

INTELLECTUAL ASSETS FOR VALUE CREATION AND TECH EXITS

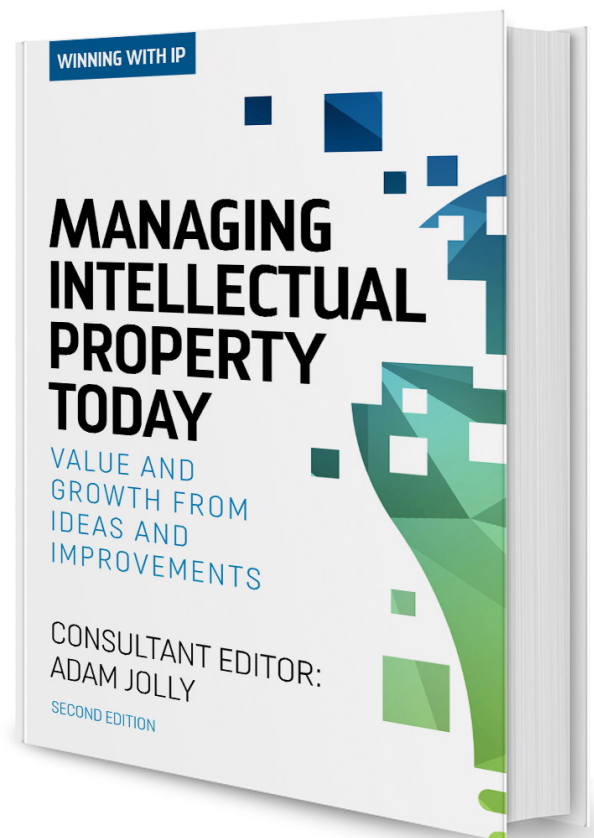
JUERGEN GRANER, GLOBALATOR

In a book inspired by the EPO and LESI's High-growth Technology Business Initiative, Juergen Graner reports on how Bender MedSystems built lasting value by adding operational excellence to its IA portfolio

In 1998, Dr Michael Schaude founded the Austrian biotech company Bender MedSystems as part of a management buy-out from pharmaceutical giant Boehringer Ingelheim. Managing eight employees was quite a change from managing a team of 200 people. Moreover, the newly formed company had significant resource limitations. Nevertheless, Dr Schaude decided from the outset to establish sophisticated operational systems generally used by large corporations. He was convinced that they would provide him with a competitive edge in the industries for research reagents and research diagnostics. The combination of quality standards certified to ISO 9000 and a highly creative team working within a culture that was nourishing the implementation skills of its employees enabled Bender MedSystems to obtain a strong foothold in its market segment across Europe and globally.

Dr Schaude was determined from the start that he wanted to sell his Vienna-based company and retire at the age of 50. However, it was important for him to build an organization that could secure the future of his employees. His plan was to reach a level of unmatched operational excellence in one niche area. As a result, Dr Schaude and his trusted team built Bender MedSystems into one of the leading companies in the development and manufacturing of specific research diagnostic tests.

In 2009, the year of his 50th birthday, Dr Schaude sold his company with its 48 employees to eBioscience, a biotech company based in the United States. Just as he hoped, Bender MedSystems was turned into a centre of excellence for the development and manufacturing of its established research diagnostics tests. No employees were made redundant and



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Drawing on the knowledge and experience of 20 top-level IP performers, including the innovation support team at the European Patent Academy, this book reports on how IP is being used post-pandemic to create tech solutions, pick up the latest thinking, take a competitive lead, negotiate the best deals, knock back any challengers and open up a path to breakthrough growth. It gives a series of lessons and insights about how today's winners are lining up their IP to transform early-stage ideas and technologies into assets around which competitive business models can be designed.

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the location in Austria was further expanded under the leadership of the former chief scientific officer, who took over as chief executive after the sale of the company.

In 2011, eBioscience was sold to the US company Affymetrix. In 2016, Affymetrix was then sold to the US company Thermo Fisher. In both cases the buyers quickly appreciated the operational excellence embedded in the Austrian company. To this day, Bender MedSystems is still based at the same location, but with a much larger footprint and many more employees. It still is the global centre of excellence for those specific research diagnostic tests that the company established. And it still has the same chief executive, who took over the helm of Bender MedSystems from its founder Dr Schaudé after the exit in 2009 and who continued to do an amazing job across three acquisitions over more than ten years.

With this inspiring example, Dr Schaudé has proved that selling a company and securing the future of the employees are not mutually exclusive. Companies put significant effort into building their technology intellectual assets (IAs) secured by patents and trade secrets, as well as brand IAs secured by trade marks. However, the case of Bender MedSystems clearly illustrates the power of the often neglected third IA, operational excellence, which can only be secured by operational systems embedded in a supportive company culture.

Take-home message 1: selling your company and creating a future for your employees are not mutually exclusive

Owners are often torn between securing the future of their employees and obtaining the highest possible sale price for their company. They believe that only a trade-off is possible. However, it need not be the case if a technology business is built around IAs including strong operational excellence. Backed by a well-executed build-to-sell strategy, starting at least two to three years before the intended sale, the focus should be on how a potential future buyer can utilize the underlying assets in a symbiotic way.

If the key assets are based only on technology without any underlying team know-how, then there is no additional strategic value for a potential buyer to keep the team in place. A technology IA should consist of technology protected by intellectual property combined with people who can properly utilize it and build on it to create even more innovation. Operational systems should be built so that new owners are able to maintain and expand operational excellence without any significant disruption. If

so, the seller can secure the highest exit value and the future of their employees. A real win-win situation.

Take-home message 2: investing early on in solid future-proof scalable systems and processes in high-growth technology businesses pays off in the long run

Generally, start-ups are built to be lean with extra systems and processes added later when necessary. These are often seen as a waste of time and money during the early years, when resources are scarce. However, they are the foundation of operational systems and therefore a driver of operational excellence, a key success factor in value creation. Not building these early on can place a company at a disadvantage later.

When building a company, business decision-makers often focus on marketing and sales to achieve high growth. So, they neglect the operational side that needs to be in place to scale up the business. The lack of sophisticated operational systems will likely slow down the company once it enters its high-growth phase. Marketing and sales-driven business owners often believe that having more orders than can be fulfilled is a good problem to have. However, once orders can no longer be fulfilled, customers grow frustrated and the company brand becomes tarnished. Even worse, products may no longer reach an expected quality level.

When a smaller business is sold to a large international corporation, existing employees often experience a culture shock when the new owner takes over. Therefore, forward-looking sellers build operational systems that can be



easily integrated into a larger organization with multiple management layers. These have the potential to secure the employees' future. Moreover, they enable the seller to negotiate additional earn-out payments for great business performance under a new ownership.

Take-home message 3: a successful exit requires a demand-driven build-to-sell model, where the needs of the potential buyers, like a solid IA portfolio, are put at the centre of the business strategy

When building a company to sell, there are two different customer groups to keep in mind. The first is the customer of the products or services provided. The second is any potential future buyer of the business. Many entrepreneurs are primarily opportunity-driven with their entire focus on gaining new customers. There may be great opportunities, but they first need to be evaluated for a fit with potential future buyers. A demand-driven build-to-sell model ensures that any new opportunity is first double-checked, assessing whether someone will be willing to pay a premium for it in the future.

As a general rule, a business is more saleable if it focuses on a market niche or region. Selecting the right market perspective can become challenging, particularly for platform technology-based companies. It is generally far better to own a market niche than to offer products for a large variety of markets. Also, from a regional perspective generally it makes more sense to have a high market share in a key region, rather than a small market share in multiple regions. With a focused marketing strategy combined with a broad patent strategy, an acquirer can capture additional markets after a purchase. The existing captured markets can then serve as a proof of concept of additional value for a potential purchaser, so increasing the company's valuation by adding an additional strategic component.

The question is: when is the right time to decide on a build-to-sell strategy? The answer is the sooner the better. Ideally, it will be from the start of a business, but at the latest two to three years before an intended sale. This provides enough time to build the business in a way that is optimal for a sale and make it attractive to a number of potential buyers. A list of them should be maintained and updated regularly, together with a clear understanding of their needs and interests. Wide knowledge about this group of buyers is just as important as understanding the customers of actual products or services.

Take-home message 4: a company that can run itself without the owner is far more valuable and attractive than one that is dependent on the owner

Founders are often passionate and enthusiastic about their work and therefore have the tendency to build companies that are highly dependent on them. This is especially common in the high-tech space, where the founder often has a level of technical or scientific competence far superior to anyone else in the company. This sophistication coupled with the need to keep control often leads to company structures where every little decision is escalated to the chief executive. From their point of view, work may be delegated but decision-making cannot. Great managers will not thrive in such an environment and therefore their employment will likely be short lived. Such a company finally ends up with mediocre executors or with ones who, despite having potential, have given up. This limits the growth potential of a stand-alone company and makes it difficult to sell such a founder-centric organization, provided that a potential buyer is interested in the whole company and its capabilities, not just in its products or specific assets.

A founder-dependent organization will not be able to achieve a significant strategic premium during an exit process. In addition, it makes it practically impossible for the founder to step back from the business soon after the exit. Generally, it is emotionally difficult for founders if they have to stay on board for an extended period of time after their business is sold. They are used to being in the driving seat and the exit will have downgraded them from being an entrepreneur to the uncomfortable position of a manager



executing other people's wishes. Therefore, from an entrepreneur's perspective, it makes sense to build a strong second-level management team who can run the company without too much interference from the entrepreneur. It secures the best exit value and gives the owner peace of mind after the exit.

Take-home-message 5: operational excellence, including trade secrets, is the key IA to secure the future of your employees after an exit

IAs are key value drivers for a high-growth technology business. Intentionally building a well-balanced mix of IAs, including technology, brand and operational excellence, provides the best possible foundation for a thriving company. Most business decision-makers are aware of the importance of technology, which is based on team know-how and secured by a smart use of patents in combination with actively managed trade secrets and targeted publications. Also, the significance of the brand, which is based on the ownership of a mindshare of the customers and secured by trade marks, is high on chief executives' agendas.

Operational excellence is the third, often neglected, IA. This is based on the implementation skills of the internal team and secured by operational systems. On the one hand, this asset is taken as a given and, on the other hand, its protection mechanism is based on trade secrets, management and company culture, all tacit elements that cannot be secured through registration at a regulated central register.

Operational excellence does not have to be embedded in every aspect of the company's operations. It would be practically impossible to achieve for any business. It is instead about being able to select one area where the business is truly world class and can consistently perform better than most other companies. If this can be achieved, then such operational excellence can bring a high financial return from an exit, and also secure the future of the employees, which is something that many business owners feel strongly about. Buyers of technology businesses usually want to acquire additional capabilities, but unfortunately they often end up only buying products, since the operational excellence is not sustainable under the new ownership. Thus, having operational excellence that can also sustain a change in ownership is a powerful value driver for sellers, as well as for buyers.



Juergen Graner managed the exit process of Bender MedSystems, after working with Dr Michael Schaude for eight years in a variety of roles to build the company for a successful sale. Juergen is founder and chief executive of Globalator in the United States, United Kingdom and Austria. He has experience as a chief executive in six countries on three continents and, over the course of his career, has coached over a hundred chief executives in creating value with strategic transactions. Juergen also regularly speaks at conferences and teaches on the subject of Transaction Based Growth Management™.

The first four take-home messages in this article were provided by the expert panel at the High-growth Technology Business Forum, streamed live on 25 February 2021, which was chaired by the author and which served as the foundation of this article. Take-home message 1 was provided by **Dr Michael Schaude**, founder of Bender MedSystems. Take-home message 2 was provided by **Florian Kandler**, a serial founder, start-up coach and author. Take-home message 3 was provided by **Ching-Cheng (James) Hou**, an entrepreneur, IP lawyer and professor. Take-home message 4 was provided by **Patrick Monroe**, a mergers and acquisitions lawyer.

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