Support for Inventors

Expert knowledge means success

Contents

Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction

Every year thousands of people think they may have invented a unique product or component. But there's a lot of work to do before it can be exploited commercially. Fortunately, there's a wide range of support available from the Government, industry bodies and inventors' groups to assist individual inventors and small businesses looking to develop innovative ideas and technologies.

This publication looks at some of the support organisations and programmes available. It also provides general advice on intellectual property, raising finance and other relevant business information.

Support from Business Link

Business Link – the Government's website that provides practical advice for business publishes a guide which has been developed in conjunction with the Department for Business, Innovation & Skills (BIS)) that explains where inventors can go to get the support and advice they need at different stages of their product's development. The guide offers advice in the following areas:

- Help in establishing your invention's originality;
- Legal help on intellectual property;
- Taking your invention to market;
- Getting support from other inventors;
- Help developing your idea;
- Finding manufacturers to build a prototype;
- Helping to ensure products are safe;
- Attracting funding for your invention.

For more information visit the *Exploiting your Ideas* Commercially page at: http://www.businesslink.gov.uk/bdotg/action/layer?r.s=tl&topicId=1079693918

As well as owning physical assets, your business may also own non-tangible assets such as intellectual property (IP). This can include trademarks, logos, patents, processes and designs.

Once you have protected your IP with trade mark registration, copyright, design protection, or patents, you can start to exploit it commercially. If you do not have the resources to exploit it yourself, you can involve other people and businesses to help. You can do this by:

- licensing your IP
- selling your IP
- using third party distributors
- franchise arrangements
- joint ventures and partnerships

The Business Link guide explains the options available to you if you decide that you need to involve other people and businesses to exploit your IP. It details the advantages and disadvantages of each option and tells you how you can use each of them to benefit from your IP. It also provides sample templates that you can use for licensing your intellectual property and forming a joint venture partnership.

Business Link also provides advice on general business practices, product marketing, obtaining funding for developing a product, and signposts local facilities and grants where appropriate. There's advice galore at: http://www.businesslink.gov.uk/bdotg/action/layer?topicId=1074298368

Support for inventors

At the above link, you'll find information on:

- Help in establishing your invention's originality
- Help to ensure products are safe
- Get legal help on intellectual property
- Take your invention to market
- Get support from other inventors
- Help developing your idea
- Find manufacturers to build a prototype
- Attract funding for your invention

Support from BIS[1]

The BIS website at: www.bis.gov.uk/innovation/index.html is managed by the BIS's Innovation Unit, which aims to help organisations to understand innovation, why it is important and how the best organisations manage it.

The Innovation Unit is working to stimulate a significant increase in innovation throughout the economy. Their web pages chart their progress, summarises legislation, and gives

practical information for companies.

It explains current policy goals, such as the transfer of knowledge between the science and business communities, and support for small businesses as key sources of innovation. It covers Living Innovation, web streaming of a series of high profile events for aspiring business builders, which share insights to help companies improve their performance. There is also information about the Technology Programme and Knowledge Transfer Networks, designed to increase the speed at which leading-edge science is turned into market-ready products, processes and services.

These webpages also provide advice on finance and investment and on management and skills. They explore the vital role of research and development and explain how businesses can access the practical support available for R&D and innovative projects. They also cover innovation in Europe and UK and European Standards.

NESTA

NESTA, which was launched in the early part of 1999 with an endowment of £200 million pounds from the National Lottery, is intended to help creative individuals develop their full potential, whilst also helping to turn creativity and ideas into products and services and to enable these to be exploited effectively – look up NESTA at: www.nesta.org.uk or telephone them on 020 7438 2500.

The NESTA website provides a step-by-step guide to the process of invention and innovation. It includes guidance on pitfalls to avoid and sources of advice to pursue, tips on developing an idea into a real product, an overview of protecting your intellectual property and advice on ways to get an idea into the commercial world - from licence deals to making and selling a product yourself.

NESTA provides some excellent advice for inventors - if you're going to succeed, you first need to adopt the right feet-on-the-ground attitude towards your idea and its development. Rule number 1 is:
If you want to succeed, you must first do everything you can to avoid failure.

This means you must ALWAYS control your costs and ALWAYS limit your risk. OK, this is pretty obvious really, but when your sights are set on getting a result in the shortest possible time it's all too easy to miss or ignore the obvious. Other people with cooler heads can often see problems and solutions where you can't. This is why it's essential to run your project on a teamwork basis, with at least some members of your team - your patent agent, for example - experienced enough to assess risk accurately and forewarn you of difficulties.

All projects hit some problems, no matter how well planned they are. And most inventors' projects run on a low budget with very little margin for error. Minimising cost and risk is therefore a survival issue, plain and simple. More haste, less speed. A stitch in time saves nine. One swallow doesn't make a summer, and so on.

Limiting your cost and risk must be constantly at the forefront of your own thinking, planning and acting throughout your project.

Other tips for inventors are:

- Don't think invention. Think business opportunity;
- Don't expect anyone to beat a path to your door (unless they intend to rip you off). Good things will happen only if you get out there and make them happen;
- Companies often complain that inventors aren't on the same wavelength as them. To you, your idea is your baby, precious and unique. To companies it's just another log on the fire. Swallow whatever it is you need to swallow and get on that wavelength;
- Innovation brings rewards but it also brings risks, so ALWAYS control your costs and ALWAYS limit your risk; (See Rule number 1)
- A typical development timescale is 2-3 years - often more and rarely less - so plan carefully and never rush into anything;
- Learn continuously, especially about the market and/or companies you're aiming for. You'll get lots of conflicting advice along the way, so you need a good store of knowledge to make sound judgments;
- Be as professional as you can in all your dealings. Claiming that because you're more of a creative type it's okay to be disorganized, unreliable and inflexible just won't wash;
- No matter how highly you rate your own abilities you won't be able to do everything on your own, so be prepared to be part of a team that shares the work and the spoils fairly;
- In the interests of self-preservation, regard being an inventor as a short-term job with a limited aim: to develop your idea only to the point where potential licensees, business partners, investors or

buyers can clearly judge its commercial worth;

- Beyond that point, either back off or leave the licensee to get on with it or, if it's your own business, forget being an inventor and go full tilt for entrepreneurial success.

Another good example of the practical advice from the NESTA Website is how to test whether an idea is truly original. It takes a conscientious search to find out whether anybody at anytime has produced anything, no matter how obscure, which might contain elements of your idea. With NESTA's on-line help, a novice can:

- Explore the stages of new idea exploitation and the options available;
- Find out the costs involved;
- Discover whether or not a market exists for the new idea.

The British Inventors Society

The British Inventors Society (TheBIS) was formed in December 2003. The team that came together includes leading inventors and innovators, academics and entrepreneurs who share a common belief – that invention is the vital spark that drives the world's technology and new orders of wealth creation.

The stated aims of the British Inventors Society are to:

- promote invention and innovation as credible personal and national assets;
- encourage and help inventors to set up local clubs across the UK;
- provide network support between local and regional inventors clubs so that inventors of all ages may benefit from ready access to educational, technical, commercial, legal and business information, help and advice;
- establish best practice guidelines for the good conduct of inventors clubs and the safeguarding the interests of inventors, by accreditation;
- recommend and promote a variety of approved learning opportunities for inventors of all ages, through sound academic links, including the publishing of regular web and newsletter features, etc.;
- organise shows, exhibitions and awards for the promotion of invention.

There's a very useful page with links to several organisations to help inventors, at:
http://www.thebis.org/links/index.php

For more information visit: www.thebis.org

EUREKA - Cash boost for UK high-tech businesses with bright ideas

Launched in 1985, EUREKA is a pan-European initiative for promoting collaborative R&D projects, which lead to the development of innovative products, processes or services. EUREKA aims to improve Europe's competitiveness in global markets for civil applications of new technology. It actively promotes collaboration between companies, universities and research institutions across Europe. Projects must involve partners from at least two of the 35 European member countries. Projects can be in any technological area, and there are no restrictions on project size, timing or length.

Innovation and investment in R&D are vital for the creation of jobs and long- term prosperity. It is crucial for UK business that new ideas make it beyond the drawing-board stage, and are explored in research projects and developed into successful products. EUREKA provides the networking mechanism to allow UK businesses to find partners to take a project idea forward. It offers a simple and easy-to-access partner-search and project search facility on its website at;
http://www.eurekanetwork.org/

You can also submit a research and development project idea to the EUREKA website which is then advertised on the website and circulated around the EUREKA network.

EUREKA is not in itself a funding mechanism and there is no central EU budget for supporting EUREKA projects. In common with most other member countries, the UK may sometimes provide funding support to project participants up to a maximum of 50% of the total project cost. In 2003, the BIS shared out £5.4 million between 17 research projects, including improved mobile phone screens and new super-concrete.

Patents, Designs, Trade Marks and Copyright

Perhaps the most fundamental question people ask on this subject is: "what is the difference between patents, designs, trademarks and copyright". At the most basic level:

- Patents are concerned with the technical and functional aspects of products and processes. Patents are concerned with inventions - new and improved products and processes that are capable of industrial application;
- Designs relate to the visual appearance of products. They are concerned with brand identity - of goods and services - allowing distinctions to be made between different traders;
- Trade Marks identify the products or services of particular traders - these are designs for shape and appearance - either functional or aesthetically pleasing articles or surface decoration, pattern or ornament;
- Copyright arises from the creation of certain categories of original work - literary and artistic material, music, films, sound recordings and broadcasts, including software and multimedia.

Intellectual property

You may have heard the term 'intellectual property' used generally to cover all these subjects and indeed you will find this term, or the abbreviation 'IP', used quite often. This is because all these subjects relate to assets that can be traded (bought and sold, hired or rented), but these assets are intangible as opposed to the physical assets such as buildings, machinery or stock.

They may be intangible, but they can be very valuable since they potentially provide a system of protection for the original material (and in the case of trade marks the promotional activity) created by an individual or an organisation.

The term 'intellectual property' is also used to cover secret information, such as know how, trade secrets or confidential information, for which no formal system of protection exists.

The UK Intellectual Property Office

The United Kingdom Intellectual Property Office (an operating name of the Patent Office) is the official body for the granting of patents and for the registration of designs and trade marks in the UK (through its Designs Registry and Trade Marks Registry) and is involved with domestic and international policy on all forms of intellectual property, including copyright, design right and other unregistered rights (through its Policy Directorates).

The IPO Central Enquiry Unit is able to give advice about taking out a patent and protecting other forms of intellectual property. It can be contacted on 08459 500505. There is also an extensive range of free literature available to individuals and small firms.

Institute of Patentees and Inventors

Advice and help for the lone inventor is also available from the Institute of Patentees and Inventors – this is an association that charges £70 for individual membership and from £110 for company membership per annum plus a joining fee of £15 with a limited service available to non-members. They can be contacted through their website at: www.invent.org.uk

Raising Finance for an Invention

If you are looking for finance to fund your investments in innovation there are a variety of things you need to think about - from getting the right financial package to match the right type of innovation, through to the importance of the right team of people. Most people need advice on the all-important business plan. What is it for, what should it say and who can help you write it? We can help here – our contact details are given at the end of this publication.

Sources of finance for innovation by stage of company development

Innovation - successfully exploiting a new idea - is often (though not always) associated with growing your business. It is especially common for smaller entrepreneurial businesses, where growth is usually an integral part of the business plan. Such businesses will almost certainly be spending far more cash in the first few years than they will receive back in sales receipts. They therefore need external financial support for this growth.

While a small company's size usually increases more or less continuously throughout a growth period, the finance opportunities go in stages. The next section points to the sources of finance appropriate to innovative companies at different stages of development.

Government Backed Financial Support

There are a number of Government financial support schemes designed to encourage innovation and investment. These include

Please ask for our publication 355-Financial Support for Entrepreneurs and Investors

Sources of finance for innovation by asset type

Financing innovation investments boils down choosing an appropriate finance package to cover the different assets involved in the innovation. Most innovations will involve investments in a mixture of long-term tangible assets, short-term tangible assets (working capital) and intangible assets. There may not be one single right package, but there will be lots of wrong ones!

While conventional sources of finance (loans from banks or equity from venture capitalists) are often used to fund investments in innovation, there are other ways of funding your investments, some of which apply whatever the stage of development.

Long term tangible assets

It is generally better to fund fixed assets with debt (term loans) rather than equity or overdraft. Equity is usually scarce and overdrafts can be precarious (the bank can call them in). Both types can also be quite expensive relative to debt. Options such as mortgage, leasing or high purchase are preferable, especially if your cash flow is tight. Renting is possible, and although often slightly more expensive, avoids using scarce money.

Short term tangible assets - Working capital

As with longer-term tangible assets, debt finance is more appropriate than equity finance. However, since working capital requirements can vary on a day-by-day basis, overdraft (with its greater flexibility) may be more appropriate than term loans in this case.

Build close relationships with your suppliers. If they understand your business and share your vision, they may be willing to extend preferable trade credit terms. When agreed in this way, it can be the cheapest form of cash. Delaying payment without such agreement may appear a short-term solution, but it is not recommended. Short-term solutions like this can have unwelcome longer-term consequences. Equally, don't forget the potential advantages of good supply chain relations that can be a valuable source of business-business support.

For more information on better payment practices visit these websites:

- Better Payment Practice - Your Guide to Paying and Being Paid on Time; (www.payontime.co.uk)
- A Users Guide to the Late Payment of Commercial Debts (Interest) Act 1998 as amended and supplemented by the Late Payment of Commercial Debts Regulations 2002. (www.bis.gov.uk/files/file37581.pdf)

Debtors are becoming easier to finance (up to around 80%) with factoring and invoice discounting becoming more accepted and more widely available. However, you will need to shop around to get support for small debts, capital goods or services.

Stocks are more difficult to fund but some specialist factors will consider finished goods separately, or as part of a package.

Intangible assets

Investing in innovation almost always involves spending money now for future returns. This could be designing the next generation of products; training employees to use new production processes; market research to understand customers' stated and latent needs; sales people generating new customers or seeking new distribution channels.

Assets being invested in	Possible alternative forms of external funding	Associated innovation types
Long term tangible assets - Property - Plant & machinery	 - Mortgage, rental or sale & lease-back - Leasing, hire purchase	Process innovation
Short term tangible assets (working capital) - Stocks of raw material - Work in progress - Stocks of finished goods - Debtors	 - Agreed supplier's credit, or overdraft - Agreed supplier's credit, or overdraft - Agreed supplier's credit, or overdraft - Factoring, invoice discounting, or overdraft	Product and market innovation
Intangible assets e.g. - Intellectual property - Product development - Process development - Market development - Training - Systems	- Equity-based finance in general - Loans based on royalties - Equity and grants, SFLGS - Equity and grants, SFLGS - Equity - Enterprise Finance Guarantee Scheme (formerly called Small Firms Loan Scheme (SFLGS))	Product, people and market innovation

The intangible "assets" created by such activities are just as important as tangible assets in growing your returns. They have a value even if they are not in the balance sheet - it is worth keeping a record where possible of the cost of their generation. The market value of most publicly quoted companies is several times their tangible asset value, the difference being the value in the intangibles.

Since these investments have no tangible security, they are not suitable for asset-backed finance. They need finance "backed" by the future cash flow - and there lies the risk which requires a different approach to financing.

Where the investment is predominantly in intangible assets, debt finance is generally inappropriate. Instead, if you are looking for external finance, you should be considering equity or grants.

Equity vs. Debt

Equity and debt are very different forms of finance. They generally work best when used together to complement each other. The important thing for the entrepreneur is getting the right balance between them. Below, you'll see some of the main characteristics of equity and debt, some important differences between them and the main issues that both raise.

Type of finance	Debt	Equity
What is it?	Money lent to a business.	Money invested in a business.
In exchange for?	A legal requirement to pay interest.	Ownership of a share of a business, with an entitlement to share in the future profits and, if the business is sold, in the sale proceeds.
What is the return to the finance provider?	- Interest paid either at a fixed percentage rate or at a variable rate determined by reference to an agreed formula e.g. a margin over base rate; - The principal will be repaid either "on demand" or in accordance with an agreed schedule.	- Dividends paid out of profits (assuming the business has profits out of which to pay them in the given year); - A gain (or loss) realised when some or all of the shares are sold, arising from an increase (or decrease) in the share value.
Where should they be used?	Debt is more appropriate for low risk ventures, especially where tangible assets are available to provide security.	Equity is more appropriate for riskier ventures, possibly involving low levels of security and/or high growth potential.
What key points are finance providers looking for when assessing an application?	In general, debt providers will tend to focus on the: - ability of the business to pay interest out of current and projected profits; - ability of the business to make repayments of the principal out of current and projected cash-flow; - the quality of the assets to be financed as providing security although the qualities of the market opportunity and management team will often be taken into account as important factors.	In general, equity providers will tend to focus on: - the quality of the market opportunity (size of the market, potential market share etc.); - the quality of the management team (how good their CVs are, to what extent they provide all the relevant skills/experience); - the quality of other intangible assets (e.g. intellectual property) as well as the details of current or projected profits or cashflow, and the security offered by tangible assets, which will be taken into account as important factors.
What are the main sources of this finance?	Banks are the main source of debt finance (e.g. loans and overdrafts), and the one most people have heard of. However, there are other forms of 'secured lending' which may be more appropriate in certain circumstances: - factoring; - invoice discounting; - supplier's credit; - hire purchase; - leasing.	Venture capitalists or stock markets are often thought of as the principal sources of equity. But like debt, there are several potential sources of equity (listed roughly by stage of development); - own funds; - family & friends; - business angels; - local enterprise funds; - venture capital trusts; - venture capitalists; - investment bankers; - stock markets.

Ultimately, most innovations will be financed by a mixture of equity and debt, as well as sometimes an intermediate form of financing called mezzanine financing. How much to use of each will depend of the specifics of your circumstances.

The art of the entrepreneur is to get the balance just right for the type of innovation and the stage of development that the company is at.

Equity and the potential benefits of sharing ownership

"A part of success is better than the whole of failure" Financing your innovation with equity will almost always involve a dilution of your ownership. To many "would-be" entrepreneurs this is just what they don't want. Yet without equity, your finance package may be unbalanced. And remember that even debt providers will be keen to see that their loan is properly looked after, and may seek to influence your innovation plans accordingly.

There remain many innovative businesses which could thrive with more equity investment, but which fail due to an over-reliance on debt:

- Obligations to pay interest can put a strain on cash flow and divert effort away from your innovation. Lenders generally have a legal right to interest irrespective of profitability and the cash position of the business. Shareholders don't have such rights;
- A high gearing ratio (debt as a proportion of equity) can make it difficult to get additional debt;
- Some loan covenants have an upper gearing limit which can trigger repayments;
- Seeking extended credit terms from suppliers can reduce flexibility to negotiate prices.

On the other hand, many equity providers will also bring their time and experience into the business and can often make a valuable contribution to the business plan and its execution.

Because of this more hands-on approach of equity providers, it is important to choose an equity partner with whom you feel you can develop a good personal and working relationship. The relationship must be able to withstand the stressful times as well as the good.

Make sure you understand what they want out of the deal and how they will add value. When will they want to exit? And will they be able to help you access the next round of finance?

How much ownership should be shared?

The specifics of how much equity should be injected (and therefore ownership shared) will depend on the case in hand. However, in practice, most equity injections are for rather less than 50% of the equity. In the early stages, the original team will therefore generally maintain the majority stake. Equity providers realise that capital growth of their stake can be a big motivating incentive for the management team, so it is often in their interests not to dilute it too far. As time goes on, later stage equity injections will dilute this, and overall the original team's stake can fall below 50%.

A useful rule of thumb when raising new equity is to try to ensure that the proportion of the business retained, bearing in mind the additional resources obtained, is worth more than the previous shareholding without the additional resources.

Why risk goes better with equity than debt

If a debt provider, such as your bank, offers you a loan, the money will have a direct "cost" to them - primarily the interest they pay on it (e.g. the base rate, or the Interbank lending rate) and the cost of assessing your proposal and monitoring your project.

Whatever rate they charge you, the maximum amount they will get back will be reduced by the cost of the money to them. At the end of the loan, debt providers often make a net return of only a few percent of the amount loaned, and even that will only be for the successful loans.

In view of this, debt providers cannot afford many failures. The more risk associated with a venture, the less attractive it will be to the debt provider because of the limited returns that debt offers. Increasing the interest rate to provide a higher return is not generally seen as a satisfactory way out because it imposes a higher cash-flow constraint on the business, which will in turn only increase the risk of failure.

Equity providers, on the other hand, are not constrained in the same way in the returns they can potentially receive. For early stage equity providers, most of their return will come from the growth in share value of the business. This can translate into very large percentage (and absolute) values, even after the costs of assessing and monitoring your project. Moreover, this does not affect the cash-flow in the same way that interest charges do. As a result, equity providers can afford to take on riskier ventures.

Mezzanine finance - part way between equity and debt

Mezzanine finance is an intermediate type of finance between equity and senior debt - intermediate in risk and intermediate in return. It is a specific form of finance, rather than simply being a case of adding a bit of debt and a bit of equity. It can be an important form of finance because it allows a more precise matching between the types of assets and/or levels of risks involved in the innovation and the type of finance used to fund the investment. It is commonly used in the financing of large transactions, such as company acquisitions, management buy-outs, or large investment projects.

Some forms of mezzanine finance are (roughly in order from senior debt to equity):

- Senior debt;
- 'Stretched' senior debt (payable only after senior debt repaid);
- Loan and redemption premiums;
- Deep discount bonds;
- Subordinated loans and warrants;
- Convertible loans;
- Convertible preference shares;
- Preference shares;
- Equity.

Mezzanine financiers, as subordinated lenders will undertake detailed due diligence, and tend to be active investors, monitoring closely the companies they invest in. In this respect, they may appear more similar to venture capitalists than banks. Minimum amounts considered by mezzanine financiers will generally be more than £1 million.

The importance of the right team

Whether you are seeking finance for innovation, or investing in innovation using already acquired resources, you need a strong team to maximise your chances of success.

The following are issues especially relevant to seeking external funding to finance your investments in innovation.

Getting the team right when seeking finance

External finance providers, whether debt or equity, will be looking to see whether the management team will be up to the job. This is particularly true for equity providers whose confidence in the management team will be given more emphasis (as an assessment criterion), relative to the current financial position of the business, than would be the case for debt providers.

Having a strong team is arguably even more critical for start-up and early stage businesses seeking finance, most of which have little by way of assets beyond the idea for a new product and some technically competent people capable of producing a prototype. In such a case, the *strength in breadth* as well as *strength in depth* of the management team can be crucial.

It is not enough to just have technical competence, as important as this might be. Successful businesses will need skills and experience in:

- Marketing - understanding the market is absolutely vital. This is especially true for innovative products and services, since many new innovations change the nature of the competition in existing markets or have no established market to sell into. Knowing who your main competitors are (or are likely to be), how big the market is and what the pricing strategy will be are three of the many important considerations. Also, for many innovative firms, the markets and competition will be international, so you may need to think globally from early on. And above all, marketing input is vital to ensure that the innovation is market led and not product led;

- Sales - even the best products do not sell themselves, at least to start with. Someone needs to be out there, looking for customers and setting up distribution routes. This may need to be started months before you have put the final touches to your product. Finished stock sitting on shelves can do terrible things to cash flow;
- Financial management - anyone considering lending or investing money in your business will want to know that the extra finance will be well managed. This will require skills in management accounting, as well as in financial accounting. For small growing businesses, it is also important to have an understanding of the different types of external finance, which to use under what circumstances, where to go to access it and how to "sell" to the relevant financial providers;
- Project management and leadership - who is going to pull all this together, to ensure that all the pieces fall into place at the right time? Who is going to act as a convincing mouthpiece for the business to encourage others to come on board whether with finance or with other resources? And who is going to keep hold of the vision when times get tough (as they will do) and keep all the stakeholders focused on the endgame?

Innovation requires real leadership as well as good project management skills. Good leaders inspire confidence in others, and are worth their weight in gold. Many entrepreneurs make good leaders, but inevitably there are many more that don't. Bringing in an experienced manager with strong leadership qualities can be a very difficult decision for an entrepreneur to make, but it could be the difference between success and failure.

Sharing the ownership of the innovation

As already mentioned, one of the common errors made by "wanna-be entrepreneurs" is to refuse to accept any (or very little) shared ownership of their new idea. Unfortunately this will generally result in the idea never being exploited at all, or the exploitation failing due to an over-reliance on debt, or it taking so long to reach the market that someone else has got there first.

The mistake being made is a failure to acknowledge that getting finance to take an idea to market automatically means someone else sharing the risk of the project. It is simply unrealistic to expect an investor to want to take on this risk without having some share in the return. And this will require some share in the ownership, whether in the form of an equity stake, or in the form of intellectual property arrangements, or both.

Of course, it is unfair if the equity provider wants to take too large a stake (how large is 'too large' will vary from project to project). But in general, many early stage equity providers should recognise that a fair apportioning of the ownership will be in the best long-term interests of the innovation - providing the necessary incentives and potential returns to all the relevant stakeholders.

It is therefore not enough to be an inventor - you have to be an entrepreneur. And successful entrepreneurs recognise the need for sharing ownership in the course of developing their innovations.

Sharing the ownership of the innovation with your employees

Employee share ownership schemes can offer positive benefits to both companies and employees alike. Owning shares can motivate employees, while giving them more of a feeling of involvement in the business, as well as being a tax efficient way of offering/buying shares.

There are several tax-advantaged employee share ownership schemes in the UK:

- Approved Profit Sharing scheme (APS);
- Save As You Earn sharesave scheme (SAYE);
- Company Share Option Plan (CSOP);
- Enterprise Management Incentive Scheme (EMI);
- Share Incentive Plans (SIP).

The APS and SAYE and SIP must be offered to all employees. The CSOP and EMI may be made available to selected employees.

For more detailed information for employers and employees on setting up or participating in each of the schemes, visit: www.hmrc.gov.uk/shareschemes

If you are considering setting up any one of these schemes, professional advice is recommended.

Writing an irresistible business plan

"Failing to plan = planning to fail"

Whether you are looking for external sources of finance, or trying to justify the expenditure from internal company funds; whether this money is intended to fund innovation or growth - in all cases a sound business plan is vital. While this section can't guarantee success in achieving your aim, it lists some of the key points and signposts to some of the many sources of help on writing business plans.

The purpose of a business plan

A business plan has two purposes:

1. *A convincing sales document to get money* - while giving the purse holder (whether an external investor or internal finance director) a realistic view of the risks involved (and estimates of the potential returns) and a thorough analysis of the financial needs and applications; and

2. *An operational and financial plan* - to provide the team looking for finance with a coherent business blueprint for the next 3-5 years which will help to keep them focused during the uncertainties that inevitably accompany innovative ventures.

Good business plans require effort. Lots of it - perhaps even months. It may seem a lot, but history is littered with companies with great potential which have failed to make it past first base because of a poor business plan. Just ask an investor!

Issues to cover

Your business plan should set out what you need and how you are going to use it to do what. It is important to show how all the resources at your disposal - people, money, knowledge - are going to interact to match your product with the right market at the right time, such as:

- How are you going to distribute it to your customers?
- Who are your competitors?
- What marks out your product from theirs?
- What management experience do you and your team have?
- How much - realistically - can the investor expect to get back and when?
- and so on...!

All these questions need to be addressed. And being realistic is important. You will only damage your credibility with obviously over-optimistic estimates of the potential market size and under-optimistic estimates of costs.

Of course, as well as being *fit for purpose*, a good business plan should be *fit for audience.* Bankers will tend to view the business plan in a different way to, say, business angels or venture capitalists. The former will generally be more concerned with the details of the security that you are offering (such as the existing asset base and the projected cash-flow). A business angel or venture capitalist on the other hand will, on balance, place more emphasis on the nature of the risks and whether the quality of the management team is sufficient to overcome them. This should be hardly surprising, given the differences between debt and equity.
In all cases, however, it is important to show what the opportunity is that you are addressing. Among other things, this will mean showing that you are market driven and not product driven - the world may not want the next generation of mousetrap even if you do!

While there is no one way to write the perfect business plan, some pointers include:

- Be individual - don't just rely on pro-forma approaches;
- Be punchy - don't fall in love with own eloquence;
- Be confident - if you can't convince yourself, you won't convince anyone else;
- Be intelligible - don't assume the reader knows all the jargon.

Sources of help with business planning

When planning your business, independent advice is recommended. You may already have a trusted advisor to whom you can turn. Some alternatives are discussed below.

Banks can also often help with advice on business planning. Some even offer business planning software which can be downloaded from their web sites. To see a list of web sites corresponding to many UK banks, visit: www.find.co.uk/banking

There is no substitute, however, for knowing what the financier is looking for. Since for many innovative businesses, equity finance will be sought at some point, the following websites may be of interest:

- British Venture Capital Association www.bvca.co.uk gives a flavour of what venture capital companies will be looking for out of a business plan;
- Venture Capital Report www.vcrdirectory.co.uk is an Oxford based company which provides a matching service between companies and private equity investors. The Report's founder, Lucius Cary, has also produced a book Raising Capital for Smaller Businesses which provides advice for those raising capital and for those investing in businesses;
- Venture Associates www.venturea.com/business.htm is a US based investment bank and management consultancy. This site includes a detailed account of writing a business plan, showing a US perspective on business planning.

For general advice on the preparation of business plans other websites include:

- BPlans contains over 500 sample business plans at: www.bplans.co.uk/sample_plans/businessplans.cfm
- Business Link provide a guide to preparing a business plan at: www.businesslink.gov.uk/bdotg/action/layer?topicId=1073869162&r.s=sl#
- ICAEW provide a director's briefing on writing a business plan at: http://www.icaew.com/~/media/Files/Library/collections/online-resources/briefings/directors-briefings/ST6BUS.ashx
- Microsoft publish a library of sample business plan templates at: http://office.microsoft.com/en-gb/results.aspx?qu=business+plan
- Bizezia publish a number of checklists to help entrepreneurs and others to prepare a business plan. They also publish a number of publications to help entrepreneurs and others to raise finance. Email them at info@bizezia.com setting out the information or help your require or visit: www.bizezia.com

Some golden rules to follow...?

There are no panaceas or golden rules to solve your financing problems. However, you should consider the following:

- Never reject a request to invest in your business out of hand - at least discuss it;
- Never accept an investor without fully researching the implications of your decision;
- Never accept an investor with whom you do not feel you can work closely, particularly if the going gets tough;
- Raise sufficient cash to meet the cashflow needs of your business (realistically assessed) not just the investment needs;
- Raising finance always takes longer than you expect.

Using Invention Promoters

Do you think you have a great idea for a new product or service? You are not alone.

Every year thousands of people try to develop their ideas and commercially market them. Some people use the services of invention promotion firms to help evaluate, develop and market their idea. Contracting for the services of an invention promotion firm is no different from making any other major purchase. If you are interested in working with an invention promotion firm, before entering into a contract, the following common sense guidance may help you to avoid costly mistakes:

- Do your homework - there is a considerable amount of free or low cost advice available, on issues such as patenting and other forms of intellectual property protection, which you may wish to consider first. A few of these sources or routes to information are suggested overleaf;
- Do not disclose the details of your invention to anyone, including the promoter, without a prior confidentiality agreement - failure to do so could prevent you from obtaining intellectual property rights in the future;
- Early in your discussion with a promotion firm, find out exactly what the different stages of the service are and the costs associated with each stage, from the "research" about your invention right through to the marketing and licensing;
- Ask the firm to provide evidence that they have the necessary skills and expertise in the field of your interest to support the activities that they agree to carry out on your behalf;
- Ask what success rate the firm has achieved in promoting inventions since it started offering its services, and find out whether references can be provided from recent clients;

- Question claims and assurances that your invention will make money. Commercialisation of inventions is a risky business - no one can guarantee that your invention will be commercially successful;
- Ask them for their rejection rate - the percentage of all ideas or inventions that the invention firm finds unacceptable at the first assessment stage. Not all ideas could be considered to be commercially viable and it should be expected that firms should have high rejection rates;
- Find out whether the services advertised, e.g. the patent search and/or market assessment, will be carried out in the countries in which you would like to exploit your invention;
- If the invention promotion firm claims to know, or have special access to, manufacturers who are likely to be interested in licensing your invention, or if they claim to represent manufacturers on the look-out for new product ideas - ask for proof;
- If the firm offers the services of a 'patent agent' or 'patent attorney' ask if those people are registered. In the UK it is an offence to use such terms if you are not registered, a qualification which entails examination and practice experience;
- If the firm offers search services to assess patent prospects make sure that the search is comprehensive and covers all published prior art. A patent must be new and if the idea is published anywhere in the world before filing then this will invalidate rights.

If at the end of all this you are happy with the evidence and do wish to enter into a contract, ensure that it contains all the terms you agreed to -verbal and written- before you sign. If possible you should seek legal advice. And remember ... do not disclose the details of your invention to anyone, including the promoter, without a prior confidentiality agreement - failure to do so could prevent you from obtaining intellectual property rights in the future.

Further Information

This publication is for general interest - it is always essential to take professional advice on specific issues.

We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

Important Notice

Publication issued or updated on:
9 May 2012

Ref: 348

Acknowledgement and References

[1] The Department for Business, Innovation & Skills (BIS) was formerly known as the Department for Business, Enterprise and Regulatory Reform (BERR) and before that was called the Department for Trade & Industry (DTI).

[2] © Some of the information in this publication has been derived from Government sources, principally Business Link and BIS, and Crown Copyright therein is duly acknowledged.