



Valorisation of R&D

Why are European Seed Investments
Performing so Bad Compared to US Funds?

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Does Venture Capital Matter?

Lessons from the US market



It is a small industry addressing a tiny part of US companies...

- 0.2% of the US GDP
- \$456 B in 27000 companies (1970-2008)
 - Approx 2% of all firm investments
- \$20-\$30 M annually in average since 2000

Source: Venture Impact - The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy (5th Edition, NVCA 2009)



...but it has a huge impact on US Industry

- 12.1 million jobs or 11% of total private employment
- \$2.9 trillion in revenues or 21% of GDP
- Share of employment
 - 81% share of employment in Software
 - 74% in Telecommunications
- Share of revenues
 - >50% in ICT
 - 47% in Biotech

Source: Venture Impact - The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy (5th Edition, NVCA 2009)



Performance of US and EU VC Funds?

Fund type	3y	5y	10y	20y
US Early/Seed	1.7	3.7	36.0	21.8
US Balanced	4.6	8.4	13.5	14.5
US Later Stage	9.4	8.7	7.5	14.5
US All ventures	4.3	6.4	15.5	17.0
NASDAQ	-10.3	-4.6	-3.2	7.3
S&P 500	-10.0	-4.0	-3.0	6.1
EU Early/Seed	-1.7	-0.2	-2.4	-1.1
EU All Ventures	0.0	2.1	0.4	3.1
EU All Buyouts	8.5	14.1	13.3	14.1

Source: Thomas Reuters Performance Data 2008-12-31



Is the European Problem a Funding Gap?



The Systemic Failure: A Thin Market!

It's about investment readiness of ventures ...

and...

...having investment ready ventures meet the
right fund managers & business angels

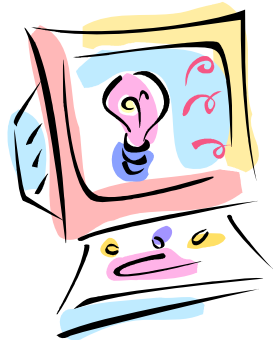


Key Issues

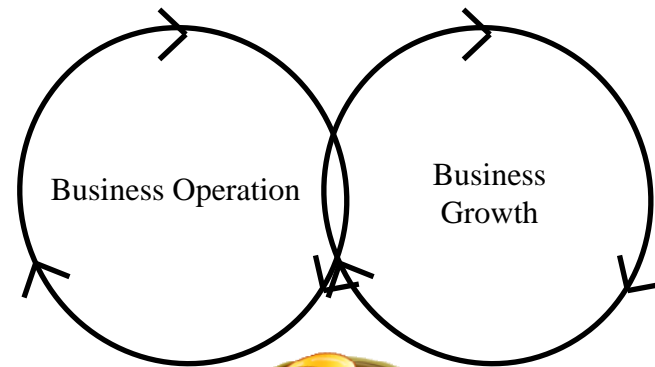
- **Too few adequate fund managers – too risky proposals – too small funds**
 - Under-investments in very early stages of valorisation due to too small funds and too risky investment proposals
- **Inappropriate processes**
 - Ventures are planned as development projects rather than learning processes
- **Skill gaps**
 - Lack of adequate business and managerial skills in early stage ventures
- **Fragmentation of governmental support measures**
 - Too complicated and fragmented valorisation offerings not addressing the real needs in a timely manner

Valorisation of Technology – Current Situation

Business Plans, Patents, Prototypes



Technology
Invention



Requirement: A Newco AB



After You Have Received Funding...

Prototyping

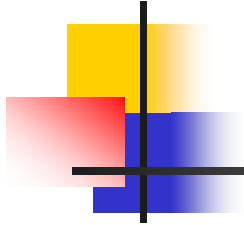
Alpha test

Beta test

Launch

Business Operation in
early stages

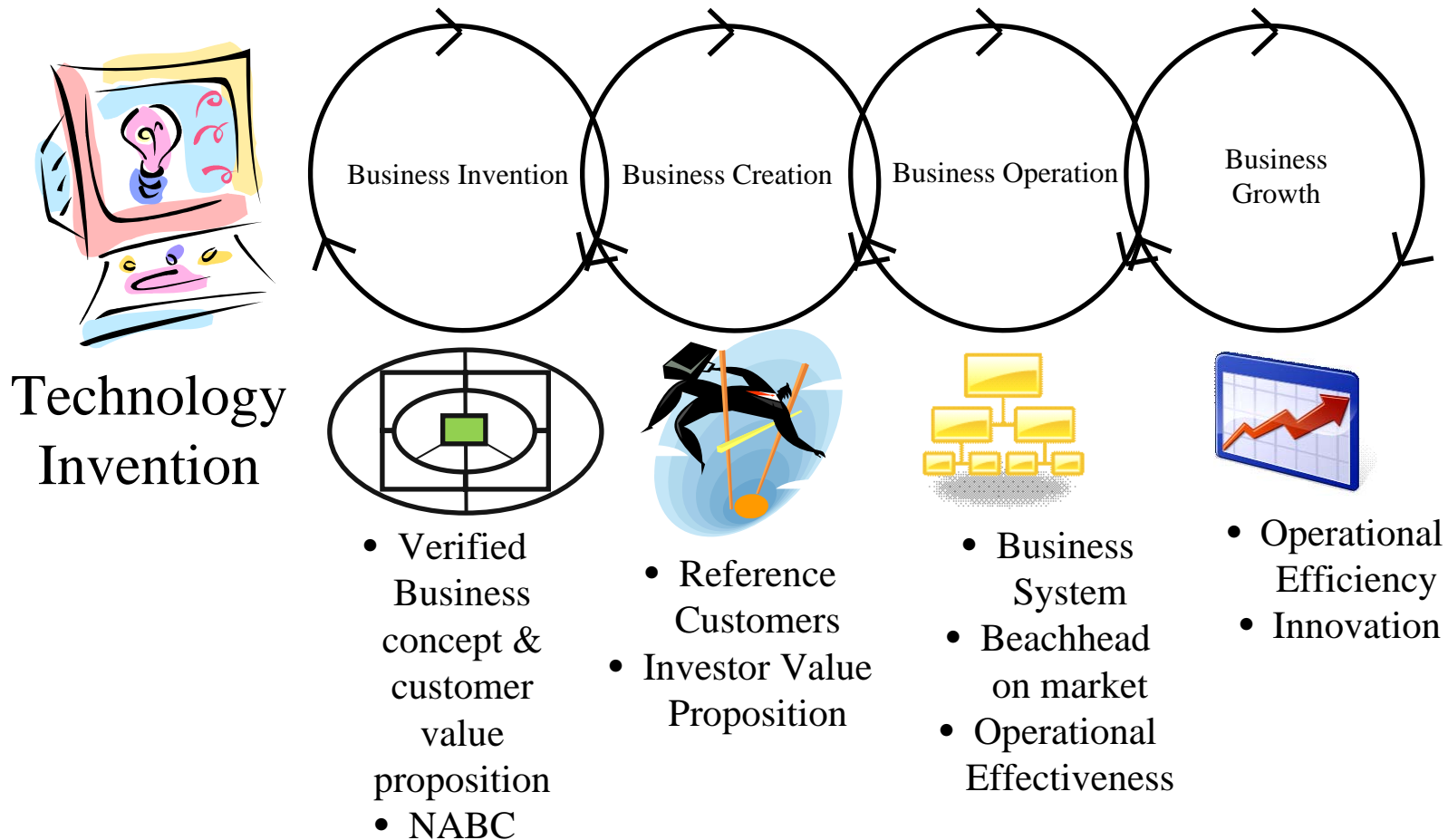
- It's all about product development...
- ...and execution...
 - Drives organisation development
 - Drives sales and marketing
 - Drives costs



Do ventures fail due to the lack
of products or technologies?

No, they fail because they lack
customers and a proven
business systems

Valorisation – A Reference Model





How Do We Work With Business Invention?



The commercial concept...**NABC**

- Important Customer **Needs**
- A Compelling **Approach**
- Customer **Benefit Over Cost**
- Worldwide **Competitive Advantage**

“NABC” captures the essential, defining ingredients of a Customer Value Proposition.

Source/Inspired by: SRI International

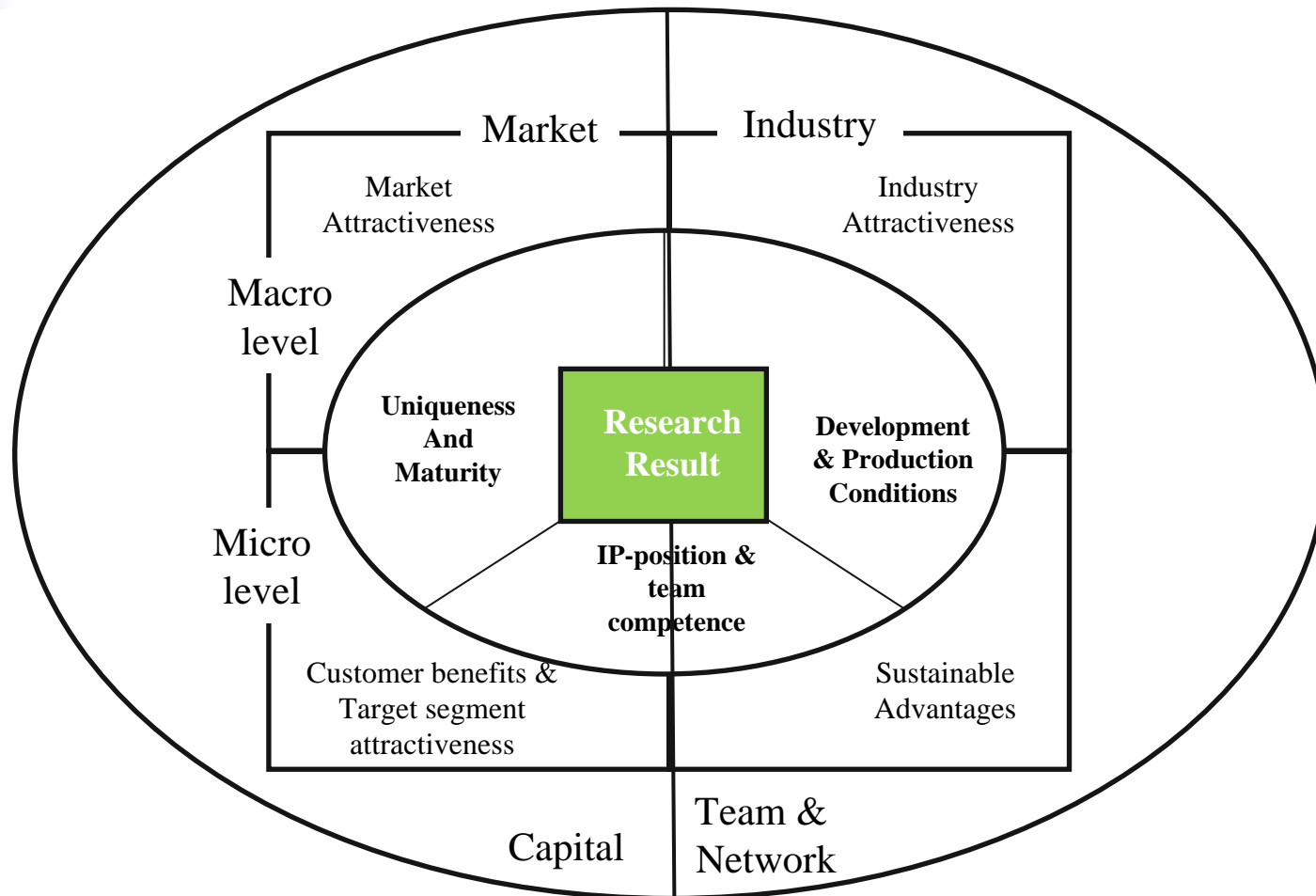


What is Customer Value?

The most important equation...

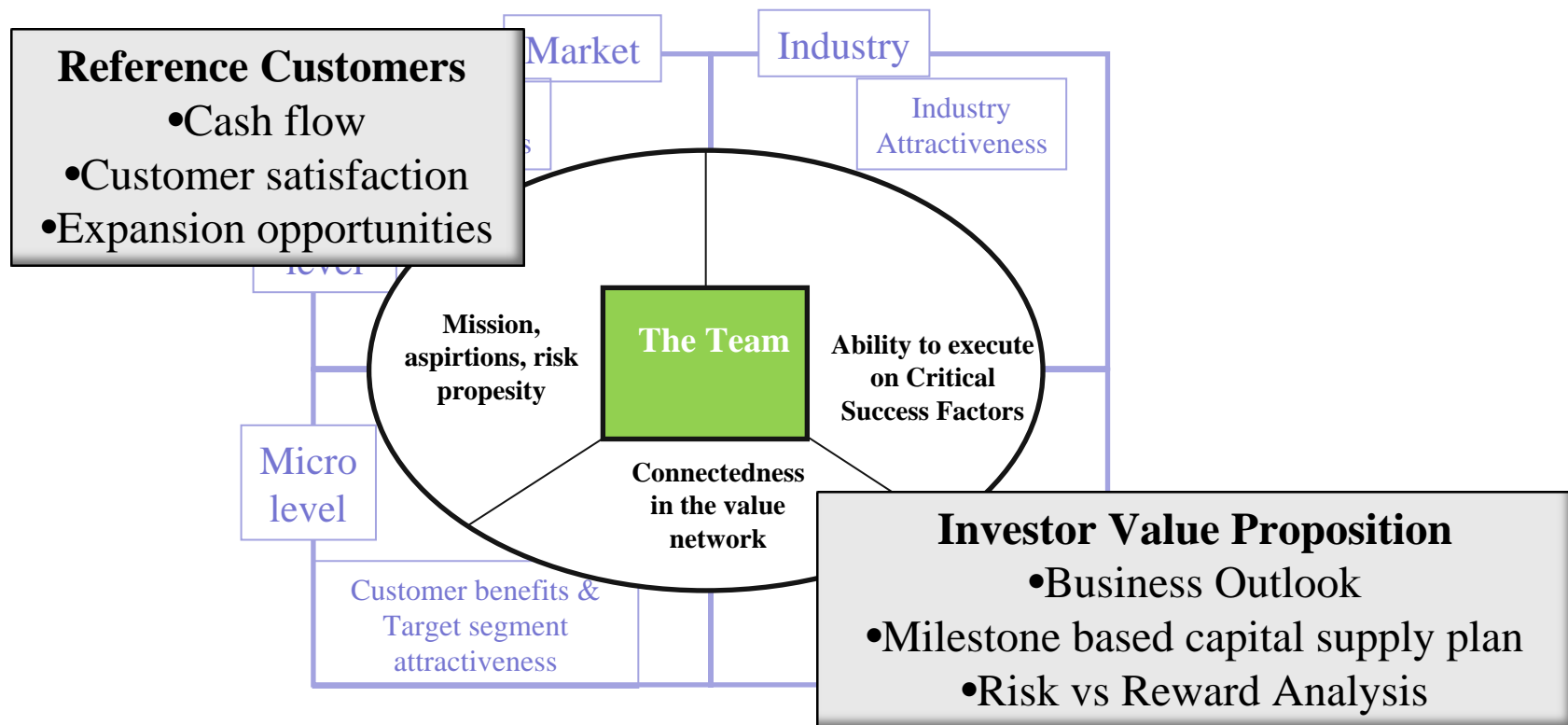
$$\text{Customer Value} = \frac{\text{Customer Benefit}}{\text{Customer Cost}}$$

Assessing a Business Invention

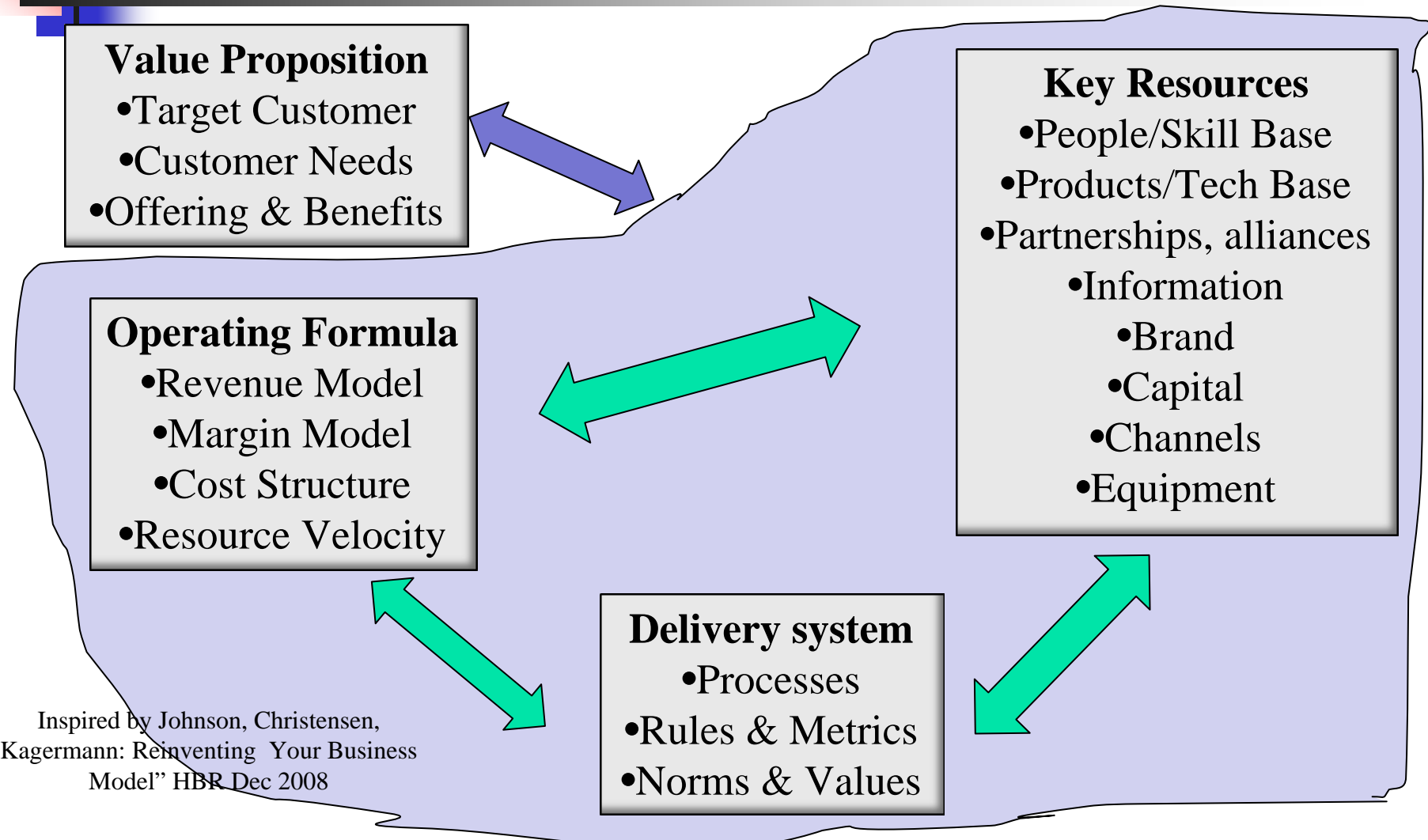


Inspired by the model in "The new business road test" by John W. Mullins

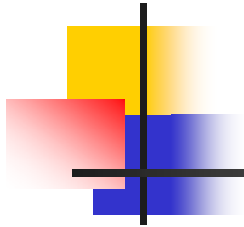
Assessing Business Creation



Assessing Business Operation



Inspired by Johnson, Christensen,
Kagermann: Reinventing Your Business
Model" HBR Dec 2008



**Do not try to pick Winners on
beforehand**

—

**Focus on a stepwise
verification/falsification of
critical success factors!**



It's a learning process rather than a development project

- **Conventional Planning**

- **Strategy for formulation of development goals:**
 - Predict the future based on your current situation and past experience
- **Strategy for planning:**
 - Define your activities, costs, phases etc based on the gap identified between the current situation and the predicted future
- **Strategy for execution:**
 - Deviation from plan is something bad
 - Make corrective actions so that the plan is followed

- **Milestone based discovery-driven planning**

- **Strategy for formulation of development goals:**
 - State the technical and commercial assumptions that determines the future success of your venture
- **Strategy for planning:**
 - Define milestones where you test and update your assumptions, and where you sharpen your execution strategy towards a desired future
- **Strategy for execution:**
 - Execution is a learning process
 - Deviation from plan is expected and is a source of learning
 - At a Milestone, you are allowed to re-plan the venture and include the learning that has occurred in the new plan



Critical Issues

- What will make your venture successful?
 - Technical properties, commercial factors, legal and regulatory requirements etc.
- What is your "commercial end-point"?
- What is your "target product profile"?
- What is your "verification end-point"?
- How far does our means take you?



The Message

- From funding gaps to investment readiness
 - ➔ *it's about customer driven invention and verification of business concepts*
- From product development and execution to learning and discovery driven processes
 - ➔ *it's about understanding and discovering what will make your venture successful*



Thanks For Your Attention!



The commercial concept...

- The Need
- The Approach
- The Benefit Over Cost.
- The Competitive Advantage:

Distribution on UK angel investment returns

