

INNOVATION MANAGEMENT

Ideally an INNOVATION subject to implementation is backed by some Intellectual Property Rights, such as Utility Samples, Patents, Copyrights, Trademarks, etc. Otherwise the documentation of confidential KNOW HOW, DESIGN, RECIPIES and METHODES must be made thoroughly tangible to enable LICENSING discussions with a lead customer and/or key supplier(s). An ideal start would be a contract manufacture under a LICENSING arrangement with an upstream or downstream strategic partner in the supply chain.

Rationales of Licensing

- proximity to customers
- shorter time to market
- reduction of capex
- working capital savings
- use approved QA system
- shared operating overhead
- no direct employer's risk
- more governance rights than sub-contracting
- stronger position against product piracy of partners
- allows focusing on R&D
- hedges general business risks (currencies, tariffs, regulations, . . .)
- makes IP value directly tangible
- gives strategic flexibility

Conditions Precedent

- must provide entrance barriers for competitors
- needs to be performed under licensor's strategy
- demands slim & precise formalized transparency in C2C work-flow
- lives from licensor's fast & efficient decision making
- presumes diligent IP management & enforcement
- costs filing & ongoing annuity fees
- relies on manufacturing managerial pre-experience
- cannot be corporately governed without technical background
- requires well documented know how

Why LICENSING is better than Services Contracting:

1. LICENSING is a recognized form of enabler contributions and therefore allowing to secure contributors' interests and benefits even beyond term of service.
2. Compared to Service Contractors who have to charge assignment specifically and therefore always at their full tariff, Licensors are rather co-entrepreneurs, allowing Licensees to become economically successful by sharing their expertise, skills, know how and/or registered or mutually accepted rights and priorities against a share in the Licensees' Cash Flow.
3. Therefore LICENSE Contracts allow to specify certain governance rights for licensors, deemed appropriate to achieve the best possible results from combined efforts and strategies, subject to assignment over any SUB-Licensees of course.
4. License Fees are generally perceived as profit sharing alike dividends and therefore taxed like dividends by many IRSs and can be structured to reduce cash expenditures during phase-in of a new operation.
5. In a cascaded LICENSING Model Cash Flows can be channeled back to different levels of contributors involved allowing to finance their ongoing contributions (e.g. R&D, patent annuities, governance control, etc.) and allow an accumulation of several licensors' contributions either within a corporate company group or virtual 3rd parties network.

Therefore an investment into establishment of knowledge-based value-adding activities can benefit a lot from the control over a related strategic IPR portfolio by the entrepreneur. Unfortunately there is still little awareness in the public domain for this, also documented by many IRSs' short term tax-accountability only for expenses related to the buildup of such a portfolio, as well as its limited coherences with the full scope of IFRS accounting flexibilities.

Isn't INNOVATION too important to leave its fate to financial decision makers only?

Let's share some market observations and personal experience accrued through **LEARNING BY BURNING**: **INNOVATION** starts from compiling knowledge and combining it with a sound understanding of framework conditions. Only the combination of an Invention with such Insight can deliver an **INNOVATION** – otherwise there won't be a guarantee for an **ADDED VALUE** from the Invention.

Therefore **INNOVATION** based Strategy-Models need long term stamina. It can easily take 4-5 years before the **ADDED VALUE** capability can be proven real. Thereafter a couple of year's **LEARNING CURVE** optimization, before tangible commercialization can become a value driver for a business. In total we have experienced 8-10 years economic cycles.

First of all one should assess thoroughly and where necessary, adopt conditions precedent:

- Do you have the right **SHAREHOLDERS** for **QUALITATIVE GROWTH**? (I for example once didn't!)
- Who (should) you want to be your **CUSTOMERS**? (WHO have what you **DON'T** & the **OPPOSITE**)
- Which **SUPPLY CHAIN** stakeholders will **MARKET-IMPLEMENTATION** of your **INNOVATION** affect?

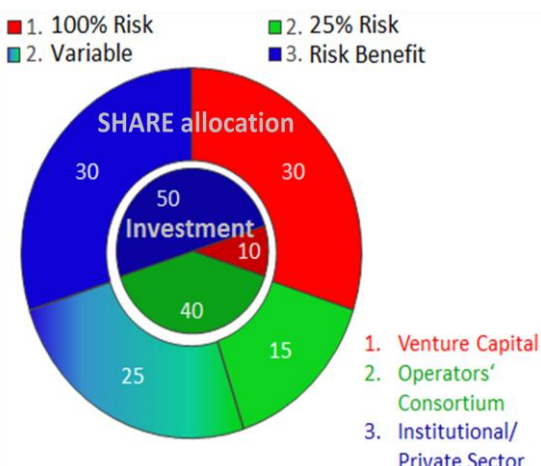
Example Renewable Energies: all of a sudden financialized business models turned into **FINANCIAL INVESTMENT PRODUCTS** – meaning, such **NEW SHAREHOLDERS** could become the “**CUSTOMERS**” you want – particularly since **CROWD FINANCING** demonstrated to attract a broad enough clientele to the extent banks started to fear new competition – but we yet need to see how increasing trends towards formalization will leave room for practicability in dealing with the crowd, when having to override adverse spirit of times eras.

Second, **BUSINESS RISKS** from implementation to roll-out should be **MINIMIZED & MITIGATED** by compiling:

- **MARKET- PLACEMENT POWER & -REACH** INTO YOUR **RELEVANT MARKETS** through
- **CONSORT PARTNERS** with **OPERATING EXPERTISE & LOCAL COMPETENCE**
- **CONSORTS** to form **LOCAL CLOSED LOOP SUPPLY CHAINS** in each of the **RELEVANT MARKETS**
- **CONSORT PARTNERS' "SKIN" IN THE PROJECT**

Thirdly all **CONSORT PARTNERS** shall conclude a **JOINT DEVELOPMENT & COOPERATION AGREEMENT** allowing accrued **KNOW HOW** (background as well as foreground) to become **PROPERTY** of the **JOINTLY** held **INNOVATION IMPLEMENTATION COMPANY** giving each local **GROUP** of **SUPPLY CHAIN CONSORTS** the right to **SUB-LICENSE** the **TECHNOLOGY** endeavoring its maximum commercial use within their **TERRITORY**.

Once there is a sufficiently convincing **CONSORTIUM** of **PARTNERS**, **OPTING** to **ROLL-OUT** your **INNOVATION**, upon your **PROVE of TECHNOLOGY** through a **SMALL SCALE validating DEMONSTRATION**, the later could be **VENTURE FINANCED**. At its positive re-affirmation 50% of the project can be fully financed by a 30% increase of publicly issued stock, creating an **INTERCHANGEABLE ASSET** for the **VENTURE FINANCIER**, 2,5 – 3,5 years after entry.



SUPPLY CHAIN PARTNERS [40 for 40%] (delivering input, LICENSE- producing output, taking off output) for concluding Option- Contracts under condition precedent of successful functional demonstration in small scale;

VENTURE CAPITAL PARTNERS [10 FOR 30%] (FINANCING the **SMALL SCALE DEMONSTRATION** for **VALIDATION**)

INSTITUTIONAL and/or PRIVATE FAMILY OFFICE INVESTORS [50% for 30%] hedged by **50% SURRENDER OPTIONS** of **ALL SUPPLY CHAIN CONSORTS' SHARES** to possibly compensate against residual short-falls in performance beyond the end of 5th year after the IPO.