



University of Oxford  
**Centre for Entrepreneurship  
and Innovation**  
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# Taking the first steps: company basics

**Professor Russell Smith**



# So what is a business?

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**An entity that sells things**

**Only two things that you can sell:**

A product

A service

(smart businesses sell both and always ensure that what they sell solves problems for customers)

**And... all businesses must make a profit**



# What's needed to start?

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## **Something to sell:**

Product and/or service

## **Start-up funding**

Businesses often fail because they are under-funded

## **Team of people**

Owners and doers

## **Range of professional advisers**

Most important is the accountant

# What's in it for me?

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## Three sources of revenue:

- 1 Salary from employment or consultancy fee
- 2 Profit-sharing
- 3 Capital gain

## Stop thinking like an employee...

Want to access all three forms of remuneration

Companies that take equity investment must have an exit strategy – *ie* shares in the company will be sold



# Is starting a business easy?

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**Yes, actually very easy, but...**

**The number of businesses registering and deregistering for VAT is similar every year**

*(source: Customs & Excise)*

**Over 50% of businesses fail within 3 years**

*(source: Barclays Research Unit)*

**... so hard to become sustainable**

# Making a business successful

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## **Really, really hard - good idea is just the start**

Often requires start-up and growth funding

Determination

Stamina

Other people: management, employees, financiers  
(bankers & investors) advisers and networks

## **Get as much help and support as you can find**



# How good is current support?

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## Well... not good enough!

Current statistics for business failure (>50% in three years) suggest that it is not effective in achieving business sustainability

Research indicates that 7/10 small businesses seek advice but only 1/10 satisfied with service from government-funded programmes and less than 3/10 with service from other consultants

*(source: FSB 'Barriers to Survival & Growth' report)*



# Taking the first steps

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**Getting your good idea to bear fruit is hard**

**Need a clear understanding of the journey**

***Enterprise is a process, not an event***

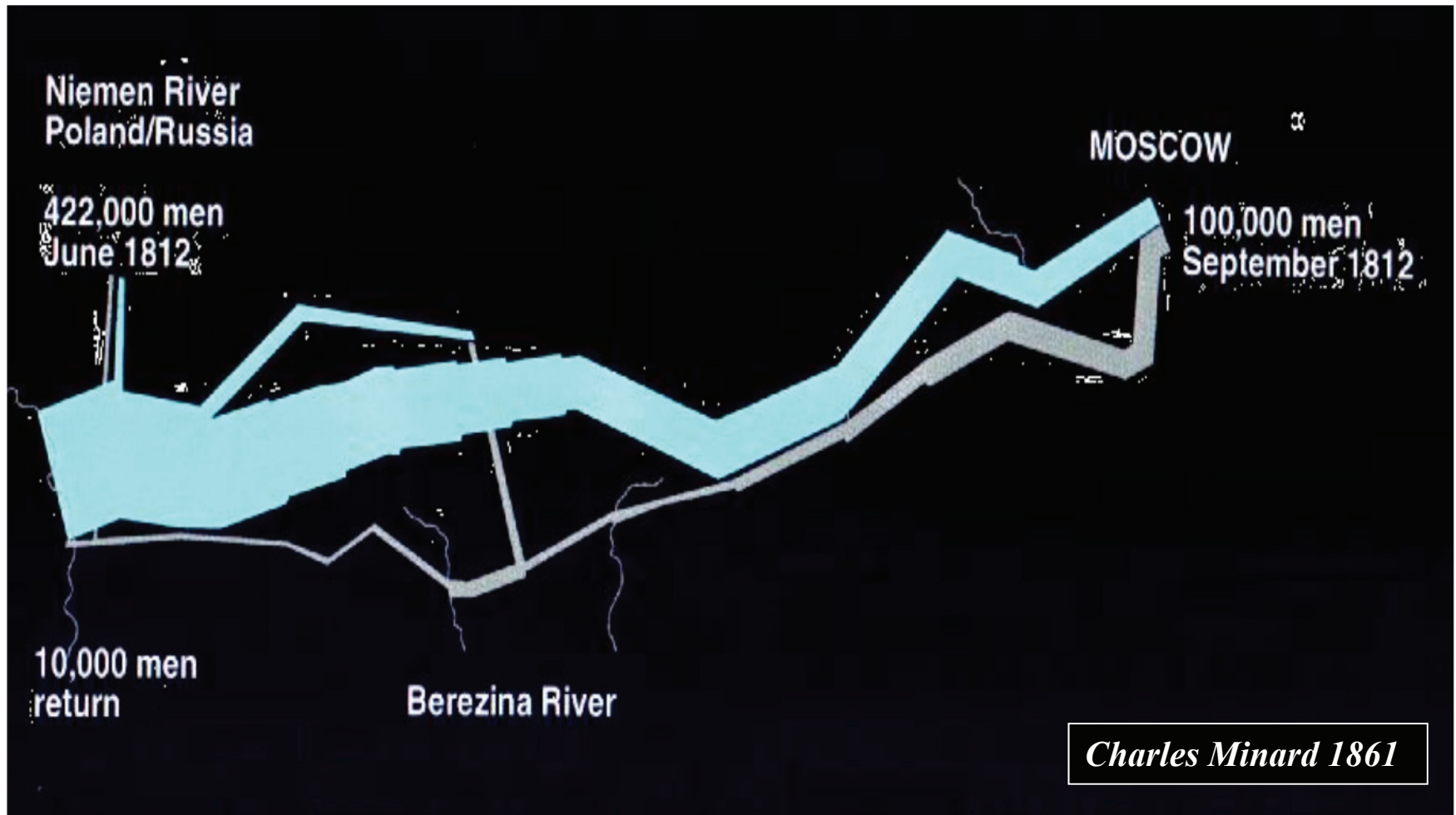
Can learn about the process of enterprise

Can learn from experience of others

Can plan for the journey...



# Why you must plan



# Had my Mother been in charge...

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Everyone would have worn a vest, jumper, coat, scarf, gloves... no arguments!

She would have asked questions - **research**

She would have made a long list - **planning**

Explained to everyone why they would be wearing winter clothes – **communication**

Welfare of those involved would have informed her decision making – **leadership**

# Developing your route map

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## Isis Innovation Ltd - University of Oxford

**Helps researchers who wish to commercialise research (eg Files patents)**

**Sale or licensing of intellectual property**

**Formation of new companies**

Help researchers start new companies

Introduce researchers to managers

**Links with finance (Business Angel networks *etc*)**

**Consulting and service contracts**

# Oxford – a good place to start

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**Pro-active ‘technology transfer’ activities from the University of Oxford, particularly since 1998**

**Licensing and spin-outs**

**Broad range of professional advisers in Oxford**

**Active network of private investors**

**Good links with venture capital**



# Back to your good idea

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**What will be your service or product?**

**Will anyone want to buy it?**

**Can you sell immediately (...unlikely)?**

**Do you need resources (human and financial) in order to develop your good idea?**

**Is your idea protected?**

# Intellectual property



IPR	Covers	Need to apply?	Maximum Duration
Patent	Inventions *	Yes	20 years
Copyright	Literary, musical, artistic works, & software	No	70 years after death of author
Registered Design	Image; look & feel	Yes	25 years
Registered Trade Mark	Name, logo	Yes	Unlimited
Confidential Information	Unpublished secret information	No	Unlimited

\* ***Must be Novel, Inventive and Useful***

**Know-how and consultancy** (quite easy)

**Good single idea** (can be straightforward)

Single patent

Licence(s) but difficult to form spin-out

**Multiple related ideas** (black belt stuff)

Multiple patents

Licence(s) or possible to form spin-out company

# Spin-out companies

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**Legal entity (human being)**

**Limited Company**

**Memorandum & Articles of Association**

**Shares, Shareholders & Shareholder Agreement**

**Board of Directors (& Chairman/Chairwoman)**

**Managing Director (CEO) and Company Secretary**





# Key duties as a Director

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**Act in good faith in best interests of company**

**Not let personal interests conflict with company interests**

**Keep accounts; not trade insolvently**

**Personally liable for the activities of the company**

**Insurance (cannot keep you out of jail)**



# Balancing risk - insurance

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**Key person**

**Directors' and Officers' liability**

**Building & Contents**

**Employer's liability**

**Public liability**

**Product liability**

**Use an Independent Financial Adviser (IFA)**



# Tax man – your new best friend

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**Pay As You Earn (PAYE) and National Insurance**

**VAT**

**Corporation Tax**

**R&D Tax Credit**

**Enterprise Investment Scheme (EIS)**

**Enterprise Management Scheme (EMI)**

**Personal tax issues (including CGT)**



# Professional advisers

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**Accountants (personal & corporate)**

**Lawyers (personal & corporate)**

**Bankers**

**Human Resources**

**Public Relations**

**Business support networks**

**Scientific Advisory Board**



# Who owns the spin-out?

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**A limited company with the following equity:**

**25% equity to the inventor**

**25% equity to the university (employer)**

**35% equity for start-up funding**

**15% equity to a share option scheme**

**Nobody owns more than 50%**

**Minority rights protected by Shareholder Agreement**



# Who thinks they own it?

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**Inventor** - mine, because they're my ideas

**University** - mine, because it happened here

**Investor** - mine, because it's my money

**Manager** - mine, because I'm going to make the idea work and sell the products or services

**Can all be quite fraught... actually very...**



# Getting everyone to agree

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**Full account must be taken of the needs of the inventor, the inventor's employer, the management team and the investors right from the outset... views may not be in harmony**

**Need to capture everything in a document that all parties can agree to... the business plan**

**Use whatever funding is raised to deliver objectives and milestones on time and on budget... simple!**



# The business plan

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**No more than 30 pages**

**A single page for the Executive Summary**

**Simple cash flow forecast the most important financial component – what is cash burn?**

**Easy to read, accurate and... honest expectations of progress**

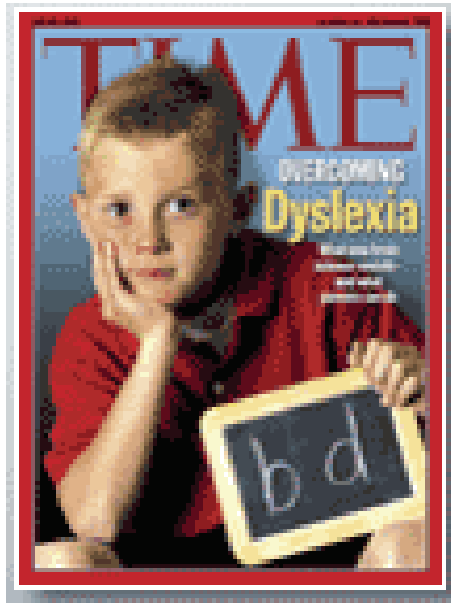
**Essentially a contract with investors**



# I'd like to read that



**“Most go in the bin after a quick glance”**  
*Investment analyst*



**Business**

**Plan**

**2009**

# Company valuation – share price

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**More of an art than a science...**

**University-based start-ups may struggle to get a valuation above £1m in current climate**

**Hence 35% equity for cash would generate £350,000 start-up funding**

# Sources of finance

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## **Enterprise Guarantee Scheme – debt finance**

Up to £1m over five years

Part underwritten by Government

## **Business Angels – equity finance**

High net-worth individuals

Ability to invest £25k - £250k

Many business angels act in groups

Often have links with universities

**Most important group for new spin-outs together  
with Venture Capital Trusts**

# Business Angels want to know...

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*... that there's a strong commercial application*

*... that the IP is protected (eg patents)*

*... that the management team is capable of delivering*

*... that there is a clear exit strategy*

**of which the most important component is the  
management team**



# Finding good managers

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**Are researchers good managers?**

**... sometimes**

**But investors want world-class inventors to be  
partnered with world-class managers**

**In any case, wouldn't the inventor be better off inventing  
more things to commercialise?**



# The management “Catch 22”

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**To raise money, the new spin-out needs an excellent management team.**

**But good managers are expensive.**

**Can't attract the right kind of manager without having the cash to do so...**

**... the management “Catch 22”**



# Possible solutions...

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**Hire a cheaper CEO... not a good idea**

**Offer a good CEO less salary but an initial share stake in the company (ca 5%) with additional share options**

**Use an Interim Manager – having somebody who is really good with an excellent track record for two days per week is much better than somebody mediocre for five days per week.**



# Possible strategy...

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**Interim CEO part of “founding team”**

**Interim CEO leads start-up funding round of *ca* £300k to £500k**

**Interim CEO shapes the company and leads second round of finance of *ca* £1-2m**

**Replace with full-time CEO**

**Full-time CEO leads subsequent VC rounds**





# Multiple finance rounds

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**Need to measure ‘progress’ and hence increasing ‘value’**

**Need a clear set of milestones and objectives**

**The business plan is the key document (together with the associated cash flow forecast)**

**The business plan is a ‘living’ document that can evolve**

# And finally...

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**Think carefully before you start a spin-out**

**Success cannot be guaranteed**

**Investors know that things don't always go to plan –  
keep them informed and on your side**

**GOLDEN RULE: Don't run out of cash**

# Thanks for your attention

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