

# What strategic allies and investors want....

And do you have it?

**Entrepreneurs for Energy Efficiency**

April 26, 2006

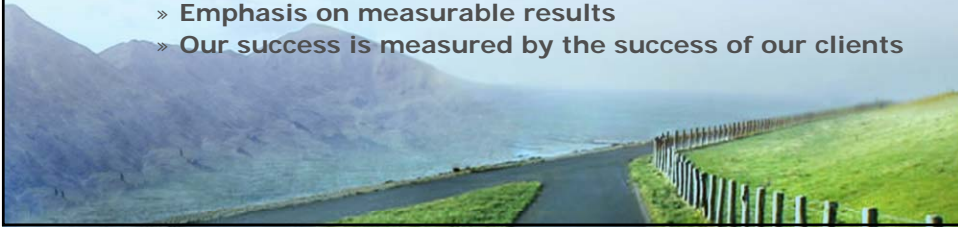
*John Servo  
Vice President  
Dawnbreaker, Inc.*

## Overview

- » **Commercialization strategies**
- » **What potential strategic allies look for**
- » **Equity investors' perspective**
- » **Self-assessment: Does your technology have commercial potential?**
  - > **Getting close to potential customers**
  - > **Sizing the market**
  - > **Competitive advantage**
- » **Getting it done - Important Points**

# DAWNBREAKER<sup>®</sup>

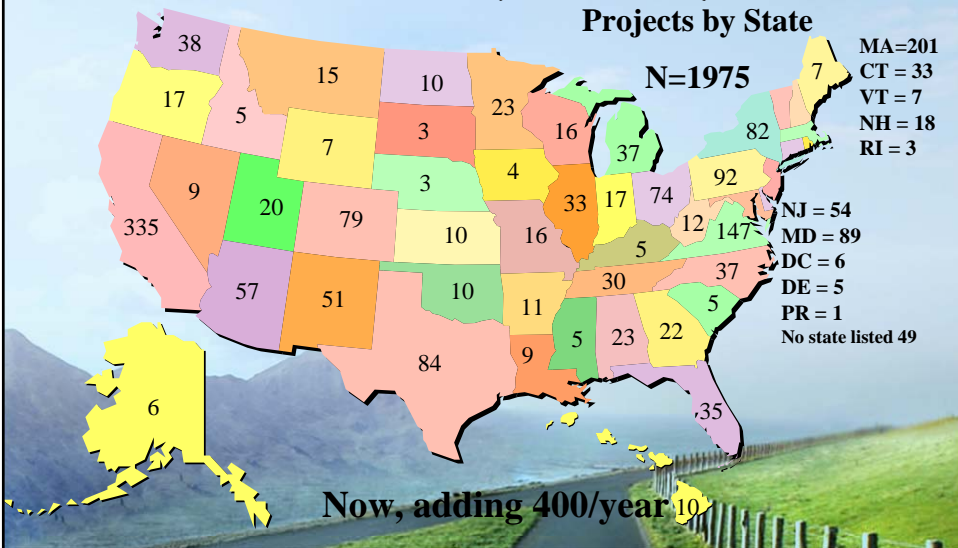
- » Professional services firm
  - » Provide commercialization assistance
  - » To advanced technology firms and their investors
- » Specialty - change agent - tech entrepreneurs
  - » Business planning
  - » Market research
    - > as vehicles for change
- » Differentiators
  - » Unique blend of individualized mentoring and events
  - » Emphasis on measurable results
  - » Our success is measured by the success of our clients



## Distribution of Dawnbreaker clients (1990-2005)

Projects by State

N=1975



## What is Commercialization?

- » **“The process of developing markets and producing and delivering products or services for sale (whether by the originating party or by others)..... commercialization includes both government and non-government markets.”**
- > *National Science Foundation SBIR Solicitation*



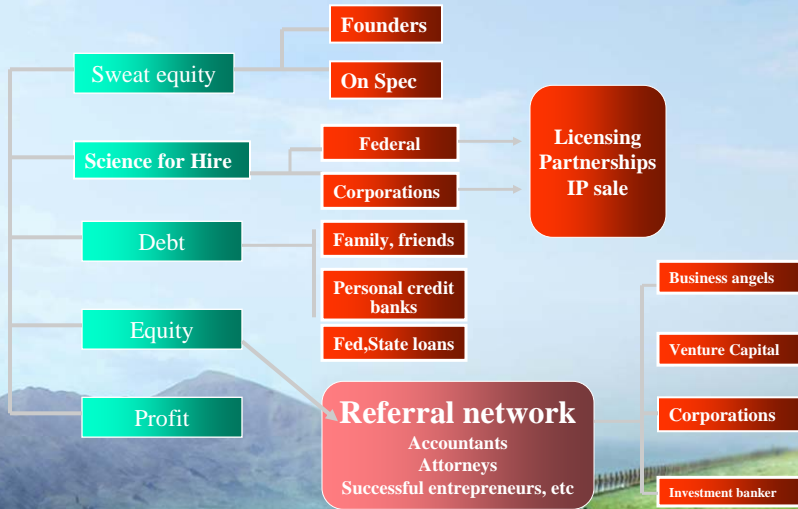
## Commercialization Strategy

The series of financing options that a company entertains to move its technology from concept to the marketplace

Milestone	How Funded?
Concept development	Phase I SBIR
Business case development	G&A
Prototype development	Phase II SBIR
Intellectual property protection	Retained earnings
Beta testing	Corporate partner
U/L approval	Retained earnings
Test market introduction	???
Marketing	???
Scale-up Production	???



# Roadmap to Financing Options

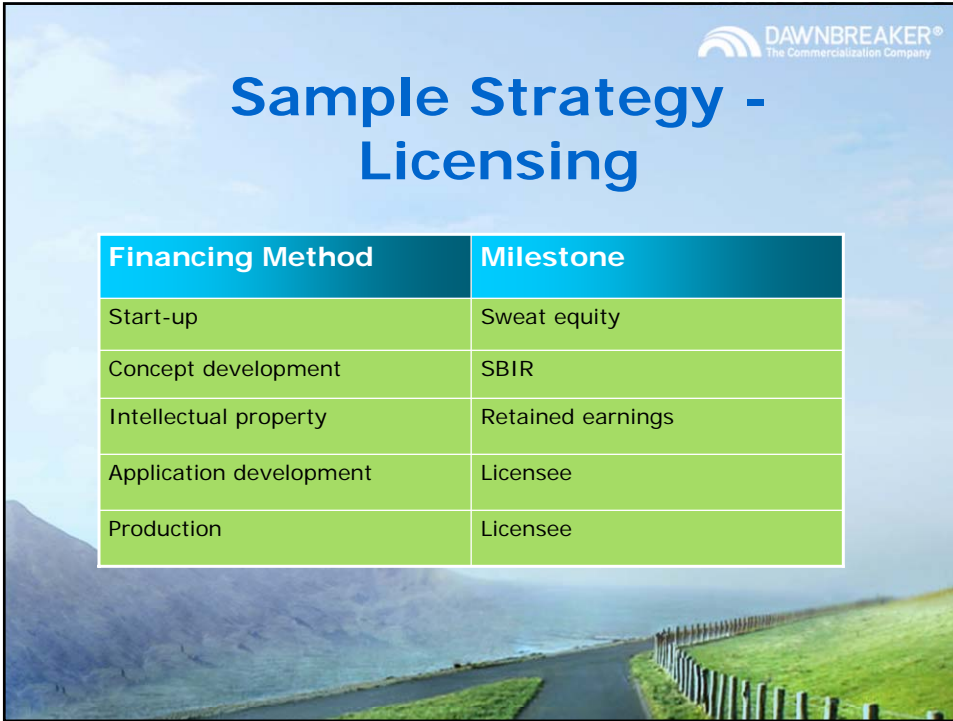


# Typology of Visions

	Revenue	Employees	Purpose	Public/Private
Life-Style	\$2 million	30-40	Support owners	Private
Foundation	\$10-\$40 million	40-400	Start new industry	Private
High Potential Venture	\$20-100 million	500+	Growth & value	Go Public/ Acquisition

# Sample Strategy - Licensing

Financing Method	Milestone
Start-up	Sweat equity
Concept development	SBIR
Intellectual property	Retained earnings
Application development	Licensee
Production	Licensee



# Strategy - Strategic Alliance

Vision: Foundation company (R&D and manufacturing)

Financing Method	Milestone
Start-up	Sweat equity
Concept development	SBIR
Intellectual property	Retained earnings
Prototype development	SBIR
Production scale-up	Equity investor, converted to debt
Marketing/sales	Strategic alliance



# Sample Strategy - IPO

**Vision:** High Potential Venture

Financing Options	Milestones
Concept development	Federal funding
Prototype development	Seed financing from angels
Market test	Retained earnings
Market introduction	Equity- Fortune 500 company
Scale-up	Second round financing from VC
New facility	Private placement
Expansion	Line of credit, Retained Earnings
Market penetration	IPO

## Financing Options as a Function of Application & Resources Required



## The other sides' perspectives...

Strategic allies  
Equity investors

 **DAWNBREAKER**<sup>®</sup>  
The Commercialization Company

## What Do Corp. Partners Want?

- » **14-20% IRR**
- » **Tech/product close to insertion**
- » **\$10-20M fast growth line-of-business**
  - > **Poor at start-ups**
- » **Solutions**
  - > **Decrease costs**
  - > **Accelerate market penetration**
  - > **Prevent new entrants**
  - > **Current market defense**
  - > **The tail that wags the dog**

## What Do Corp. Partners Want?

- » Large market upside and growth
- » Leverage current lines-of-business
- » MAD customers in place
- » Positive impact on market cap
- » Option
  - > What they Might do
  - > Not what they WILL do



## What Do Investors Want?

- » 50-60% ROI
  - > 5x 4 years, 10x 5 years
  - > Dilution protection
- » Credible exit strategy
  - > Rapid growth to critical size
  - > Not licensing
- » Fair valuation - for their investors
- » Executable plan
- » Investment grade management
- » Train leaving the station



# Commercial Potential

**Do you have what potential strategic partners  
and investors want?**

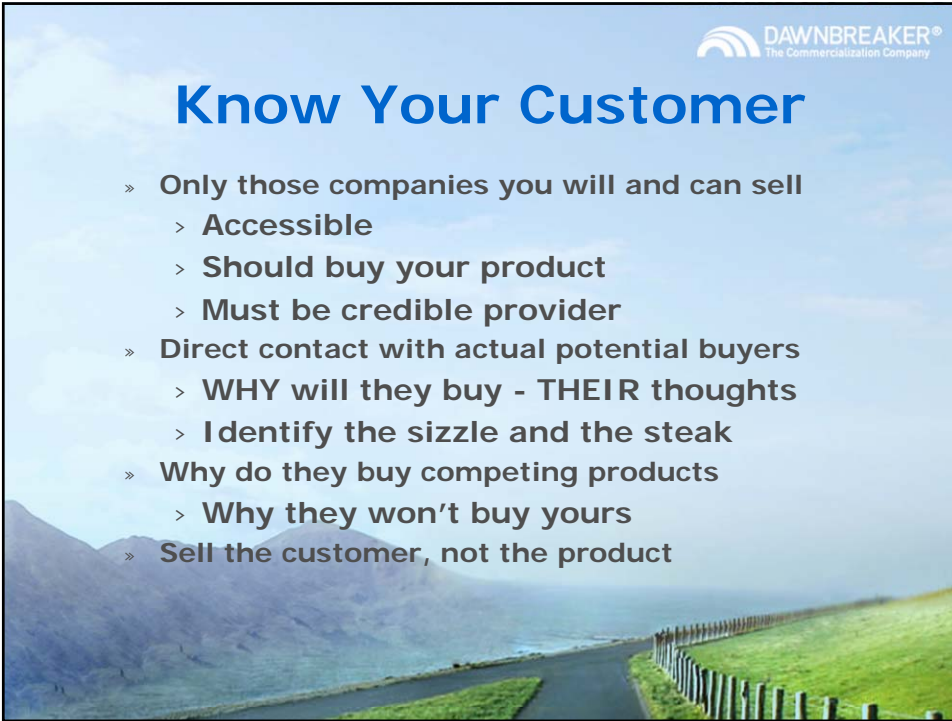


## Commercial Potential Assessment

IMPORTANT VARIABLES		High Potential	Low Potential
<b>CUSTOMERS</b>	Meets customer need	Yes	No
	Customers are receptive	Yes	No
	Customers loyal to other suppliers	No	Yes
<b>MARKET</b>	Identified niche	Yes \$ customer's reachable	No
	Market size	\$100M+	Unknown, less than \$10 million, multibillions
	Market growth	30-50% or more	Contracting or less than 10%
	Market structure	Emerging, imperfect	Mature
	Market share	At least 20% in 5 years	Less than 5% in 5 years
<b>COMPETITIVE ADVANTAGE</b>	Barriers to entry	Yes	No
	Well established networks	Yes	No
	Top talent	Yes	No
	Value added potential	High strategic value	Low strategic value

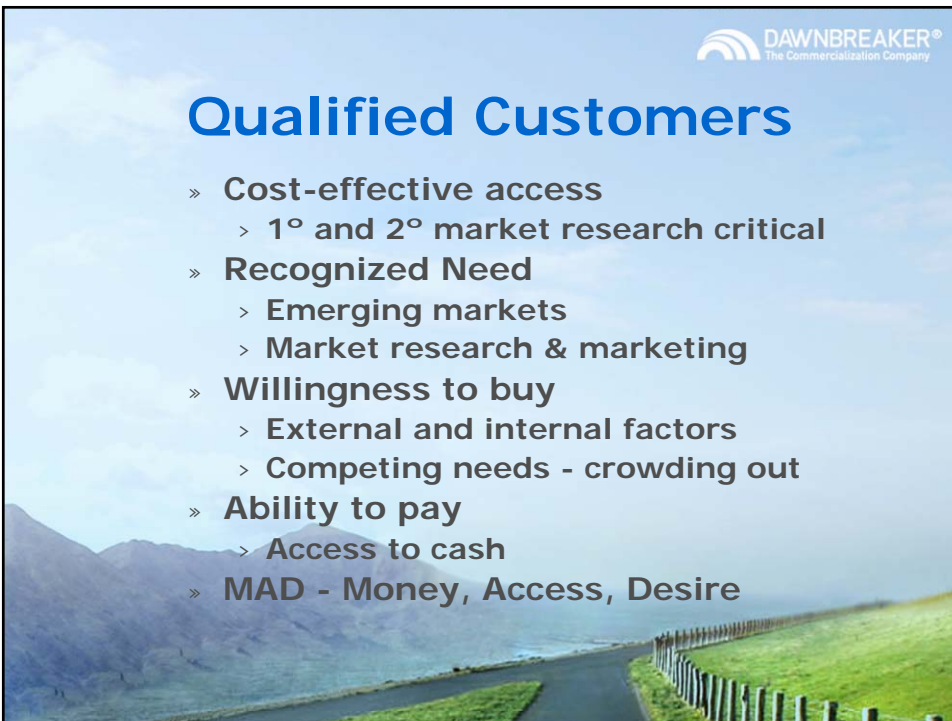
## Know Your Customer

- » **Only those companies you will and can sell**
  - > Accessible
  - > Should buy your product
  - > Must be credible provider
- » **Direct contact with actual potential buyers**
  - > **WHY** will they buy - **THEIR** thoughts
  - > Identify the sizzle and the steak
- » **Why do they buy competing products**
  - > Why they won't buy yours
- » **Sell the customer, not the product**



## Qualified Customers

- » **Cost-effective access**
  - > 1<sup>o</sup> and 2<sup>o</sup> market research critical
- » **Recognized Need**
  - > Emerging markets
  - > Market research & marketing
- » **Willingness to buy**
  - > External and internal factors
  - > Competing needs - crowding out
- » **Ability to pay**
  - > Access to cash
- » **MAD - Money, Access, Desire**



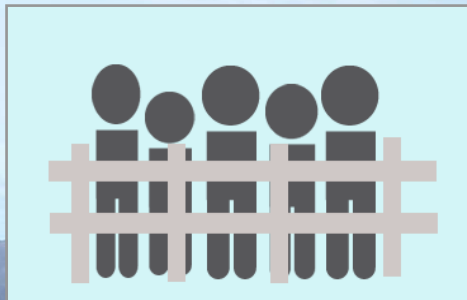
## Sell Customers Not Products

- » **EE may not be 1<sup>o</sup> driver**
  - > **Comfort**
  - > **Convenience**
  - > **Health, IAQ**
  - > **Environment**
- » **Acceptable paybacks vary**
- » **Shape product for customer/market**
- » **Sell to THEIR drivers for product**



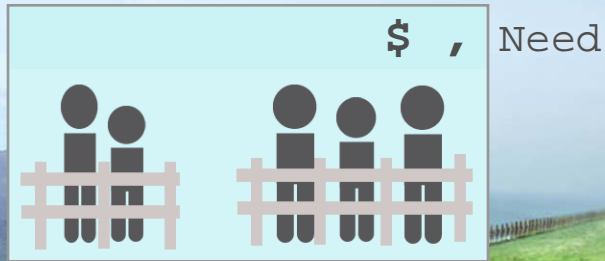
## Market

- » **Set of actual and potential buyers**
- » **Represented in \$ and/or units**
- » **Annualized or by market domain**
- » **Total market and served available market**



## Potential Market

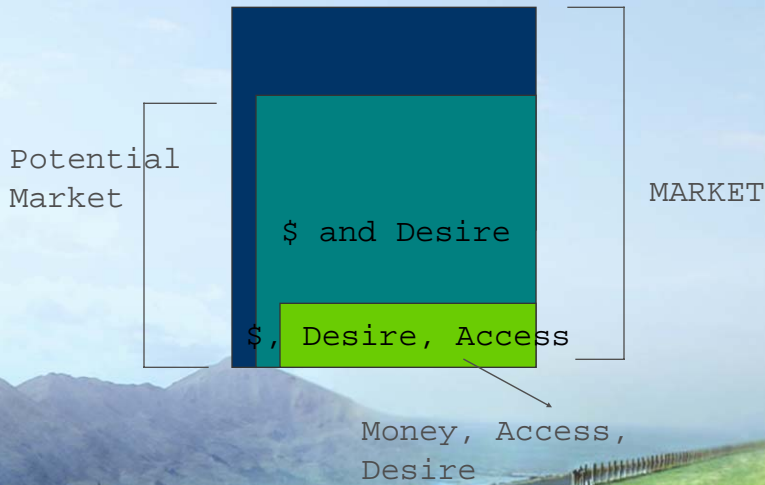
- » **A set of actual and potential buyers**
  - > That have money and desire to purchase a product with a specific set of price and performance characteristics
  - > They are also “qualified customers”
  - > A lot of time is wasted on individuals who are NOT qualified customers



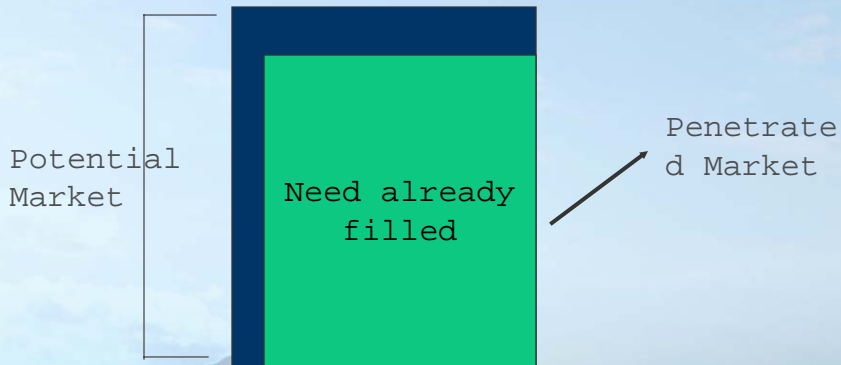
## Available Market Have Access

- > A function of marketing strategy
- > Changing marketing strategy can increase access
  - » **Partners - distribution**
  - » **Level of marketing effort**

# Markets- MAD Customers



# Markets- Penetrated Markets



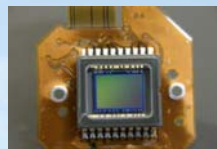
## Estimating Size of Emerging Markets

- » Always starts with a need
- » Identify type of person/entity with this specified need
- » Find statistics for need or a surrogate
- » Apply assumptions filter - Money, Access, Desire (MAD)



## Common Misconceptions

- » A company that manufactures a sensor quotes the entire size of the instrumentation market as its market



## Common Misconception

- » You produce a software package for use in teaching mathematics to 4th graders, and indicate that your market is equivalent to the total dollar amount spent on software purchases.



## Not Your Current Market

- » Society's needs
- » End-customer needs
- » All sales in industry sector
- » Worldwide
- » Out-year futurist projections
- » Entire 20 year domain
  - > Annualized fraction
- » Billions
  - > Few significant digits

## Federal EE Market Drivers

- » DOE example – SEER 10 to SEER 13
  - > 3-8% higher cost
  - > 30% higher EE
  - > Impacts
    - » Upsell cost/benefit
    - » Competitive advantage
- » Limits on impact of regulations
  - > Enforcement
  - > Compliance
  - > Could change



## State EE Market Drivers

- » PSC mandates
  - > Deregulation agreements
  - > Vary – state, year, program
- » Goals for utilities
- » Create state markets
- » CEC examples –
  - > Meet half of increase thru EE
  - > Duct sealing required



# Utility Market Drivers

## Non-purchasing partners

- » PSC driven
  - > Incentive programs
  - > Allowable charge
- » PG&E example
  - > Spend \$1B on EE 06-08
  - > New residential construction program
- » Often limited in scope & impact
- » Serve utility's business objectives
  - > Not DSM



# EE Market Drivers

## Limits to regulations and incentives

- > Enforcement & compliance
- > Does my product fit?
- > Will they last long enough?
- > Create market for niche products
  - » Can it create critical mass?
- > Cover broad range of products
- > Everyone in chain incentivized?



There's no one else  
who does this!



Yes, there is...

- » If there's a need, it is being addressed in some way
- » Low tech, no tech, high tech
  - > Indirect competitors
  - > Direct competitors
- » How dissatisfied are customers with the way need is currently addressed?
- » What are they willing to pay for a solution?



## Why should I understand my competitors?

- » You and your competitors are competing for market share
- » One obtains market share often at the expense of others
- » Competitors prevent others from taking market share
- » You need to anticipate competitor responses



## What you should know about competitors

- » **Technology**
  - > Feature, Advantages, Benefits (FABs)
  - > Price
- » **Patents**
  - > Barriers to entry
- » **Resources**
  - > Financial
  - > Management, alliances
  - > What do they spend on marketing/sales
  - > Distributors, Reps
- » **Customers**
  - > Who are they
  - > Market share
  - > Customer service
- » **Strategy for obtaining market share**

## Sustainable Competitive Advantage (SCA)

- » *“SCA is an advantage that can be sustained over a long period of time that allows for the improvement of your company's competitive position in the marketplace.”*

- Michael

*Porter*



## What provides your firm with SCA?

- » Intellectual property
  - » Covers performance differentiators
- » Strong brand identity
- » Partnerships
- » In-depth knowledge of your customers
- » Unique equipment and sunk costs
- » Head start - if you can maintain it
- » Demonstrated ability to respond quickly



## SCA and Core Competencies

- » **When a core competency**
  - » is distinctive,
  - » can provide long term advantage,
  - » is difficult to reproduce,
  - » it becomes a SCA
- » **A company can have a number of core competencies, but limited sustainable competitive advantage**



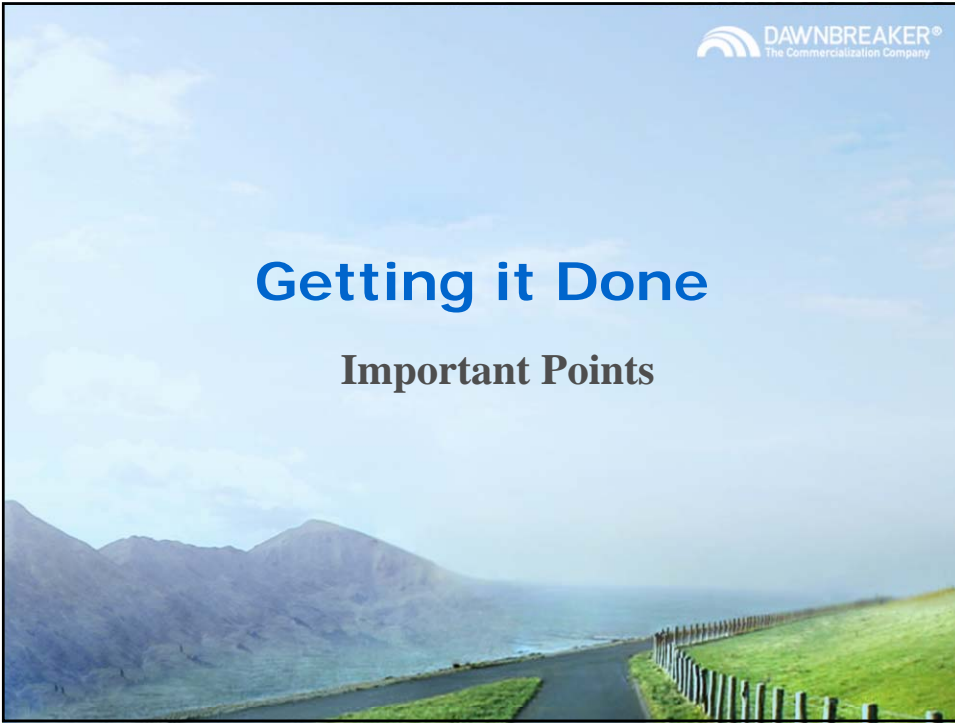
## Strengthen your SCA

- » Should be a fundamental goal
  - > Take actions to strengthen/enhance your competitive advantage
  - > Avoid actions that weaken
  - > Be careful what you outsource
  - > Don't fritter resources away, but deepen your advantages



# Getting it Done

## Important Points



# Why Develop a Business Plan?

- » **Secure funding**
  - > Corporate, VC, angels
  - > Product launch & rapid growth
- » **Create value**
- » **Secure partners, licensee, management**
- » **Grow and properly run business**



## Control Your Destiny

- » **You NEED money – Get it**
  - > **Fast growth consumes cash**
  - > **Marketing costs**
    - » “Next year” level
    - » **Need to CREATE next year**
  - > **Receivables, inventories, cash on hand**
  - > **Phased funding strategy**
- » **Solid operational plans**
  - > **Living document - and a roadmap**
- » **Drive the plan**
  - > **Slipped milestones kill out-year upside**



## Plan and Act in Real-Time

- » **Invention - timeless realm**
- » **Determine window of opportunity**
  - > **Critical timeline**
  - > **Work backwards from targets**
  - > **Sequence operational objectives**
- » **Shelf-life of decision makers**
  - > **Negotiating partners**
  - > **Partners, investors**
- » **Management**
  - > **Market-driven identity**



# Shape Your EE Market Drivers

- » **Work with utilities**
  - > **Regulated and Unregulated sides**
  - > **Sell to THEIR needs**
  - > **Get listed/eligible**
  - > **Make it EASY for them**
- » **Get regs written for YOUR capability**
  - > **State, County, City**
  - > **PSC**
- » **Get FUNDING for programs**
  - > **State**
  - > **Federal set-aside**



# Partnering Issues

- » **Company with opportunity or threat**
  - > **but not a capability**
- » **Protect your IP**
  - > **Agreement on what is yours**
  - > **All reverts to you**
- » **Set valuation for line-of-business**
  - > **Address golden rule**
- » **JV - put and call**



## Partnering Issues

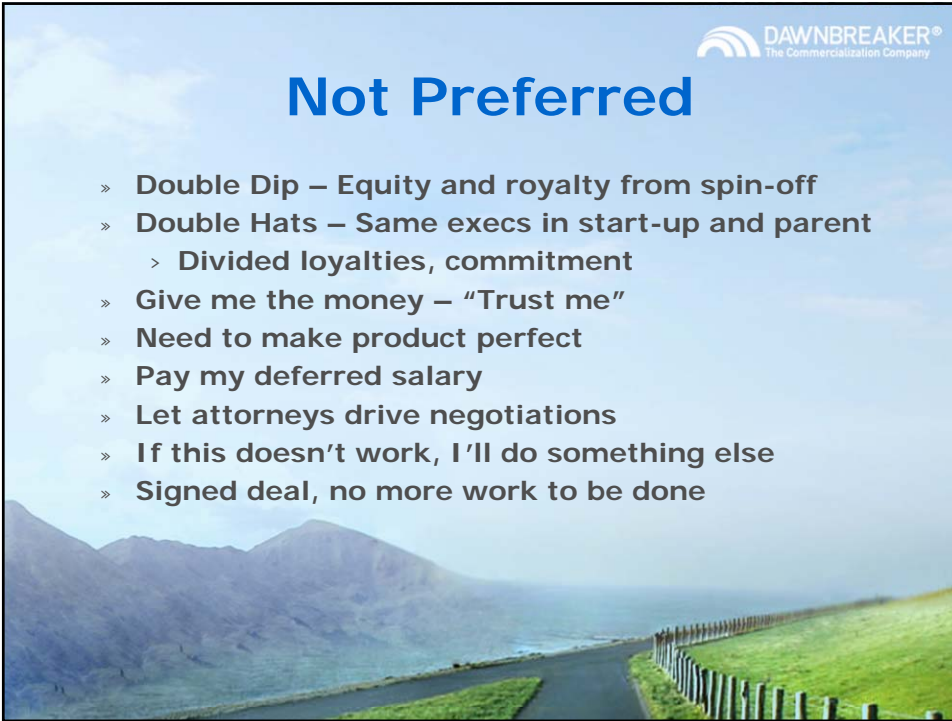
- » **Negotiate with 3 companies**
  - > **Lead - 60%**
  - > **Alternate - 30%**
  - > **New - 10%**
- » **Access to decision makers**
  - > **Limited shelf life**
- » **Attorneys in support role**
- » **Partner indemnifies you**
- » **Exclusives based on performance**

## Partnering Issues

- » **Require earnest money**
  - > **Upfront payment**
  - > **Standstill**
  - > **Minima**
- » **Follow-through**
  - > **Find, secure, keep partner**
  - > **Get them to perform**
  - > **Fight to achieve critical mass**
- » **Deal not done until a done-deal**

## Not Preferred

- » **Double Dip – Equity and royalty from spin-off**
- » **Double Hats – Same execs in start-up and parent**
  - > **Divided loyalties, commitment**
- » **Give me the money – “Trust me”**
- » **Need to make product perfect**
- » **Pay my deferred salary**
- » **Let attorneys drive negotiations**
- » **If this doesn't work, I'll do something else**
- » **Signed deal, no more work to be done**



## Selling Price

- » **What the market will bear**
  - > **Rapid growth, seizing market share**
- » **Not cost plus**
  - > **Small volume - below cost**
- » **Secondary to value?**
- » **Attractive for seller**
  - > **Game worth playing**
  - > **Investors, partners**
  - > **Fund growth**
- » **How MUCH?**



## What you **WILL** Do

- » **What you COULD do**
  - > Techs, products, applications, markets
- » **What you CAN do**
  - > Funding, partners, management
- » **What you SHOULD do**
  - > Windows of opportunity
- » **What you WILL do**
  - > Commitment
  - > **YOUR** business plan

