



*“Looking Ahead to Phase III –
It Takes More Than Money”*

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What Phase Company Are You?

- **Phase I: Inventing and Designing**
- **Phase II: Making Working Models**
- **Phase III: Producing and Selling**



Phase I Company Inventing and Designing

- **Makeshift facilities**
- **Shoestring financials**
- **Funded by Research Studies, F&F and credit cards**
- **Sweat equity wages**
- **Flat and loose structure**
- **The Founder is “in charge”**
- **Planning is crisis and monthly**
- **Inventorship rules!**



Phase II Company Making Working Models

- **Industrial Park facilities**
 - A workshop/laboratory
 - A few offices + a conference room
- **A real payroll and operating capital**
- **Funded by R&D contracts/grants**
- **Project Team structure**
- **The Founder is CEO and CTO**
- **Planning is tactical and quarterly**
- **Craftsmanship rules!**



Phase III Company

Producing and Selling

- **Facilities and office space for all needs**
- **Sufficiently capitalized for all needs**
- **Funded by Investors**
- **Departmental structure**
- **The Founder is CTO but not CEO**
- **Planning is strategic and annual**
- **Dealsmanship rules!**



**The Paths to Phase III
Commercialization
are Paved with Good Intentions
of SBIR companies
who tried valiantly
and yet failed dismally.**



Which Ones Succeed?

- **Those who are able to change their mindset and behavior in moving from R&D to Commercialization.**

The Rest Are “Paving Stones”!



Why Bother to Commercialize?

- **You can't build wealth on 5% profit!**
- **The SBIR Program was designed as a “boost up” not a forever thing, and the Agencies will get wise to you!**





The Companies who Succeed Have Products and Customers

- Are you making something saleable?
- Will someone want to buy it?

Marketing Research

Market Assessment

Competitive Analysis

Customer evaluations



What does it take to turn Prototypes into Products?

- **Engineering**
 - The Product itself
 - The Process to produce it
- **A Production Infrastructure**
 - Facilities (yours or someone else's)
 - Appropriately skilled staff
- **A Marketing and Sales Infrastructure**



It Also Takes Money!

- **Equity or Debt funding?**
- **Government or Private Sector?**
- **How much???**





But, It Takes More Than Money!

- **It's time to ask some tough questions**
- **Let's investigate three perspectives:**
 - 1. Technical**
 - 2. Operational**
 - 3. Financial**



Technical Perspective

- Is the prototype fully functional?
- Will it meet customer needs?
- Can we package it for use by the customer?
- Can we truly produce this product in quantity with consistent quality?
- Are suppliers available for all parts?
- Can anybody copy what we're doing?



Operational Perspective

- How will we distribute the product?
- Do we have systems and staff in place to manage growth?
- Are the founders equipped to manage the evolving organization -- or willing to relinquish control to those who are?
- Can the organization survive the inevitable culture change?



“What Culture Change???”

- The basic driver of what makes the company successful will change:
 - **From R&D**
“scientific or technical excellence”
 - **To Production**
“performance by the numbers”



Operational (continued)

- Are we willing to take on new partners who, only being interested in return on investment (ROI), will undoubtedly (and perhaps rightfully so) insist on controlling the strategic decisions being made by the Board of Directors?



Operational (continued)

- Do we realize that we must still complete all outstanding SBIR contract and grant obligations, even though our new partners are going to consider them a distraction from the ROI mission?
- Will we continue to propose new SBIR business?



Financial Perspective

- Do we have the financial resources to enable our growth?
- Can we maintain a healthy cash flow as we grow?
- How much invested capital do we need to accomplish the Technical and Operational objectives?



Financial (continued)

- Will we have to build facilities or acquire other businesses?
- How much invested capital do we seek?
- What's our pre-investment valuation?
- What's our exit plan – IPO, acquisition, or something else?

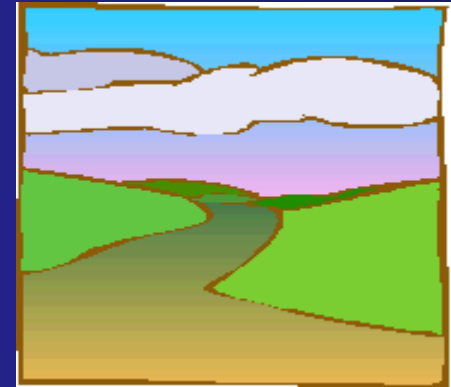


The Message

- The overall business perspective will inevitably change:
 - from **Technical** priorities in Phase II
 - to **Financial** priorities in Phase III.
- **Companies unwilling to accept this will inevitably fail.**



**Taking the right
set of paths for
your situation**



**will determine whether you have a
chance for Phase III success, or are
doomed to be merely another in a long
line of paving stone providers.**





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Than Money!''*