Grow Business Development

Beyond the Wood & Trees

WHITE PAPER

High Tech, High Growth & Value Realisation

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Beyond The Wood & Trees

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High Tech, High Growth & Value Realisation

From the perspective of both entrepreneurs and inventors the core objective of investing in a high tech, high growth business, is to realise a substantial increase in value at a point in the future. In order to achieve this, investment will have to be made in key assets that the business will hold.

For many 3rd party investors, the assets that will attract their or their client's money will be intellectual property, such as patents, copyrights, trademarks & trade secrets. Whilst these may be historically regarded as intangible, in the modern age these are seen as the increasingly dominant value in business over say bricks and mortar, plant and machinery.

The fundamental reasoning behind this thinking lies in the concept of Unique Selling Points (USPs) and competitiveness. Such rights are presumed to give companies unique advantages over their competitors, sufficient to justify the undoubting faith of their management teams and investors. If this is true, why do so many IP rich business's fail?

The answer may lie in the fact that of over 50 million patents registered on the World Intellectual Property Organisation (WIPO) database, less than 3% achieve products that make it to market and of those only a fraction actually deliver returns over and above the cost of patenting. Perhaps the question we should be asking is "Is IP enough?" or rather obviously are there some other intangible values that need to be achieved to harvest the value realisation all parties have invested in.

Intellectual Property (IP) V Intellectual Capital (IC)

Intellectual Capital can be defined varyingly, but it adds up to the value that investors are prepared to pay for a business over and above, the tangible and intangible assets identified above. These are such things as goodwill, brand, sales pipeline, customer base etc. But what underpins these is the relationship between the businesses' culture, its people, it's quality of connection to customers and suppliers. Without these capabilities, being resourced and deployed effectively and timeously, IP and company value struggles to be realised.

When 150 early stage, high tech businesses were asked to prioritise the importance of the following factors in Table A, in determining key USPs for their business, over 86% saw IP rights exclusively filling the top 3 priorities.

Table A

a	Patents	g	Trade Secrets
b	Goodwill	h	Customer Relations
c	Brand	i	Supplier Relations
d	Ambition	j	Human Resources
e	Trademarks	k	Culture
f	People	l	Sales Pipeline

Yet when the same businesses were asked, which of the following factors in Table B, were elements that their business was weakest in, 67% placed either Marketing, Customer Relations, Strategy Development or Coping with Growth/Change in either the top 1 or 2 places and 74% placed New Product Development and IP protection in either the bottom 11 or 12 places.

Table B

a	New Product Development	g	Marketing
b	Financial Management	h	Customer Relations
c	Operational Management	i	Supplier Management
d	Strategy Development	j	HR Management
e	IP Protection	k	Commercial Development
f	Coping with Growth/Change	l	Business Development

Essentially, the reliance on resource deployment to develop and acquire IP rights to realise value was seen as being a key focus for effort. Yet rather like the figures drawn out by the WIPO statistics above if you don't develop your business to sell your IP you won't realise its potential value. The capabilities that are going to make the business develop and grow long term value effectively and efficiently are accepted as being weak.

It’s not that people in these businesses are focusing on the wrong thing, their just focusing on what they know best at that time in the growth cycle of their business. One of the key differentiators between big high tech business and small high tech business is the percentage of investment in intellectual capital against intellectual property development.

Apple

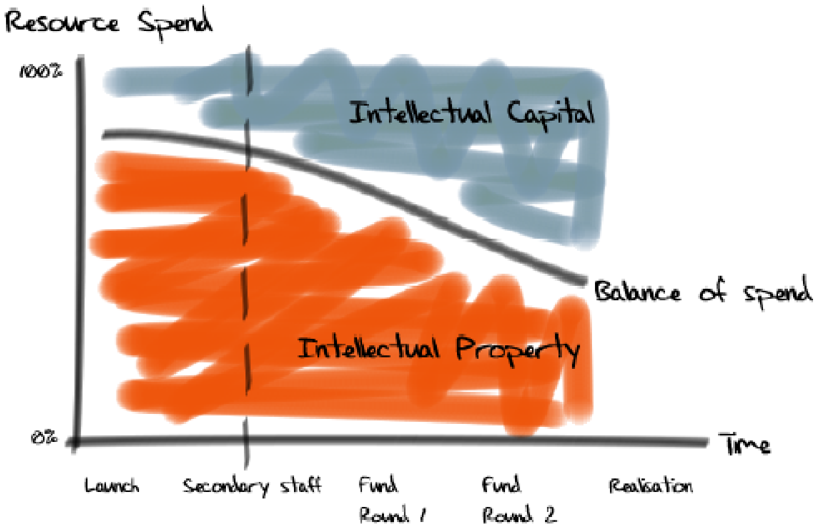
In 2004 Apple spent $489m on R&D – the development and protection of IP. At 5.9% of income this was well below the industry average of 7.6%. Yet in the same period, advertising spend at $206m and Distribution (Own Channel development) at $147m, regarded by Apple as crucial to developing better customer engagement and loyalty was a combined 4.3% - the development of IC.

Many people would argue rightly that Apple’s investment in R&D through a return to core values of innovation and design are key to its recent recovery and record profits announcements. But such investment without spending almost three quarters of the same in intellectual capital is unlikely to have brought anything like the rewards it has enjoyed over the recent period.

The important factor to draw from the points raised above is that all high tech businesses, need to have a clear recognition that a balance must be struck on deployment of resource between IP and IC and that such a balance will inevitably shift over time and subject to growth, internal and external factors. Very often for early stage high tech, high growth businesses, the initial resource is weighted heavily towards the development and securitisation of IP rights. However, as time moves on and the business grows there is an ever, increasing need to invest more in IC to deal with the core weaknesses identified of:

- Marketing
- Strategy
- Customer Relations
- Coping with Growth/Change.

A failure to effectively resource these factors early and expertly enough leads often to the consequence of business failure. Below is a simple model, which illustrates key points in the resource-spend, over time mix of high tech/growth businesses.



The balance of spend between IP and IC is typically IP dominant in the early part of the business's development and then shows an "ideal" swing towards IC as the capability to do business with that IP is developed and typical funding stages are achieved towards the value realisation point. A critical decision time for resource-spend balance between IP and IC is the employment of secondary staff, which we define as those staff typically coming into senior employed roles beyond founders.

These staff will usually include sales/business development, admin and additional technical roles, but the important point is that this business will not be their vision on entry to it. Yet they will have a crucial role to play in developing and embedding the cultural values of the business as well as driving it forward to key external stakeholders such as future investors, suppliers and customers. Ensuring that you are prepared for their entry and development in terms of the four key factors above is vital to making sure you build the right intellectual capital to exploit your IP and maximise the value realisation opportunity.

Too many high tech/growth businesses have simply failed to address or resource these factors sufficiently at the right time. Often the excuse has been costs or lack of understanding of how crucial these elements are and how they can be provided affordably and expertly. Sadly the result is often the action of investors, selling off the IP rights of failed business's to get at least something back.

- Martin Waddell founded Grow Business Development. He has extensive experience of media, marketing, IP and investment. He raised the Cascade VCT and has spun out high technology businesses from the UK University Sector and provided services to SMEs in a variety of sectors and global businesses such as BT Broadcast & Media. Martin can be contacted directly on 07979 651166.