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## **Innovations and finances**



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Start-up business entrepreneurs know how difficult it is to successfully launch innovations on the market with limited equity capital. And this despite the apparent mass of sponsors in the capital market willing to support astute concepts. Apart from going down the bank route and searching for investors, opportunities have opened up on the world wide web through crowd funding. Here there are people who believe in the idea and frequently invest relatively unchecked in an “uncertain” future.

However this is often just start-up investment to cover initial costs. If the planned launch is delayed due to unforeseeable obstacles, the starting capital is quickly used up and the original business plan must be revised around the follow-up financing. If this follow-up financing doesn't appear, many good ideas are lost due to insufficient funds.

Therefore, when it comes to finance, start-up entrepreneurs must have sufficient command of their emotions and belief in their innovation to ensure that the time factor and unforeseeable events are considered in the business plan.

***Emotions are important for convincing investors of your plan and for developing business ideas, but sufficient equity capital in a solid business plan provides assurance that obstacles can be overcome.***

When the a prototype of the innovation or service concept has been initially visualised, the risk of a potential mis-investment can be considerably minimised if a potential trusted customer can be involved in development at this early stage of the innovation.

This is also the case for KAMs and corporations, which often develop new products and services in “home laboratories” up to market maturity to discover extremely late on that the market will not adopt the idea. Old-school company owners and autocratic directors with a pretension for omniscience deem market research studies to be expensive tools and do not use these in decision making.

***Involving a future customer makes this customer a co-inventor and reduces the risk of an investment shortfall enormously. Market research cannot make the decision, but can be very helpful.***

As the customer is prepared to pay more for increased rational or irrational benefits, innovators usually generate higher prices than other products and services in the same category. However, the price shouldn't be pushed too high, particularly if the innovator is targeting the mass market. Sometimes it becomes clear during the development phase that production costs will be higher than first anticipated. In order to achieve the envisaged profit, sometimes (rather irresponsibly) the theoretical quantities and prices are adjusted and the reality is masked out, for example, to include tool investment as part of the development process.

***The driving force behind the innovation may not break with the laws of price / demand elasticity for the investment capital.***

Through optimal pricing, start-ups and KAMS can seemingly outclass large corporations due to their lower overheads. However, corporations achieve larger potential sales and production volumes and thus quantity depression advantages, thanks to their distribution power. So therefore it's quantity depression advantage versus overhead cost advantage. For start-ups the issue of financing the distribution is particularly important because the "critical company size" must be exceeded in order to be profitable in the long-term.

***However, planning with larger, optimistic quantities means shouldering a certain capital risk.***

One possible solution between corporation and start-up is outsourced innovation centres attached to large corporations that offer many innovators a solid home. This is certainly a suitable business model not only to give innovators intellectual freedom, but also to safeguard against superior organisational structures. Innovators work alongside like-minded entrepreneurs – something which supports mutual creativity. Of course, by financing these innovation islands the corporation aims to get something in return in the form of first utilisation rights to the innovation.

***Through a corporation-affiliated innovation centre, innovators can develop their ideas up to market maturity with minimal capital requirements. But in return, the innovator's private benefit may be constrained.***

Integrating an idea into a multi-operational corporation unit at a later stage means the innovator faces the particular challenge of an unknown company culture. The exit here is usually pre-programmed. Compared with start-ups and corporations, the German economy has just shown that the truth lies somewhere in between i.e. small and medium-sized companies are the driving force behind innovation. A well-managed KAM has sufficient capital to tread new paths, can make an informed decision on risks and possesses sufficient business volume and distribution power. In particular KAMs with well-equipped war chests i.e. with sufficient cash flow can independently choose to invest in innovations and thus finance growth without being kept on the banks' leash.

***Cash flow is one of the most important variables for successfully shaping innovations.***

The reflux of capital from successful innovations generates fresh capital for financing new ideas. Thus innovation to finance new innovations becomes an avalanche of success. However, the first sound financing basis or conversely the idea must be so convincing that investors are prepared to provide the risk capital. When discussing what came first: "chicken or egg" i.e. finances or idea, it must be understood that finances are simply a means for making innovations successful, but good ideas can also fall by the wayside without sufficient capital.

***Money is usually obtainable, whereas good ideas are often in short supply. Innovation consultation, which also actively accompanies the process, can be extremely helpful here.***