

I have a Brilliant Idea

What is it ?

- Is it ownable and/or protectable?
- Who will pay money for it? Why?
- What is the problem it solves? For whom?
- What are these prospects using now to solve this problem?
- How would it be built?

How do I own it?

- Could this be patented?
- If I don't protect it, can I sell my idea later?
- Is there anything out there that does this?
- Non-disclosure agreements?
- Do I have the budget?
- Can I do it later?

Build the Business Model

- Proof of Concept**
 - Which independent body could test my claims?
 - What would be the measurement criteria?
 - How many would the market buy?
 - What would be the limitations of production

- Patenting**
 - Can I prove I own the innovation
 - What else is out there?
 - Can I review global patents for other ideas?
 - How much should I allocate for protecting what I have?
 - Do I still need a Deed of Non-Disclosure if I patent?

- How it works**
 - How it is produced and for how much
 - Who will buy it and why
 - How much will they pay for it
 - What levels of inventory would I need?
 - Subtopic

- Ownership structure**
 - How and when I will reward my investors
 - Who will be the management teams
 - How independent is the Board
 - Is the commercialisation team different from the R&D team?

- Planned Exit**
 - How will I eventually realise my reward
 - How will the corporate structure grow
 - Who will buy or buy into the project, once it gets going?

- Funding requirement**
 - When and how often will you need money?
 - How much will get you to positive cashflow?
 - From where would you expect to source investment?
 - Who have you asked so far?

Distractions

- Other brilliant ideas**
 - Have the discipline to "park" other ideas
 - You can only work on one idea at a time
 - secretcy is the most affordable option for protecting early ideas

- Other demands for my time**
 - Do I have to earn income at the same time?
 - Can I travel if this requires it?
 - Will my family commitments suffer?

- Limited resources**
 - Can I fund the pre proof-of-concept phases?
 - Money
 - Time
 - people
 - skills
 - equipment
 - space

Do I have the resources now?

- Time?
- Money
- Access to market
- Knowledge? Know-how?
- Connections?

What do I want to do with it?

- Build a Company to produce it?
- Find a company to licence it?
- Go into the business of supplying this?
- Find a partner for production and/or distribution

Funding the Development

- Self-funding as an idea
- Friends and family second
- When you have proof of concept - Cornerstone Investor
- later, growth funding to capture more markets

Planning your Value-Realisation Point

When do I want to get a payout for my idea?

- IPO or Reverse Takeover?
- Trade-sale to a large corporation?
- Sell half to a partner for growth capital
- Grow it out (franchising, etc)

How would I want to get my big payday?

- Sell half to a partner for growth capital
- Grow it out (franchising, etc)

What is the target value I want?

- What revenues would this idea need to generate to achieve this?
- What is the best way to achieve this?
- Can I finance the project to achieve these targets?

Am I realistic?

- Do I have independent market research?
- Do I have independent assessment of the concept?
- Are there potential buyers/licensees/partners jumping to get hold of this?

Flow Chart Issues

What your priorities need to be

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- **Cash conservation;** it is important to remember that commercialisation projects always take more money and more time than predicted. To be able to survive the long-term commercialisation and development process, you need to make sure that your overheads are low. Having lease commitments on premises and/or equipment or salaries, can drive the project into the ground. Where key personnel are required, it is always nice to offer them an equity position for early work, on the basis that the project is not proven.
- **Working to objectives:** if you don't have a detailed plan of what you need as outcomes and what steps are required to make this happen, you will default to focusing on the urgent issues which may not be important issues. As a result you can waste most of your days putting out fires but not actually building the project to a commercial standard.
- **Knowing what the market wants:** the most critical step in early-stage commercialisation, which is mostly overlooked by nearly every inexperienced innovator, is to validate the market before you start to develop. This includes knowing who will buy what you have, what they currently use to solve the problem that this will solve, how much they will pay and where they would expect to buy this.
- **Knowing what you can make it for and what buyers will pay for it:** it is sometimes very difficult to determine how much an idea is going to cost to build and also what people will pay for getting access to it. The critical thing is to focus on the problem it solves. If you are able to work out what people are paying to solve the problem that this solves right now, and your solution is better faster cheaper, then you have a chance to make this commercial.

What outcomes and options you can pick

- **Licensing:** licensing is very popular for most experienced inventors because they recognise that they need to invest very little in manufacturing and distribution infrastructure, in order to start making money. When you licence a product, you make far less money than you would if you owned the full operation. However, your risk is only loss of income if something happens to your licensee. Given that most licence agreements have a hand back clause if the licensee fails to meet performance criteria, your losses would be limited in the long-term. Receiving 3 to 5% of gross earnings that can be generated from your product can be a far better option for inexperienced manufacturers, to have others with the distribution network, handle your product to their existing customers.
- **Trade Sale:** a trade sale can be a very effective method of a cash lump sum payment. When planning a trade sale (this should be done before you develop the product) it is good to focus on who the trade sale buyer will be, before you actually develop

anything. If the company is a large enough trade sale target, there could be a possibility for you to exchange for shares in your development company for shares in their listed company, which would render you liquid immediately and in some jurisdictions, not face a hefty capital gain for the profits you make, until you sell your shares and realise any profit.

- **Grow it out:** growing out an idea into a company, a national presence and later a global entity can be the first option that inexperienced inventors think of. Although this provides the best return on investment over a 20 year patient life, it carries with it all of the commercial risks associated with research and development, early-stage commercialisation, manufacturing, as well as growth and distribution. Adopting a franchising model can reduce the risk, but still will not deliver cash returns in under five years, as most of the earnings need to be pushed back into the business to generate the growth.
- **Listing it:** turning the idea into a public company and listing it on the stock exchange could generate the financial resources required to grow the project into an international company. There are certain requirements for listing a company, which includes a substantial and growing cash flow, significant profitability with a history of this, as well as a long-term investment path for future capital. Public shareholders do not invest in companies that are not making a profit, unless you have an exponential growth in clients, such as Google and Facebook.

How to sequence your tasks

- **Market Qualification first:** in keeping with the “business model first” policy, you should have an independent quantification of the business opportunity, focusing around the potential buyers and users. Having a bunch of your friends surround a table and tell you what they think of your idea is not market research. Most of your friends will not want to disappoint you and will encourage you to develop your project, without thought to the amount of money you could lose if you can’t commercialise after you have developed.
- **Pricing and costing next:** knowing what the product will cost to build and what the market is prepared to pay for it, to verify critical pieces of the value model. As a rule of thumb, retail products require a seven times mark-up from the manufactured price, to be viable. There are lots of variables to this sort of measure, but you will hear about lots of inventors who come up with household items that they believe every home will need. What they fail to realise in most cases, is that households may not pay extra for a better product and may not spend the sort of money this product needs to trade for, once the distribution and retail expenses are added to it.
- **Then protection and competition:** once you are assured of your market model in the value, you now need to protect what you have and conduct or purchase industry research on your competition. It is important to realise that at least one of your competitors could eventually be your trade sale target, so you need a very good understanding of how they treat their customers, how they distribute their product range to their customers and what their history is in relation to managing or acquiring competitors.
- **Now you need to speak with a Patent Attorney;** once you have all of this information will now be ready to start the tinkering process, to build a rough prototype to present to your patent attorney you don’t necessarily need to be at a concept stage to apply for a patent, but it does help. Having something to show and having a total stranger understand it, is going to be critical in your later function of capital raising for your project. There are some advisers who consider patents to be less critical in

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What the process is likely to cost you

- **Research must be independent:** conducting an independent market validation is a critical part of building a concept. Some inventors prefer not to talk to have prospect of buyers, on the basis that they don't wish to alert people to the opportunity. The fact is, prospect of buyers will not buy your product. They are only interested in solving a problem they have. Your research should focus on the problem, how they solve the problem at present, whether they would switch to another way of solving the problem and most importantly what they would pay to solve the problem in a different way. Understanding what the cost of the problem is for the prospect of customers is just as critical. What you may develop, could deliver a sustainable competitive advantage to the buyer or licensee, if they become a customer of yours.
- **Provisional patents:** although provisional patents are relatively cheap, it is important to understand that the clock starts ticking the day you lodge. You have a limited time to protect your idea before you must convert your patent into a regional or global protection and this costs money. It is important to prepare your development and commercialisation program before you set the patent clock going, so you don't have to do pay for additional patent in costs while you are still in the developmental phase of the project.
- **Your Value:** it is prudent to understand that your time and effort have no value to investors during the research and development or early-stage commercialisation faces of your innovation program. There is going to be a value associated with all your effort, but this is always going to be at your value realisation point, which is commonly called the exit.
- **Don't load a project with salaries or other overhead:** if you can accept that all projects will take at least twice as long as you predicted to develop, it is important that you have provision for sustaining the project beyond your current budget. You can't expect to run out of money and ask for more at the same low price, if you have run out of money because you didn't budget right. To keep budgets in check during the development phase, you should look to ways of keeping fixed costs such as salaries, rents, leases et cetera out of the project completely. It may be that you trade off key personnel for equity, during the development phase and reward them with part salaries during the early-stage commercialisation phase. Leases can kill a project very quickly, if the project is extended beyond the allocated or planned development interval.
- **Don't treat the project as a cost centre:** it is important for investors and others around you to understand that your research and development project can't provide a payback in one accounting cycle. If your project is treated as a cost centre, there will be financial controllers who wish to write down the development in the following year, as a tax loss. If you are able to keep the project as an Independent R&D and not Bill expenses directly to it, he can sustain itself much longer to meet the requirements of proof of concept, without being squeezed by auditors and accountants, keen to keep it off the balance sheet.
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an expert to prepare an application for these, as each fund will have its own selection criteria and putting your best case forward can make all the difference in a competitive environment. Given that most great writers work for a percentage of the grants achieved, they can represent good value.

How long it might take to generate income

- **Longer than you think:** As a rule of thumb – the average project will take twice as long to develop and cost at least twice what you thought it would. This is commonly referred to as the F factor, on the basis that without anything needing to go wrong something is always going to F up.
- **Income is independent:** In most cases, the anticipated income should be as predicted, if you did your independent market validation right. Before you start your early-stage commercialisation, it would pay to commission a further study to validate international markets, as this will add value to your project before you raise any capital you require.
- **Setting your track record:** Don't start your sales too early: in some cases, where you have early film demands but no promotion or distribution in place, it might pay for you to provide product to prospect of customers on a trial basis with an expectation that you will enforce them in 12 months' time. This ensures that your sales performance has not started and therefore cannot be measured. It's important to understand that if you do start sales and your growth tapers, so does your long-term value, which in most cases is based on the net present value of future earnings.

Need more help?

- Buy Daniel's book from the website you received this paper from.
- Check in for one of our Webinars – maybe you can get some questions answered
- Resources available at www.commercialiseIP.com

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