



Funding Development without Losing Control of the Invention

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Raising money to develop a new product is one of the more difficult challenges facing entrepreneurs and small businesses as they start to commercialise their intellectual property. It's often a catch-22 situation where you may need additional funds to complete testing, conduct market research or even build a prototype but without these things in place, potential investors may perceive this initial investment as too risky.

One of the more common adages expressed to inventors and small businesses in this situation is the notion of 'friends and family' funding - they are often the only ones that will invest in you - rather than a detailed business plan or commercialisation strategy. While family and friends are a great starting point, often these sources are also limited and you may need to look for external support.

When seeking external financial support it is important to note that the majority of potential investors, including government agencies, will most likely require that you have some form of business plan or commercialisation strategy, registrable intellectual property rights, demonstrable proof of concept, industry support and sometimes more. Like all investors, they will be keen to ensure there is a good chance of getting their money back at some point, or some other value such as increased employment, which is often a key consideration for government support.

Common ways to raise capital include personal loans, government grants and assistance, business angels, venture capitalists and patent licensing considerations.

Personal Loans

Traditional lenders, such as banks and finance companies, will lend you funds to develop your invention however they generally aim to minimise their risk and look for you to provide some form of security for the loan. In many cases they will require a mortgage over your house or other assets. Institutions will also need proof that you can actually repay the loan so a business plan that clearly demonstrates future cash flow projections and where the repayments are coming from is a must.

While a loan might ensure that you don't lose control of the invention, it may mean that you put your other assets at risk should your invention not grab the market as you would like.

Government Grants

Both federal and state governments within Australia are very keen to foster our innovative culture and a broad range of programs and assistance are available. While the majority of assistance is aimed at existing businesses there are a number of programs to assist entrepreneurs and/or inventors commercialising commercially significant inventions. As a rule, government agencies are very selective with regard to investing taxpayers' money into high-risk ventures and you may find that programs have a variety of qualification criteria that you will need to meet before applying. Many of these grants are competitive and will only provide matching funds. From a federal perspective, [AusIndustry](#) is the Australian Government agency for delivering products, services and information that support industry, research and innovation. Detailed information on their broad range of programs is available via their website.

Alternatively, each of the states has their own programs. In New South Wales, there are a number of [Innovation Advisory Services](#) sponsored by the [NSW Department of State and Regional Development](#). In Victoria, see the [Department of Innovation, Industry and Regional Development](#); in Queensland see the [Department of State Development, Trade and Innovation](#) and so forth.

Business Angels

Astute investors, Business Angels are often experienced business people who are seeking to invest their hard-earned money into a new business opportunity rather than a lower risk and possibly lower return stock market investments. Because of their business savvy, they are often keen to take a personal interest in the day-to-day running of the business in order to ensure they have a good chance of gaining a return on their investment. In return for equity in your business they may invest amounts typically around the \$100,000 mark and upwards. A good starting guide for investigating such investors is the website of [Business Angels](#) based in Armadale, Victoria.

Venture Capitalists

Venture capitalist firms source most of their funds from large investment institutions that tend to invest in the fund for up to 10 years. They seek to invest in parcels generally well in excess of \$1million. To compensate for the long-term commitment and lack of security and liquidity they expect to receive very high rates of returns on their investment. Consequently they look for companies that offer demonstrated high growth potential or ability to quickly repay a high level of debt. They look for capital gains from selling their shares in the company typically within three to seven years. Because the

venture capitalist takes a significant investment in the company, they often also require involvement in the decision-making process to protect their investment. For more information on venture capital it is well worth a visit the website of [The Australian Venture Capital Association Limited \(AVCAL\)](#).

Licensing Intellectual Property

Sometimes it is better to have a percentage of something rather than all of nothing. Licensing the intellectual property of your invention, either exclusively or non-exclusively, could provide you with a return on your clever idea without you having to find the capital to take it to market. Licensing is commonly regarded as “renting” your rights to another party, which typically takes the role of manufacturer, distributor and marketer of your new product for a set timeframe. In return, you may earn of percentage of any product sales relating to your intellectual property. While in this scenario you may relinquish the manufacture, marketing and distribution of the invention, you do retain ownership of the invention. For many inventors and small businesses with limited resources, this is often a preferred path to market. While the strength of your intellectual property is central to any licensing arrangement you should also have a good grasp of the potential market and the ability of the licensee to deliver that market. Remember this is a legal relationship and your legal representative should vet all agreements, as certain aspects of control are embedded in the licensing agreements.

In summary, there are very few people or organisations that will donate money for early-stage product development and the further you can move along the commercialisation pathway the greater your chance of being able to convince potential investors that your idea represents a good business opportunity and they will receive a return

on their investment. Funding new product development is as much about not spending the money you have, as it is about raising additional funds so always be sure to access as much information as possible about the range of support available in your area.

Whichever path you choose to fund the early-stage development of your product it is always wise to seek the guidance of government supported innovation centres such as the [Industry Development Centre \(Hunter\) Ltd \(IDC\)](#) who can provide free initial advice and support to guide you through the process.

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