



# Valorisation of R&D

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Why are European Seed Investments  
Performing so Bad Compared to US Funds?

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# Does Venture Capital Matter?

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Lessons from the US market



## It is a small industry addressing a tiny part of US companies...

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- 0.2% of the US GDP
- \$456 B in 27000 companies (1970-2008)
  - Approx 2% of all firm investments
- \$20-\$30 M annually in average since 2000

*Source: Venture Impact - The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy (5th Edition, NVCA 2009)*



## ...but it has a huge impact on US Industry

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- 12.1 million jobs or 11% of total private employment
- \$2.9 trillion in revenues or 21% of GDP
- Share of employment
  - 81% share of employment in Software
  - 74% in Telecommunications
- Share of revenues
  - >50% in ICT
  - 47% in Biotech

*Source: Venture Impact - The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy (5th Edition, NVCA 2009)*



## Performance of US and EU VC Funds?

Fund type	3y	5y	10y	20y
<b>US Early/Seed</b>	<b>1.7</b>	<b>3.7</b>	<b>36.0</b>	<b>21.8</b>
US Balanced	4.6	8.4	13.5	14.5
US Later Stage	9.4	8.7	7.5	14.5
US All ventures	4.3	6.4	15.5	17.0
NASDAQ	-10.3	-4.6	-3.2	7.3
S&P 500	-10.0	-4.0	-3.0	6.1
<b>EU Early/Seed</b>	<b>-1.7</b>	<b>-0.2</b>	<b>-2.4</b>	<b>-1.1</b>
EU All Ventures	0.0	2.1	0.4	3.1
EU All Buyouts	8.5	14.1	13.3	14.1

*Source: Thomas Reuters Performance Data 2008-12-31*



Is the European Problem a Funding Gap?

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# The Systemic Failure: A Thin Market!

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It's about investment readiness of ventures ...

and...

...having investment ready ventures meet the  
right fund managers & business angels



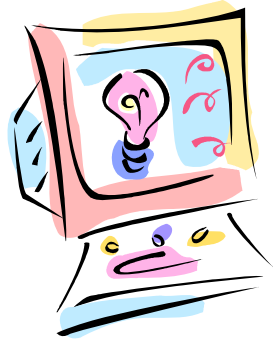
# Key Issues

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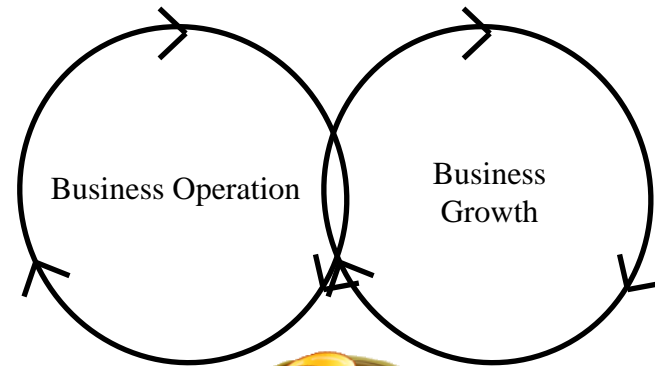
- **Too few adequate fund managers – too risky proposals – too small funds**
  - Under-investments in very early stages of valorisation due to too small funds and too risky investment proposals
- **Inappropriate processes**
  - Ventures are planned as development projects rather than learning processes
- **Skill gaps**
  - Lack of adequate business and managerial skills in early stage ventures
- **Fragmentation of governmental support measures**
  - Too complicated and fragmented valorisation offerings not addressing the real needs in a timely manner

# Valorisation of Technology – Current Situation

Business Plans, Patents, Prototypes



Technology  
Invention



Requirement: A Newco AB



## After You Have Received Funding...

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Prototyping

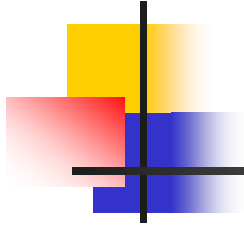
Alpha test

Beta test

Launch

Business Operation in  
early stages

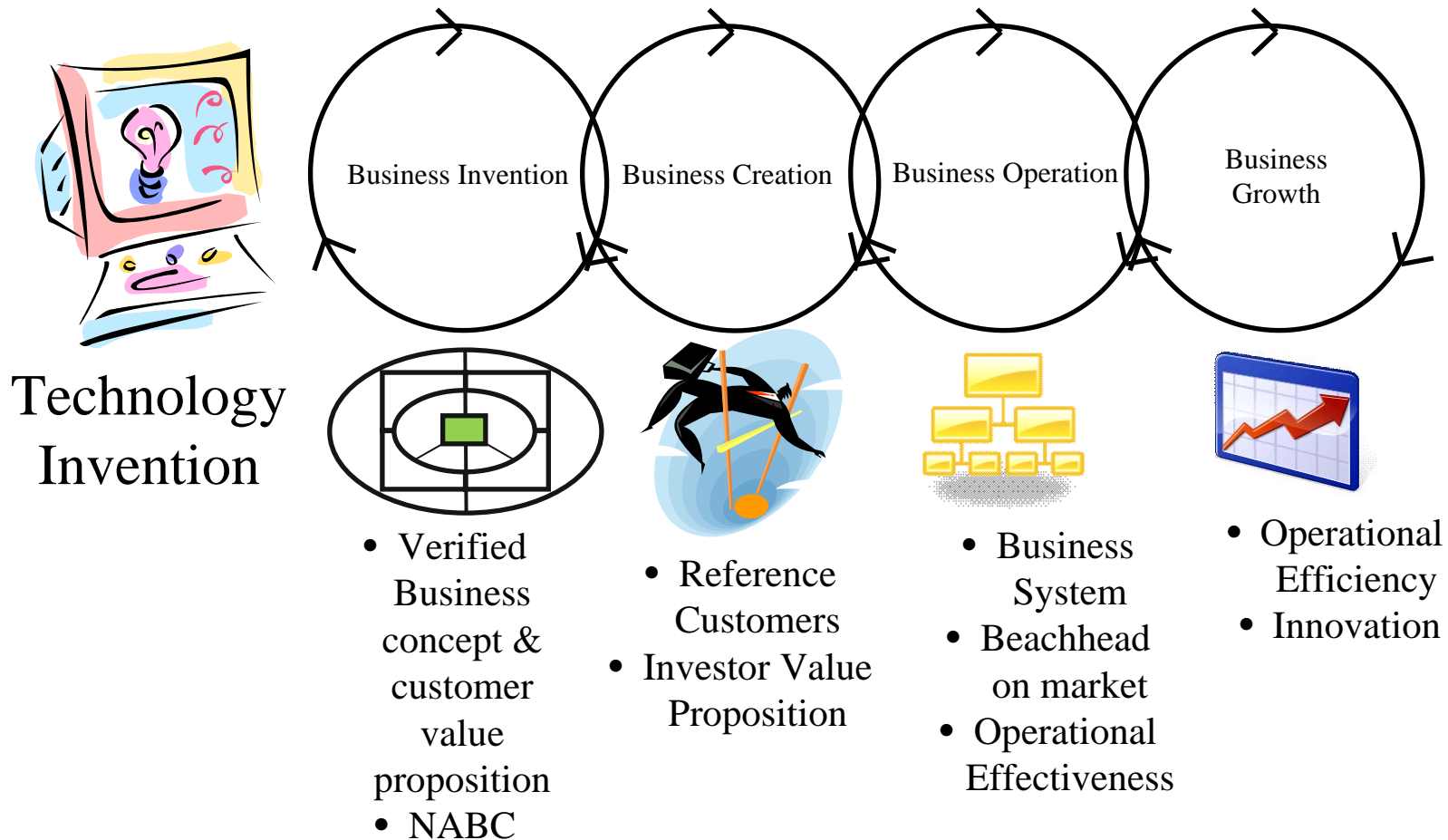
- It's all about product development...
- ...and execution...
  - Drives organisation development
  - Drives sales and marketing
  - Drives costs



Do ventures fail due to the lack  
of products or technologies?

No, they fail because they lack  
customers and a proven  
business systems

# Valorisation – A Reference Model





# How Do We Work With Business Invention?

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## The commercial concept...**NABC**

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- Important Customer **Needs**
- A Compelling **Approach**
- Customer **Benefit Over Cost**
- Worldwide **Competitive Advantage**

“NABC” captures the essential, defining ingredients of a Customer Value Proposition.

*Source/Inspired by: SRI International*



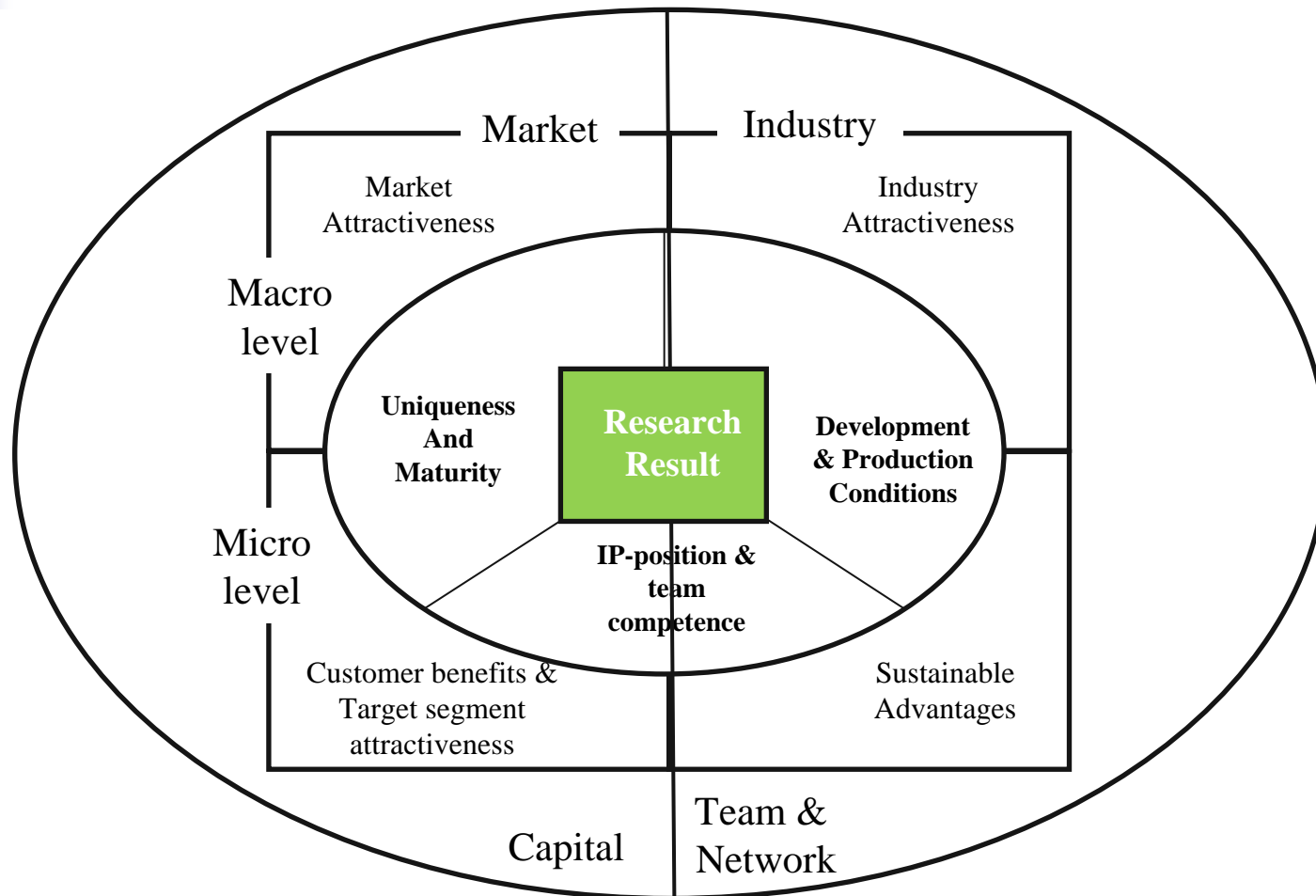
# What is Customer Value?

The most important equation...

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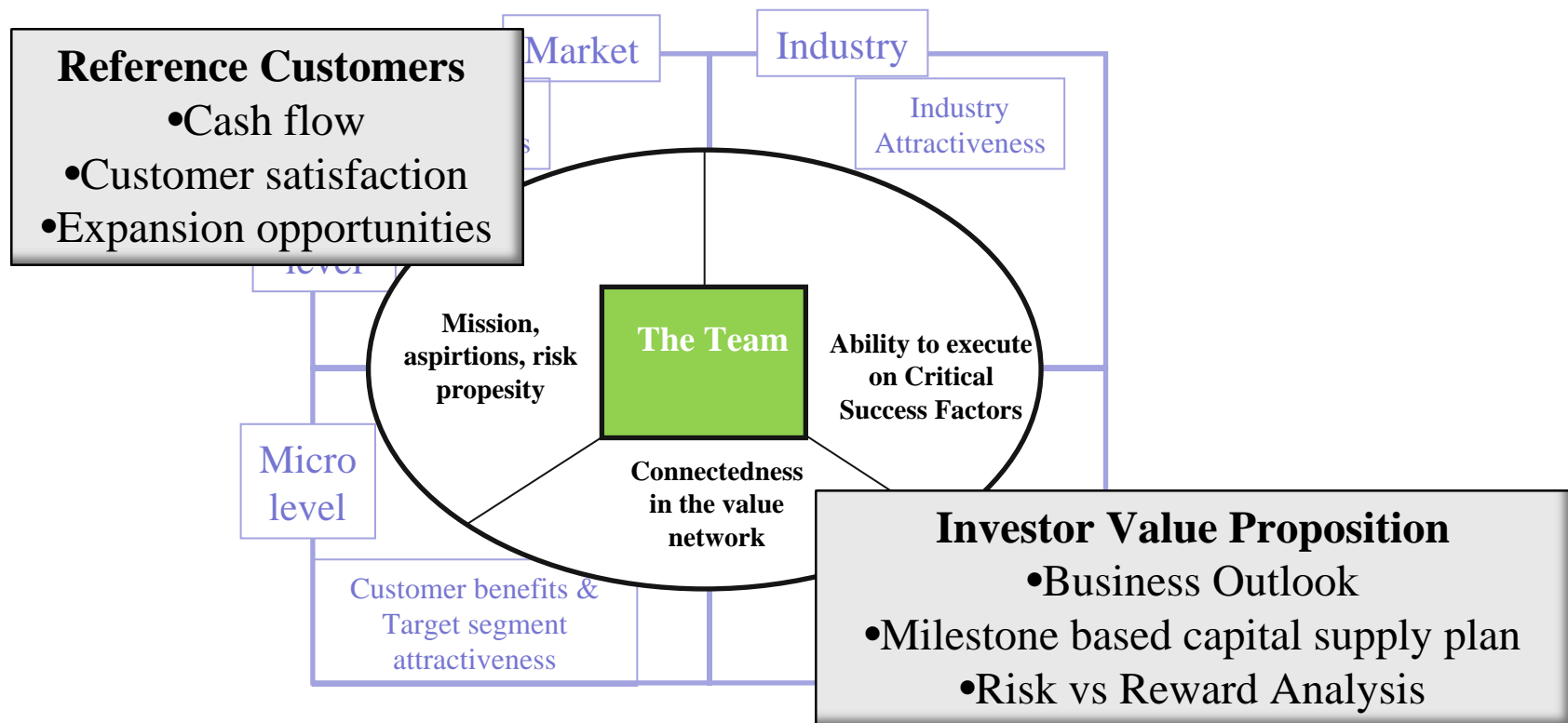
$$\text{Customer Value} = \frac{\text{Customer Benefit}}{\text{Customer Cost}}$$

# Assessing a Business Invention

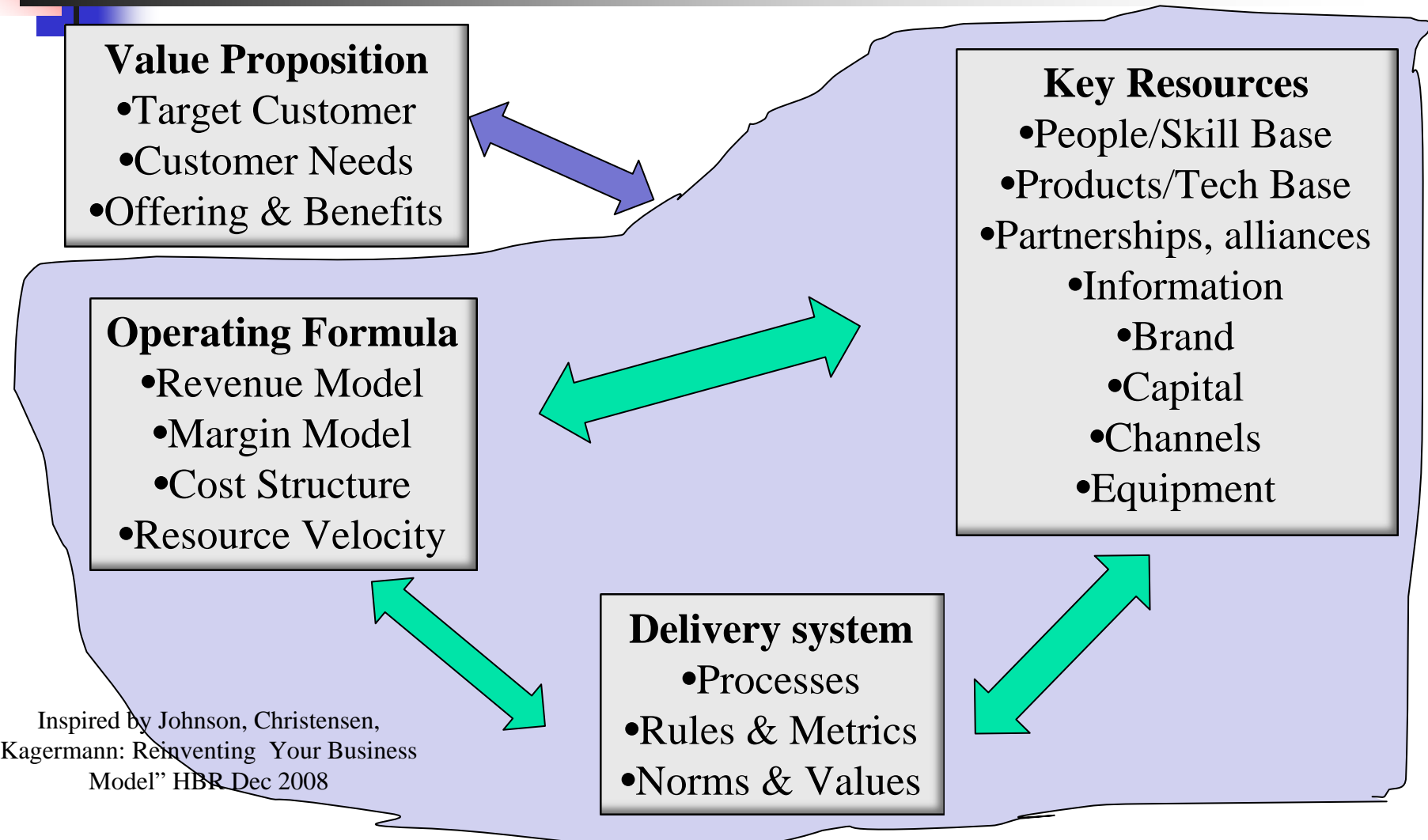


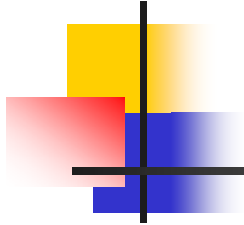
Inspired by the model in "The new business road test" by John W. Mullins

# Assessing Business Creation



# Assessing Business Operation





**Do not try to pick Winners on  
beforehand**

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**Focus on a stepwise  
verification/falsification of  
critical success factors!**



# It's a learning process rather than a development project

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- **Conventional Planning**

- **Strategy for formulation of development goals:**
  - Predict the future based on your current situation and past experience
- **Strategy for planning:**
  - Define your activities, costs, phases etc based on the gap identified between the current situation and the predicted future
- **Strategy for execution:**
  - Deviation from plan is something bad
  - Make corrective actions so that the plan is followed

- **Milestone based discovery-driven planning**

- **Strategy for formulation of development goals:**
  - State the technical and commercial assumptions that determines the future success of your venture
- **Strategy for planning:**
  - Define milestones where you test and update your assumptions, and where you sharpen your execution strategy towards a desired future
- **Strategy for execution:**
  - Execution is a learning process
  - Deviation from plan is expected and is a source of learning
  - At a Milestone, you are allowed to re-plan the venture and include the learning that has occurred in the new plan



# Critical Issues

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- What will make your venture successful?
  - Technical properties, commercial factors, legal and regulatory requirements etc.
- What is your "commercial end-point"?
- What is your "target product profile"?
- What is your "verification end-point"?
- How far does our means take you?



## The Message

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- From funding gaps to investment readiness
  - ➔ *it's about customer driven invention and verification of business concepts*
- From product development and execution to learning and discovery driven processes
  - ➔ *it's about understanding and discovering what will make your venture successful*



Thanks For Your Attention!

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## The commercial concept...

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- The Need
- The Approach
- The Benefit Over Cost.
- The Competitive Advantage:

# Distribution on UK angel investment returns

