



# Innovation Gets a Boost with SBIR Cap Increase - But Commercialization Remains the Challenge



Fred Patterson – The SBIR Coach®  
([www.SBIRcoach.com](http://www.SBIRcoach.com))

Published April 6, 2010, in Innovation DAILY ([www.innovationamerica.us/daily](http://www.innovationamerica.us/daily))

The Small Business Innovation Research Program (SBIR) got a small boost last week with the long-promised raising of the grant program's funding caps by the SBA. First proposed back in 2008, and supported by everyone associated with the program, the action has been held up with the anticipation of enactment of a comprehensive SBIR reauthorization bill. With passage of that legislation stalled by a refusal of the House Small Business Committee to negotiate with the Senate, the SBA evidently decided not to wait any longer, asserted some long awaited leadership, and took independent action.

[Effective March 30<sup>th</sup>, SBIR Phase I award amounts may be as much as \$150K (up 50%), Phase IIs as much as \$1M (up 33%). STTR awards stay the same for now. They're covered by a different law, but changes are expected there soon as well.]

These increases, while a welcome boost to the small businesses who apply for these seed funds, don't solve the biggest problem faced by SBIR funded companies – how to get their innovative technology transitioned into end use – aka commercialization, the mythical and elusive Phase III.

The original intent of SBIR was that the government would provide the seed funding for development of dual-use potential technology to a working prototype (proof of concept) and the private sector would then take over the funding and help take the resulting products to eagerly awaiting markets. It hasn't worked quite as anticipated.

Rarely can a company take the work product coming off a Phase II and effect a quick transition to end use. At that point they enter what's known as the Valley of Death. Whether it's additional technical development work, system integration, packaging, supply chain building, configuration for manufacturing, or marketing and sales channel development, there's money needed for getting from a prototype to a product that is market-ready. Lots of money.

So who's been stepping up to bridge the Valley of Death, and help take a pre-revenue company to commercialization? Not the government (not our job to help you make money). Not the VCs (too risky and too long to ROI). Not the banks (no collateral and shaky debt service). No one really. It's a big problem.

There are several initiatives out there seeking to address the Valley of Death problem with innovative innovation funding, as the NASVF and others have proposed various forms of a Seed Fund of Funds. Some venture groups (Angel Networks and VCs) are focusing on seed investment again after a dry spell. And even Congress is getting into the act!

Representative Paul Tonka (D-NY) recently introduced a bill (H.R.4549) cited as the "Small Business Innovation to Job Creation Act of 2010". Largely ignored and unheralded, the bill establishes a \$2B pot (yes billion, equal to the entire SBIR allocation) in GFY2011 to "assist the commercialization of research developed by small business concerns with funds received under the second phase of the SBIR Program". The rules and procedures would be administered by the SBA and need to be worked out a bit (the bill is somewhat vague on who qualifies and how it will work) but it certainly seems to be a step in the right direction. We've heard that the Senate will introduce its own version of this legislation soon.

So what about SBIR's Reauthorization? Actually the SBA's action takes the pressure off for now. This author predicts yet another Continuing Resolution (the 7<sup>th</sup> in this string) to extend the current rules (set to expire at the end of April) to the end of GFY2010, matching the DOD's unilateral SBIR extension passed with the Defense Authorization Bill last fall.

Both the House and Senate versions of the SBIR legislation contain provisions for enhanced SBIR commercialization support, but, if you read carefully, that'll mostly be for facilitating relationships for spanning the Valley. The small businesses still have to arrange to build the bridges. Even H.R.4549 won't do the job – limited eligibility and not enough money per award to really do much. So let's continue the dialog – it's clear we're going to need some truly innovative approaches for funding innovation if we're actually going to be able to cross over that bridge.

© 2010, Fred Patterson, The SBIR Coach®, a dba of The Commercialization Funding Coach, Inc.  
Permission to use for Innovation DAILY hereby granted.



"The Playbook" Web-Column: [www.SBIRplaybook.com](http://www.SBIRplaybook.com)

Phone: 512-560-3993 eFAX: 866-657-9685

Email: [FPatterson@CFcoach.com](mailto:FPatterson@CFcoach.com) or  
[Coach@SBIrcoach.com](mailto:Coach@SBIrcoach.com)