MIT forum offers tech funding alternatives

Appeared October 26, 2003, in the Tri-City Herald

It's almost a knee-jerk strategy for fledgling technology companies to seek equity funding from angel investors and venture capitalists, usually with little success. "The difficulty of finding money can't be over-exaggerated," writes Ron Peterson, author of the new book, *When Venture Capitalists Say 'No'- Practical and Proven Creative Financing and Growth Strategies*.

According to Peterson and other experts, there are hundreds of ways to finance a new or growing tech enterprise, ranging from bartering and incubators, to trade associations and universities.

Regardless of route, "attracting capital today means devising an innovative business model and communicating that model to potential investors, wherever they are," Peterson said. "You have to get out and sell the idea, and sell it hard."

Washington State University Tri-Cities and Pacific Northwest National Laboratory worked with the MIT Enterprise Forum of the Northwest in Seattle to bring three such entrepreneurs to town last month via a satellite broadcast from the MIT campus in Cambridge, Mass. In "No Money Down: Raising Capital from Unconventional Sources," the trio used their own experiences to demonstrate innovative financing approaches.

The ThingMagic touch

ThingMagic is a Cambridge firm that specializes in radio frequency identification technology, particularly as a replacement for bar coding. With an intense desire to stay independent, the company turned to its customers for financing.

"We're in an emerging market where timing is everything and investment is risky," said managing partner Bernd Schoner. ThingMagic worked market risk to its advantage by participating in solving a market barrier, the lack of readers.

The company developed a reader just far enough to demonstrate to the client that it worked, whereupon the client supported development of customized prototypes. The client will have specific rights to the technology, and ThingMagic will receive payment in the form of license fees, developmental capital and/or royalties.

"It's all about building an intellectual property rights portfolio – and giving some of it up," said Schoner. No one needs every bit of a new technology, Schoner said. He urged entrepreneurs to retain as much intellectual property as possible and to be prepared to release the piece that's critical to a client in exchange for funding.

Through thick and thin

Pamela Lipson, president and chief executive officer of Boston-based Imagen, noted that financing avenues are a function of markets and technologies. Venture

capitalists prefer new technologies in mature markets, while funding an emerging technology in an emerging market requires flexibility and creativity.

For Imagen, partnership was the creative route to financing and much more. Imagen's product is a visual pattern recognition technology with several potential markets. Lipson sought a partner that already was established in a compatible business and that could shoulder most of the market risk.

Imagen is partnering with Teradyne Inspection Systems to develop a system to test printed circuit boards during manufacturing. All was well until the 2000 high-tech crash. Asia became the center of manufacturing and buying decisions, and product requirements changed.

Not only did Teradyne help Imagen weather the storm financially, but the world's largest manufacturer of automatic testing equipment also brought its experience, access to market and brand recognition to the job of opening new markets in Asia and obtaining long-term product performance tests for Imagen.

Liabilities to profits

Typical of many tech entrepreneurs, Jake Karrfalt, started with an innovative idea, a tapped-out credit card and no business experience or infrastructure. "We converted liabilities to profit by using the Small Business Innovation Research (SBIR) program to fund development of our electronic design automation tools," said Karrfalt, president and chief executive officer of Alternative System Concepts, Windham, NH.

The most promising research prototypes have been turned into successful commercial products - with no additional investment capital, and the company collects royalties on its part of the manufacturers' sales.

The SBIR program and its associated Small Business Technology Transfer (STTR) program are federal initiatives that provide nearly $1.7 billion in competitive grants and contracts annually from government agencies to small and start-up companies for the development of advanced technology-based products and services.

Karrfalt encouraged entrepreneurs to study SBIR/STTR opportunities, keeping alert for alternative applications for their technologies. Since participating government agencies often need similar technologies, it is possible to receive funding for complementary projects from multiple agencies and awards, he said.

PNNL's economic development office maintains a free electronic alerting service for SBIR/STTR technology solicitations at http://www.pnl.gov/edo/sbir/.

The speakers urged tech business leaders to network vigorously and to be visible to their target markets. For example, ThingMagic is a sponsor of MIT's Auto-ID center, a strategy that enables the company to stay current with the needs, developments and people in radio frequency identification technologies – and to offer solutions to the challenges they face.