

Investors Don't Buy into Great Ideas

They buy the business model

Have you ever watched Shark Tank or any of these other investor pitch shows and wondered why some of the great ideas don't get picked up? If you see something that you think would be an exciting opportunity, are you surprised when no one on the panel makes an offer?

It doesn't surprise me that most of these innovations don't get investors. If you think about it, there is hardly ever enough information for any investor to make a decision, but the interesting thing to recognize is that the questions from the panel members are generally about the business model itself - not the product.

In most cases, astute IP investors are always looking at the business model before they look at the product. They know better than to fall in love with the innovation itself and focus mostly on how the ideas could earn money to pay them back and how it would continue to grow their investment. The intellectual property doesn't need to be outrageously different or elegant in appearance or function. It simply needs to have a killer business model which will provide substantial and growing return for the investors and the principal.

Some of the most profitable ideas are not complex product-based innovation, but rather just a unique service delivery which can increase the earning capacity of those who adopt it. A product or concept does not need to be patentable to be attractive to investors. The patent is simply a method of ensuring that your competitive advantage can remain yours in the future.

In the early 1920s, the race was on to develop the next best mousetrap to combat the growing number of rodents in large cities. More and more wild ideas and complex mouse catching contraptions were developed, but when it came down to it, very few of them sold as well as the single disposable piece of timber with a spring-loaded snap trap on it. The reason why this remained the biggest-seller during this era and well beyond, was because it was disposable.

Once the trap had caught a single mouse or rat, its job was complete and it was disposed-of, complete with the rodent. The business model was *"you never have to clean this trap - it catches a rat and you throw it out."* The elegance of this business model was that it met the single greatest demand for most housewives at the time, which was *"I do not have to handle anything with a dead rodent stuck to it."*

The lesson for patent-holders and other intellectual property owners is to focus on the business model as it relates to the users – focusing on their specific requirements. Once you understand how the buyers would use your solution to solve their existing problem, you can calculate what they would pay for that based on their current cost to solve the problem.

Only when you can confirm that you can solve this problem more effectively, at a lower price and using an acceptable process, can you prove the demand for your solution is going to be better than the existing or other solutions.

If the business model supports this, your opportunity has value. If it is elegant and patented, it could be worth even more. However, with the elegance and patent protection, it might be worth nothing, if you don't have an attractive business model to work with.

So where next you see an episode of shark tank or any other investor pitch shows for innovation, look closely at their presentations from a business model perspective. You will be asking yourself how any of the panel could possibly make a decision about investing in any of the pitches, based on what is presented.

The answer is most likely to be in the experience of the panel members, who can look at the innovation and build a model inside their heads. Although they might accurately calculate the value of the opportunity based on future returns under their model, it is highly unlikely that they will share that with the presenters, as this would reduce the risk of the opportunity and increase the value – which might cost the investor more.

The lesson here for all innovators is to calculate the true value of your product from the business model and not from how sexy or elegant your product or service is. Astute investors don't get hooked on the product or service. They will jump in to a goods business model, which shows how the company will accelerate and how they will receive a return on their investment.

Would you like to know more about preparing an investment pitch for raising capital to commercialise your intellectual property? Go to www.billion-dollar-napkin.com and register for one of our free webinars on attracting investors.

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