Contents

CHAPTER 1

Introduction

Start-up

{A practical guide to starting and running a new Business}.

Introduction

⇒ It is particularly useful for researchers and inventors that have developed a technology that they can build into a product or service.

1

How good is your Idea?

→ Book intended to help Start and run your own business.

Raising funding

Cash flow

Protecting your Idea

Marketing

⇒ Who and where your Customers are?
⇒ What they want from you?
⇒ Who the Competition is?
⇒ How are you going to Compete with them?

1.1> A Stable platform

⇒ There basic pillars that are going to Support the platform.

- Market
- Industry
- Team

1.2> Industries and market

Market → Customers

Industry → Sellers

⇒ It is therefor important to Separate our analysis of your business idea into a :

- → Market analysis : Looking at the needs of your Customers.
- → Industry analysis : Looking at the nature of the competitive environment.

1.3> Analysing the market

⇒ We are going to ask a series of question about your idea:

What problem are you going to solve?

→ One best ways of understanding this need is by describing the problem you are going to solve for them.

→ First thing you need to do is describe who the customer is.

⇓

→ If more than one type of customer, are you solving the same problem for all of them or slightly different problem for each one.

⇓

→ For each of your customers, write down the problem you solve for them.

⇓

→ Now for each problem that you are solving, you will need to find out how big a problem it is for your customer.

⇓

→ Does your intended offering solve the problem entirely or do you only offer part of the solution.

↓

(You may even need to think about licensing the rest of the solution from the other supplier)

Talking to Customers

→ Talking to people is by far the best way to understanding their exact needs and therefore, how you can develop your Solution to fit them exactly.

↓

people respond very well to being asked for advice, put simply it flatters them a little that you find their opinions valuable.

Why will they buy from you?

→ The way to answer this question is to look at the Competition.

→ The trick is to make your offering more attractive to them than the alternative.

→ First make list of all Competing Solutions to their problem that you can ~~fing~~ find.

⇓

→ Put yourself in your Customer's position and imagine all the ways of Solving it.

⇓

→ Now for each one, find out as much as you ~~feel~~ possibly can about them.

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⇓

Start a file on each of your competitors, print out copies of their brochures, price lists and take careful note of promotions they are running.

⇓

Start to think how you are going to compare next to them, how you are going to win business away from them and how you think they might respond.

⇓

If you get to this point and you really can't find anything on the market that offers something similar to you, it is worth asking yourself why.

⇓

Is there really a problem out there to be solved? Find out if others have tried to solve the problem in the past and failed.

⇓

If so, what went wrong, why did they not succeed and how are you going to have a different result.

⇓

Now describe exactly how your offering is better than the rest.

(Unique Selling point (USP))

⇒ This may be an iterative process while you fine tune your ideas to exactly match the market need.

Second part of the question

↳ Their buying decision may be based as much on their feeling about your company as on their feeling about your product.

→ It is very difficult for startup. You are going to have to make up for this with the personal touch.

How will the Customer's behaviour change?

→ Changing Customer's behaviour is normally a bad thing.

→ We are looking for the impact that your solution is going to have on your Customer.

↳ The wider the impact, the more changes are required to accommodate it, the more resistance there will be to accept it.

↳ More changes should be overweighted by bigger benefits.

→ So what changes in behaviour will your customers need to make in order to make use of your products and services?

⇓

→ Write them all down and ask yourself: Do the benefits make all this worthwhile?

⇓

→ You need to bring them over gradually, perhaps offer an intermediate step first, one that provides some of the benefits but without some of the disruption.

⇓

→ Then when they are happy with that, offer them the next step and so on.

Stakeholder ⇒ Anyone that is affected by the purchase and use of your product.

→ It should be possible to design the device in such a way that all the stakeholders are happy.

What sort of business do you want?

→ Businesses ranges from one-man-bands to global corporations.

• life-style business ⇒ Are capable of providing their owners with very comfortable income, good job satisfaction and flexibility but no equity.

↳ Owners are the business
→ No potential to sell the business.
↳ No potential to raise finance from investors.

⇒ Business that you can build rapidly for 5 years or so and then sell for a significant return!

eg → high technology, biomedical and other high growth areas of the economy.

→ They also require something novel and exciting that can be protected rigorously.

Where are your customers and how many are there?

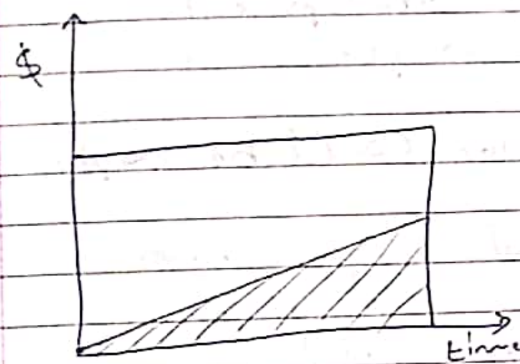
→ We are looking for total potential market size.

How is the market size changing?

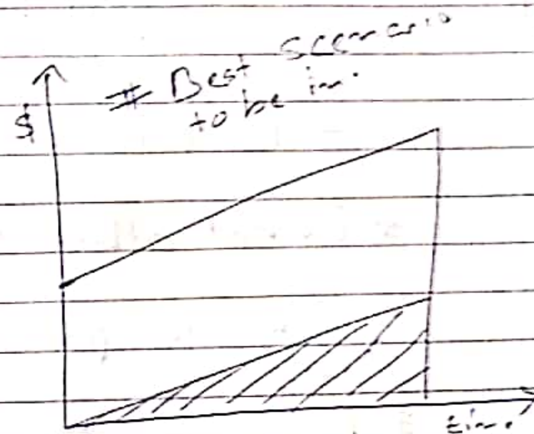
→ How the market has changed over the last 5 years.

→ If possible collect predictions about how it will change in the future.

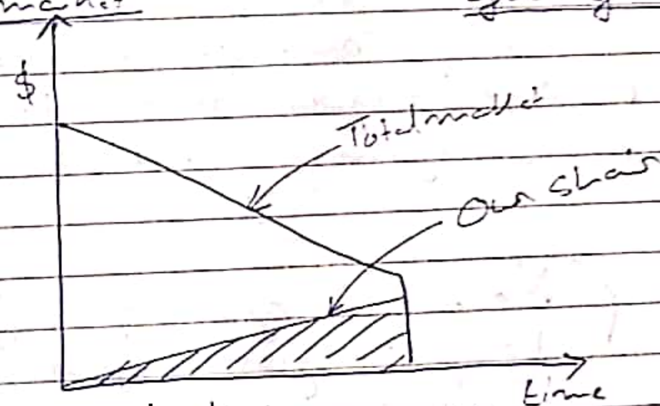
→ Very useful indicator as to the helth of the market and possibly dictate the interest of any investors you want to work with.



Static market



Growing market



declining market

How Valid are your data.

One of the risks of collecting market data from publications especially ones you find on the internet is knowing exactly who generated it, for what purpose and whether it can be trusted.

What trends are likely to effect your business?

→ Aging population
→ Climate change
→ Technological development.
→ Regulatory change.

What other sector could be exploited?

→ Growth potential for your business.

Do you have a market?

There is enough potential customers within your reach to achive your ambitions

↓

Market is growing sufficiently to allow you to grow and provide future stability.

↓

Any trends that you have identified will support the market and no threaten your hard work.

↓

We know what other market sector could be exploited in future to grow the business

1.4) Analysing the industry

⇒ Industries consists of sellers and what we need to look at next is the selling environment.

⇒ Five forces that affect the profitability of an industry:-

- Ease of Entry
- Supplier power
- Buyer power
- Threat of substitutes.
- Competitive rivalry.

How easy will it be to enter the market?

↳ It has to do with

A → Conservativeness of the market and whether brand loyality is strong.

B → Position of existing sellers and if there is a dominant monopoly in place.

C → Regulatory environment in the industry.
  ↳ whether there are standards and accreditations to be achived before you can offer your product.

D ↳ Use of Intellectual property.

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A) Try to find out who they buy from currently and how long they have done so.

→ Ask them what it would take for them to switch supplier.

Quality

Reliability

Convenience

Price

⇒ It may even be that you would stand a better chance licensing your new idea to an existing supplier instead of directly competing with them.

B) Industries that are inhabited by a dominant monopoly are exceedingly difficult to penetrate.

C) → Vast majority of products require safety and conformity certification and liability insurances.

→ You will need to understand and conform to these requirements before you can sell your first product or service.

→ The International Organisation for Standardisation (ISO) is a good place to start your search of relevant Standards that might apply to you.

D) You need to be sure that you are entitled to provide your product or service without infringing someone else's intellectual property rights.

↳ If you product or service relies on using something for which someone else owns the copyright or patent, you will need their permission and in most cases pay them a royalty for using it within your business.

⁑ What power do your suppliers have over you?

⇒ To answer this question we need to look at all the players that are involved between your taking an order from a customer and completing delivery:

→ Suppliers of parts
→ delivery companies
→ Other Service providers
→ Sub-Contractors.

→ For each one, write down whether what they supply you with is unique or if you could get an equivalent.

↳ Unique are Con Scom to your business.

⇓

→ What would you do if they suddenly increased their prices, demanded more cash up front or told y they could not satisfy your demand.

⇓

→ Think how you can multi source as many of your supplies as possible.

⇓

→ Try to get the best possible deal with your suppliers.

What power do your customers have over you?

⇒ In some cases, you will be able to get customers to pay at the time of order or at the point of delivery.

⇒ But in many B2B transactions you will have to invoice and hope for payment within 30 days or so.

⇒ Another aspect of this question is the extent to which your customers are sensitive to price.

⇒ One final element to this question is to find out how well informed your customers are to the alternatives and to the market as a whole.

How strong is the threat of people copying your idea?

Intellectual property protection.

What is the competitive environment like within the industry?

How are you going to stay ahead?

→ Part of answer is how you protect your ideas.

→ It also relates to your approach to continued research & development in going to be.

⇒ Are you a one hit wonder or do you have a pipeline of new products or services that you can role out?

⇒ Do you have access to Superior processes that will allow you to Compete.

- → Management process
- → Manufacturing process.
- → Secret recipes.
- → Attract and Keep best people in the industry.

What is likely to slow you down?

→ Lack of adequately skilled staff.

→ Long Customer decision cycles.

→ Regulatory approvals.

CHAPTER 2

How can you Protect Your Idea

How Can you protect your Idea

⇒ The topic of intellectual property rights is a Specialist area of expertise.

↳ You would be well advised to Seek the Services of professionals.

⇒ One of the main reason for doing this, in addition to potentially protecting your own rights, is to make sure that you are not going to infringe Someone else's.

⇒ If your business plans involves raising finance from investors, formal protection of your ideas and technology will be very important.

↳ Investors like to see that the technology they are investing in is protected.

⇒ A patent or registered right is also a tradable asset, meaning that there is potential to sell or grant licenses to it in order to generate revenue.

2.) Loose talk costs lives

⇒ At some point, you are going to have to share your thoughts with potential Customers, potential business partners and suppliers.

↳ In the early stages, the Simple answer is to protect Such Conversations with a non-disclosure or Confidentiality agreement (NDA).

NDA ⇒ This is a simple legal document, normally only one page in length, which binds the other party to keep your discussion with them secret.

→ Lawyer should be able to draft you a document that you can use for a reasonable fee.

↳ Patent agents and Corporate lawyers will not generally sign such agreements as they are bound by their professional code of ethics to maintain confidentiality with their clients.

2.2> Types of Intellectual property

Registered Rights

Those that you need to apply for.

⇒ Patents
⇒ Industrial Designs
⇒ Registered Trademark

Non-Registered Rights

It becomes yours automatically.

⇒ Copyright
⇒ Common Law Trademark
⇒ Unregistered Design right
⇒ Trade Secrets

Registered rights

→ All of these requires you to make an application that is scrutinised to ensure that it is novel and practical before being granted.

→ In all cases fees to be paid both as ÷

- → The application stage
- → Throughout the life of the protection

Trade Secrets ⇒ Used to protect processes or methods.

eg ⇒ recipe for coca-cola.

⇒ In general, un-registered rights are much cheaper to manage than registered rights but they are much more difficult to enforce and cannot be treated as an asset.

2.3) Patents

→ Commercial law has been established over the centuries to allow free market competition and restrict monopolistic practices that disadvantage consumers and the economy.

⇒ Patent law has been developed in recognition of the fact that technological developments are a good thing for an economy but are very expensive to develop and risky to introduce.

⇒ Patents grant inventors a limited monopoly period in which to exploit their invention in return for a public disclosure of how the technology works.

Novelty and Confidentiality

⇒ In order for a patent to be granted, the invention must be novel.

⇒ Some countries allow a grace period between public disclosure by the inventor and a patent filing date.

eg. USA ⇒ 12 month
JAPAN ⇒ 6 month

⇒ There is also a twelve month grace period for filing international patents following a filing in your home country.

⇒ Academic practice is to publish research results and technologies development as they are achieved.
↳ This can cause severe problem when it comes to protecting and exploiting those same result.

⇒ Example of public disclosure that can affect your chances of obtaining a patent include :-

- Conference presentations.
- Conference proceedings & journal paper
- Trade fairs
- Open day, including degree show
- Trade press articles
- Oral disclosure, not covered by an NDA
- TV or radio interview
- Internet website, blogs and Chat-room Conversation

How far does a patent protect me

⇒ The law surrounding IPR is entirely <u>civil rather</u> than Criminal.

- → This means that if you are granted a patent and someone infringes it, the responsibility is yours to take action.
- → You cannot call the police and you canot expect anyone else to pay for the legal proceedings.
- → As a small Company this can be hard to bear, so many Companies take out insurance against the Cost of legal fees spent defending their patents.

"If you are granted a UK patent, you have the exclusive right to control the making, Selling and using of your invention within the UK, for the duration of the patent's Life.

It does not stop someone in France copying your idea, making product and selling them there, or even exporting them to anywhere else in the world."

↳ Most patents are therefore filed in multiple Countries. to provide international protection.

⇒ The monopoly you have brought in filing your patent only remains while you continue to pay for it.

- → Each year you will have to pay a renewal fee to Keep the rights.
- → If you let the right lapse by not paying the renewal fee, the monopoly is permanently ended.

What can be patented?

"Patents are granted to inventions that solve a technical or industrial problem through an innovative product or process"

⇒ There are four basic criteria that must be satisfied for a patent to be granted ÷

1) The invention must be new or novel.
2) The invention must be inventive or not obvious.
3) The invention must be industrially applicable, i.e Capable of being constructed or operated.
4) The invention must not be in one of a number of excluded area.

⇒ When you apply for a patent one of the first actions the patent office will undertake is a Search to ensure that the invention is indeed novel.

→ To ensure each aspect of your invention is new

Excluded areas

→ Methods of medical treatment such as Surgical techniques or diagnostic processes are not eligible.

→ Some technologies related to defense.
→ Scientific discoveries, theories etc.
→ Aesthetic Creation.
→ Computer Program
→ Invention which is anti-Social in nature

Writing and Submitting a patent application

⇒ Main body Consists of two main Section:-

(1) Specification
(2) Claims.

① Specification

→ Written description of the invention.

→ It should include a description of the problem that the invention is designed to solve.

→ A description of prior art and its limitations.

→ finally a description of the invention itself.

→ Specification Can be short as 1 page and long as 100 page.

② Claims

→ In a series of short, numbered statements, the claims define exactly what monopoly is being sought.

⇒ Once the application is written, it is submitted to the national patent office.

→ The date it is filed is called the priority date.

→ Timing of all the subsequent events refer back to this date.

Patenting Computer Software

"Strictly speaking, Computer software is not eligible for patent protection in most Countries"

Filing international patents

⇒ One method of obtaining protection in multiple Countries would therefore be to directly apply to each office for which you need protection.

→ Each application would have to satisfy the local regulations.

→ Each application is presented in local language.

⇒ If you take this route, you could find all your time is taken up responding and arguing with a large number of different office.

PCT ⇒ Patent Co-operation Treaty.

How long and how much?

"Applying for patents, especially internationally, can be slow and expensive business"

UK patent Cost ⇒ 10,000 — 175,00 $

⇒ Even once the patent is granted, the costs do not stop there.

↳ Each separate country requires annual renewal fees to be paid.

↳ These starts low and increase towards the end of the patent's life.

↳ If you allow a patent to laps by not paying the renewal fee when it is due, you loose your monopoly permanently.

2.4) Registered design

⇒ Design rights operate in a similar way to patents but are concerned with the appearance of the whole or part of a product

↳ Can be used to protect appearance of your product that derives from features such as lines, contours, shape, colours texture or even use of material.

⇒ Design rights cannot be used to protect a single artistic creation but can be used to protect the shape, form or surface decoration of a product that will be produced in quantities of more than 50 units.

⇒ Unlike patents, design rights exist by default whenever you design and manufacture a product with a new look or feel.

↳ Un-registered design right.

↓

{ It offer limited protection as you would have to prove that anyone producing a similar design had actually copied your design rather than arrived at the same point by coincidence. }

⇒ By registering your design, you are protected against imitations even if they are not the result of copying.

⇒ The process of applying for a registered design is similar to that of applying for a patent.

⇒ Granted rights typically last for twenty five years.

2.5) Trade marks

⇒ Any sign which can distinguish your goods and services from those of other traders.

↳ It can take form of words, logos, picture or a combination of these.

Un-registered trademark

⇒ The enforcement can be applied if you can prove that you have generated a reputation in the market under the mark. {TM}

Registered trademark

⇒ It is usual, though not a requirement, to indicate its registered status by using the ® symbol.

⇒ Trade mark registrations are awarded for specific market sectors.

↳ It is therefore possible for two or more organisations have identical trademark names, if they do not compete in the same market.

2.6> Copyright

=> Copyright is entirely un-registered.

=> Copyright is used to protect books, Software code etc...

=> Infringement occurs only if a substantial part of the work has been copied.

=> It is a good idea to use the © Symbol together with your name and the date on material that you wish to protect.
  -> but is not a legal requirement

2.7> Working with patent agents and IP lawyers

=> You should expect to invest a significant amount of time with your agent.

=> You will then need to carefully read through the specification and claims that they draft.

CHAPTER 3

What is a Company

3

What is a Company

⇒ Until the middle of the 19th century, the only way to do business was as a sole trader or as part of a partnership.

→ Under both of these models, the proprietors were entirely responsible and liable for the actions of the business.

⇒ To drive the new economy forward, the concept of the limited liablity Company was introduced.

⇒ A Limited company allows investors to risk only the piece of the share they buy in the company.

→ When company become insolvent they lose their investment, but nothing more.

→ This allows a separation of responsibility between:

Those that own the Company (Shareholders) | Those that own the company (Directors)

3.1) The Company as a legal entity

⇒ The limited Liability company is incorporated as an independent legal entity.

↳ It is recognised almost as a person in its own rights

↳ It has right to own property, make contracts and has legal liability over its action.

↳ Company can even entirely own other companies.

Types of Company

⇒ There are four basic types of company that can be formed to carry out commercial activities.

⇒ First two are Sole trader & partnership

⇒ Anyone can trade as a sole trader or as part of a partnership.

↳ There is no registration process and no legal need for any formal agreement or paperwork.

⇒ The only office action you need to take is to notify the tax authorities of your changes status and additional income.

⇒ The vast majority of start-up companies are however formed as Limited Liability Company

↳ To form a Limited Company, you need to register it with the state.

↳ This is equivalent of obtaining a birth certificate for the company and normally involves a small set of forms to be completed, together with the preparation of the company's constitution.

⇒ For completeness, the forth form of commercial company is the Public Limited Company or PLC

↳ Essentially, the structure is the same as for a limited company, but the shares are offered to the public.

↳ Most PLCs have shares that are traded on a public stock market, but this is not always the case.

Company Constitution

⇒ To regulate a company two documents are required, The Memorandum of Association and Article of association

Memorandum → regulate the external affairs

Articles → regulate the internal affairs.

Memorandum → States the purpose for which the company has been established.

→ Shareholders are therefore aware of the purposes to which their funds are being put.

Articles → Regulates how the company manages its internal affairs

→ Rights of the shareholders.
→ Requirements for meetings.
→ Power of the Directors
→ ability of the company to borrow money and purchase properties.

→ The articles are a much larger document but a number of standard templates have emerged.

→ Most private companies formed in the UK use a standard template for their Articles known as Table A

Role and rights of shareholders

⇒ Each shareholder has a voting right on certain company decisions.

↳ The more shares an individual owns, the more votes they have and therefore, the greater their control of the company.

⇒ Shareholders hand over the management of the company to the directors.

⇒ Shareholders are required to vote on matters that affect the structure of the company. (Resolution is put forward)

- → Change name
- → make any alteration to the memorandum or articles of association
- → When the company wants to issue new shares.

Resolutions

- Ordinary — {To pass more than 50% of share need to approve it}
- Extraordinary — {TO pass more than 75% of share need to approve}

⇒ The company's article of association set out the decisions to be treated as extraordinary or special resolutions.

⇒ The shareholders have the right to appoint and dismiss directors usually through an ordinary resolution.

Company ownership and types of shares

(a) Ordinary shares

⇒ In the simplest cases, all the shares of a company will be the same and will be 'ordinary' in nature.

Classes of shares

⇒ Within a share there can be different classes with slightly different rights between them.

Example A B {Both are ordinary shares}

A → {Shares for the founders}

B → {Shares for the Investors}

{Both can have different voting rights}

⇒ This is used to control founders always have the control over appointment of board of directors.

(b) Preference shares

⇒ The divident paid to ordinary shares is uncertain and variable.
→ high if the company is doing good.
→ low if it performs baddly.

⇒ Preference share are a type of share that exists to provide some shareholders with a specific fixed dividend ahead of ordinary shareholders.

⇒ Do not normally have voating rights.

(c) Redeemable shares

⇒ Redeemable shares are shares that the issuing company has the right to buy back from the shareholder.

(d) Convertible shares

⇒ Convertible shares are shares that have the ability to change type and number.

(e) Complex shares

⇒ Each of these special share type can be used in isolation or their properties can be merged to create complex shares.

Share option schemes

⇒ Share options are promises that the Company make to allow the purchase of shares in the future at a fixed price.

3.4 ⇒ Shareholders agreements

⇒ In addition to the memorandum and article which governs the behaviour of the company, shareholders can enter into additional agreements

→ To regulate the relationship between them and also to overcome any potential problem caused by a majority shareholding.

3.5 ⇒ Roles and duties of directors

⇒ If a Company is an independent legal entity, the directors are its mind and will.

⇒ Purpose of board of directors:

→ Determine the mission of company
→ set strategy to achieve it.
→ allocate the resources. etc...

⇒ Directors are accountable to the shareholders.

⇒ Unlike shareholders, each director on the board has a single ~~vote~~ vote and all votes are considered equal.

↳ Even if they are the majority shareholders, director can be outvoted in the board level decision.

⇒ The distinction between the board and the management can become blurred within a small start-up company.

↳ But it is important to try to separate the two roles.

Board Composition

⇒ Executive directors, which might include a managing director, technical director, marketing director etc. have dual roles.

{responsibility of corporate governance} {responsibility of management}

⇒ There are likely to be time when there are conflict of interest between the two roles.

⇒ The inclusion of strong and effective non-executive directors on the board will often help to address such conflicts and tensions.

⇒ Different aspect of the board ~~[illegible]~~ responsibilities can be dealt wit through board committes.
- → audit committee
- → planning committee etc.

Director's duties

- → Fiduciary duties
- → Duties of care and skill
- → Duties of internal management
- → Duties to third parties
- → Criminal acts
- → Duties during the winding-up of the company.

Insolvency

⇒ A company become insolvent when it no longer has the financial means to settle its debts.

⇒ A good corporate lawyer will be very important to your company as it progresses.

CHAPTER 4

How do you Market Your Product

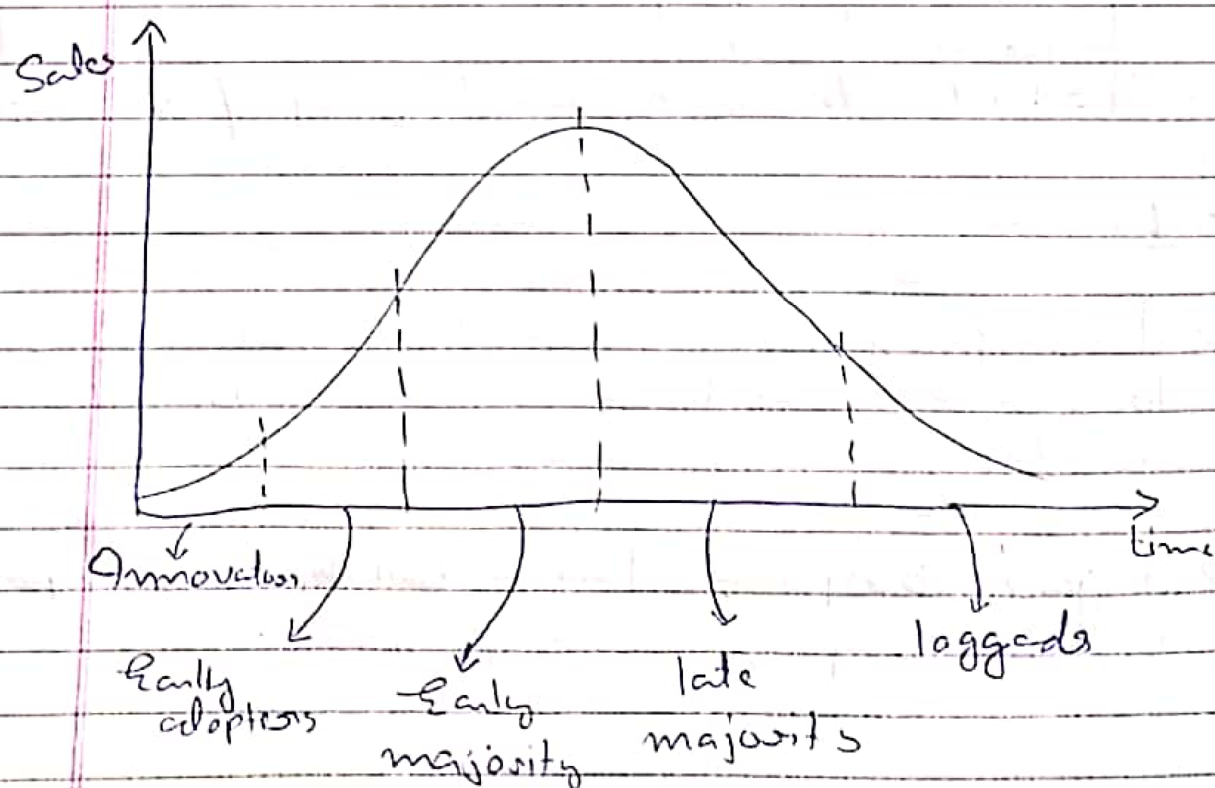
How do you market your product

4.1) Marketing and Selling

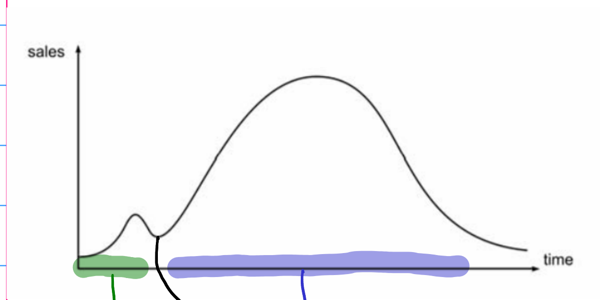
"The strategies employed across the entire process of designing your offering to meet the needs of the customers you want to sell to, and the mechanisms by which you promote it and finally deliver it to their satisfaction"

4.2) The product adoption lifecycle

⇒ In 1991, in his widely acclaimed book "Crossing the Chasm", Geoffrey Moore described the technology adoption lifecycle and the different groups within it



★ Moving from one group to next



Exploited innovators & Early adopters

Majority market

Dip

★ Winning the majority market

⇒ The secret to successfully breaking into majority market is careful market segmentation.

→ Key: Winning the easiest niche market first and then expanding into the rest of the market using each segment as a reference for the next.

★ Critical success factor

⇒ Failure to satisfy these critical factors will mean that even if you got everything else right, your business will still fail.

Analysing your business risk

⇒ Typically we can divide the risk that your business faces into three sets:

→ Technical
→ Commercial
→ Managerial.

For each of the risks that you identify, you need to describe five key aspects:

- The nature of the risk or what could go wrong.
- How likely is it to happen, here you could use a score from 1 to 5 or single words like high, medium and low.
- What impact would the problem have or what would happen if the problem occurred, In addition to a quick description, rank the impact as low, medium, high or show-stopper.
- What warning is there likely to be that the problem is going to occur.
- What mitigating strategies could you use to firstly, try to avoid the problem, and secondly overcome it if it does occur.

★ Technical risk (Examples)

1. First analyse any innovative aspect of your product.
   - → If we can't get this work.
   - → If power requirement runs the battery down too quickly?

2. A natural next step is to look at supplies and suppliers.
   - → Suppliers let you down or cause delay.
   - → Suppliers cease to make the Component you need.
   - → Sales increased drastically, can they keep up, can you keep up?

3. Finally Examine risks to cost and productivity.
   - → Supplies increasing there component prices.
   - → Difficulty finding staff with the appropriate skills and Experience.
   - → It takes too longer to make than you think.

★ Commercial risk

1. Firstly examine the design of the product or service.
   - → Does it fully solve the customer problem.

- Does it do anything for the customer that they dont need or want.
- could it possibly create new problems for the customer?
- are there any weaknesses in the design?

2. Next, look at the positioning of your company and offering in the market and the likely response of the competition. What if:
   - the competition drops their price?
   - someone tries to copy your idea?
   - you can't gain a good reputation in the market?
   - customers fail to trust you?
   - you can't get through to the key opinion leaders,?
   - you get bad reviews?

3. If relevant, examine the intellectual property risks that might exist. What if:
   - your patents are challenged?
   - the licenses you need are not forthcoming?
   - you can't register your trademarks?
   - someone infringes your rights?

4. Next there will be risks associated with the promotion of your product or service. What if:
   - you struggle to achieve the awareness you need within the market?
   - interest in your product is limited?
   - the trade press don't want to write about you?

5. The last set of the selling risks are attributed to the closing of deals and sales. What if:
   - customers take a long time to make buying decisions?
   - you can't achieve the price you were hoping for?
   - the process of closing each sale is more time consuming that you hoped?

6. Finally we need to look at aspects of customer satisfaction. What if:
   - customers are dissatisfied?
   - they complain publicly?
   - repeat business is slow?
   - they find alternative suppliers for consumables?
   - they inundate your technical team with enquiries and sugg-estions?

★ Managerial risks

- the right people do not apply for your vacancies?
- they demand higher pay than you had budgeted for?
- morale deteriorates?
- key personnel are attracted elsewhere?

- new employment or commercial laws come into effect?
- your product harms someone?
- you infringe someone else's intellectual property rights?

- customers are late to pay you?
- suppliers demand earlier payment?
- growth increases beyond expectation?
- cash runs out?
- investment takes longer than expected to raise?
- loans are difficult to secure?

★ What should be in your marketing plan

⇒ Your market plan should include a detailed description of each of the potential markets or customer group that you feel your idea could be sold to.

- → For each group describe the problem you solve.
- → For each of these market opportunities, find out as much as possible about the potential market size and the behaviour of the market (is it growing, static or likely to change soon).
- → How much they are willing to pay for your product.

⇒ If there is competition in the target market, start a file on each of them.

⇒ Start to collect lists of potential customers so that when the time comes, you know who to call and see.

⇒ Next, identify the next few market segments and describe the route you plan to take to break into them. You will not need as much detail on these sectors yet, but it is best to have at least identified them and made a start early on.

⇒ Creating this plan should not be done in isolation. The plan will benefit greatly if the whole team takes part in the thinking process and decision.

CHAPTER 5

How do You Finance Your Business

How do you finance your business

⇒ There are two basic ways of funding your business.

→ The first is to grow your business organically. (boot strapping)

This model works well for consultancy and service businesses

→ The second way of funding your business is to bring cash into the business, either through the sale of equity, taking on of debts or by winning awards and grants.

This model is more common where there is likely to be a developmental period before product can be sold.

★ Cash flow

⇒ Rule number one in running a business is never run out of cash.

⇒ Reducing the time between incurring costs and receipt of revenue is important to maintain cash flow.

5.2 Sources of finance

⇒ The three basic source of funds for startup businesses are:

- Winning a grant
- Taking on of debt
- Sale of equity.

→ Grants are in some ways free money.
  - does not need to be repaid
  - does not reduce your ownership of your company.
  - Term & Conditions will be there.

→ They all generally require repayment and the payment of interest.

→ The basic principle being that you sell some of the equity of your company to an investor.

→ If company fails, the investor looses their money.

★ Grants

⇒ Governments are allowed to offer companies working in recognised deprived areas, financial and practical assistance in order to stimulate the creation of employment.

⇒ Some grants are available to single organisations
↳ Other require groups of companies to work collaboratively, either with other companies or universities.

⇒ Grant may pay 50% towards a project's cost. This means that the company will have to match this funding and spend its own money to provide the remaining 50%.

⇒ Using grants to bring funding into your business has many advantages.

⇒ The disadvantages of grants are that often the application process is time consuming and can take many months to achieve, years in some cases.

Benefits:
- forming valuable collaborations
- Providing prestige & publicity for the business.
- Investors think your ideas are worth funding.

★ Debt

⇒ The simplest form of debt is a loan.

↳ Loans can be provided by anyone from a friend to a bank.

⇒ In all cases, the fundamental components of the loan are that you have to repay the capital, the amount you borrow.

↳ In addition compensate the lender for depriving them of their money for that period of time.

⇒ Banks require some sort of security on the loan.

⇒ Benifits of debt mode of finance:

- No day to day interference in your company from the lender.

⇒ The main disadvantage of debt however is that, in times of difficulty, lenders such as bank are more intrusted in their capital than the continuation of the business and will not hesitate to close the business if they see a risk of losing their capital.

⇒ Debt is most appropriate tool in managing cash flow.

★ **Equity**

⇒ Equity funding is the process of selling a share of your company to raise money that the company uses to grow.

⇒ In most cases the money is not repaid and if the company fails the investor loses their investment.

⇒ All the companies are required to maintain a register of shareholders and notify the company registration authorities of the list.

⇒ Depending on the amount of investment you require, there are many potential groups of equity investors.

Business Angels

→ Businessperson who has made money and is looking to invest it in a small company that they can get involved with and even work in on a part time basis.

→ Source of expertise as well as cash.

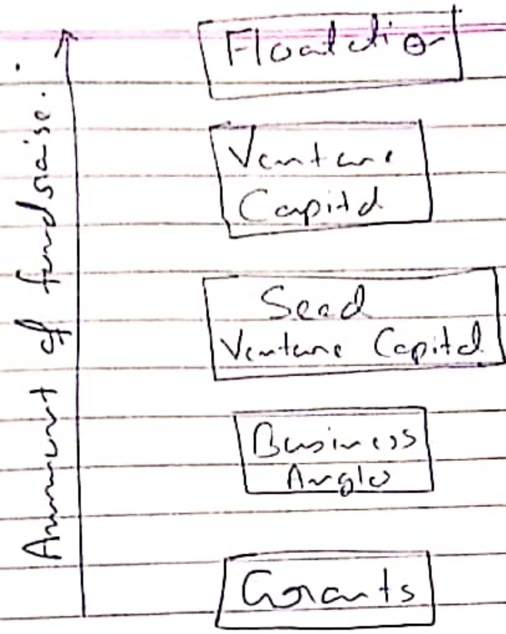
Venture Capital

→ They are professionally run organisations that invest in high growth potential businesses in order to make a capital return.

→ They often specialise in their investments
- → By Size of Investment.
- → By Industry sector.

Stock exchange

→ Offer part of the equity of your company to the public and allow those shares to be traded freely.



⇒ **Advantages of Equity Investment:**

→ No Capital or interest repayment.

→ Add value in terms of expertise, experience and contacts.

5.3) How does venture capital work?

⇒ The VC firm builds a fund by essentially selling shares in it to these customers with the promise to repay them with high rate of return when the fund closes in say ten years.

⇒ Having built a fund, the VC firm then looks for companies to invest the money in that will provide enough capital growth to make good on their promises and take their fee.

⇒ At the end of the VC fund life capital need to be extracted from the investment, so that funds can be repaid to the customers.

↳ EXIT Strategy

★ What are Venture Capitalists looking for?

- → Committed and competent management team.
- → They look for business plan that is understandable and realistic.
- → Opportunities that are different and unique but that has potential.
- → Within management team they want to see vision and enthusiasm tempered by experience & capability.
- → Most of the money will be put by VC but they, like to see management team are also investing something too.
- → The business proposition needs to be clear and understandable.
- → The investment need to be appropriate for the VC firm
  - → In their area of expertise.
  - → Of right scale.
- → Market need to be growing.

★ How do they structure a deal

⇒ It is relatively rare for VC firm to buy ordinary shares in a company.

- → Since they are investing a vast majority of fund, such an approach will dilute the existing shareholder and management almost out of existence.
- → They spread there investment across number of share types and even loan.

★ How do you value your Company

⇒ If you have a trading business that last year made profit of $100,000, then a simple valuation method is to compare that profit to interest that you could receive from a saving account.

↳ If interest rate is 5% then your valuation is $2m.

⇒ Another way to look at this outcome is that the value is equal to 20 times the profit.

↳ The multiplier is called price earnings or PE ratio.

⇒ If you are not yet in the position of making profits, but are forecasting to do so in the future then there are other methods you can apply.

↳ It is called Net Present Value Calculation.

★ Exit Strategies

⇒ There are three basic exit strategy available:

- ↳ Trade sale to Large Company.
- ↳ Buy-Out {Sell your share in the next round of funding}
- ↳ Stock-Market

CHAPTER 6

How to create a Financial model

How do you create a financial Model

⇒ You will need a financial plan for your business even if you do not need to borrow money or sell equity in your company.

⇒ The process of creating a financial model is really about planning and understanding the detail of how your business will work and operate.

⇒ Without a financial model you cannot know:

- → What you can afford to spend.
- → What you will need to sell your product for.
- → How much you can pay yourself and your team.

★ The basic structure

⇒ A financial model consists of a balance between income and expenditure.

Income → Sales of product or service

→ The total of this income is known as turnover.

⇒ Complexity of this side of equation comes in

- → Forecasting what your future sales are likely to be.
- → What price you can charge.

Expenditure

→ The first element in this side of equation is Cost of Sales.

→ Cost of making and delivering the product.

$$\boxed{(\text{turnover}) - (\text{Cost of Sales}) = \text{Gross margin}}$$

⇒ A high gross margin is much more likely to lead to a profitable business, providing you can sell enough of them at that price.

⇒ The second aspect of this side of the equation is the operating expenses of the business.

→ Adminstration
→ Sales & Marketing
→ R&D
→ Capital expence, Premises cost, 3rd party service.

$$\boxed{(\text{turnover}) - (\text{Cost of Sales}) - (\text{Operating expenses}) = \text{Profit / Loss}}$$

EBIT ⇒ Earning before income tax

⇒ When all these values are presented in a way that shows you income and expenses, resulting in a profit or loss, the resulting table is known as profit & Loss statement.

A P&L account like this shows you how profitable the business is going to be, but it assumes that the revenue and expenditure occur at the same time, in other words it doesn't tell you what your cash flow is going to be.

→ To do that financial model also includes a Cash flow statement

⇒ Balance sheet are also a common financial tool for reporting and examining a companies health.

→ Provides a snapshot of the companies financial position at a specific point in time.

★ Business planning tools

(A common spread sheet is more than enough for building your financial model)

★ Building the model

⇒ This section will take you through the process of building a financial model in a logical and step by step process.

CHAPTER 7

How do you write your Business Plan

How do you Write Business Plan

Specific document that is used to convince investor or a banker to put resources into the business.

⇒ fundamental reason for creating business plan though, is to follow it to your intended goal.

⇒ It does not remains static, it is a living document that is continuously updated as your knowledge of the market grows and the opportunities unfold.

⇒ It should be a team effort.

★ What should your business plan contain

As a general guide, most business plan document will contain the following core sections:

- Executive summary
- The market
- The product or service
- The management team
- The business operations
- Financial projections
- Financial requirements
- Appendices

⇒ The order in which they appear will vary from one business to the next.

★ The Market

⇒ Define the market sector in terms of its size, its performance and characteristics.

→ Customer groups you have identified.

- Scale of the opportunity.
- Describe industry and who are your competition.
  - How will you compete with them.
- What the main barriers of entry are.
- Describe your market approach and strategy.
- Put evidence of this in the document appendices.

★ Product or Service

⇒ Describe problem you are solving in plain and clear language.
  - Try not to overhype your description.

⇒ Describe your product and how it is solving the problem.

⇒ Describe the current state of offering, it may be that you have a prototype.

⇒ Emphasis the Unique Selling Point (USP).

⇒ Describe your pricing strategy.
  - How much does it cost you to make & deliver.
  - What do you intend to charge for it.

⇒ Your approach to future product development can also be described here.

★ The Management

⇒ This section of the plan is used to convince the reader that you have the right team to convert the plan into a reality.
  - This include description of both board and the executive management team.

Each key member of the team should be introduced in the plan document with a paragraph describing their skills, experience and responsibilities within the company. Try to keep the descriptions concise within the main document but include full CVs in the appendix. An organisational plan is a good way of quickly showing the structure of the management team.

★ The business Operations

⇒ This section describes how your business will operate.

⇒ Describes what certification are required for the product.

⇒ Set out the milestone by which you measure the business success.

★ The financial projections

(financial model in short)

★ The financial requirement

⇒ Be careful not to make an explicit offer, you should set out need for your business and the method you propose to satisfy them.

- → Includes description of how much the financing will rely on debt as opposed to equity investment.
- → Whether investment is required in stages or one lumpsum.
- → Describe exit strategy.

★ The Executive Summary

⇒ The Executive summary determines whether rest of the document even get read at all.

⇒ It should be short, a maximum of two page, and should include all the Key elements from the other Section of your plan.

⇒ It should be a stand alone document.