University of Iowa Research Foundation

Ventures@UI

Iowa Centers for Enterprise

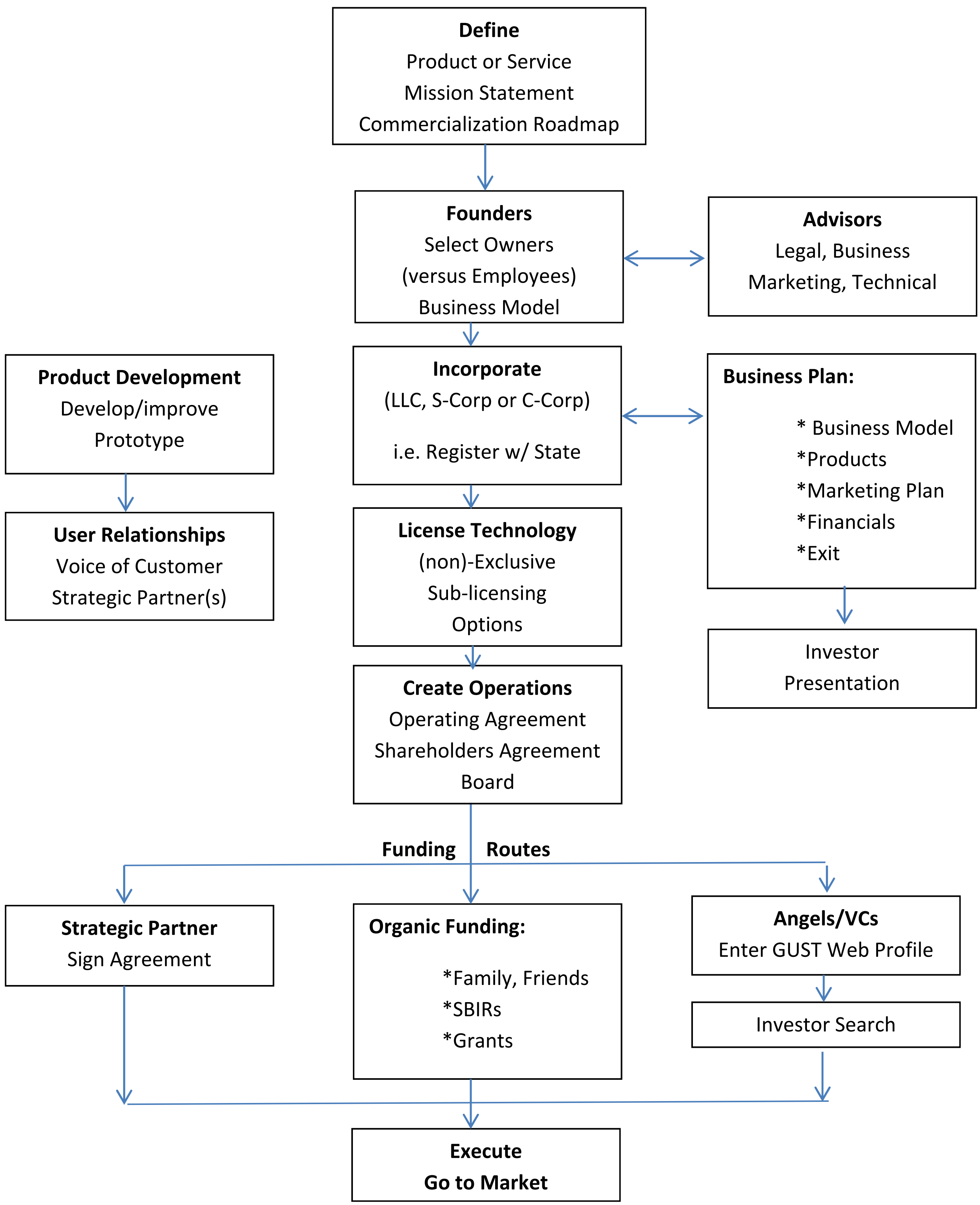
New Ventures Cheat Sheet

A roadmap and summary of how to start a new venture

(in 3 pages)

THE UNIVERSITY OF IOWA

New Venture Roadmap



New Venture Terms

Define: Before forming a venture you need to define the Product or Service you are going to deliver. It can be fairly general at this point and refined later. (ex: a better surgical device). A Mission Statement is a few sentences to describe what you are trying to achieve with the product and company. (ex: To place low cost surgical devices in the hands of doctors who need them). Finally, a Commercialization Roadmap are the bulleted steps (in as much detail as possible), needed to get achieve the Mission Statement.

Founders: Select the co-owners you want to work with. These are people <u>critical</u> to your success. Often you need their assistance but can't pay them, so you give them equity. Employees come later. The Founders all need to agree on the Mission Statement (or modify it).

The Founders also need to develop a Business Model. Mainly, how will the venture make money to be sustainable? This is not the company form (LLC, etc.) but the overall organization. (Will this be a virtual company with most of the work contracted out, or will employees be hired to do the things in-house? Will we sell direct or through distributors? What roles are there and how do we fill them?)

Advisors: In parallel, a team of Advisors must be established (not the board). Advisors are used as needed for outside guidance and perspective. They advise for free because they are interested in your success. The following advisors are recommended: Legal, Business, Marketing, and Technical. The technical advisor should be someone who understands the technology but is not directly related to the company. Do not choose a "big name" who will not be available when you need them.

Incorporate: Once you have your game plan in place and partners selected, you are ready to incorporate. The Business Model will determine the best corporate structure, (LLC, S-Corp or C-Corp). Actual registration with the State is only a few hundred dollars and can be done on the web. HOWEVER, see the next several steps before incorporating yourself.

Business Plan: As the company is being incorporated, a business plan should be written. A Business Plan is a <u>living</u> document that incorporates the Mission Statement, Commercialization Roadmap, and adds financial statements (called the Pro Forma – a best effort guess of what's it going to cost, when will it make money, and how much). The <u>exercise</u> of building the BP brings the management together with one vision, even if no one else sees it. Never more than 20 pages long, there is lots of assistance available to help write a BP.

License Technology: Once you are a legal entity you can option or license the technology from the university. Your Business Plan will determine if you want an exclusive or non-exclusive option or license, sub-licensing, terms and conditions, and performance milestones. Your Pro Forma financials will assist in negotiating how much the license is worth. Conflict of interest and use of university facilities must also be reviewed.

Create Operations: As part of the incorporation an Operating Agreement and Shareholders Agreement should be developed. These can be very simple or complex. Each is different. The OA states how the company is run, and how it is organized. Who answers to whom, etc. The SA states who participates financially, the equity distribution, AND MOST IMPORTANTLY, what happens when things go wrong. This is very important to discuss now! This is where lawyer comes in. They have experience at setting up OAs and SAs to avoid hard feelings later. Set up a Board only if/when legal consul recommends it.

Product Development: You will continue to Develop/improve your product while completing the business steps. The latest approach to product development is to create a non-working Prototype as quickly as possible, then get customer feedback. Determine who your customers really are. Then, approach several (yes, actually talk with them) to get two questions answered ASAP:

1. Would the customer use this product/service? (Do they NEED it to solve a pain/problem?)
2. Would they use it in the way you envision it? (ex: We envision it will REPLACE xxx; they see it as just another option).

These two answers may change your entire product or business model. Do this before investing too much into it.

User Relationships: The above process is called: **"**Voice of Customer.**"** It also allows you to develop Strategic Partnerships with potential distributors, customers, and buyers. Build these relationships early.

Funding: Now you are ready to find sufficient funding to complete development and go to market. Here are a few tips:

1. Strategic Partners as investors understand what you are doing so they are an easier sell, and do not want much equity in return for investing. They are likely to be a future buyer of your company.
2. Friends and family investing is a good start but has its own problems if you fail.
3. Grants and SBIRs do not dilute equity.
4. Angels invest in early stage ventures. Venture Capital comes after you have demonstrated your market value and potential. Angels and VCs now tend to co-invest together to reduce risk.
   a. You must have a good management team, advisors, BP and 10-15 minute presentation.
   b. At least one manager should have new venture experience.
   c. You must practice your presentation AND answers to likely questions for confidence.
   d. The goal of any presentation is to get the next meeting, not to overwhelm with detail.
5. Finally, any investor is not interested, and will seldom understand, the technology. Even one tech term can turn them off. They will leave the scientific proof for the due diligence step. They are interested in the ROI versus risk.
6. Any investment can get complicated. Keep your attorney/advisor in the loop.