Spin off? Or go the traditional route? How to make the decision

How great are your chances of becoming a professor? Are you unsure of your future, and think your stint in research will be a limited period in your life? What does your career path look like? Does it dead-end in your mid-40s in middle management at Siemens or SAP (the pyramid is pointy at the top, don’t forget – but never mind, your ambition is waning anyway...)?

Have you given any thought to what exactly you want to do with your technology? What is your goal, beyond writing your undergraduate or doctoral thesis? Do you want to write further papers and then, indeed, become a professor?

What would you think about putting the value of your technology, and the work you put into it, to test in reality, and finding customers that will pay you real money for it, not just an “honorable mention?”

The following article describes various important issues to keep in mind when considering a spinoff. A follow-up article in the next issue will illustrate the points using concrete case studies.

A question of substance – Product
Put on your “top down” glasses for a minute: What kinds of problems does the market have (industry, end consumers)? Generalized topics include mobility, adaptability, efficiency and size. If you are already working in an industrial partnership, chances are, one of these is an issue!

Does your technology have enough substance to play a substantial part in the aforementioned topics? Analyze existing problem solutions and hold your technology up for comparison.

Personality profile – Are you the type to raise yourself by your own bootstraps?

- Do you put a lot of stock in capitalism?
- Is your glass half full, or half empty?
- Can you excite your listeners today about something that you won’t have finished for 9 months?
- Do you think Catch-22 is indecent, or a constructive move of human nature?

If you want to become an entrepreneur, you should have answered the above questions in the affirmative. Your family, friends and surroundings will probably try to dissuade you from doing so because of the risks, but you should weigh possible difficulties against the advantages:

- As an entrepreneur, your income is wide open (up was well as down) – that is the opposite of an employee whose basic needs are always met.
- You will only bump up against your own limitations. No one can tell you, “That’s not the way we do things.”
- As an entrepreneur, the speed at which you learn things is many times higher than it is in a big company.
- In an environment, in which most of your colleagues will not dare to form a spinoff, you will have little domestic competition.

Seek out contact with people who have already done it!

Teamwork – Or would you rather always do everything by yourself?
Don't even try to go it alone – find people in your laboratory and if possible, from elsewhere in industry, who complement you. You need a core team of two to three people who stick together like family. College graduates are a good infrastructure to have in your development department, and get your professor involved in the spinoff – that will further ensure a solid connection to research resources.

Investment requirements – Do you even have any?
If you sell a service, then you're really selling yourself and don't need to invest in product and market development. Initial investments and the scalability of that which you sell must demonstrate a high correlation within a foreseeable timeframe (1x1 of the earnings mechanics). Therefore, no one will give you money to finance a service company.

An investor always looks for the lever – the initial investment must be compare with a manifold increase in value. Generally, that can only be achieved with scalable products, i.e., developed once, sold many times!

Advisors – They're everywhere
Look at it positively; utilize advisors for an initial orientation. For a complete picture, talk to people in business, for example, other company founders who are two to three years ahead of you.

Business angels – Not just capitalists
This is not an easy subject because of the expectations behind the term "angel" from the wrong investors for whom the deal is not purely a monetary win-win situation, but usually includes emotional elements (loyalty, undying gratitude, etc.). If expectations are not met on an emotional level, the resulting conflicts typically won't be solved rationally (economically) either.

Venture capitalists (VCs) – The professionals
Become versed in how the VC industry functions:

- Don't believe any VCs who have not built a business themselves.
- Excellence equals focus – look for a VC that specializes in research spinoffs.
- The fund size must be right – a rule of thumb is that investing in technology spinoffs is not profitable for a fund bigger than €100 million (depending on the phase model of the company development and the economy of the VC fund model).
- Only talk to VCs who are at partner level. They are the only ones who have the decision-making ability to present your business to the partners for an investment consideration. And you don't want to train the juniors, do you? Do the decision-maker test – call their office after 9 pm!
- Be wary of VCs that are subsidiaries of banks or industrial companies. There, the partners themselves do not make the investment decision; rather, an anonymous "investment committee" makes it. This is also often true if a large public institution is a fund's investor. The situation can be particularly problematic if the VC initially invests in you, but in a subsequent round receives a veto from its public investor.