

Innovation Toolbox

Access Funding

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1.0 INTRODUCTION

All innovative ideas need an amount of funding to develop and commercialise them. Before approaching any type of funding situation it is important that you are **investor ready**. This includes:

- ➔ A comprehensive business plan that outlines your: Management team, history and skills; Customer and how you will meet their needs; Description of the product/service you plan to offer and the supporting technology; The technology and its protection strategies; Marketing plan; Barriers to entry; Financial forecast.
- ➔ A detailed business structure appropriate for the type of funding you are looking for.
- ➔ Corporate and business strategies for risk management, business development, conflict of interest etc.
- ➔ A prepared presentation and pitch to make to investors outlining the business opportunity.

2.0 HOW MUCH FUNDING DO YOU NEED?

Your business plan will determine how much money you need to develop your idea and take it to market. You should consider initial costs and ongoing costs. You should work closely with your accountant to ensure that you have considered all costs and that the investment is likely to be financially viable.

2.1 Initial Costs

Initial costs are those that you will encounter once, and include all costs up to the point of opening your business and selling to customers. If you already operate a business some of these costs may not be needed or may be absorbed into the existing business. Some of the main initial costs you will encounter include:

- research and development costs
- licenses, regulatory and permit fees
- accounting, legal and other professional fees
- equipment costs
- initial advertising and marketing costs
- bond for your premises
- remodelling costs
- fixtures and fittings
- connection fees for telephones, lights, water, and other utilities
- purchase of initial stock and supplies

2.2 Ongoing Costs

Ongoing costs are the expenses usually covered by your working capital. Often businesses fail to obtain enough funding to cover the expenses incurred during the initial months of business. It is important to remember that it may take 6-18 months before the business is at break-even stage. In this period you must maintain a cash balance to pay bills, debts and expenses as they arrive. Some examples of these include:

- costs incurred in getting your products and services ready for sale (i.e. wages, manufacturing, production, packaging, etc.)
- shipping costs and transport
- rent or mortgage repayments
- interest and loan repayments
- wages and salaries
- insurance
- rates, electricity, gas, water (utilities etc.)
- stock purchased for resale
- petty cash
- ongoing advertising costs
- bad debts
- slow payers
- temporary staff.

It is useful to budget for a contingency of 10% of the total costs to cover unexpected costs.

3.0 WHAT ARE THE SOURCES OF FUNDS?

The main sources of funding for innovation activities are:

- Your own funds
- Government grants
- Family and friends
- Debt
- Equity

in that order.

3.1 Your Own Funds

You have to have enough confidence in your business to invest in it yourself or you can't expect anyone, including government sources or banks, to invest in it. When you approach investors, be it family and friends, government sources, banks, or equity investors, one of the first things they will ask is how much money you have put into the business.

You may have assets in the form of savings accounts, equity in real estate and vehicles, valuable collections, and investments. You can sell some of these to get cash for your business and use others to get collateral in order to get a bank loan. It is advisable to track how much you have invested, including opportunity costs such as foregone salary.

3.2 Government Grants

Grants can be obtained from most levels of the government for a variety of purposes and industries, however government does not provide grants for activities that would normally be undertaken in the running of a business. The grants are often competitive and require a high level of preparation for obtaining them. They often come with a variety of stipulations such as achieving milestones, matching the grant money with external investor money, being at a specific stage in development or growth and require applicants to be investor ready.

The eligibility criteria, amount of funds available, funding conditions and activities all differ from grant to grant. To find out more information on grants and assistance programs that are available refer to

<http://www.business.gov.au/Business+Entry+Point/Business+Topics/Grants+assistance/>

3.3 Family and Friends

Asking family members for a loan can result in flexible payment arrangements, and the finance can become available quickly, but it is highly advisable to put your agreement in

writing. There is the danger of harming family relationships if things go wrong. In agreeing to a loan, it is advisable to set things up in as business-like a manner as possible.

3.4 Debt

Financing through debt refers to the sourcing of funds from a third party with an agreement to pay the money back, with interest, by a future date. Most commonly, debt arises through loans from financial institutions and credit unions. The main advantages and disadvantages of debt funding are shown below.

Advantages	Disadvantages
Retain equity.	If the business is based on early stage IP it may not have sufficient cashflow to regularly repay debt finance.
Fixed interest rates.	If the company fails you may be personally responsible for the loan.
Flexible repayment options.	Investors may not invest if the debt:equity ratio is too high.
	Lenders are usually less likely to take security in intangible assets such as IP due to the difficulties in valuation and an unpredictable market.
	Creates liabilities which must be managed.

3.5 Equity

Financing through equity refers to the sourcing of funds from a third party with an agreement to give the investor a share of the actual business. Equity financing can come from many sources, most common of which are family and friends, business angels and venture capital investors.

Through equity investment the investor is granted a certain percentage of equity (shares or units) in the actual business. As security for this equity investment, the investor will generally want some influence over business decisions. A venture capitalist is likely to want at least one representative on the board of directors and other contractual concessions. However, some investors, such as family members or friends, may wish to be silent investors and contribute nothing more than capital due to a lack of knowledge or time. The advantages and disadvantages of equity funding are:

Advantages	Disadvantages
Obtain funds without having to repay a specified amount of money.	Own less of the business and may lose some management control.

3.5.1 Business Angels

Business angels are high net worth individuals who invest in businesses with their own money in return for equity. The most useful angels are entrepreneurs who have been successful and wish to give back to the industry from which they created their success.

Angels are usually willing to wait longer for returns than venture capital investors as they generally invest in early stage companies. The investment usually ranges from \$20K to \$500K. Experienced angels can also invest a lot of knowledge into the company alongside capital, having usually been through the business development process before. Advantages and disadvantages of Angel investors are:

Advantages	Disadvantages
Potential for a longer period before returns are realised.	An angel may try to take over the business because they believe they know more.
An angel can bring a large amount of experience and knowledge to the company.	An angel can be difficult to locate and attract especially in Australia.
	Angels have limited funds and may not be able to provide necessary follow-on funding.

3.5.2 Venture Capital

Venture capitalists are fund managers who invest other people's money into private companies in return for equity in the company. This equity is later released through an exit strategy, such as floating the company on the stock exchange, which can create the substantial return on investment required by the fund manager. Since a venture capitalist does not require the investee to repay the invested funds if a profit does not eventuate, provided that some part of the investment is not in the form of debt, venture capital is most commonly sought to finance high-risk projects such as the commercialisation of early stage intellectual property (IP). Such funding of early stage IP is often called 'Seed Capital'. Venture capitalists usually have access to networks that can provide recruitment, potential customers, other investors and partnering opportunities.

Venture capital funding is often acquired with tighter restrictions than funding provided by angels. This is because the venture capital fund is required to make a return on investment by a specified date to the owners of the investment money. Conditions of investment can include the running of the business in a predictable way and the implementation of control mechanisms in case events occur which potentially threaten the investment. The rights of

both parties are written in a negotiated agreement; however, the terms will rely on the relative negotiating positions of the parties involved.

Advantages and disadvantages of Venture Capital investment include:

Advantages	Disadvantages
Funds provided along with knowledge, guidance and access to networks.	Lose some ownership of the business.
The funds are repaid through an exit strategy, rather than through a defined amount.	Lose some control of the business.
Business owners/managers are not personally responsible for repayment of investment.	Can lead to unfavorable terms in negotiating agreement.
	Increased reporting and disclosure responsibilities.
	Can create pressure to create business opportunities which sustain a yearly specified return on investment.

Approaching venture capitalists: You should have a prepared business plan with: a very concise but catchy executive summary; financial forecasts; business strategies; management experience; and a detailed exit strategy. The pitch is also very important for not only outlining the technology but also highlighting the business opportunity with specified markets and how a customer need is being met. Remember a venture capitalist will see many hundreds of business opportunities in a year so your opportunity will need to “stand out in the crowd”.

It should also be remembered that venture capital is usually the most expensive way to fund your business. This is because the expected returns from the investment will be many times the original venture capitalists investment as opposed to debt funding which will be a percentage interest rate return.

4.0 WHAT IS THE OPTIMAL SOURCE OF FUNDING FOR YOUR NEEDS?

The funding source(s) that is/are right for you really depends on your business needs and can be complex so it is recommended that you seek advice from a professional, such as your accountant, before embarking on any particular option.

As a rough guide sources that are generally pursued based on the development stage of the business are outlined in the table below.

Business Stage	Funds required					
	<\$10K	\$10K	\$100K	\$2M	\$5M	\$50M+
Seed	PR	PR/G/A	A/G	VC		
Early Stage	PR	PR/G/A	A/G/VC/F	VC/F		
Growth		PR/A	A/G/VC/F	VC/F/SE	VC/MB/SE	
Established			VC/F	VC/F/SE	VC/F/MB/SE	VC/F/MB/SE
Expansion			VC/F	VC/F/SE	VC/F/MB/SE	VC/F/MB/SE
Large Multinational						VC/F/MB/SE

Funding Source Key:

PR – Personal resources, family and friends

G – Government grants

A – Angels

VC - Venture capital

F - Financial institutions and credit unions

MB - Merchant banks

SE - Stock exchange

5.0 PROGRAMS AND SERVICES

Here is a list of funding programs and services provided by the Australian Institute for Commercialisation, the Commonwealth and Queensland governments to assist in innovation activities.

Government Agency	Program Name	Description
Innovation Grants		
Australian Institute for Commercialisation http://www.ausicom.com/	Inventor Service	Inventor seeks advice
	TechFast	Solutions to technical product, process or service issues or growth opportunities
	Innovation Coaching	Innovation Coaches have been engaged by the AIC to support innovative Queensland businesses through a range of activities directed to the commercialisation of new ideas as well as innovation in the broader economy.
Commonwealth Government – AusIndustry http://www.ausindustry.gov.au/	R&D Tax Concession	Funding for Industrial Research and Development in Australia
Commonwealth Government – Commercialisation Australia http://www.commercialisationaustralia.gov.au/Pages/Home.aspx	Skills and Knowledge	Provides funds to access to specialist advice and services to build the skills, knowledge and linkages required to successfully commercialise new ideas.
	Proof of Concept	Provide grants to successful applicants to test the commercial viability of the business model for a product, process or service.
	Early Stage Commercialisation	Provide funding for activities that develop a new product, process or service to the stage where it can be taken to market.
Queensland Government – Department of Employment, Economic Development and Innovation (DEEDI) http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=4979	Proof of Concept Fund	Funds to demonstrate commercial viability of an innovation
http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=4979	Innovation Projects Fund:	Supports the delivery of research, development and

Government Agency	Program Name	Description
fm?id=4979	- National and International Research Alliances (NIRAP)	innovation outcomes by Queensland-based entities and interstate, national and/or international partners
http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=4979	Innovation Projects Fund: - Research Industry Partnerships Program (RIPP)	Facilitates the development of new or improved products processes and systems that will achieve a commercial return or deliver a public good within four years
http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=4979	Innovation Projects Fund: - Partnerships Alliances Facilitation Program (PAFP)	Supports Queensland-based applicants to formulate and facilitate collaborative funding proposals for submission to relevant Queensland, national or international funding schemes
http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=4979	Innovation Skills Fund: - Smart Futures PhD Scholarship	Supports outstanding Australian Postgraduate Award Scholarship holders to undertake innovative research in Queensland
http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=4979	Innovation Skills Fund: - Smart Futures Commercialisation Fellowships	Aim to improve industry uptake of new technologies and assist research organisations to commercialise their research, technologies, and ideas
http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=10387	Smart Futures Commercialisation Fellowships - Entrepreneur-in-Residence (EIR)	Funding to assist Queensland research institutes to engage company founders, business managers or entrepreneurs to assist in the translation of research, technologies and ideas into new products, processes or services.
Climate Change/Energy Grants		
Commonwealth Government – AusIndustry http://www.ausindustry.gov.au/	Re-Tooling for Climate Change	Funds to offset costs of improved production processes and reduced environmental footprint
	Green Building Fund	Retrofitting and retro-commissioning of existing commercial office buildings to improve energy efficiency
	Climate Ready	Funding for Research, Development and Commercialisation into clean, green technologies
	Green Car Innovation Fund	Funding for Research, Development, Commercialisation and Pre-Production activities for low emission fuel-efficient cars and components
	Innovation in Climate Change Small Business Capital Allowance Community Organisation Capital Allowance Structural Adjustment	Funds to assist with the consequences of the carbon pollution reduction scheme (CPRS)

Government Agency	Program Name	Description
	Provision for Workers and Communities	
Commonwealth Government – Department of Resources, Energy and Tourism http://www.ret.gov.au/Pages/default.aspx	Clean Energy	Funding for Clean Energy Research and Development
	Renewable Energy Demonstration	Funds to demonstrate viability of large-scale renewable energy technologies
	Second Generation Biofuels R&D	Funds for Research, Development and pre-commercialisation of second generation biofuel technologies
Queensland Government – Environmental Protection Agency (EPA) www.epa.qld.gov.au/ecobiz	ecoBiz Queensland	To employ cost-saving measures which improve environmental performance
http://www.epa.qld.gov.au/environmental_management/sustainability/energy/queensland_sustainable_energy_innovation_fund_qseif/	Queensland Sustainable Energy Innovation Fund (QSEIF)	Funds to develop innovative technologies to reduce usage of fossil fuels or water
Queensland Government – Office of Clean Energy http://www.cleanenergy.qld.gov.au/	Smart Energy Savings Fund	SME or non-profit organisation seeks advice and/or funds to invest in commercial energy savings projects. Secured concessional loans for up to 100% of a project's capital value, or grants up to 50% of a project's capital value
http://svc196.wic512d.server-web.com/queensland_renewable.cfm	Queensland Renewable Energy Fund	Funds for development and deployment of renewable energy generation technologies
Industry Grants		
Commonwealth Government – AusIndustry http://www.ausindustry.gov.au/	Automotive Competitiveness and Investment Scheme (ACIS)	Australian Motor Vehicle Producer seeks investment incentives
	Small Business Advisory Services	Small business advice from selected Business Enterprise Centres and other selected centres
	Certain Inputs to Manufacture (CIM)	Relief from import duty on certain raw and intermediate goods
	TCF Small Business	Textile Clothing or Footwear business seeks project funding to improve business operations
Commonwealth Government – Department of Agriculture, Forestry and Fisheries http://www.daff.gov.au/	FarmReady Industry Grants	Funds for groups of farmers to adapt to climate change
Commonwealth Government - Enterprise Connect http://www.enterpriseconnect.gov.au/	Manufacturing Technology Enterprise Connect	Small or Medium Enterprise seeks advice and funding to improve productivity, increase competitiveness and realise growth potential
Queensland Government –	Business and Industry	Funds for projects that will lead

Government Agency	Program Name	Description
DEEDI http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=7326	Transformation Incentives (BITI)	to transformative change in both the business and an industry or region
Export Grants		
Commonwealth Government – AusIndustry http://www.ausindustry.gov.au/	Tradex	Relief from import duty and GST on imported goods that are subsequently exported
Commonwealth Government – Austrade http://www.austrade.gov.au/	Export Market Development Grants (EMDG)	Funding for export market development activities
	Overseas Investment Specialists	Investment from overseas
Commonwealth Government - Export Finance and Insurance Corporation http://www.efic.gov.au/static/efi/products/sme/headway.htm	Headway	SME seeks working capital to grow export business
Other Assistance		
Commonwealth Government – Department of Innovation, Industry, Science and Research www.business.gov.au	Business.gov.au	Access to Government information, transactions and services
Queensland Government – DEEDI http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=8168	Partnerships-Alliances Facilitation Program	Funds to formulate and facilitate collaborative funding proposals
http://www.business.qld.gov.au/smartlicence	SmartLicence and SmartLicence Online	A service to enable Queensland businesses to access Local, State and Commonwealth licensing and registration information in one place.
http://www.business.qld.gov.au/gobis	GOBiS (Government Business Information Service) and GOBiS Online	A service providing information about government services, grants and support programs available to Qld businesses.
www.dtrdi.qld.gov.au/mentorin g	Queensland Capital Raising Pipeline	Investment from a business angel or venture capital fund
http://www.investqueensland.com.au/dsdweb/v3/guis/templates/content/gui_cue_menu_iq.cfm?id=30223	Queensland Investment Incentives Scheme and Regional Queensland Investment Incentives Scheme	Provides targeted financial incentives to influence the location of strategic projects and the attraction of leading companies to the South East Queensland and Regional Locations