

FIN-URB-ACT Work Meeting III

**„Selection and detection of good projects
of innovative businesses“**



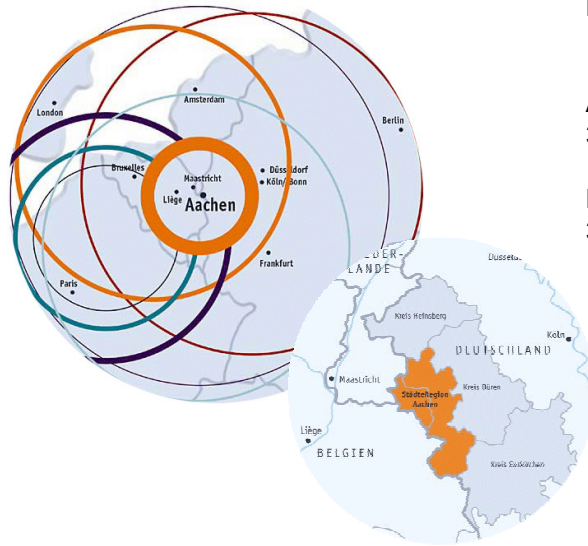
**Havva Coskun
Head of consulting for
technology based enterprises**

Edinburgh, February 2010



AGIT in few words

The Region Aachen



Population:
1,3 million

Area:
3.526 km²

Density of population:
360 habitants/km²

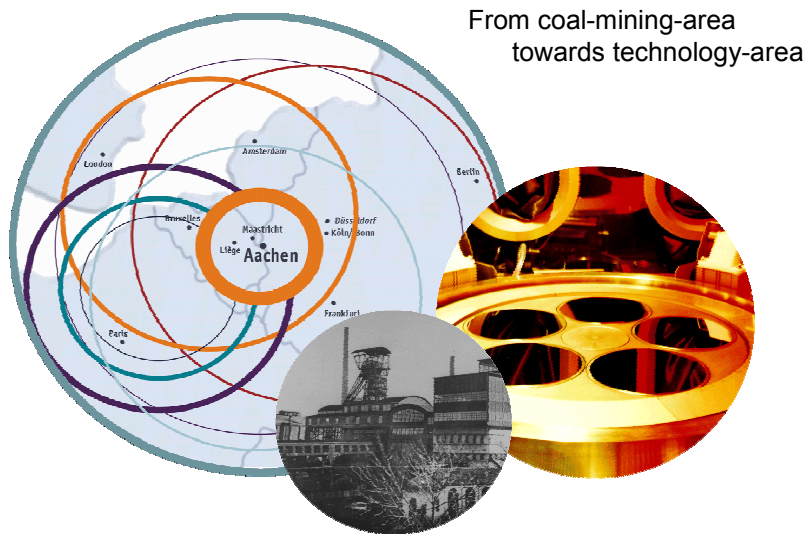
Districts:

- Aachen-City
- District Aachen
- District Düren
- District Euskirchen
- District Heinsberg

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AGT
AGENCY FOR GROWTH TRANSITION

The Region Aachen



From coal-mining-area
towards technology-area

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AGT
AGENCY FOR GROWTH TRANSITION

AGIT in brief

AGIT - Aachen Company for Innovation and Technology Transfer -

- Founded in 1983 as the economic development agency for the Aachen region
- First technology centre in Germany
- Currently, there have been settled approx. 120 innovative companies at the TZA!
- Today, more than 800 people are working in this companies!
- Since 1983 there have been founded more than 500 new companies and provided about 25.000 new jobs in the Technology Region Aachen

AGIT in brief

Main activities:

- Business support and coaching of technology-oriented start-ups and innovative young enterprises
- Regional marketing and inward investment
- Regional development and development of selected technology fields through clustering activities
- Management of the Aachen Technology Centres
- Regional agency (activities in the field of human capital)



Basics of economic functionality

Basics of Good and innovative projects

First requirement is to have a business world's view!

1. Market :

Fundamental feature of market economy is:
"offerings have to answer demands!" (law of demand)

2. Business economics:

Demands will be satisfied by products and services which companies are offering. Generally companies need money for investments to produce their goods for the needs of the market!

3. Monetary connection:

Banks offer money to companies →

Companies offer products to the market →

Ergo: Cities and Banks have to look at the market too!

Basics of Good and innovative projects

1. Market

Fundamental feature of market economy is:
“offerings have to answer demands!” otherwise offerings will be out of use!

Good projects are oriented to the needs of customers, and they solve a problem in an innovative way! (Benefit/USP)

An innovative way: The technical constructions, processes or business services are easier, faster, more comfortable, more cost saving, more time efficient, more sustainable, non-polluting and/or they satisfy luxury/image based needs!

Basics of Good and innovative projects

2. Business economics

An entrepreneur is acting according to the principle of
“homo economicus”!

His/her first objective is to earn money and maximize the earnings!

He/she can only realize this if his/her products hits the needs of his customers!

What are the needs of customers?
That is pure science! (Marketing)

Basics of Good and innovative projects

3. Monetary connection

The earnings of local banks and cities depends from the earnings of businesses (enterprises)!

If there are enough successful enterprises (new start-ups, growing existing companies and settling companies from outside) the local banks will have to invest in something!

Banks and companies will collaborate!

So cities (shareholder of local banks) will have designed a favourable environment through strengthen of Entrepreneurship.

Result: local banks are more active!

Selection and detection of good projects of innovative businesses

How to select a good project?

Criteria's of good projects are:

- Acting person/s (Entrepreneur and/or Team)
- Idea/Product/Service as the fundament of the business
- Business model based on the realisation of the idea

Acting Persons/Team

The Entrepreneur/Team

1. Technical skills (Education, Profession, Training, Experiences)
2. Personal characteristics (Soft skills)
3. Private circumstances (influencing factors in private environment should not be underestimated)

Acting Persons/Team

Personal Characteristics

Professional Expert	Social Competence	Mental Strengths
<ul style="list-style-type: none">▪ Creativity▪ Innovation capacity▪ Learning disposition▪ Endurance, Persistence▪ Priority setting▪ Capacity▪ Time management	<ul style="list-style-type: none">▪ Networking skills▪ Ability to convince others▪ Ability to motivate others▪ Ability to compromise▪ Ability to delegate work	<ul style="list-style-type: none">▪ Enough power▪ No fear of mistakes▪ Stress resistant▪ Fast recovery from set backs▪ Healthy degree of self-confidence▪ Open to criticism

Idea, Product, Service

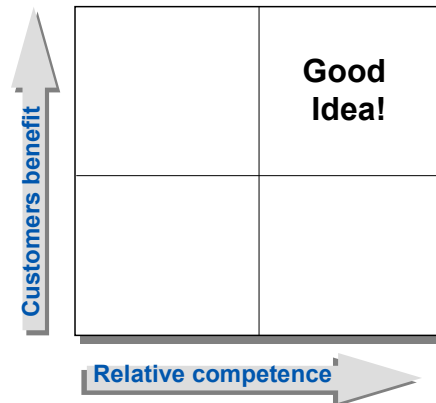
Criteria of Idea/Product

- Innovative new idea or improvement of existing products/services (USP), market niche?
- Technical character of the products (supplier and other supports)
- Intellectual property rights? (Patent, utility model, design etc.)
- Ability and capability of the company to realize the production/logistic/management
- The market situation (what's about competitors, product life cycles, pirates etc.)
- Necessary investment

Business Idea

Customer Benefit:

- The product or service satisfies a (latent) customer need.
- The customer is willing to pay for this benefit.
- Be innovative!



Relative Competence:

- How to take best advantage of the market potential
- Comparison with competitors
- Competence
- Network

How to select a good project?

Why do I need a business plan?

- Instrument to communicate the business concept
- Information about the business concept
- Includes chances and risks
- Defines future goals
- Necessary for capital investors
- For presentation purposes (business partners, supplier, customers)
- Constant monitoring of the “right way”

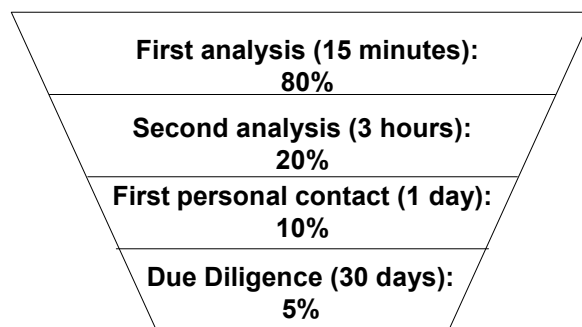
How to select a good project?

Business Plan – Requirements:

- Clear and businesslike
- Understandable for everybody
- Clear answers to all questions
- One single document
- Up-to-date ness: has to be adjusted constantly

How to select good projects?

Business Plan Relevance for contacting investors:



Negotiations about cooperation's
(30days): 3%

How to select a good project?

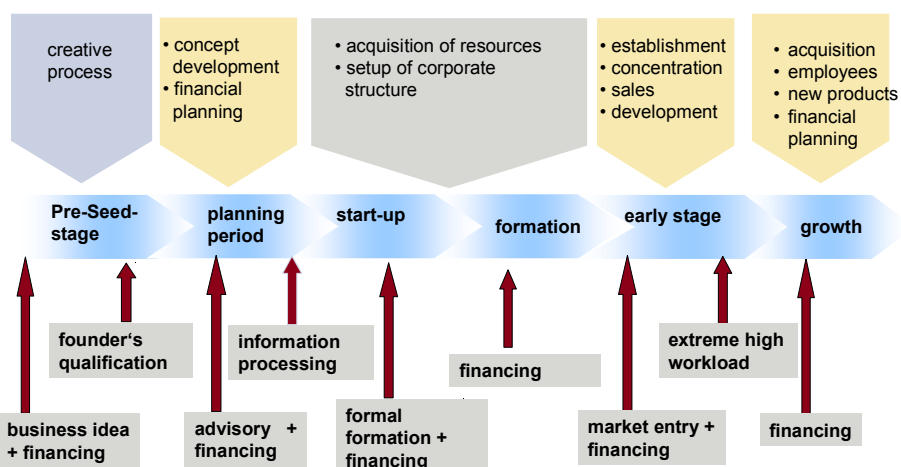
Business Model (documented via Business Plan)

Gründerregion: Business Plan-Outline

- Executive Summary
- Legal form of the company
- Products / services
- industry / market analysis
- Marketing / sales concept
- Corporate management
- 3-years planning
- Capital requirements
- Appendix

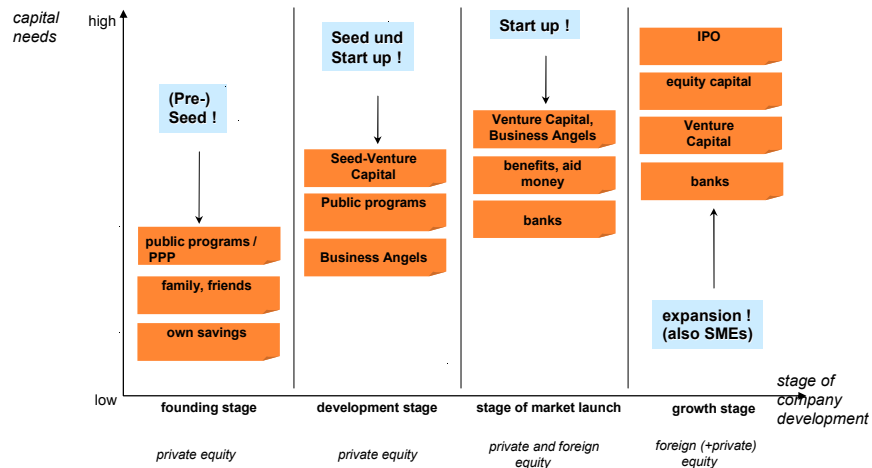
Financing Process within companies life

Stages in process of formation



Founding sources for young companies

There are a lot of barriers in financing the foundation with a qualitative business strategy (especially in the high-tech sector)



How to select a good project?

Main problem in innovative SMEs: financing strategies

- Capital needs already in (pre-) seed stage
 - especially young high-tech companies with high capital needs
 - financing by classic bank credits normally not possible
- BASEL II and banking crisis in combination with under funding
 - equity ratios of SMEs
 - average equity ratio in German SMEs: 15-20% vs. SMEs in USA: 40-50%
 - financing by bank credits became more expensive and promises are less probable

Alternative forms of financing for start-ups

Public Subsidies

- Programs at the EU level, at the federal level, at the federal state level and at the regional level
- Additional determination towards industrial sectors, targets groups and utilization of funds
- It needs advice to decide for an adequate instrument

Venture Capital

Business Angels

Mezzanine financing

Financing Process within companies life

Principles for financing and supporting innovative SMEs and urban economies

- Absence of a mentality for alternative forms of financing and/or no knowledge about them
- Absent know-how in private equity financing (USA and GB have round about 10 years more experience)
- Incomplete knowledge about founding sources
- Missing experience in exploitation and acquisition of founding sources
- Problems with the valuation of capital need
- Delay by payout of agreed capital

Financing Process within companies life

What are the alternative forms of financing for SMEs?

- Public subsidies, unclear structure of public instruments:
- Programs at the EU level, at the federal level, at the federal state level and at the regional level
- Additional determination towards industrial sectors, targets groups and utilization of funds
- Not possible to decide for an adequate instrument without advice
- General regulations are not automatically effectively for the special case! To combine the adequate financing instruments requires very special know-how and experience!

Alternative forms of financing for start-ups

Consequences for economic development

- Development of an „equity-capital-culture“
- Development of advisory in possibilities of public subsidies and more transparency
- Development of professional skills for founders/young managers

Consequences for economic development

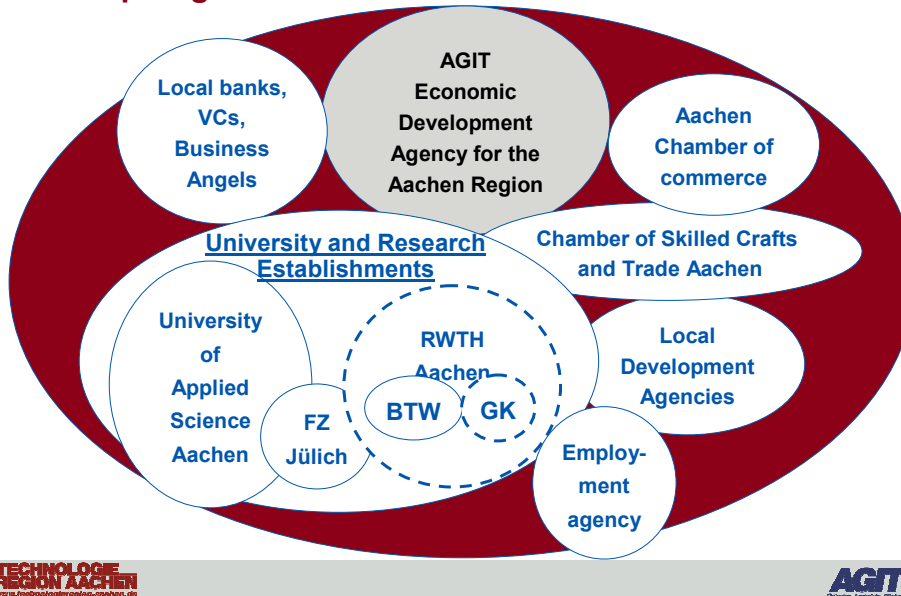
Development of an „equity-capital-culture“

- Most SMEs come out from a tradition of family business
- Approximation towards an Anglo-Saxon business culture?
- Sensitising for private equity financing strategies
- Information and coaching concerning private equity

Experiences in Aachen Region

Regional networks

Start-up Region Aachen



Experiences by Aachen Region

Division of work between the several support actors

- Within the Gründerregion/Start-up region Aachen every partner has a special topic/task. For AGIT it is the “consulting of technology oriented companies and start-ups”
- Regional consensus between the different business support actors is the essential key to success
- Gründerregion as centre to build up a “culture of incorporation” in the whole region

Experiences of Aachen Region



Chambers Central consulting point in the city with opening hours, open to the public

Members:

AGIT

RWTH Aachen University and University of Applied Sciences

City & District Aachen,

Districts of Heinsberg, Düren, Euskirchen

Local banks

Research Center Juelich

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Experiences of Aachen region

Gründerregion Aachen

- Portal for all persons interested in starting their business, includes sections like:
- Publications, events, funding possibilities, start-up competitions, press releases, info about registration procedures, contact etc.
- Different start-up consultants of the region use the intranet section and fill it with specific information of the consulted founders, in this way the shared consulting can be optimised.
- www.gruenderregion.de

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Experiences of Aachen Region

- **savings bank** for the region Aachen
- about **100 branches**
- Shareholder of technology-parks and start-ups
- centres in the region Aachen



Embedding in regional development:

Services for start-ups (moderate subsidies of NRW.Bank or KfW Bank; financial engagement in public projects for start-ups and growing enterprises)

Advanced training on offer for enterpriser

Co-financing of school- and youth-projects, sport or other cultural events (4 Mio € in 2008)

Experiences of Aachen Region

- **Six regional savings banks** as shareholders
- Assets under management: **70 Mio. €**
- Has actually a share in **40 partner companies**



Parts of the S-UBG-Group:



- S-UBG-AG
- Private Equity and mezzanine capital for mid-sized companies
- S-VC Risikokapital GmbH
- Venture Capital for innovative technology companies
- Seed-Funds
- seed capital for young technology companies

Experiences of Aachen Region

State Development Bank of NorthRhine Westphalia



Target group:
professional persons, SMEs and Companies with max,
500Mio € annual turnover

Business segments:

financing of education
promotion of start-ups and SMEs
infrastructure and public sector financing

Promotion of start-ups and SMEs:

decrease of financing cost by low interest loans
risk splitting by bonds or loans with indemnity clause
strengthen equity capital by mezzanine capital

Experiences of Aachen Region

State Development Bank

(Federation: 80% and federal states 20%)
subsidy volume in 2008: **71 billion €**



Business segments:

Start-ups and mid-sized businesses
Real estate and education
Environment and climate protection
Export and project financing
Projects in developing countries and newly industrializing countries

Experiences of Aachen region

Origin of clients of AGIT's business support services

- Technology-oriented entrepreneurs
 - Graduates of Aachen's universities
 - Academic staff at Aachen's universities
 - Academic staff at public research organisations, e.g. Fraunhofer Institutes
 - Spin-outs from existing companies
- Young technology companies
 - in AGIT's technology incubators
 - within the Aachen region as a whole
- Expanding technology-based companies

Operative activities of Consulting & Coaching

Motivation/acquisition of potential target groups

- Events, workshops, seminars, conferences
- Networks (Gründerregion Aachen)
- Marketing activities (special ads, trade publications,
- Direct contact

Start-up consulting

- Selection detection
- Business plan evaluation
- Targeted financing concepts, instruments
- Identification of venture capital, business angels / public funding
- Matching of other necessary partners

Innovation consulting

- Individual consulting
- Revision / adaptation of business plan
- R&D-Contact broking
- Extended consulting
- Procurement utilization/ commercialisation
- Evaluation of Invention / patents

One-stop shop for technology-based enterprises!

Thank you for your attention!

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