when you start engaging with potential customers and markets. Has this changed from earlier stage estimates ?



7.0 ESTABLISHING IP PROTECTION

7.1 Prepare an IP protection strategy prior to going to market

Refer to IP Australia web site (www.ipaustralia.gov.au) for an explanation of the different types of intellectual property which may apply to your innovation. You should then seek professional advice to determine the most appropriate mix of IP protection to support your business opportunity. It is important to appreciate that IP protection is usually founded on the concept or technology being 'novel' and not being in the public domain. Therefore you should ensure strict management of your intellectual property is in place prior to approaching an IP lawyer.

Below is a matrix of some examples of different types of IP protection which could be considered.

| IP PROTECTION STRATEGY MATRIX | | | |
|--|---|---------------------------------|-----------|
| IP Protection Strategy Alternatives | Action required | Product 1 | Product 2 |
| | | Product 3 | |
| | | Select if appropriate with tick | |
| Patent | File a patent. Need to decide which countries | | |
| Trademark | File a trademark. | | |
| Design | Register a design. | | |
| Confidentiality Agreements | Draw up legal agreement. | | |
| Trade Secrets | Maintain strict secret within organisation | | |
| Plant Breeder rights | Register a right. | | |
| Copyright | Resides with the person doing the work. | | |
| Circuit Layer Rights | Resides with the person doing the work. | | |
| Assignment of rights | Incorporate in contracts with parties doing work for you. | | |
| License agreements - up front & royalties | Draw up legal agreement with protection clauses | | |
| Employee confidentiality agreements | Obtain confidentiality agreement with each employee | | |
| Domain Names | Purchase domain names for business or trade name | | |
| Firstness & speed to market | First mover advantage in market place | | |
| Securing distribution partners with market share | Secure partners with market position | | |
| Restraint of trade agreement with inventor | Draw up legal agreement | | |
| Company or business registration | Secure trading names | | |

Prepare a **cost estimate** by quarter for your selected strategy.

7.2 Appoint IP advisors – IP lawyers and/or patent attorneys

Have you appointed an IP lawyer and / or patent attorney to provide advise and to action IP protection on your behalf. Provide details.

7.3 Determine if patent protection is appropriate and lodge.

7.4 Determine if trademark protection is required and file.

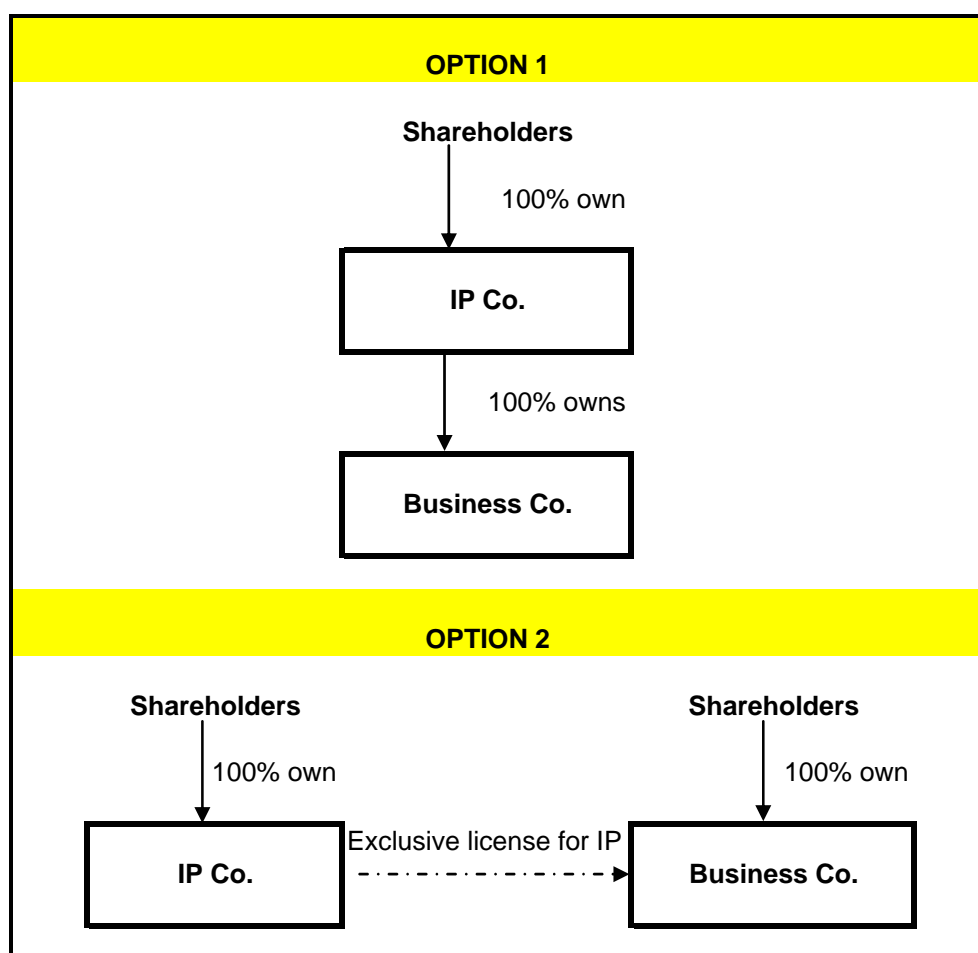
7.5 Review all confidentiality agreements and put in place with involved parties (including employees) and keep copies of the originals.

7.6 Secure domain names.

7.7 Review legal entity structure arrangements to protect your IP & implement any key changes

The following are examples of alternative legal entity ownership structures you may wish to consider to separate your IP ownership from trading risks associated with your business operation.

The below options do not incorporate any international structuring options and there may be variations of the structures by placing a further intermediary between the two entities to further separate the trading activities further away from the IP ownership. This would generally create the IP owner, a Master Licensee and a Sub-Licensee.



It is important to consider your legal structure issues / changes as early as possible, as there may be potential capital gain tax issues in transferring ownership of the IP as it increases significantly in value. The structuring options should be discussed with your accountant and/or IP lawyer to obtain the right advice for your circumstances.

7.8 Implement early stage IP protection prior to going out to the market. What has been done to date?

It is critical to ensure that you DO NOT commence discussions with potential customers and the market prior to securing your critical IP protection. However, prior to securing the IP, any discussions that had to take place should be done under a strict written confidentiality agreement. This still comes with potential risks.

If your IP is exposed then you will have limited competitive advantage as others will be able to copy your idea.

7.9 Clarify ownership of all IP

7.10 Put legal documentation in place for all external IP ownership / license arrangements

8.0 EVALUATE POTENTIAL MARKET

This stage is one of the most critical in your commercialisation journey as you will travel from :

- Being '**internally focused**' on technology / product development, maintaining strict confidentiality and IP protection, to
- Being '**externally focused**' and looking at your product opportunity from the customer's perspective – Is it attractive to them ? Does it provide value ? Does it provide a solution to a perceived problem ? What else are you competing with ?

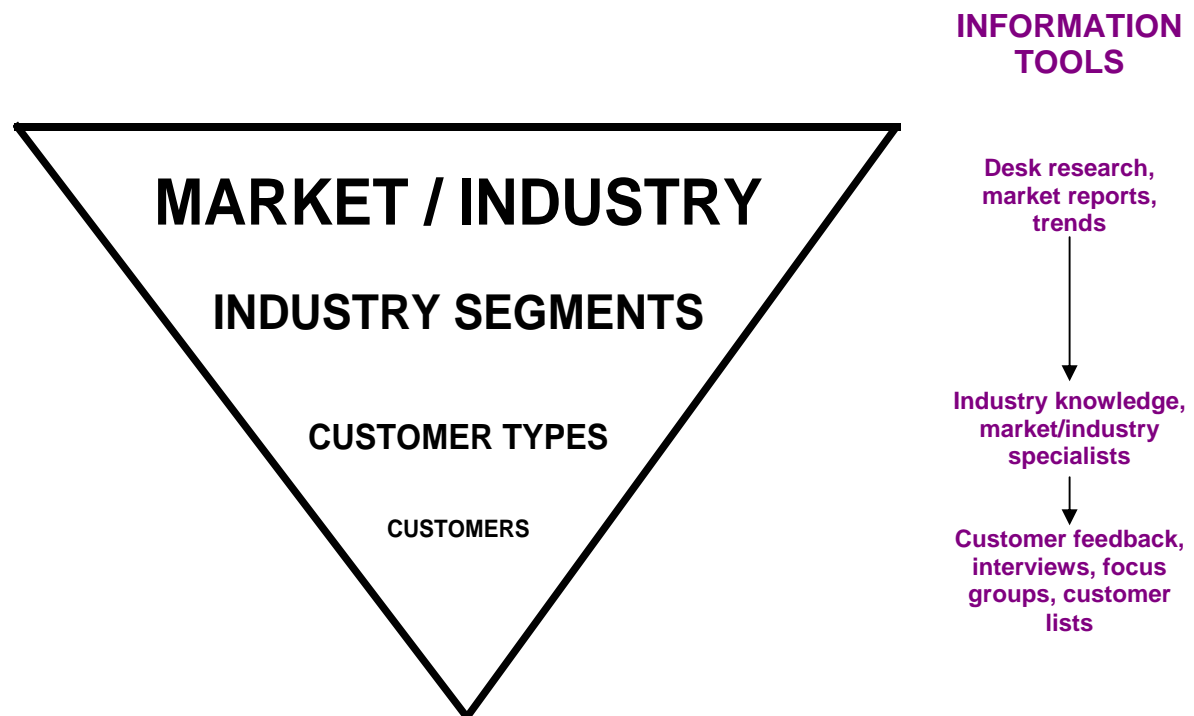
The market feedback may raise significant flaws in your commercialisation journey at this stage, such as :

- 'Great product' but it does not meet customer needs – (the 'so what' factor)
- Product is too early – customers do not see that the problem needs to be solved yet (not required)
- Product is too late – many other solutions out there and your case is not compelling enough to get them to change to your solution (a 'me too' product)
- 'Great product' but the market is too small to recover the investment required to get to commercial production (too few customers)
- 'Great product' to meet market needs – but not at 'that price' (value perception)

It is important that you 'listen' to these messages at this stage before you commit further significant funding resources as some of these issues cannot be solved even with more funds or time commitment. They may be a market entry timing, cost reality or market size issue which cannot be overcome.

Steps required to assess your market / industry and customer needs

The following diagram shows the different levels of market / industry information required to fully understand the market / industry in which you may operate in. It also shows the information tools available at each stage of the assessment.



It is important to remember that it is 'customers' who will buy your product not 'markets'. Therefore it is great to look at the overall size of the market as say \$3B in an market research report but that is still a long journey from your first customer wishing to place an order for your product.

It may mean that an 'opportunity' exists but you need to drill further down through each layer to fully understand your potential industry position and customer potential.

In many instances innovators do not look at the market assessment in sufficient depth and it is often a key reason why they fail to achieve investment funding because they have not proven that the product opportunity exists at a realistic level. Remember you need to drill down to potential customer level to an investor 'how' you are going to achieve sales.

Another factor which may impede investment can also be that innovators try to focus on too many markets (spreading themselves too thin) which is a detraction for investors.

Key steps for your market assessment should include :

Confirm product offering

- Clarify what your product/service offerings are prior to commencing your market assessment
eg. Are you selling computer software only (product business) or also maintenance services, implementation consulting and training (services business)

Markets / Industry

- Assess which markets / industries you are in

Industry segments

- Segment the industry segments which are applicable to your technology
- Undertake market research on the key industry segments
- Determine the key criteria for your selection of industry segments
- Assess the attractiveness of each industry and select top 1-2 industries

Customer types

- Segment each selected industry into customer types
- Undertake market research on the key customer types
- Assess the attractiveness of each customer type & prioritise

Customers

- Assess the major potential customers which fit with your business
- Gather information on customer characteristics
- Prepare a prioritised target customer list

This market segmentation process will differ for each type of business.

Some technologies may have been developed to fit a specific industry sector and the channels to market may be clear cut. The market research and assessment process will therefore be very targeted and most of the focus will be on the customer evaluation and strategic alliances for channels to market.
Eg. New innovative valve fitting tool for plumbing industry

Other technologies may be an 'application' or platform technology which may have multiple market or product applications for its use. These require multiple layers of market assessment and evaluation.
Eg. Nanotechnology process which could be used across varied applications from medical, precision instruments, automotive etc.

If you do not have strong market research skills or have time constraints you may wish to use an experienced consultant or mentor during this process.

8.1 Market / Industry Review

The following **Market Assessment Matrix** will provide a tool for you to gather the initial market assessment information at the Market and / or industry level. Based on your circumstances you may wish to add to the criteria to be gathered.

| MARKET / INDUSTRY : | | | | |
|--|--------------------|-----------|-----------|-----------|
| | INDUSTRY SEGEMENTS | | | |
| | SEGMENT 1 | SEGMENT 2 | SEGMENT 3 | SEGMENT 4 |
| DESCRIPTION OF EACH SEGMENT | | | | |
| KEY MARKET LOCATIONS - <i>Where are the primary markets for your technology likely to be (by segment) - eg. Victoria only, major cities Australia, national, international - US, Japan, UK etc</i> | | | | |
| MARKET SIZE - <i>For each segment include market \$\$ size, % share of market of major players</i> | | | | |
| GROWTH RATE - <i>For each segment estimate future growth rate or High, Medium or Low</i> | | | | |
| MARKET STRUCTURE - <i>Describe the structure of each segment eg. Many smaller players, 2 dominant players have 80% of market etc</i> | | | | |
| VALUE CHAIN - <i>Identify how many layers there are in the value chain for this segment and where you see yourself in this process. Eg Raw material producer, Processor, R&D development, Manufacturer, Distributor, Retailer, End customer</i> | | | | |
| PROFIT MARGIN - <i>Can you identify the margins / mark-up which occurs in each layer of the value chain</i> | | | | |
| BARRIERS TO ENTRY - <i>Identify any barriers to entry for each segment</i> | | | | |

8.2 Assessment of attractiveness of industry types

The next step is to evaluate the attractiveness of the industries identified. To do this you need to determine what the key criteria for selection should be.

These criteria and the weighting given to each factor may change dependent on the following factors :

- The nature and structure of the industry you are in
- The strength of your key features and benefits
- How you will deliver value to customers – productivity, cost savings etc.

The following are examples of factors which may be used :

| Key Attractiveness Criteria | Weighting 1-10 | Segment 1 | Segment 2 | Segment 3 | Segment 4 |
|---|----------------|-----------|-----------|-----------|-----------|
| Size of industry | 7 | | | | |
| Growth rate | 6 | | | | |
| Market Fragmentation | 5 | | | | |
| Performance advantage of technology over other products | 10 | | | | |
| Cost advantage of technology over other products | 5 | | | | |
| Value to customers of advantages | 8 | | | | |
| Propensity of market/industry to embrace new products | 5 | | | | |
| Relative time to market | 8 | | | | |
| Our knowledge of and contacts in this space | 5 | | | | |
| | 7 | | | | |
| | 5 | | | | |
| Total (original scores based on weighting) | | | | | |
| RANKING OF ATTRACTIVENESS | | | | | |

- Each segment should be identified and ranked between 1 and 10.
- Each criteria should be given a weighting factor of 1-10 (10 being highest influence) based on how important it is in your assessment criteria (estimates used above)
- The total should be calculated by multiplying the segment rating by the weighting to get a total weighted score.
- Based on the totals the segments should be rated from highest priority (1) to lowest.
- The top 2-3 should then be selected as your priority industry targets

8.3 Selection of key industries

Based on the undertaking the assessment above tailored to your own criteria what were the key industries selected (top 1-3).

8.4 Gather detailed industry research on the key industries.

Identify key findings

8.5 Customer Type Market Research

For each of the top industries selected you should now segment each industry into customer groups.

You should choose the type of attribute to segment the customer groups into which best suits your product or industry eg. It may be by size of players, location, differing needs, product attributes (bulk or packaged) (network version or stand alone) etc. Each customer group should be identified because they have 'like' attributes. *For example :*

Generic (size) : *Large corporates, SME in buying group, SME's*

Food Business : *Large hotel chains, restaurants up market, restaurants general, supermarkets, smaller food shops (split based on bulk product or consumer packaged product)*

Customer Segment Analysis

The **Customer Segment Analysis table** on the following page sets out an example of the information you might gather on customer groups which will assist you in forming opinions for assessment of your target market and strategies for market entry.

8.6 Customer Type Attractiveness Assessment

After you have completed the market research analysis you should be able to rank each customer segment in order of attractiveness to your business.

List the Customer type segments which will be your highest priority and the reasoning.

| CUSTOMER SEGMENT ANALYSIS | | | | |
|---|--------------------------------|------------------|------------------|------------------|
| KEY ATTRIBUTES | CUSTOMER GROUP SEGMENTS | | | |
| | SEGMENT 1 | SEGMENT 2 | SEGMENT 3 | SEGMENT 4 |
| DESCRIPTION OF CUSTOMER GROUP SEGMENT - Provide an overview description of each of the Customer Group segments. These should be selected because they have differing patterns of behaviour | | | | |
| MAJOR PLAYERS Identify who the major players are in each customer segment (or examples of customers). Where are they located ? | | | | |
| MARKET SIZE - For each customer group estimate market \$\$ size and/or % share of market of major players | | | | |
| GROWTH RATE - For each segment estimate future growth rate or High, Medium or Low | | | | |
| MARKET STRUCTURE - Describe the structure of each segment eg. Many smaller players, 2 dominant players have 80% of market etc and identify any BARRIERS | | | | |
| BUYING RELATIONSHIPS - Identify any existing distribution / buying relationships, market preferences or market alliances which may impact sales channels and or pricing | | | | |
| BUYING ATTRIBUTES - Describe the customer buying attributes based on understanding of the customer - eg. do they take on new technology or have own R&D team, prefer outright purchase -v- licensing arrangements, only deal through one major distributor etc | | | | |
| DECISION MAKERS - Who usually makes the buying decision in the customer group segment - CEO level, marketing manager, decentralised by each office manager, centralised at head office | | | | |
| BUYING DECISIONS REASONS - what are the top 3-5 buying decision criteria for this customer segment eg. Price, quality of product, delivery timeframes, customer service and put in order of priority | | | | |
| PRICING / MARGINS - identify any pricing expectations or pricing / margin intelligence in relation to this segment. | | | | |
| RANKING OF PRIORITY | | | | |

8.7 Customer Market Research

Now that you have undertaken the appropriate market research to isolate your target industries and identified the critical customer types within those industries which encompass the most attractive customers, it is now time to identify and research specific customer targets.

At this **Proof of Product Opportunity Stage** you are looking to gather sufficient industry and customer information to confirm that :

- *The technology/product has a strong fitment with customer needs, and*
 - *That there is a strong market opportunity for potential success*
- = **PROOF OF PRODUCT / OPPORTUNITY**

Having identified where the most attractive customer groups are, you now need to undertake further market research to :

- **Better understand the buying decision process of customer groups and individual targets, and to**
- **Obtain customer feedback on your product offerings**

The customer feedback obtained at this stage will enable you to finalise your product before entering commercial production stage and to provide input into the most effective market entry strategy for commercialisation.

It is important to understand that this process is **NOT** meant to be a sales pitch to specific customers. If you try to commence this stage too early (*ie before production arrangements, people resources, finance to fund working capital etc.*) then you are likely to destroy a solid customer opportunity in the future along with your 'precious' credibility.

Techniques used in this stage may include :

- **Customer interviews focused on feedback on your technology / product offering and comparison to competitor solutions**
- **Focus group market research to provide end-user feedback**

The outcome of this stage will feed back into the product development and final enhancements of the product offerings for commercial release. It will also form the basis for the Market Validation Stage.

8.8 Customer Assessment Criteria

Make a list of the customer / product feedback criteria you should gather and / or use in your customer interviews. Here are some examples of questions you might include:

| Customer Interview Issues | Customer response |
|---|-------------------|
| Confirm that the need (that your product solves) exists for the customer | |
| How important is it for the customer to solve this need ? | |
| How are they solving this problem currently and what are the shortfalls ? | |
| Explain the key features and benefits of your technology / product | |
| Obtain customer feedback on the 'value' of your product offering to them | |
| Obtain customer feedback on their perceived issues with the product – what does it NOT do that is critical to them | |
| Assess potential changes to the product based on customer feedback | |
| Obtain customer feedback on you proposed pricing points | |
| Obtain feedback on the mark-ups / margins in the value chain which need to be taken into account in your pricing model | |
| Obtain feedback on the customers buying decision process – who makes the decision, is it centralised, what factors influence their buying decision (price, product quality, service support, delivery timeframes) ? | |
| Obtain an understanding of existing supplier and distribution relationships that are in place | |
| Make an assessment of the customers position in the market place – leader, follower etc and there propensity to take on new products | |
| Obtain an estimate of the customer sales dollars and/or volume per annum | |
| Are there any customer barriers to taking on new products or changing suppliers eg. decision process, board approval, budgets set in advance, size of supplier, overseas influence etc ? | |
| To what extent are you influenced by your 'end customer' needs ? | |

You may wish to appoint a marketing consultant to prepare this assessment list and to undertake the formal customer interviews to use a more independent approach.

8.9 Based on customer research how well does your product fit customer needs ?

8.10 How compelling is your 'value proposition' (features & benefits) to your potential customers based on feedback from customer interviews ?

8.11 Does your product offering require changes to be more competitive or to better meet customer needs ?

8.12 Based on the industry and customer research undertaken, is the market large enough to ensure financial viability ?

8.13 Does the market extend outside Australia and how strong is the international opportunity ?

8.14 What are the market / customer resistance factors which you now expect to encounter on entry into the market ?

8.15 How has the market and customer research influenced your pricing model ?

8.16 How has the market and customer research influenced your business model ?

8.17 How will the structure of the industry and the strength of existing strategic relationships impact your market entry ?

8.18 Impact on key features and benefits of products

How has the industry and customer research influenced your focus on the presentation of the key features and benefits to customers ?

8.19 Do you feel you have received sufficient proof of the product opportunity to continue to the next stage of commercialisation or is more work required ?

9.0 EVALUATION OF PRODUCT OPPORTUNITY

During this **Proof of Product Opportunity Stage** it is important to finalise your product offering. This stage incorporates customer feedback changes, final testing of technology, legal certifications to be put in place and final planning to get to commercial production arrangements.

The industry and customer research will focus on the fitment of the product to the market need and confirming the opportunity exists for commercialisation.

9.1 Identify any critical technical capabilities not yet fully functional and / or tested (final R&D plan)

9.2 How well does your product / technology fit prioritised customer needs

9.3 What product development changes are required to the product offering based on market and customer feedback?

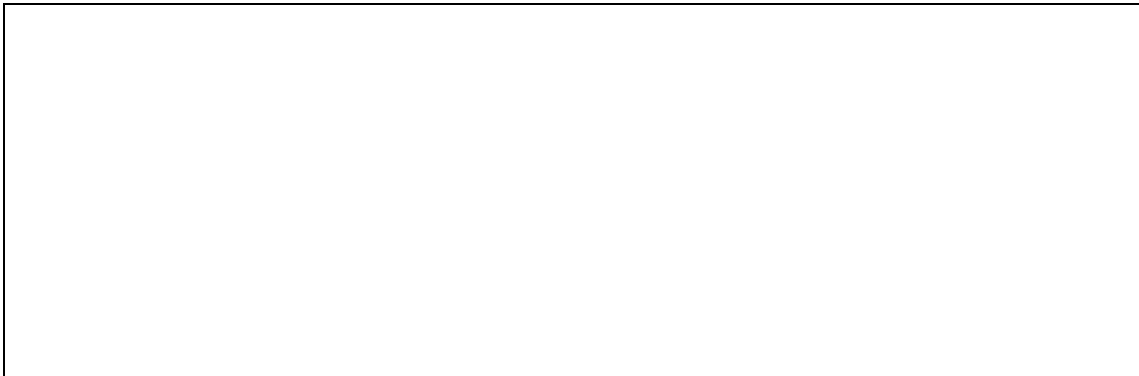
These changes should be categorised as :

- Essential to be implemented for product launch
- Nice to have in the future (enhancements), and
- Specific client changes to be treated as customisation on sale

9.4 What product development costs are involved in these changes and are they cost effective given the projected market demand ?

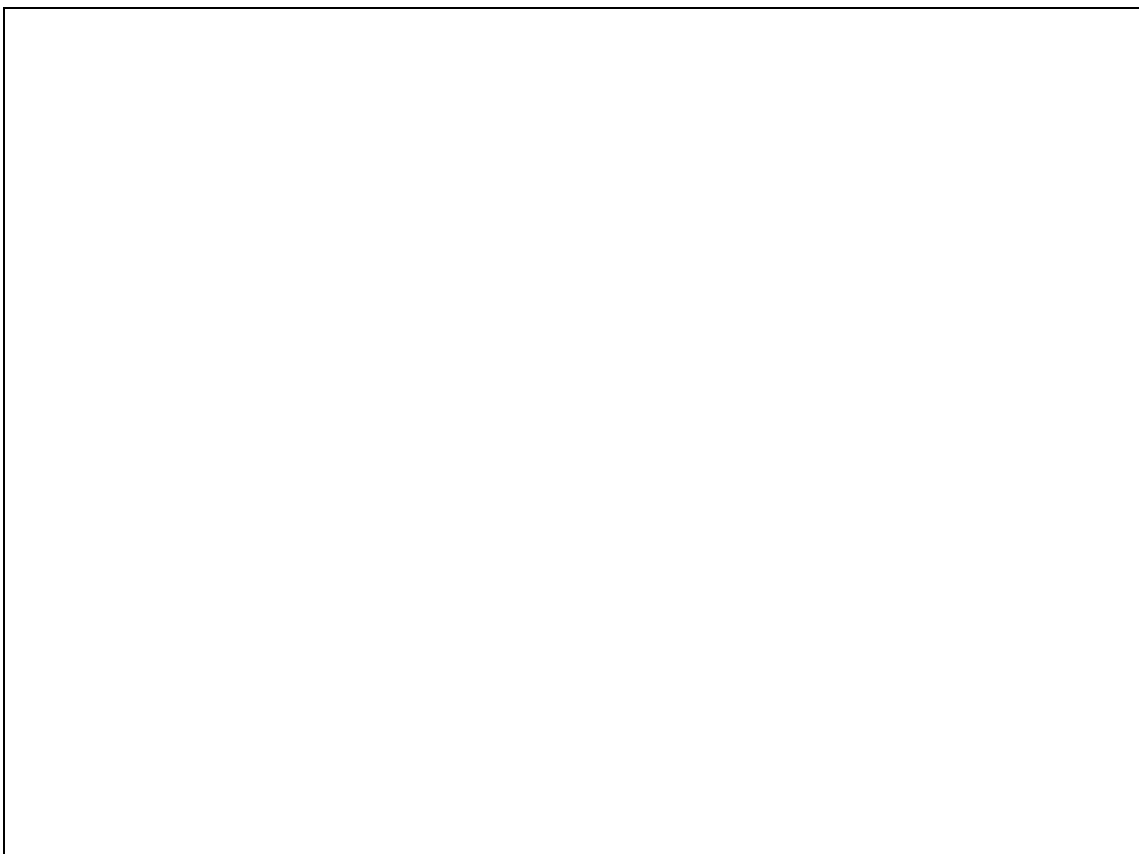
9.5 Does your product range need to be expanded for market positioning?

9.6 Re-evaluate your competitive advantage based on market and customer feedback



9.7 Evaluate requirements to get to 'commercial production' position

These may include production planning, final product costing, resources planning, tooling work to be done, 3rd party licensing work to be put in place etc.



10.0 FINANCIAL VIABILITY EVALUATION

It is critical that you introduce regular financial checkpoints to assess the financial viability in the commercialisation of your technology.

Most successful entrepreneurs have encountered failed innovations along their pathway to success. The key is to develop the skills to identify the early warning signs before you have invested your 'soul' and your financial security.

What many innovators fail to recognise is that commercialisation success is not always correlated to how 'hard you work' or 'how much funds' you invest. Although these are very important requirements, often the outcome is outside your control.

It may be a market timing issue, a larger more influential player has captured the opportunity first, economic conditions change in markets, the size of the market is too small to justify the R&D investment, customer preference or trends change too quickly etc.

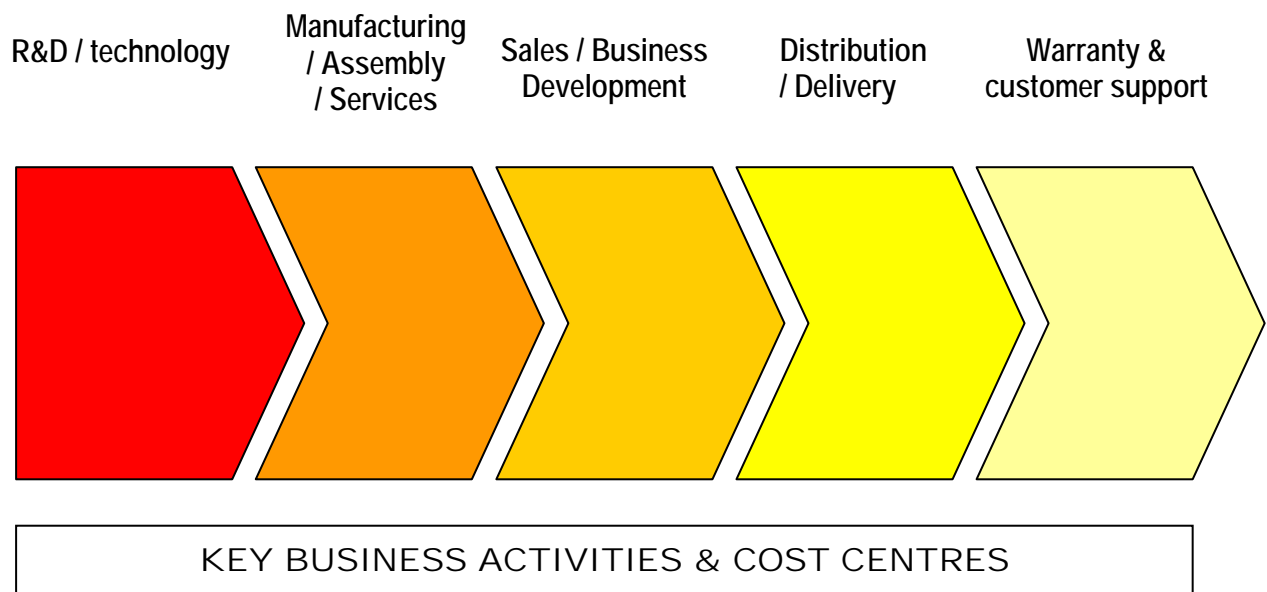
The major financial assessment pitfalls at this point include :

- Significant underestimation of the time it takes to enter the market and achieve early sales in the first 12 -18 months
- Overestimation of annual sales volumes and growth
- Underestimation of marketing costs in the first 3 years required to fund market entry
- Underestimation of working capital needs in the early years
- Underestimation of staffing and management requirements to build a growth business

10.1 Identify and select appropriate Business Model

Before you can review the funding requirement and financial modelling it is essential that you evaluate the Business Model which you are going to operate in.

The following diagram represents the key business activities and cost centres of the business.



In determining your Business Model you need to determine how the organisation is going to fulfil each of these activities. The options are :

- ***Perform activity in-house***
- ***Outsource to external party (but still maintain control)***
- ***License to 3rd party***

For example :

You may choose to retain R&D function in-house, engage a manufacturer in China and appoint major distributors in Australia and overseas to manage the sales, business development and customer management roles.

Alternatively you may outsource the R&D development work under contract, manage the manufacturing or service operations yourself and appoint agents to sell your products / services on your behalf. You may also have a different business model arrangement for international business.

The reason that understanding the Business Model is so important from a financial perspective is that :

- **Differing Business Models have quite different cost and profit margin structures**

eg. If you outsource your R&D development you have one fixed contract price where as if you undertake in-house you may have a large workforce, accommodation and equipment requirement

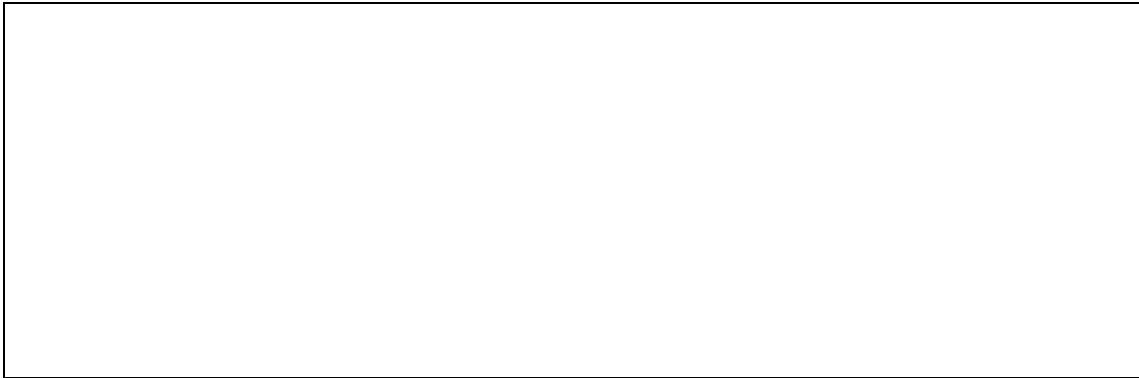
- **Differing Business Models have significantly different funding requirements and can change the return on investment**

Eg. Outsourcing the manufacturing operation can significantly change the intense capital equipment investment requirements of the business and better match cost per unit to sales

Identify your proposed Business Model & cost alternative models to find the most appropriate fit with your strategies and funding options

| KEY BUSINESS ACTIVITY | IN-HOUSE | OUTSOURCE | LICENSE |
|--|-----------------|------------------|----------------|
| R&D / Technology Development | | | |
| Manufacturing / Assembly / Services | | | |
| Sales / Business Development | | | |
| Distribution / Delivery | | | |
| Warranty & customer support | | | |

10.2 Finalise your pricing model based on industry research and evaluate the impact on its competitiveness

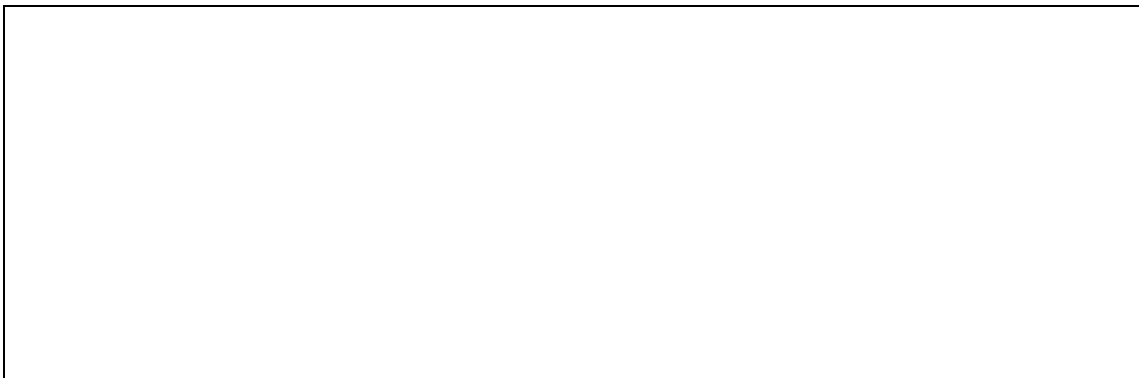


10.3 Determine key early trading assumptions to support your financial checkpoint

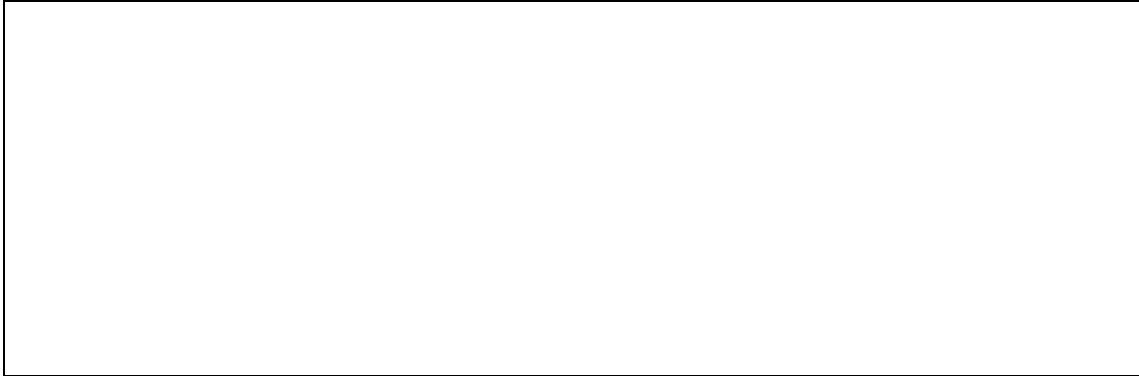
These may include : Cost of goods sold margin %, sales units per month, sales growth per annum, debtor collection days, stock holding days, creditor days etc.



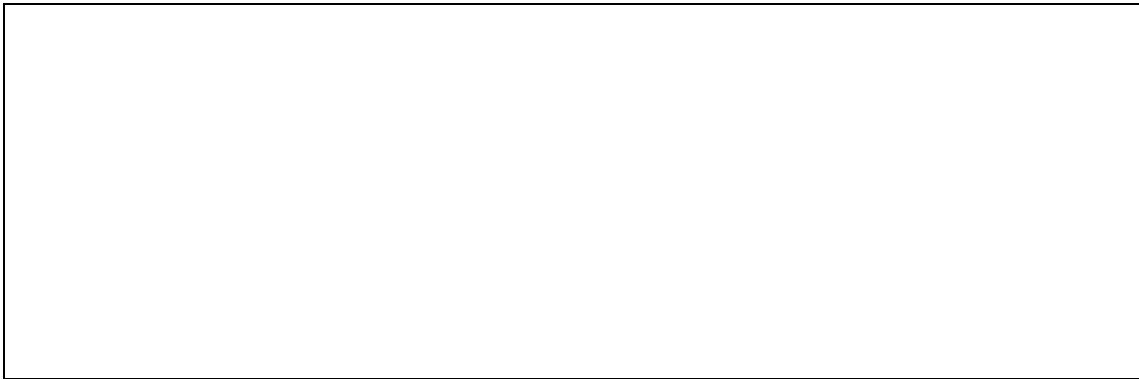
10.4 Determine initial capital equipment requirements for establishment and then for Year 1, Year 2, and Year 3.



10.5 Determine funding requirements to get to commercial production and to fund the first year's trading using a financial snapshot



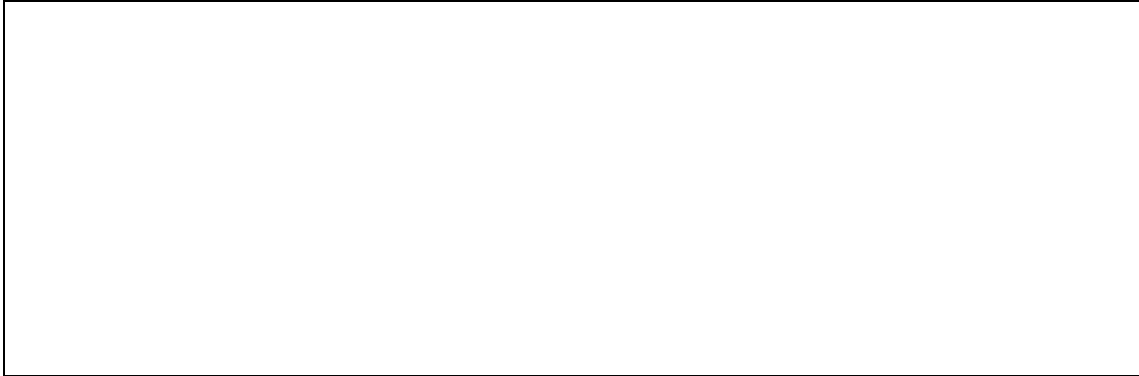
10.6 Prepare initial profitability projections to check financial profitability viability of pricing, volume estimates and costs



10.7 Prepare initial cashflow projections to scope funding requirements and confirm the commercial viability of the venture



10.8 Evaluate alternate sources of funding and their requirements for the next stages



10.9 Assess business and financial risk profile of the going forward



10.10 Have you identified the working capital start up requirements for your company?



10.11 Do you know how your product will generate sales/revenue and profit?

10.12 What would your breakeven sales be in the first 3 years ?

CHECKPOINT : Proof of Product / Opportunity

Yes No Still in Progress

IP is secured and IP strategy in place

Initial market, industry, customer types and customer research is finalised

Product offering has incorporated customer feedback

Market research has confirmed solid business opportunity

Product offering will deliver customer 'value' and benefits

Product development is completed for market readiness

Product is ready for commercial production stage

Early business model has been scoped

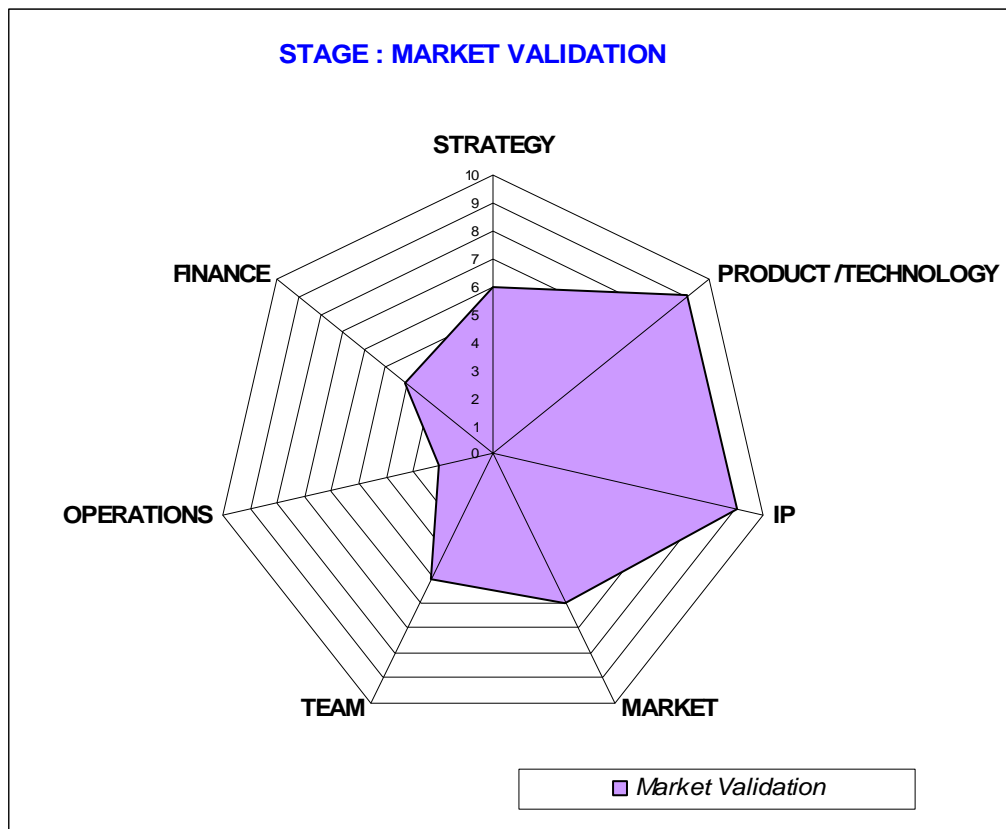
Initial financial evaluation confirms business opportunity

Early organisation structure has been put in place

READY TO PROCEED TO NEXT STAGE

STAGE 4 : MARKET VALIDATION STAGE

The following graph depicts a 'typical' Market Validation Stage during commercialisation compared to a business at the 'emerging growth business stage' post commercialisation which would typically exhibit a strong balance in each of the 7 key areas of business. (10/10)



This stage depicts the focus shifting from product/technology and IP (reached completion) to the market validation of the venture.

It is also sees the focus shifting to establishing the initial commercialisation strategy and bringing together a team to go forward.

The key to this stage will be undertaking industry trials and further validation of the market opportunity.

Key Objectives – Market Validation

- ***Undertake industry trials to confirm market acceptance***
- ***Finalise market research and validate the extent of the market opportunity***
- ***Determine market entry strategy and early commercialisation strategies***
- ***Establish the team required for Commercialisation stage***
- ***Complete financial projections and evaluation of the business opportunity***

11.0 PRODUCT / TECHNOLOGY READINESS

11.1 Establish an implementation plan for commercial production

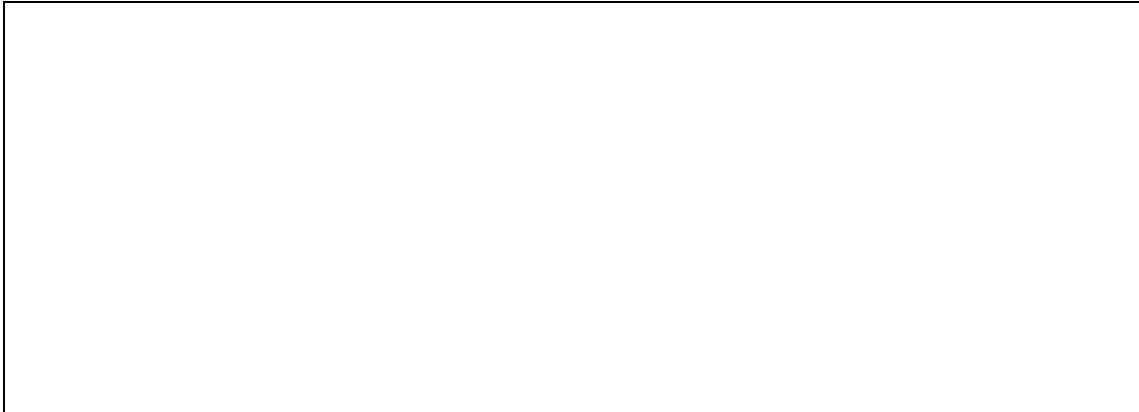
A large, empty rectangular box with a thin black border, intended for the user to write an implementation plan for commercial production.

11.2 Prepare costing for varying scales of production

A large, empty rectangular box with a thin black border, intended for the user to write costing information for varying scales of production.

12.0 INTELLECTUAL PROPERTY

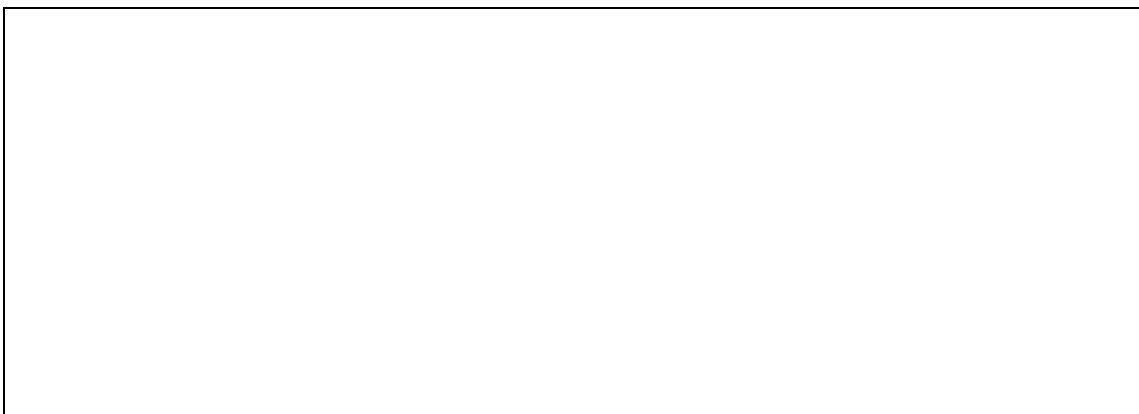
12.1 Identify Commercial Lawyer who can assist with distribution and market agreements



12.2 Review progress of Patent protection (if applicable) and make decisions re which countries you are going to pursue for international coverage

You will need to determine your IP patent protection strategy for international markets. Your decision should be based on :

- Market research which should identify key international markets for your technology
- The coverage required to attract a potential global distribution licensee
- An assessment of the strength of your IP and potential to leverage new markets
- Financial constraints to fund a broad international patent coverage and cost benefit analysis

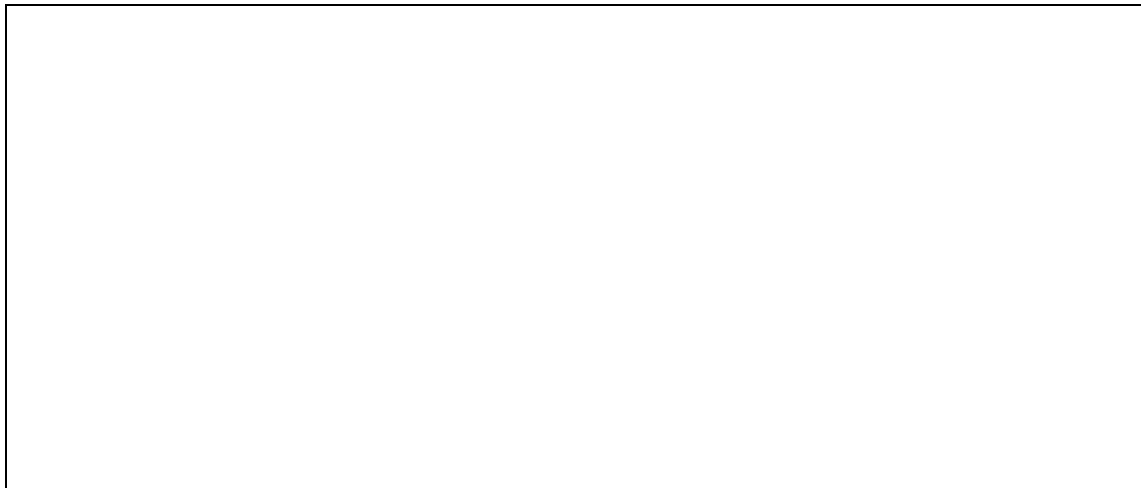


13.0 MARKET VALIDATION & OPPORTUNITY

13.1 Undertake selected industry trials to confirm technology delivers outcomes and is reliable

Identify potential client targets to partner for industry trials and your reasoning for selection.

Confirm your results of trials.

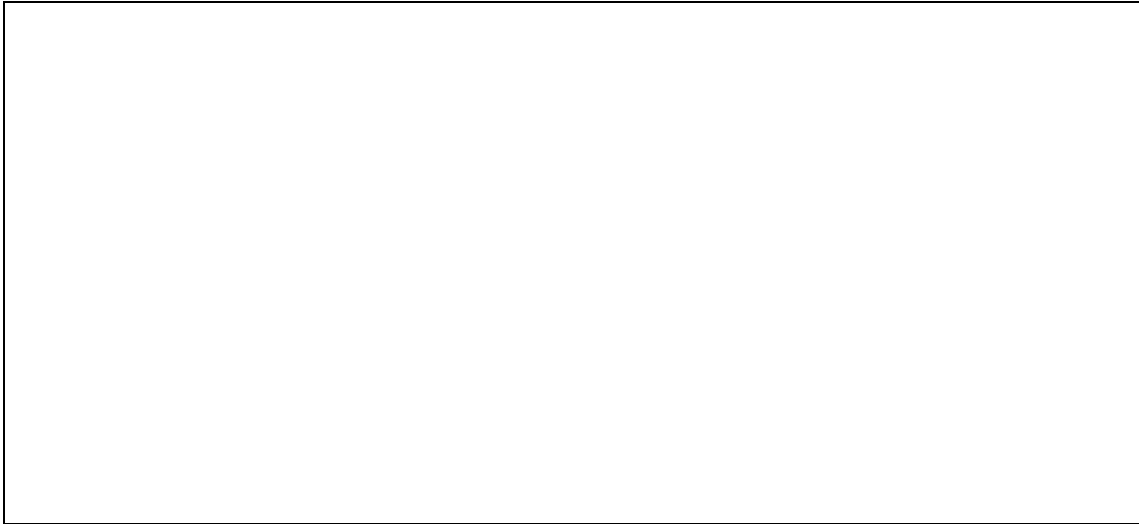


13.2 Obtain customer feedback re early trials and implement appropriate changes

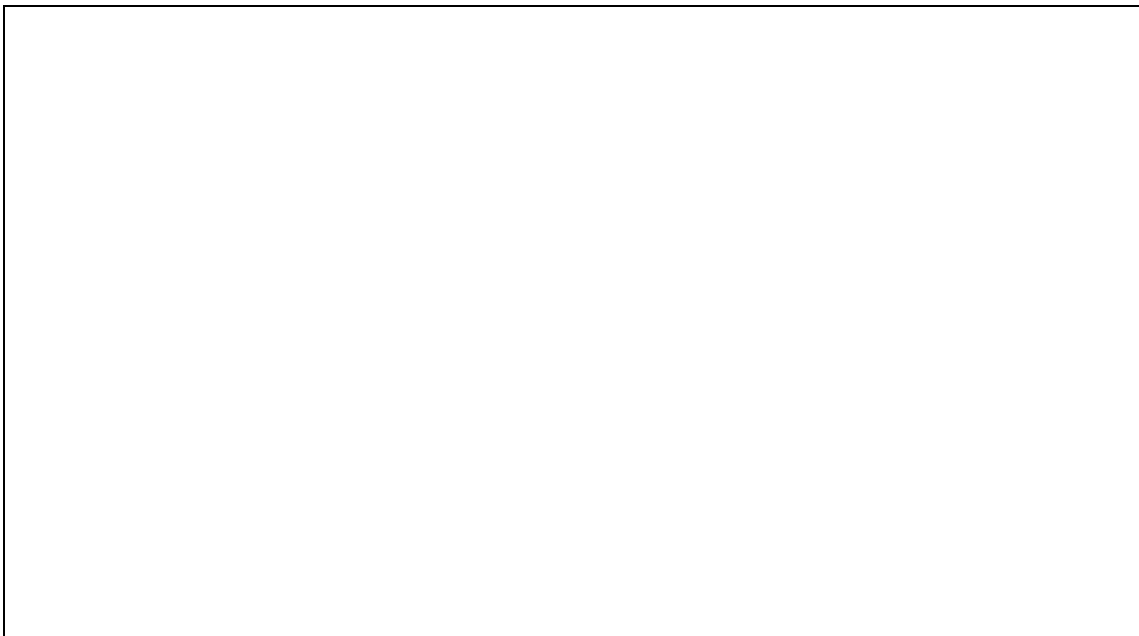


13.3 Undertake further market research on global market opportunities

Identify which countries have potential and prepare an international marketing strategy

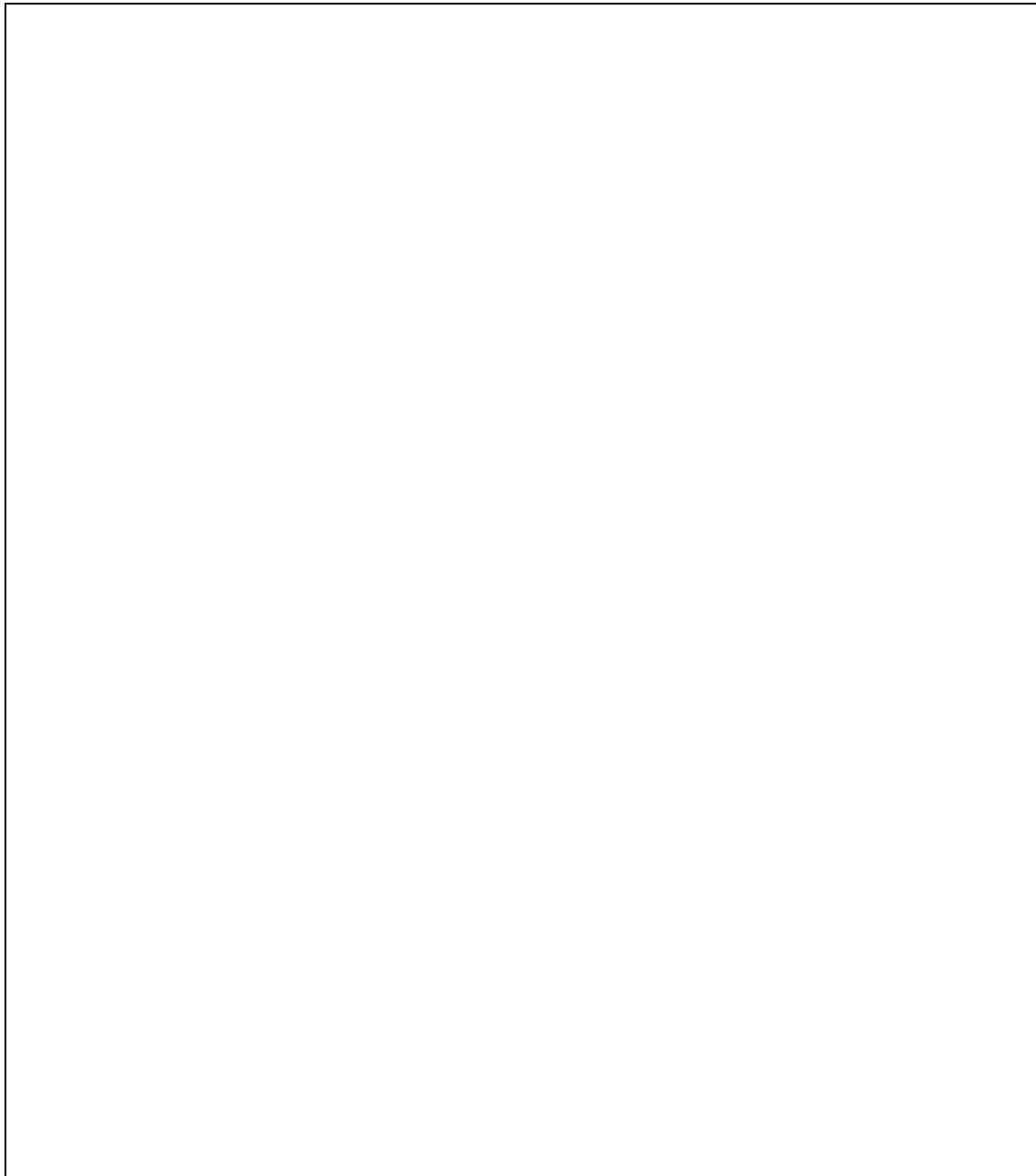


13.4 Prepare a list of early customer targets and gather contact and market intelligence information.



13.5 Identify potential channels to market and/or distribution partners or strategic partners to be put in place

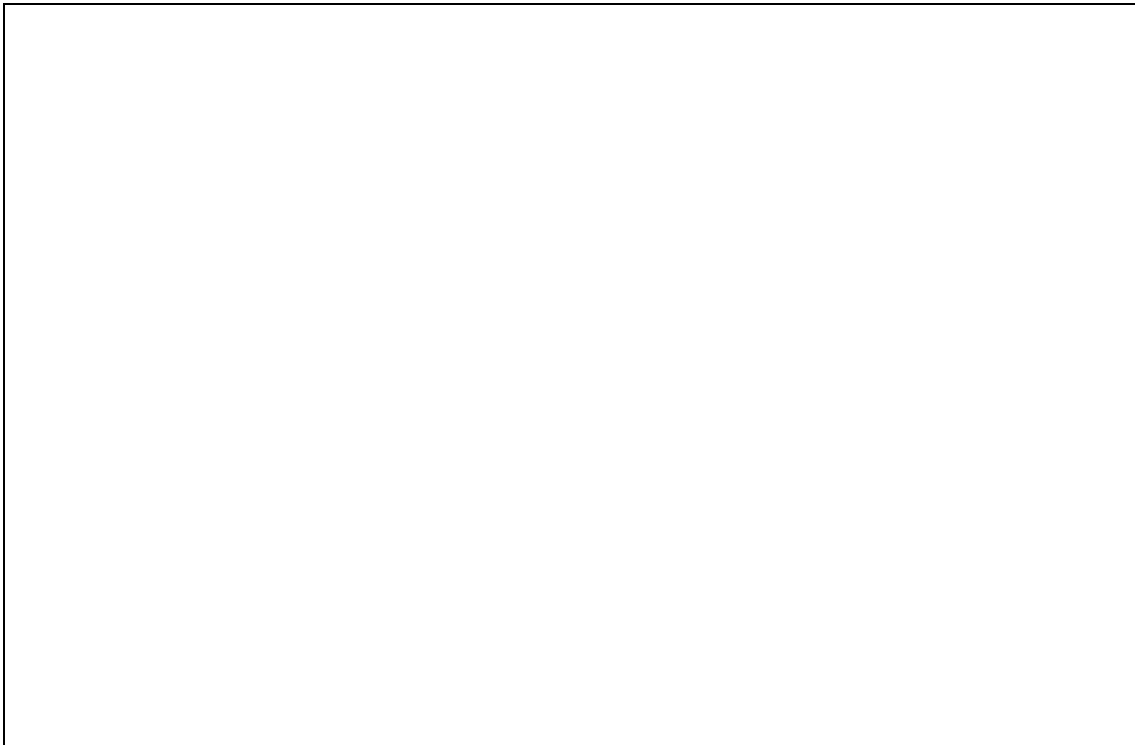
You should draw on your market research information and customer interviews to understand the structure of the market and establish strategy for options.



13.6 Formulate your 'early market entry strategy'

This should be based on your market / industry and customer research which should provide some intelligence of the most appropriate options for entering the market.

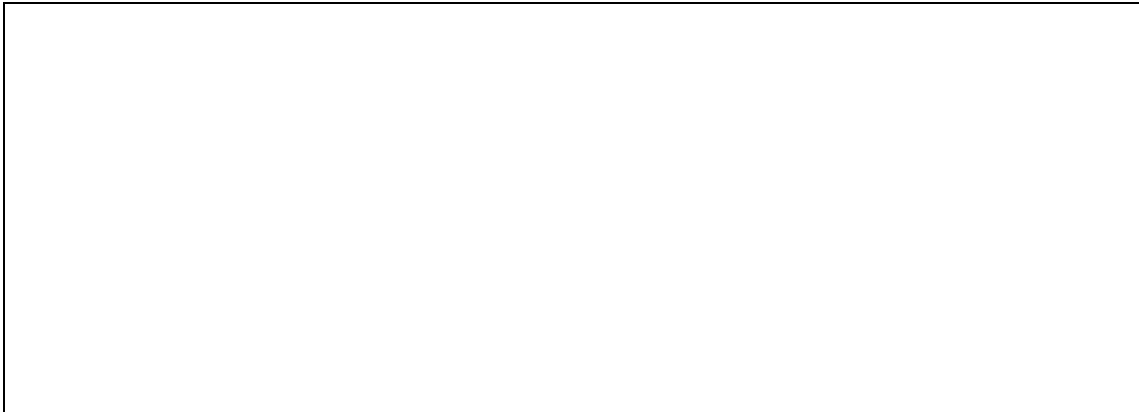
The strategy may be based on price positioning, using a 'credible' distributor who can establish a presence for your technology due to their reputation, focusing on particular customer segments where there is a strong opportunity for success etc.



13.6 Review initial Business Model and refine based on industry trials and further market research



13.7 Revisit pricing strategy and make any changes.



13.8 Have you confirmed there is a valid market to support a successful business opportunity ? Explain basis.

Is there a compelling business case to attract an investor ?



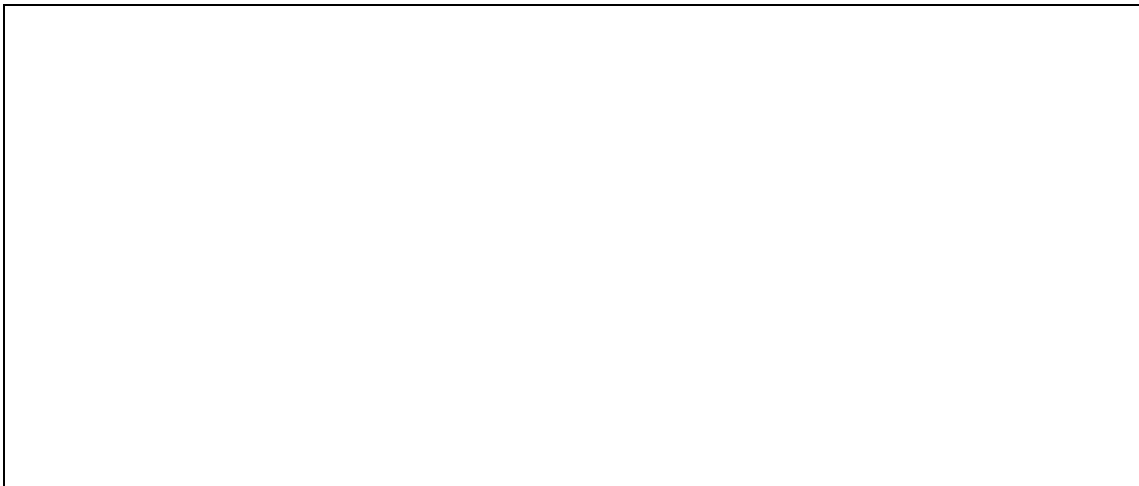
14.0 ESTABLISHING THE TEAM

14.1 Determine resources required for the Commercialisation Stage roll out

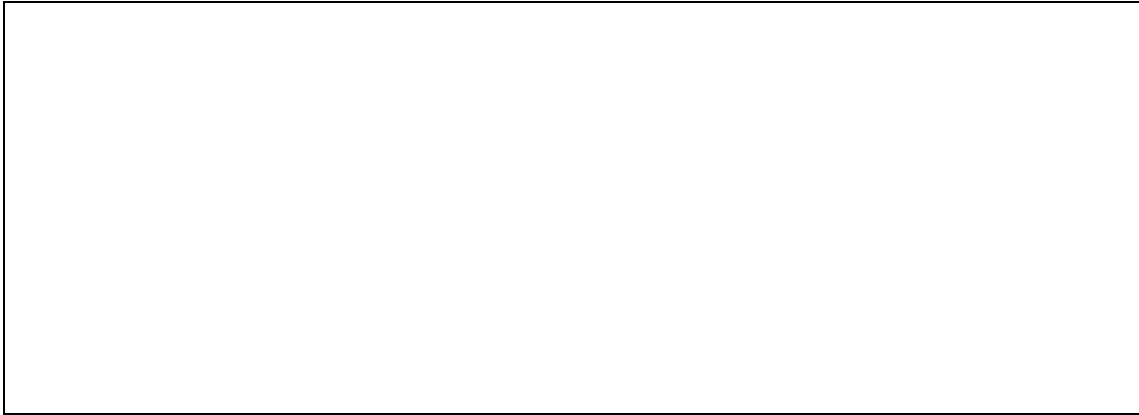
You should look at what resources are required, proposed salary costs, timing of appointment and key skills and attributes you are looking for



14.2 Set out the proposed management structure and key responsibilities for the short and long term



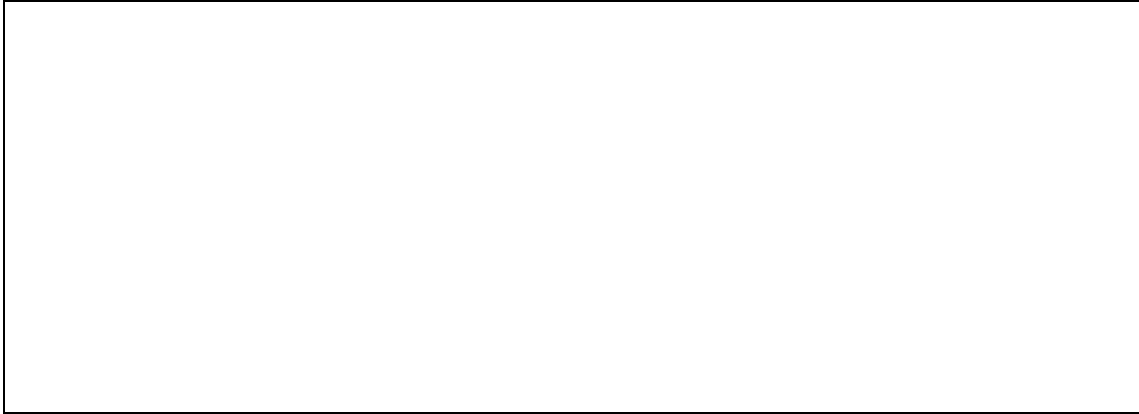
14.3 Establish processes for engagement of resources including employee confidentiality contracts to be in place



15.0 BUSINESS STRATEGY & OPERATIONS PLANNING

15.1 Start putting in place your overall business strategy and commercialisation plan

This should include an implementation plan for roll-out



15.2 Identify key operational resource requirements

This planning should take into account :

- Production capacity and roll-out planning
- Acquisitions of capital equipment requirements for commercial production
- Securing appropriate premises to fit short to medium term requirements

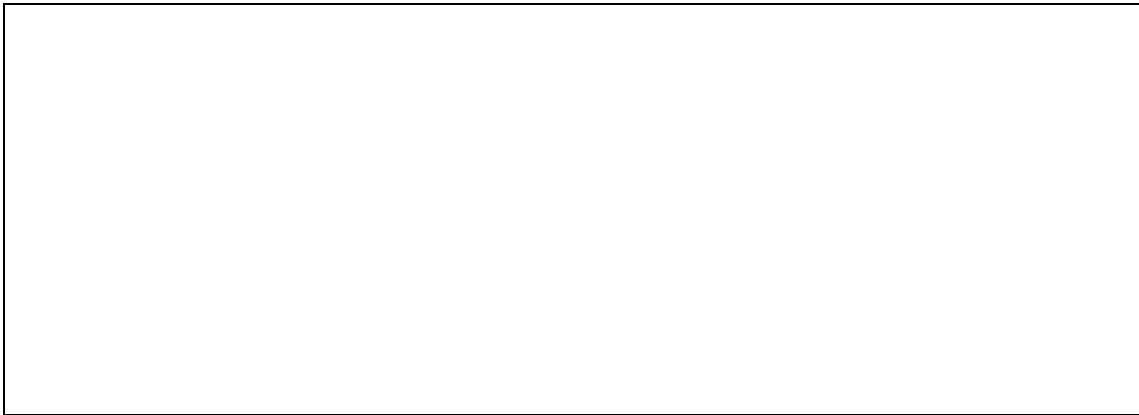


16.0 FINANCE & FUNDING OPTIONS

16.1 Prepare financial projections for 3 years

These should include : Balance Sheets, Profit & Loss and Cashflows. They should be focused on supporting internal decision making to proceed to Commercialisation Stage and investment raising. They should include all key assumptions for investors based on data captured in previous stages.

Key results from projections include :



16.2 Is the venture commercially viable ? What are the key financial risk factors ?



16.3 When is the venture expected to breakeven ?

16.4 Identify any potential flaws or areas of weakness in the business opportunity for investors ?

16.4 Based on the financial projections what are the funding requirements for the Commercialisation stage ?

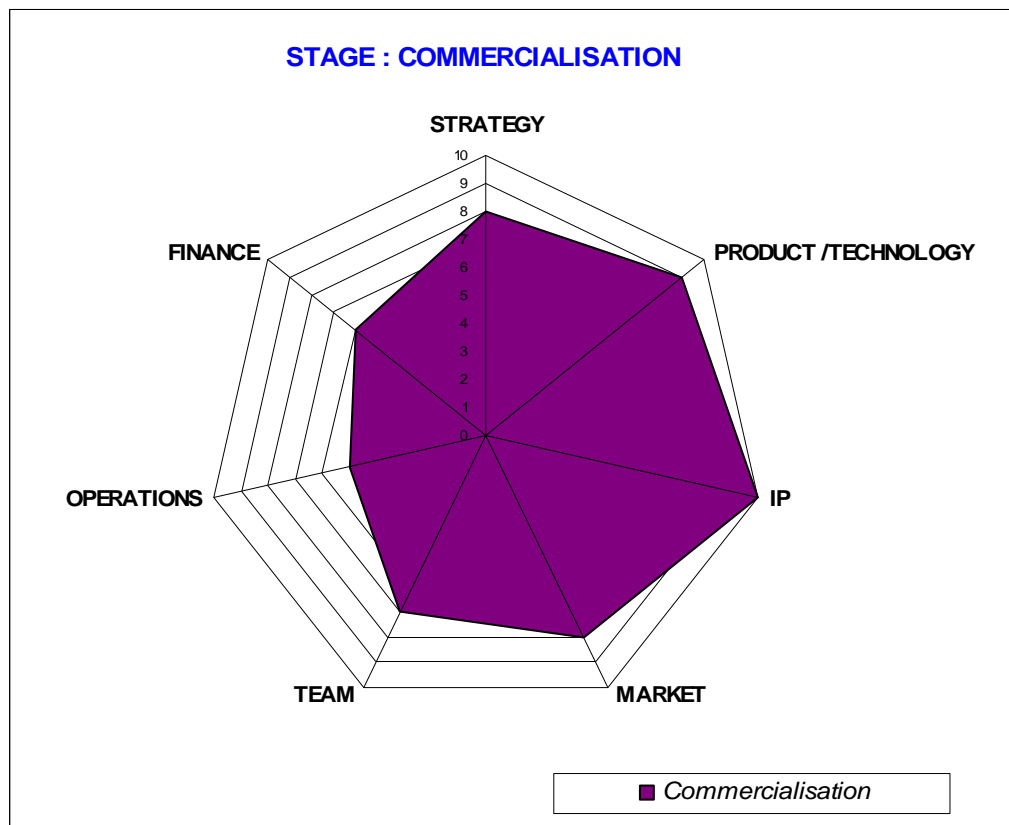
Also include options for funding ?

CHECKPOINT : Market Validation Stage

| Yes | No | Still in Progress | |
|--------------------------|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | IP is secured and IP strategy in place |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Industry trials have been successfully completed and confirm product and market strength |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Market, industry, customer types and customer research is finalised |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Product offering has incorporated feedback from trials |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Market research has confirmed solid business opportunity |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Product offering will deliver customer 'value' and benefits |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Product development is completed for market readiness |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Product is ready for commercial production stage |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Business model has been finalised |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Financial projections (3 yrs) confirms strong business opportunity to move forward to Commercialisation |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Entity structure has been put in place |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Management and staff resource planning is in place |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Commercial operations planning is in place |
| <input type="checkbox"/> | <input type="checkbox"/> | | READY TO PROCEED TO COMMERCIALISATION STAGE |

STAGE 5 : COMMERCIALISATION STAGE

The following graph depicts a 'typical' Commercialisation Stage compared to a successful 'business growth' stage which would typically exhibit a strong balance in each of the 7 key areas of business. (10/10)



The model shows the business balancing out each of the key business activities as it is ready to enter the Commercialisation stage. Its product/technology and IP areas are almost fully developed and the other business areas are beginning to take shape.

This stage will require Commercialisation Funding to establish the business operation, therefore a key focus will be on raising investment capital.

Once the funding is in place the focus will be on achieving early sales and market presence. As the business achieves growth it will begin to expand its team and operations areas and will continue to require further growth funding.

Key Outcomes – Commercialisation Stage

- *Preparation of Information Memorandum (IM)*
- *To raise sufficient investment or grant funding to support Commercialisation stage*
- *To launch product/s into the market and achieve sales targets*
- *To deliver quality product on a timely basis to the market*
- *To put in place information systems to monitor operations*

17.0 KEY REQUIREMENTS FOR COMMERCIALISATION IMPLEMENTATION

Much of the preparation for the Commercialisation Stage should have been undertaken in the earlier stages of commercialisation. This stage will focus on the review and implementation of those plans.

If you require investment funding to support the Commercialisation stage then this will become your primary focus, as you will not be able to proceed until it has been resolved. You would then need to prepare an Information Memorandum (IM) as a starting point to raising funds.

The level of funding required will be impacted by the Business Model determined as appropriate for your business. During this process you may wish to re-evaluate your model to better fit investor expectations. For example, you may decide to outsource manufacturing to significantly reduce capital equipment funding requirements.

It is also advisable during this stage to engage a corporate advisor who has experience in investment raising in a specialised field.

The following provides an overview of the key tasks which should be the focus during the Commercialisation Stage :

18.0 COMMERCIALISATION STRATEGY

- ***Completion of the Commercialisation Plan***
- ***Preparation of Information Memorandum (IM)***

The **Commercialisation Plan** document will set out the overall business strategy to bring the technology, product or service to Commercialisation. The document differs to a Strategic Business Plan which is more suited to an existing business operation focused on growing and improving existing business activities.

A Commercialisation Plan will cover the outcomes of much of the key topics which have evolved in the previous sections. It will assume that you have completed the roadmap / journey to date and have now arrived to a position ready to enter the commercialisation (sales or market entry) phase of your business.

Your Commercialisation Plan should essentially focus on how you are going to go forward, rather than the 'perils' of how you got to this stage. It should make it very clear to the reader that you have a clear path forward and have all the essential ingredients to create a successful business.

The Commercialisation Plan may include the following areas :

- Overview of the Business Opportunity
- Market Profile
- IP Protection
- Value Proposition
- Route To Market
- Financial Analysis
- Management Team
- Next Steps
- Conclusions

The **Information Memorandum (IM)** is essentially a 'selling' document for businesses that need to raise investment capital. This document is not as detailed as a Strategic Business Plan or Commercialisation Plan and is focused on providing information to the potential investor.

The IM may include the following key areas of information :

- Opportunity & Investment Offering
- Company Background
- Competitive Advantage
- Target Market
- Market & Distribution Structure
- Competitive Landscape
- Business & Revenue Model
- Early Validation
- Management Team
- Financials
- Disclaimer

You should identify the most appropriate parties to provide the Information Memorandum to, based on their level of interest and potential for investment. Keep in mind this is an invitation to invest and not a 'promotion' opportunity so ensure you do not flood the market with your confidential document.

You should also ensure that you keep a register of the parties that you send the IM document out to, to maintain control of the situation.

19.0 FINANCE & FUNDING STRATEGIES

The following key areas need to be addressed during the Commercialisation Stage :

- Identification of funding sources or key investor targets
- Preparation of Business Valuation to support investment
- Determination of Exit Strategy
- Presentation of IM and financial projections to investors
- Support Due Diligence process for investors
- Raise investment capital to fund Commercialisation Stage
- Ensure legal entity structures and shareholder agreements are in place
- Put in place financial management systems to monitor profitability and facilitate regular reporting to management

During this phase it is critical for you to **identify the appropriate professional expertise** to guide you through the preparation process for investment capital raising, identification of potential investors and negotiation stages. Consultants with expertise in this area are generally Capital Raising or Corporate Advisory consultants.

The preparation for investment phase will include review and finalisation of the IM documentation, undertaking the business valuation and identification of viable exit strategies.

This area of assistance is addressed in other Programs within the Regional Business Investment Ready Program (RBIRP) therefore this program will not address this area in detail.

If you require assistance in this area you should contact your local Regional Development Victoria office for a referral to other RBIRP Programs.

19.1 Investment Funding Sources

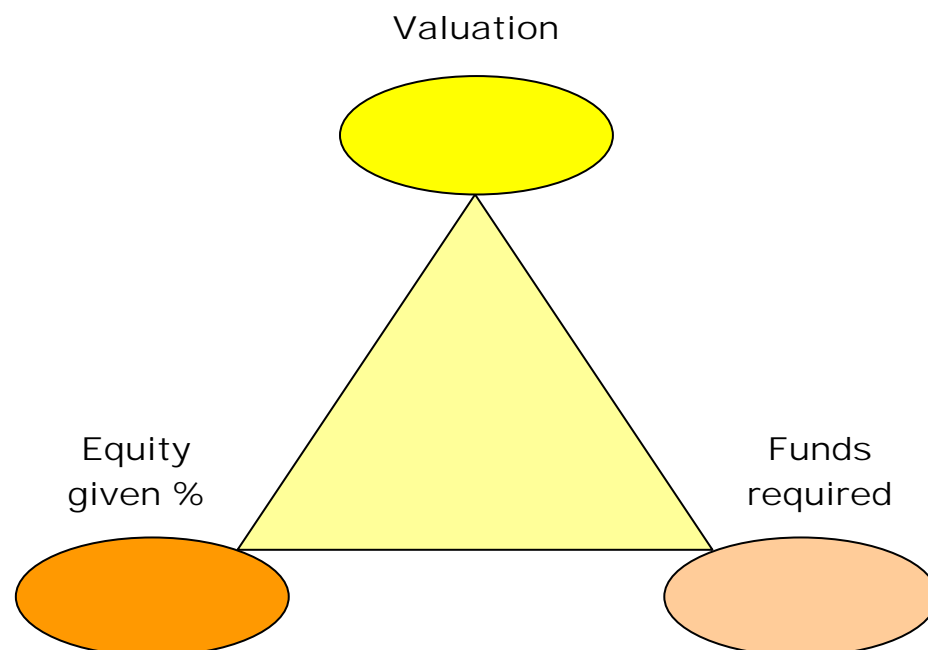
Alternative investment funding sources which may be pursued and/or supported under alternative RBIRP Programs include :

- Commercialisation Grant programs – COMET, Commercial Ready, NIDP grants, REDI grants etc
- Related parties – family, friends or acquaintances who have an interest in your technology
- Business Angels / Private investors
- Corporates (may be industry players in your value chain)
- Venture and Development Capitalists
- Pooled Development Funds (PDF)
- Innovation Investment Funds (IFF)
- Superannuation Funds

19.2 Business Valuations

The following overview shows the importance of the relationship between the business valuation, the amount of equity you are prepared to offer investors and the investment funds (\$\$) you need to raise.

RELATIONSHIP BETWEEN VALUATION, EQUITY % & FUNDS REQUIRED



Eg. If the company is valued at \$1,000,000 (post investment) and you need to raise \$400,000 funding then you would need to give 40% of the company to an investor.

Alternatively, if the valuation was agreed to at \$1,200,000 (post investment) then the \$400,000 funding would reduce the equity offered to be 33.33% of the company. ($\$400,000 / \$1,200,000 = 33.33\%$).

The Business Valuation should be done by a person who is experienced in both preparing business valuations and in valuations in your specific industry as there is a strong element of 'judgement' involved in the process.

The most common method used for start up businesses is the Discounted Cashflow Method as the business usually does not have any historical trading figures to use in an Earnings Multiple method.

You should also keep in mind that the concept of 'value' is ultimately **what a willing buyer is prepared to pay and what a willing purchaser is prepared to accept**. This is highlighted in many early stage investment offers as there is often significant work to be done (at risk) to take the commercial opportunity to a successful growth business venture.

19.3 Exit Strategy

A well identified **exit strategy** is a critical requirement for an investor in their decision to invest. As with most investment decisions, the investor always wants to know how they are likely to get their funds out BEFORE they decide to put their funds in.

Common exit strategies may include :

- Outright trade sale – you need to identify the target companies which may wish to acquire the new venture once it is established
- Original owner buy-back – you would have to show how you could fund this in the future (this is a very high cost of capital option)
- Listing on stock exchange

19.4 Presentation of IM and Financial Projections

The financial projections will need to cover a 3 year period and include Balance Sheet, Profit & Loss and Cashflow for each year.

You will also need to show the key assumptions upon which the projections are based to enable the investor to effectively assess your information.

19.5 Due Diligence & Investment Raising

The initial investigation process by the investor will include a review of IM and other documentation provided, together with meetings with the investee. The investor will also undertake their own analysis of the industry and business potential. Once they have determined they are interested in negotiating an investment deal they will want to undertake a 'due diligence' process.

This process is generally undertaken under a heads of agreement where each party agrees to enter into an 'evaluation' stage under confidentiality based on a proposed investment arrangement / deal.

The due diligence usually provides the potential investor with access to more detailed information and is often a very rigorous process. You should undertake this stage under the guidance of an experienced advisor to ensure that you have balanced sufficient 'access' to information to attract an investor with 'commercial commonsense'. It is somewhat akin to entering into a marriage.

Once the due diligence stage is completed both parties will then be in a position to negotiate final arrangement of the deal and enter into a formal agreement.

19.6 Legal Entity Structures & Shareholder Agreements

In entering into an investment deal the investor may wish to create a new 'clean-skin' entity as the investment vehicle to ensure that no prior liability come into play. This may also be required for long term protection of IP and for a more effective vehicle to accept investment into.

Shareholder Agreements are generally prepared to establish the main 'business rules' between the shareholder parties for future dealings. It may address areas such as :

- Future investment raising – how this will be done and impact on existing shareholders
- Sale of shares – usually based on firstly being offered to existing shareholders at market value
- Voting rights
- Rights to board positions
- Performance measures which may trigger changes in ownership if not achieved within time frames
- Business decision making limits by management team

19.7 Reporting requirements

The introduction of an investor will bring with it the requirement for more formal and regular financial reporting for the investor to monitor the entities performance.

20.0 MANAGEMENT & TEAM RESOURCES

- Put Board of Management in place
- Recruit key management positions
- Establish key responsibilities and reporting structure
- Employ staffing required

During this stage it is critical for the business to focus on putting its key management and team resources in place. The business will also need to determine key responsibilities and reporting structure for effective growth.

The selection of a Board of Management will also be important. This is often independent of the management team to provide a more strategic view of the company direction and will include representation by the investor.

21.0 MARKET ENTRY & PLANNING

- Implement Business Model arrangements
- Finalise Pricing strategies and continue to monitor
- Finalise market entry strategies
- Prepare Sales & Marketing Plan for implementation
- Develop marketing and promotion material

The Commercialisation stage will focus on entry into the market and early sales activity of the business. It is critical that you have a clear business model to implement and that the strategies you developed in earlier stages are ready for implementation.

A detailed Sales and Marketing Plan should be prepared during this stage together with finalisation of all promotional material.

22.0 INTELLECTUAL PROPERTY

- Continue to monitor and strengthen IP protection strategy
- Work with Commercial legal advisors during investment raising and implementation of market agreements

At this stage you are likely to be focusing on international coverage of your IP which may include lodgement of your PCT stage or identifying specific target countries for international coverage.

This can be a very costly stage as you select each country for coverage and you need to ensure that you have sufficient funding to maintain the strength of coverage for your IP.

As you enter into marketing and distribution arrangements with strategic partners both nationally and internationally it is important for you to access the right commercial legal advice to draw up solid legal agreements to protect your business into the future.

Your distribution agreements should consider 'non-exclusivity' to keep your partnering options open and 'minimum performance' clauses which will enable you to sever contractual arrangements if your distributor does not achieve minimum sales outcomes.

23.0 PRODUCT

The following key product strategies are important during the Commercialisation stage:

- Implement commercial production arrangements
- Review product range during market entry to meet market demands
- Monitor early production costing and manage overheads

24.0 OPERATIONS

- Implement Operations Plan including acquisition of capital equipment and putting production operations in place
- Secure premises for operations

It is critical that you have your manufacturing / operations area of your business in place to ensure that there are no 'delivery' hurdles as the business is establishing new market relationships.