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JULIA LONG

How to make sure your innovation doesn't end up in File 13...

Making the grade

IT'S the innovation of the decade, you're sure of it. It'll revolutionise the world, bringing you fame and fortune in the process. Or will it? Before you go rushing out to rule the world, make sure you avoid these common pitfalls:

EVERYONE EVERYWHERE (WELL, ALMOST) WILL AGREE WITH YOU

Entrepreneurs must be passionate and committed to their ideas. The hard part, though, is trying to bring in a touch of realism. The easiest way is to find other people whom you trust to give you their honest opinions about your idea. Ask a couple of people and review the results.

EVERYONE IS WAITING TO STEAL YOUR IDEA

One of the first things inventors do is try to keep their idea a secret. The problem for an investor though, is how to determine if they are prepared to fund the idea when they aren't provided with the necessary information. On the flip side, you definitely need to protect your idea especially if you are planning to patent it. If you need to disclose information about your invention to other parties before applying for a patent, ensure that the party signs a confidentiality or non-disclosure agreement.

I DON'T NEED A BUSINESS PLAN

Talk is just not enough. You have to put your thoughts onto paper and convincingly illustrate how you are going to develop your innovation. You represent a high risk to the investor, so you have to convince them that you have heaps of business acumen, managerial capability and a rock-solid innovation, which will eventually amount to a profitable company. Keep your document concise.

Make sure your plan will answer all potential questions that the investor would have, such as the potential of the business, the implementation plan and the funding requirements.

THERE IS NO COMPETITION

This is a statement found in many business plans and is almost always proven wrong. Competition can be found directly or indirectly, locally and internationally. The customers' perspective is often forgotten. Sometimes entrepreneurs also prefer not to highlight competition, as they see this as a negative. Competition can be very useful, especially for new inventions,

GET THE FUNDING, AND THEN WORRY ABOUT THE INVESTOR RELATIONSHIP

Generally, investors require a business plan, five-year financial forecasts and any other relevant documentation. Once you have all the necessary information, the next step would be to find the right partner or investor. Most investors require a share in your business: this means they become your business partner, sit on the board and strategically influence the company's direction until they exit. It is, therefore, important that you research and choose your potential partners carefully before you even approach them.

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as this typically requires educating the market, and guess what: the competition is helping you to do this.

REVENUE STARTS IN MONTH ONE

Financial forecasts often indicate revenue from month one instead of starting at the point that funding is received. If there is revenue from month one, the cash flow statement will often reflect that small amounts or even no funding is required. Practically, it will take a number of months before your product is ready commercially, and then, depending on your sales cycle, a number of months before the first sale. Another important factor to consider is the payment period: how long after invoicing will your customer take to pay you?

FUNDING WILL SOLVE ALL YOUR PROBLEMS

Once you are set up financially, the rocky road begins. You will need to commercialise your product (so no defects!), convince customers to buy it, convince people to join your company and ultimately rule the world!

Julia Long is director of Operations at HBD Venture Capital. South African entrepreneur Mark Shuttleworth, recognising the need to bridge the gap between idea and enterprise, founded HBD Venture Capital in 2000. Tel: 021 970-1000.

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