

Science.
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Wisdom for Entrepreneurs

How Tech Startups Can Avoid Common Mistakes and Get Ahead

A group of Seattle-area business experts and entrepreneurs representing business law, executive recruiting, public relations, and the private investment community shared their collective wisdom at a forum in Eastern Washington. Highlights are summarized here.*

Get an experienced management team. An emerging company needs a strong management structure to create visibility, stature, and industry connections. To attract the highest-quality executives, your company should have a compelling, groundbreaking technology that translates into a competitively priced product, be able to get to market first, and have sustainable funding sources.

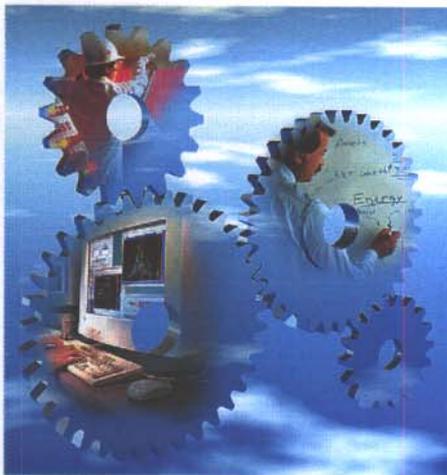
Up to 70 percent of business costs go to labor. To manage limited startup funds, fill out the management team as the company progresses, such as bringing in operations and sales executives after prototype products are completed. For management candidates, seek former employees of well-known, established competitors for their industry knowledge and credibility. Venture capitalists can help you find experienced leaders.

Use management consultants wisely. Bring in regulatory and industry consultants as needed to help you identify manufacturers, understand quality assurance issues, and develop products that meet industry requirements.

Build better boards. An experienced, involved board of directors or advisors can help you get funding, find strategic partners, develop a manufacturing and distribution strategy, and more. Plan to compensate each person with one-quarter to one percent of stock options, plus up to \$15,000 annually and \$1,000 per board meeting.

Create scientific marketing “buzz.” A tech-based business needs to create interest in the technical community. This goes beyond getting patents or writing journal articles. Your technology needs to be viewed as exciting and cutting-edge—think about nanotechnology, fuel cells, and DNA-level medical treatments. Bring in someone who can write and present scientific papers and speak with credibility to national technology policy groups. Consider creating a scientific advisory group to help introduce your product into the desired market, such as bringing a medical device into clinical settings.

** “An Afternoon with the Experts” was held November 14, 2002 at Gordon Brothers Cellars in Pasco, Washington. It was sponsored by the law firm Preston, Gates & Ellis LLP and Battelle, which operates Pacific Northwest National Laboratory.*



Emerging tech-based businesses need experienced executives, ways to create scientific marketing “buzz,” strategies for entering niche markets, protected intellectual assets, and funding sources linked to technical and business milestones.

**Pacific Northwest
National Laboratory**

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David Eckert, Chief Financial Officer of Sightward, Inc., talks about finding venture capital at “An Afternoon with the Experts,” a seminar in Pasco, Washington. Entrepreneurs should pursue a variety of finding sources and start the search early, he said.

Market strategically. A common mistake is trying to reach too many markets with too many product lines. Instead, focus on your most promising targets. Early on, market your company as a business opportunity to investors and channel partners. Seed markets by offering limited products for free, such as in beta testing.

Avoid the temptation to trickle out marketing money over time, resulting in a shortfall at the end. Instead, time your marketing dollars to make a bigger, more focused impact.

Identify your key marketing messages and image and promote them consistently through your web site, advertising, trade publications, trade shows, speaking opportunities, and collateral materials.

Use the clout of strategic partners to save marketing dollars. For example, if your product uses a Microsoft® application, the software giant may be willing to promote your product to show the power, scalability, and reliability of Microsoft’s solutions.

Secure intellectual assets. Protected intellectual property conveys a tremendous market advantage. Protect it through the appropriate mechanism, such as patents, copyrights, trade secrets, and trademarks. To clarify ownership of intellectual assets developed on the job, put agreements in place with everyone who works for or with your company. Include contractors, industry partners, university professors, and graduate students.

Understand the scope of your rights to licensed technology, including non-exclusive rights and domestic vs. international ownership. Understand the terms of certain government grants and license agreements that allow “march-in” rights if the technology is not being commercialized adequately.

Capitalize your company. Today’s investors demand prior relevant experience and success, paying customers, legal and financial agreements that protect against liability, and very favorable deal terms. Know how much money you need to seek to reach specific milestones throughout the firm’s lifecycle. Many funding leads will end up being unfruitful, so pursue a wide variety of sources and start the search early.

Seek investors suited to your company’s stage. High-net-worth individuals who invest their own money, known as angels, are best suited for early investments ranging from \$50,000 to \$1 million, with venture capitalists investing up to \$25 million. Venture capitalists, compared with angels, are apt to take fewer risks and exert more control over how their money is spent. Strategic partners typically invest later in a company’s lifecycle, after the firm has achieved revenues and proven its value.

Bridge financing, including government research and development grants, can help you survive until more significant sources of capital open up.

For more information on economic development activities conducted by the Laboratory, contact:

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