[Company Name]
Fundability Synopsis

Congratulations on completing the Fundability Synopsis!

Rating: ★★★★★

If you wish to have a more precise answer or personal feedback, you are invited to use the Fundability Synopsis Plus or our Fundability Assessment.
Please read the full report below.
Notes to keep in mind while reading this report:
If you rated a factor with a “B” or “C” then you will need to take appropriate actions to move the rating to an “A”. If you rated a factor with an “A” you do not need to do anything.

There is no pass or fail and the overall score does not matter as much as how you address each of the areas that require attention. Each factor has been rated on a three-point scale, and in some cases, a plus (+) or minus (-) is also used to further moderate a rating. In a Fundability Assessment it is also sometimes necessary to apply an alternate rating. The possible ratings for the Fundability Synopsis include:

A - This factor appears to be quite favorable.

B - Further investigation on your part is recommended to determine what effect this factor might possibly have. Ideally, you should find ways to move B ratings to A ratings. This isn't always possible.

C - This factor represents a critical risk. If it cannot be solved it may be necessary to discontinue efforts to commercialize this invention. Ideally, you should find ways to move C ratings to B or even A ratings. It isn't always possible.

Please note that while the ratings change for each situation and some factors may be less relevant or irrelevant to you and your innovation, the descriptions for each these 8 critical factors do not.

Based on the responses you entered, the factors below are the factors you will need to address. To help you understand this better, each factor that you must work on is explained. If you scored an “A” for a factor, you don't have to do anything. An “A” rating means that the factor is favorable - you are on the right track and should carry on. Following are the factors you must address:

Completed Fundability Synopsis with Commentary

1. Feature and Benefits

This factor is about demand for your product or service and how they match to customer demand or expectations. If you are a new business, then you have a challenge in persuading new customers to purchase a product or service from you. You need to be able to show a potential customer that what you offer has significant benefits over current solutions. You also need to be able to demonstrate that customers directly in your target market will want to purchase the product, in preference to not purchasing anything or sourcing an alternate solution.

Does your proposed product or service offer performance advantages compared to currently deployed solutions?

A) There are substantial advantages to our product or service over current deployed solutions, or there is no one yet offering a comparable solution.
B) Our solution has measurable benefits over current deployed solutions or offers substantive advantages in a market niche.
C) Our solution meets the performance of current deployed solutions at a competitive cost.

Answer: C+

It is important to show that the measurable benefits can be achieved: for example, by allowing potential customers to use the product without risk and asking them to provide feedback. Alternatively, having independent endorsements from either testing facilities or expert users can provide confidence amongst early adopters. One useful approach to identifying which of the many benefits are the most critical is to create a matrix that identifies each feature and benefit, and then to compare your solution, on each dimension, to the competition. Once you have done this, you can show this matrix to potential customers, who can identify where they feel the assessment is unfair, and which features are the most important to them. Their input can then shape your assumptions, communications strategy or target market.
Another way to address deficiencies in the venture around the features and benefits of the product, is to focus on the nature of the solution. Products or services that address an existing problem that is well recognized are known as “painkillers”. In contrast, if your product or service, offers something that increases the customer’s utility, then this is known

as a “vitamin”. Identifying whether your product or service is a painkiller or vitamin is important, both in targeting initial customers and developing a marketing strategy. The analysis of the nature of the solution provided can help you focus on those features and benefits that can be used to create a value proposition that enables you to develop a sustainable business.

If your current product or service has no significant benefits over a competitor product, you must find a way to address this issue, otherwise you will not be able to persuade conservative customers to switch. Here are several radical ways that you can differentiate your solution, if it otherwise has no benefits over competitor products/services.

- Change the business model to encourage adoption
- Create a greater value proposition by incorporating your solution into a broader product or service offering
- License in a brand, to create value added
- Partner with strategic suppliers, distributors or customers

2. Readiness

This factor is about how close your product or service is to being “market ready”. Specifically, you must be able to show that your product development progress to date has already eliminated most of the technology development risk associated with the underlying innovation, with the delivery of the product/service and with its performance in the marketplace.

How far away are you from being able to deliver completed products or services to your first revenue customer?

A) The product or service offering is finished, customer beta tests completed, and manufacturing/supply issues have been addressed. Some initial sales may have been obtained.
B) The product or service has been tested in and performs to expectation. Final sales require further work on testing, approvals or supply chain issues. No sales yet.
C) The concept of the product or service has been completed, but further research is needed to develop the product/service or address critical supply chain issues.

Answer: C+

Investors assume that they are being asked to invest in a business, not a research project. They want to minimize any technological uncertainty and have clear timelines on how long it will take to reach a point where revenues can be achieved. It is important to show how

current technical challenges have been addressed, and what other issues still need to be completed before you can deliver the product/service to a customer.
There are ways of reducing the product development risk. They involve showing the investor that the problems still to be resolved are relatively simple and straight forward or replicate existing development work already completed by others. Likewise, if you are doing this on your own, your objective is to launch a business, so you need to be in a position where the problems that remain to be resolved are relatively simple and straightforward. Investor or independently, sharing development work with other companies, or outsourcing it completely to competent product development organizations, can also reduce product development risk.

Manufacturing risks can be reduced in a similar way, especially by outsourcing to reputable companies, who have the resources to solve production challenges and scale up manufacturing if demand increases. In addition, evidence from the manufacturing companies (or others in the supply chain) can also reduce the perceived risk in the product.

It is also important to ask the question – how much development do I really need to do before I can sell the product. Most product developers want to add additional features before launch, to enhance the value proposition. However, research shows that individuals make the decision to try a new product or service based on one or two compelling features. You should look at your product or service and see if you can reduce development uncertainties by focusing on delivering these core features and save enhancements for the second version. By the time you develop the second version, you will have customer feedback, which can help you prioritize development effort. In many new businesses, speed to market is critical, identifying ways to reduce this time, and the development risk, is critical to successful launch.

3. Barrier to Entry

This factor is about being able to create an ongoing competitive advantage for your product or service, which discourages others from entering your market, and competing with an identical solution at a lower price. You must be able to show that your innovation can create a significant barrier to entry for both existing participants in the market and for potential new entrants. If you cannot do this, then in the longer term, this will create concerns about your profitability, as existing players try to compete on price, or other new entrants start to attack your customer base. In the long-term, without a barrier to entry, the long-term profitability of your business will reduce to zero. While patents offer one solution, there are many other ways of creating a sustainable competitive advantage.

What is unique or patentable about your product that represents a barrier to entry for potential competitors?

A) The product or service has received a patent or embeds proprietary technology or knowledge that is not easily replicated. Alternatively, the product or service has a unique feature (such as a brand) that creates a significant barrier to competitors.
B) There is a level of unique knowledge or know how deployed in the product or service, which might be patentable (or is patent pending). Or there is another unique property that makes it challenging, but not impossible for others to replicate.
C) The product or service is innovative, but there are limited formal mechanisms to reduce the likelihood that competitors will replicate key features in the future.

Answer: C+

The most identified barrier to entry is a patent, but it is not the only one. Patents are also not an ideal solution, due to the length of time between filing and issuing of patents, the uncertainty of the patent process, the requirement to disclose in the patent application confidential information and the ability of a small company to pursue patent violations. In some circumstances, licensing in a patented technology from a larger organization willing to help you defend it (for example a university, where the patent already exists), can mitigate patent risks.
Other ways to create a barrier to entry involve using other intellectual property (IP) tools, such as copyright or trademarks. This can be through creating your own IP, or licensing in a brand or trademark from another party on an exclusive or semi-exclusive basis. Alternate ways to create a barrier to entry are by achieving economies of scale, to the point where it is not cost-effective for others to enter your market, signing up key strategic customers, or developing partnerships that restrict competitor options.

4. Adoption

Have you identified a first customer, who can validate the need for your product or service and has agreed to try or buy it? This is important, particularly in the case of where an investor is being sought; investors have an opinion on the need for your product or service but require confirmation that that the stimulus behind the innovation was due to a desire to meet a real and identified customer need. A classic way to demonstrate that this is happening is to involve one or more customers in the development process, or to find another way to find third party evidence that customers in your target market will purchase the product or service. The same holds true if you are not seeking investment – your product must answer the question of what need it fills and how important is the need it fills.

Can you demonstrate that customers in your target market will purchase your product or service when it is available?

A) Customers have been intimately involved in the development process, and have committed to either purchase or try the product/service as soon as it becomes available.
B) Market research has confirmed a specific market for the product or service, but to-date no commitments have been made to test or purchase the product.
C) At present, there is no independent market validation of the product or service and no first customers have agreed to test or purchase it.

Answer: C+

While the most compelling evidence that customers in your target market will purchase your proposed product or service, is to have existing customers, this is challenging if you are still some ways from a commercial product. There are however many other ways that you can address this, especially if you have a product that meets an unfulfilled need (rather than just offering an improved solution to an existing problem that someone else is already addressing). The first is to have customers involved in the design and development process. Having customers involved creates three benefits; it confirms the need for the product or service (why would they waste their time if they did not need your proposed solution). It also ensures that the feature set you develop are appropriate for the target customer (developing a product or service without a customer can lead to over- or under-serving the market requirement). The third benefit is that this customer often provides a first source of revenue (or a reference source). An alternate way to confirm adoption is to have a market validation performed by a third-party organization that can verify demand for your product or service by talking to potential customers and industry experts. This can help both validate the demand and provide feedback on issues such as: product features, pricing, distribution and options. There are many benefits of using a third-party organization; the most important is the greater objectivity that they bring to the validation process. In general, people are more willing to speak to a third-party organization and provide them with answers that are more objective. In addition, if the organization has expertise in the area of new ventures, they may find approaches to the market, or adjacent opportunities, that can have a fundamental impact on launch strategy and adoption rates. Finally, a third-party study can be shared with potential partners and investors and provide credibility by reducing uncertainty.

An alternate way of confirming potential adoption rates is through connecting with industry experts or associations. If you are providing a unique solution that will be valuable for customers in that industry, they will be able to provide you with some frank feedback. Importantly, if they feel you are offering something useful, they will connect you to potential customers or endorsers, or may even become an advocate themselves. Such endorsement also builds credibility in the minds of potential investors.

5. Supply Chain

It is very rare for a new venture to be able to develop, manufacture, deliver and market its new product or service by itself. So, you must ask yourself, are there people in the supply chain who will help you source the product/service and channel partners who will help take your product to new and additional customers? The company that you select to help you, must show you that it has a good understanding of what it takes to get the product or service to market, and can identify partners that can make this happen. However, simply identifying such partners only partly addresses the issue, as critical supply chain partner they must show a willingness to collaborate, especially if they are larger companies, and this opportunity is small. On the other hand, you must show that you understand what is required of supply chain partners and that you can negotiate with them to achieve desired results.

Can you provide confirmation that there are no success barriers either about your supply chain, or distribution channel?

A) Suppliers and channel partners have been engaged in the development process and have made firm commitments to participate as soon as the product or service is ready for market.
B) Possible channel and supply chain partners have been identified and initial discussions held. While interested, there are no formal agreements in place with these partners.
C) At this point, although identified, no distribution or supply chain partners have yet been approached.

Answer: C+

If your product or service is completely made by you, and you can either sell it direct, or through a well-established channel, that has no commercial **barrier to entry;** in those cases, then you have limited supply chain risks. However, if this is not the case, then you need to show that you have suitable suppliers and partners available to work with you. On the supply side, you may need access to critical raw materials, or a reliable factory or sub-contractor. While identifying them is relatively easy, the issues of managing these relationships can be extremely challenging. For example, outsourcing software coding to India or sub-contracting manufacturing to China, is not as easy as it sounds, and is often very challenging for an early-stage company. If seeking an investor, you need to show the potential investor that not only have you identified such a supply chain partner, but that they want to work with you, and that you can manage the relationship, which is often a challenge.

On the distribution side, if you are not going to simply sell your products or services yourself over the Internet, you need to find infrastructure partners (such as a shipping partner and transaction partner) who can help you. If you are working with retailers, you need to verify they will be willing to not only list your product but also promote it. Both represent significant challenges. Most retailers limit the number of suppliers they deal with, making it difficult for a new company or product to get shelf space. In addition, large retailers rarely expend much effort in promoting an innovative new product, so you need to show them a realistic plan to drive traffic to their location, and to consummate the purchase decision, once the potential customer is there. If you work with distribution partners, you need to show that not only are they willing to promote your product or service in addition to their existing range, but that they have sufficient incentive to do so. You need to be sufficiently important to them to encourage them to divert resources from selling existing products or services to yours, yet they must be large enough to cover the market for you.

6. Market Size

In launching a new venture, it is important for you to show that you both understand the total potential market size and the likely market share you can obtain. Each of these factors, not only helps you to show that you have a viable business, but also significantly affects the strategy of the company. You need to show that overall market projections are realistic, and that you have a strategy, which realistically considers your strengths and weaknesses, that can deliver the overall result required.

Is the overall size of the market and your likely market share, sufficient to generate the envisaged revenues? Further, is the overall market forecast to be large enough to be interesting?

A) There is direct evidence that the market potential for your product or service is large, and that you can achieve enough market share to achieve a sales target of over $20 million.

B) There is some evidence that the market potential for your product or service is quite large, and that you can achieve enough market share to achieve a sales target of over $5 million.

C) There is no direct evidence to support the overall size of your market, or to validate your likely market share. As a result, it is difficult to forecast with confidence that revenue will exceed $1 million.

Answer: C+

The primary reason for identifying market size as an issue, is to show that the market is large enough to make your business economically feasible. Many entrepreneurial ventures target niche opportunities that meet a specific need, which creates a unique opportunity, but often not large enough to allow the venture to grow. In the best case, this can limit the venture's ability to pay the entrepreneur a reasonable salary, while in the worst case it can restrict the possibility of attracting funding, because there is unlikely to be a successful exit event that will allow the investor to make a reasonable return on their money. The presence of a substantial market size, with a well thought out plan to capture a significant market share, can address this concern. In addition, it can enable the entrepreneur and potential partners to see a long-term path for the venture.
One of the biggest challenges facing an entrepreneur who is trying to disrupt the market is providing evidence of a market that does not yet exist. Statements such as, our revenues represent only 0.1% of the total market, provide little confidence, as this either means that you are insignificant, or calculating a much larger market than is available to you. In either case, this will show a lack of understanding of both the market and the need to develop a focused marketing strategy to attract a reasonable market share. It is much better to break down the market into segments, identify the sector you are servicing, calculate how many customers are in that sector, and how much each customer will pay for your product or service. Not only does this help you provide confidence in the revenue numbers of the company, but it also provides insights that can help you develop a strategy to attract forecast market share.

Another tactic to use when forecasting a market size for a disruptive product or service is to use what you know about similar products or services or your potential customers. Your assessment of market size can be based on a similar business that already launched, and you will replicate their success, or your product or service enhances the utility of an existing product, so that you will be able to persuade a certain percentage of existing users to try your product. Finally, several organizations are available that can help you undertake market validation studies. Such studies do not just identify the size of a market but confirm or deny assumptions about the market you have made and provide third party validation of your assumptions.

7. Entrepreneur Experience

You need to show that between you and your team you can navigate the company through the numerous issues you will face. The most likely predictor of this is prior relevant experience. Although experience needs to be related to the proposed product or service, success is not always a requirement, indeed if you can show that you have learnt from previous failures, this can often help. In certain cases, gaps in the entrepreneur's experience can be compensated for by recruiting a team of individuals with the required experience.

Do you or members of your team have any direct or relevant (entrepreneurial, industry, business) experience that can be directly applied to the challenges facing this business?

A) You or members of the management team have deep and significant relevant experience that will enable you to operate the business successfully. This experience enabled or encouraged you to start the business.
B) You or members of the management team have significant business (or equivalent, i.e., military) experience, which although not directly relevant, will help you to operate the business.
C) Your experience is primarily technical, or limited, and provides no direct evidence that it will help you meet the challenges of operating the business.

Answer: C+

When evaluating the business potential of a new venture, an investor is always concerned to make sure that the person that is going to be running the business has developed the experience and skills to reduce the performance risks of the venture. Note: it is not always clear exactly what characteristics are required, as this changes depending on the challenges facing the venture, however a frank discussion with key advisors can help isolate several critical elements. In technology businesses, a profound understanding of the technology is always beneficial. Even more important, many of the challenges facing a new venture are similar, such that experience in one venture can often be applied to a subsequent company (even if the prior experience was negative). The most important characteristic is experience and a track record (this might include a relevant education). Clearly, as you cannot change either of these, you must either identify ways to show you have experiences that, while not normally considered as experience or education, are relevant to your business. Alternatively, the most common mechanism for addressing a lack of experience is to find other members of the entrepreneurial team who have complementary experience and capability.
Without either of these things, it is very unlikely that you will be able to attract investment or be in a good position to manage your company. One thing though, that can address this shortcoming is you can find either an adviser or mentor with the appropriate skills and experience to help can guide you through the complex venture creation process. It is not essential for you to have access to these valuable resources on a full-time basis, but to be able to pull them in, as and when required, and to know that you will be accountable to them for decisions made is extremely valuable. You don't need to have access to these advisors all the time, but they must be engaged in the business, and able to provide input that you will listen to, as and when needed. Using a paid professional adviser is not a suitable alternative,

while they can certainly provide good advice on a specific issue, their perspectives are aligned with their own experience and their interests are not necessarily yours.

8. Financial Expectations

The most important factor to consider in evaluating your business is the ability to make money. Unfortunately, this is often construed as a need to show how you will make profit. The single most important factor is the ability to manage cash flow so that you do not run out. To demonstrate that the company can first survive and then make money, you need to show that you can develop reliable and realistic cash-flow forecasts, and then that you can identify sources of cash to make up any shortfalls.

Do your financial projections present a persuasive argument that your company can achieve cash-flow neutrality, based on your own investment, money you can borrow, and money you can raise from external investors?

A) You show high degree of confidence that revenues/profit margins forecast or external funding identified, helps you achieve cash flow neutrality within 12 months, either directly, or by enabling you to raise additional cash after 12 months.
B) You show a reasonable degree of confidence that revenues/profit margins forecast or external funding identified, helps you achieve cash flow neutrality within 24 months, either directly, or by enabling you to raise additional cash after 24 months.
C) You do not yet have a financial projection that provides this level of detail, or it shows that you will be in a negative cash flow position over the next 24 months, with limited confidence that after 24 months additional cash can be raised.

Answer: C+

There are two issues which must be addressed when showing the financial viability of your business. First, you must show that your realistic financial projection shows a path to profitability, within a relatively short time. Realism in your financial projections builds confidence that you are both realistic and competent, which are essential elements for an entrepreneur who is running the business. More importantly, without a clear path to profit, it is not clear that the business has any long-term viability. These two aspects of the financial forecast reinforce each other. Second, you must use the profit and loss statement to calculate the cash flow of the business. This includes both the cash from operations and investments, as well as any other sources of cash (such as government grants) that the company can attract. At the simplest level, the cash flow must show that you will not run out of cash, without the ability to raise more. Be conscious that raising cash, when you have none is very

challenging, and can often lead to having to surrender significant parts of the business. A good cash flow plan helps to define the amount of cash you require from an investor or other source of finance, and ensure the company never runs out.
It is also important to identify different sources of cash to make any cash flow shortfall, or to reduce the amount of equity you must give up. Different sources of cash can include credit cards, personal debts financing, and leasing. Getting cash from several sources reduces the risk and enables you to build contingency plans if other sources of cash are delayed. If you are growing your business rapidly and envisage several rounds of financing, you need to consider how much money to raise at each round, and specifically if the cash raised at one round is sufficient to get you to the next. Subsequent rounds of funding should be linked to points when you can justify an increased valuation for the company (i.e., first sale to customer or patent approval), simply increasing company value on a linear basis, without achieving specific milestones, is not realistic.

Getting your financial projections to the state where both profitability and cash flow show long term stability often requires several iterations of the numbers. Remember that only the significant numbers should be included or, you risk complicating your financial statements with details that can both be a distraction and show inappropriate focus on detail. Sometimes, credibility in understanding your numbers can be built by doing a sensitivity analysis to look at the impact of reduced margins, delays in sales, or increased development costs/times. A similar model can be used to modify the financial projections, looking at how different revenue and profit models modify both profitability and cash flow. Such models are helpful in both showing you have considered many eventualities and have developed contingency plans. In addition, looking at various business risks and how they can be mitigated is also important. This might include technological, market, operational or financial risk.