

The INVENTOR and VENTURE CAPITAL

Let The Truth Be Told

by

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As far back as I can remember, speaking to groups of from ten to a thousand at various functions over the last several decades, it always comes up. How do we get money from venture capitalists, or as so often referred to, “Vulture Capital” which always saddens me, since those unique individuals and groups who manage billions of dollars are not interested in stealing your idea, or in most cases not even interested in looking at it.

I have never, in all my almost fifty years of working with inventors and investors, ever found a single example of a money manager stealing an idea or invention. These are people with reputations that cannot be tarnished by lawsuits or by any patent litigation, otherwise they would not be able to continue to raise millions of dollars for new funds.

I would like to briefly describe the Venture Capital Industry, and why 99% of inventors should never even consider approaching one. We have seen tremendous growth of venture capital in the last twenty years, to where it is today. The VC industry raised a record \$9 billion in 1997, compared to \$7.5 in 1996 and \$4.4 in 1995 of new monies. They also invest about half in growing companies, and billions in the new start-up’s of tomorrow. There is also what is called “Risk Capital” provided by angel investors or small groups. It is a very important fact to recognize that there is no shortage of investment money in the United States providing you can justify the investment with a professional presentation and a very qualified experienced team.

The estimate is about \$35 billion is presently being managed by less than 100 firms across America, and double that by private investors. Very few inventors are prepared to approach a VC company for a wide variety of reasons. Among which is: no professional business plan, no team of experienced capable people, no detailed financials as to why they need funding and how it would be spent, and no recognition of the fact that the largest majority of firms only look at plans that are offered by people they know, and interested in investments that start at \$3 to \$5 million.

Most of the time, when I am asked about finding investors, they always refer to this as “Venture Capital” as though they are just waiting for the inventor to knock on their door. The other comment that upsets me, is that “They will take over my company,” as though “they” are unscrupulous people. This is not true. The only cases where a venture capital firm or group of firms, takes control of a company they invested in, was because the management was not doing a good job, and their investment was in jeopardy. They will provide board members to the company, not only to watch the progress and protect the investment, but this is a real plus, because it adds good professional experience and credentials to the company.

Once in a great while, I will see an inventor and team, provided with VC funding. The criteria is, investment first in people and second in technology. Just ask yourself, "If I was a VC would I invest in this?" and "If I don't dig deep into my own pocket to invest in my invention and future company, then why would anyone else?"

My advise is not to look at the investment community as Venture Capital, since a great deal of private investors could not be qualified as such. You would be very surprised at how many doctors, dentists, lawyers and other professionals invest in what appears to be a good idea. You can sometime tap these sources by talking to them at your next appointment. Just try asking if they have an investment pool

There are almost 300 small private. investment companies throughout the country that belong to NASBIC, the National Association of Small Business Investment Companies. They typically provide from \$250,000 to \$4 million. In 1997 SBICs invested \$2.37 billion in 2,731 companies. Of this, nearly \$400 million was invested in firms owned by women and minorities.

The SBIC is a private-sector led partnership with the U. S. Government. Each is licensed after meeting stringent requirements, and investments are focused on the benefits to economic development in an area. . Their investments and successes have included, Staples, the office supply company, Apple Computer, Intel, Federal Express, Callaway Golf, etc. For more information write to: NASBIC, 666 11th St. NW, Washington D. C. 20001, or call: 202+628-5055.

Remember, no matter who you talk to about funding, no one, except maybe your loving grandmother, is going to give you any money unless you have properly prepared a business plan, which contains marketing and financials, and unless you have or are willing to put your own money into the dream.

I would like to remind the reader, that a great many millionaire inventors gained their fortune by licensing the invention, rather than going into business with all the hardships and potential failure. In either case, the value must be determined by how well the patent application was written, the specific claims and coverage, and if the patent will issue. If it has issued, then don't sit back and start counting your money.

Do what every successful inventor has done for at least the last 100 years, including Edison, look at what you have through the eyes of the biggest and meanest competitor on the planet, not as the creator of the "million dollar idea." If you wanted to invent around the patent that was just issued, and you had all the resources to do so, how would you improve on it, and beat the patent owner to the great perceived potential market?

Do not sit back and wait for the world to beat a path to your door, it is not going to happen. What you will begin to see, is that you really did not put everything into the original application, and the improvements that someone else would have created is now enhancing the value of your issued patent, and will keep everyone guessing when you put both the patent number and "Other Patents Pending" on the product.

When my good friend, Jim Fergason first came up with the concept for LCD (Liquid Crystal Display) technology, he did not stop inventing. In the last twenty-plus years he has added over 100 U. S. Patents and over 500 foreign patents on the same basic technology. This is why today he is a multi-millionaire and has won every patent litigation lawsuit on LCD. He recognized the potentials for the product and also made the major investment in protecting his very valuable intellectual property.

So as a summation, I would like to suggest:

1. Stop beating up the venture capitalists of America, since they are responsible for helping to create thousands of new companies, and millions of jobs benefiting all of us.
2. The money is out there but you need to start thinking like a business person and not an inventor.
3. Don't ever stop improving on your invention, it might just be the difference between success and failure.
4. And last, but certainly not least, check out thoroughly any invention marketing firm that promises you everything while taking your money.

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