

“PREPARE to Fund Your Technology Development!”

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Everything I Ever Learned About Funding I Learned From Andy Hardy

In the 1940's MGM produced a series of Andy Hardy movies in which the main characters (Mickey Rooney played Andy, Judy Garland was his girlfriend and Lewis Stone played Judge Hardy, Andy's loving but firm father) managed to solve their problems by using the device of "Putting on a Show". Having exhausted their own meager resources, and desperately needing to raise money for a worthy cause, the talented and enthusiastic young entrepreneurs staged a musical production to raise the money they needed. The resulting musical productions were the very best the MGM Prop, Set Design and Music Departments could produce.

Today's entrepreneurs looking to raise money lovingly construct their backdrops with business plans and PowerPoint presentations. Their intent is the same – get their audience to willingly part with their money because they like what they see and hear! It worked for Andy Hardy and his friends. They always accomplished their goals and raised the money. But they had an advantage: they were fictional characters in a movie that always had a happy ending.

What faces today's entrepreneur?

The casual observer of the process to acquire technology funding might conclude business plan preparation, finding the sources of funding, choosing between Angels and VCs and giving brilliant PowerPoint presentations, is all that is required to win funding. Unfortunately, presentation strategies alone often fail to create the expected payoff.

There's much more to the evaluation process than the message in your business plan and PowerPoint presentations. These components, though important, will not deliver a win by themselves. What's missing? A firm understanding of what funding sources are available and how each

potential funding source is going to evaluate you and your business.

Each Funding Source is Unique

There are many potential funding sources. The obvious ones are Angels and VCs but there are other options – many of which won't dilute your ownership. The Small Business Innovation Research (SBIR) Program provides grants and contracts for technology development. The Texas Emerging Technology Fund (ETF) provides grants for business growth. The Department of Energy has annual Inventions and Innovations (I&I) competition providing grants for energy-sector technology development. NASA, the Department of Defense, and the Department of Homeland Security all do extensive partnering of small technology businesses with their prime-contractors who are seeking innovative technologies to integrate into their systems. Major universities, such as The University of Texas and Texas A&M actively seek small businesses with whom they can partner in the commercialization of their technologies. Which source you should target lies in the assessment of your readiness for funding.

Investors will evaluate your suitability for funding.

Any potential investor will evaluate you. Two critical dimensions will be assessed. The first is the developmental status of your company's technology. The second is your company's maturity and ability to conduct business to realize the revenue potential of your technology. The perception of how you rate in these two areas will determine whether the investor will continue discussions with you, or take a pass.

Evaluating developmental status: the Technology Readiness Level

A convenient classification index is the Technology Readiness Level (TRL) [Figure 1]. It is one of the primary assessment tools used by the Department of

Defense and NASA. A company's TRL will range between a "1" and a "9", with "1" being no more than a conceptual articulation of an idea and "9" being a fully developed product. You can be sure the funding entity will expect your company's technology to be at a minimum readiness or TRL level for the investment to be considered appropriate for further evaluation. It's to your advantage; therefore, to know ahead of time what each targeted funding source uses as their readiness criteria and what the minimum thresholds they expect.

Evaluating maturity: the Business Readiness Level

Similar to the TRL, another classification index, the Business Readiness Level (BRL) [Figure 1] can be used to assess the capability of the organization to conduct business. Like the TRL, it ranges between a "1" and a "9", with a "1" representing the proverbial "inventor with a dream" and "9" being a fully articulated business with appropriate infrastructure and staffing. Any credible funding source will want assurance your organization has the resources and business acumen to successfully execute the plan and manage their money!

The Investor's Evaluation Process: TRL + BRL

Every potential investor will rate your technology development and business maturity on some relative scale. They will compare your perceived rating against their preferences. For example, both the SBIR and I&I funding programs focus on TRLs of no higher than a "3" but a company having a BRL of a "4" or higher has a much better chance of getting an award. The Texas ETF is more favorable to companies with a TRL and a BRL of "5" or higher. The Federal agency partnering programs get excited when TRLs are a "6" or higher and are matched with BRLs that are at a "7" or higher.

Angels and VCs each have a unique profile that they are seeking to match. Angels might be willing to invest in a company with a low TRL when the investor has significant knowledge or experience within that technology domain. Most VCs, however, expect a TRL of a "6" or higher. Expected BRLs also vary widely -- some investors prefer a fully defined business team, others prefer to help build the team.

Let's make a deal!

There's a third component involved in finding and dealing with a funding source. We call it Dealsmanship™. It's all about your understanding of

the deal process and your skill in negotiating favorable terms and conditions. If you can't negotiate a funding agreement that protects your company's best interests, then everyone associated with the investment loses.

A strategy for success: raise your Funding Readiness Level (FRL) appropriately

For successful funding, the company must objectively evaluate its TRL and BRL, know the profile and preferences of potential investors, and be prepared to make deals that position the company for profitable growth.

There's no point in making a presentation to a VC, for example, who expects a TRL of 6+ and a BRL of 5+ if you're at a level 3 on both scales. However, an Angel who has experience in your technology area might be very interested. At the same time, you might consider the SBIR Program and plan on applying for Texas ETF funds in a year or two when your TRL and BRL have both risen.

To be successful you need a funding preparation strategy that includes research and evaluation of all potential funding sources, generate a roadmap to raise your TRL and BRL levels to match targeted funding sources, and develop a strong dealsmanship capability. The basis of the strategy: raise your Funding Readiness Level (FRL)™ [Figure 2] to the appropriate level to be successful.

Let's Put On a Show!!

Now what about that business plan and PowerPoint presentation? These are the "Show" you produce to attract and convince possible investors. A good show with "props and music" will keep the investor interested and talking. Without the show, you'll never get the chance to demonstrate the reality of your technology's developmental status, capabilities, and potential. After all, that's what the investor is "buying". And, frankly, a poor show is an indication of a lack of business maturity.

Andy Hardy had the right idea after all!

Come to think of it, Andy Hardy and his friends certainly had a high enough TRL to put on a blockbuster show, and Judge Hardy served to bolster their rather weak BRL. Andy's dealsmanship skills, moreover, always helped him get his way. Despite being fiction, these movies did offer valuable business principles and a blueprint to modern entrepreneurs that are relevant after all! Break a leg!

Figure 1 – Representative Definitions of Index Levels in the TRL and BRL

Level	Technology Readiness Level (TRL)	Business Readiness Level (BRL)
1	Conceptual articulation	Inventor or team with a dream
2	Technology and Applications described	Paper studies and analysis produced
3	Laboratory studies and analysis	Capability for conducting laboratory experimentation
4	Limited capability prototype validation in laboratory (pre-alpha version)	Capability to work limited-scope R&D programs with project teams
5	Full capability prototype validation in laboratory (alpha version)	Capability to support project engineering development and design
6	Prototype validation in relevant environment (pre-beta version)	Capability to support development and design with a market-driven business team
7	Actual system validation in a relevant environment (beta version)	Capability to support limited production; full business team in place
8	Initial production and rollout	Capability to transition to full production and distribution
9	Full production mode	Fully articulated business with appropriate infrastructure and staffing

Figure 2 – Components of the Funding Readiness Level (FRL)

