

BIOCHEM case study

Develop an investor value proposition and search for funding

Short description of the SME

Through a collaboration between 2 Danish SME's they had developed an innovative partly BIOCHEM based method to convert slightly waste contaminated surface water to drinking water quality.

Identified major potential customers would be water companies in Malaysia, Philippines, Thailand and Vietnam.

The business

The two companies have achieved proof of concept and were in discussions to create a mutually owned company for commercial exploitation of the technology and ready to be filing for patent protection.

In order to execute the business plan, funding was required for the creation of a new mutually owned company, to finalize product formulation, develop the production facility, create a common sales and marketing unit and secure the IPR process. Additional funding should also create the financial strength for the subsequent IPR policing activity.

A strong and easily value proposition for potential investors and customers was needed to be made.

What is it that BIOCHEM did for them?

The BIOCHEM project team held a series of meetings with the two companies, and helped to:

- Fully understand the technical process and the risk of patent violation when the “product recipe” became public as part of the patent process.
- A close examination the proposed product and sales process led to the conclusion that the current product formulation would not be possible to police from an IPR point of view. The moment the “recipe” became publicized via the patent process, competitors would be able to copy, and policing, even a strong patent, in a market on the other side of the earth, would be completely unrealistic.
- The BIOCHEM project team hence recommended to revise product strategy, in a way of instead selling the “ingredients” as separate bottles to be mixed at the customers places, a spray dried “final product” should be developed, which could not be easily “reverse engineered”.
- It was advised that the companies should reconsider entering in the patenting process – at least they should “drag their feeds” in the process with continued amendments to the patent application, in order to delay the moment when the patenting process moves into the “public domain”. Hence they could for a longer period sell their product with a “patented pending” label. Eventually, they were advised to withdraw their patent application. In other words “the coca cola” model was recommended.
- These considerations resulted in a reassessment of the business case, and a decision to delay the process of seeking external funding for the new company.

What is the outcome?

Unfortunately when entering into the negotiation process of company formation, it turned out that the mentality at top management level differed in too many aspects. For many reasons, also because one of the companies was a private family owned company and also because the other, also an SME, was 100 % owned by a large private equity fund. Hence the ownership of the new mutually owned company would be dominated by the equity provided from the Equity fund and hence in reality the original idea of distribution of ownership:

- 1/3 Company no 1 (family owned)
- 1/3 Company no 2 (owned by the Equity fund)
- 1/3 Private equity fund

Would in reality become 1/3 owned by the Company no 1 and 2/3 owned by the Private equity fund, which would be majority shareholder of the entire venture.

It was surprising – but not uncommon, that the ownership discussion, which turned out to be as crucial as the patent/product formulation, started very late in the process. Apparently the “raison d’être” is that “we will not discuss these funding/equity matters before we know if there is a business to be made, and we begin to understand the real value contribution by the two partners”.

In the end the entire process was stopped, and an interesting business opportunity is abandoned.