WPI Venture FORUM
To inspire and facilitate technology-based entrepreneurship

Vantage

March 2010
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THIS MONTH'S MEETING

Tuesday, March 9, 2010

WPI, Worcester
Campus Center Odeum

Networking: 5:30 – 6:30 p.m.
Meeting: 6:30 – 8:30 p.m.
Admission:
Free – $125 members & students
$30 – public
$15 – WPI alumni

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The WPI Venture Forum is a program of the Collaborative for Entrepreneurship & Innovation at Worcester Polytechnic Institute

WPI

Selling Is a Team Sport

Yesterday's sales tactics no longer work in the new economy. Whether you're a one-person shop or part of a larger sales organization, you want to be perceived as a trusted advisor, according to WPI Venture Forum keynote speaker **John Huck**, Principal of WINNING Inc. He will discuss the sales process and specific steps to make that process more efficient and effective for companies of all sizes at the March 9 meeting. In a departure from the traditional program agenda, his talk will follow the case presentation.

JOHN HUCK
WINNING Inc.

Huck has a strong track record of achievement and success within the technology and financial services industries, having rebuilt a struggling reseller channel for one company and exceeded sales records in another. A successful entrepreneur in his own right, Huck built a financial services firm from the ground up. He draws on more than 20 years of experience to help entrepreneurs and corporate executives break through barriers to sales success. A graduate of St. Lawrence University with a Bachelor of Arts in Economics, he earned membership into its international economic honorary society.

Case Presentation:

JMD Manufacturing

JMD is developing a novel product that provides an environmentally friendly method for document destruction. JMD products have the added benefit of protecting confidential information and providing reusable materials as another possible product. JMD's other products include production line machinery with the capacity to print on various types of packaging materials like containers, cartons, papers, plastic films, labels, tapes, foils and flexible laminates. The company also manufactures and globally distributes low-cost, portable code daters, conveyor line markers, and case coders that are well known in an established market.

SUSHIL BHATIA
JMD Manufacturing

Company president and CEO **Sushil Bhatia**, PhD, and director of sales **Carl Kinkel** will present the company's story and ask the panelists for advice on raising an angel round of financing, and approaches to drive sales in the consumer office products market.

Bhatia is an experienced technical/business development manager and entrepreneur who holds seven major patents. During the past 25 years, he has invented or co-created such products as Glue Stic, unique labels and badges, binding systems and electro-sensitive paper. He led new product launch teams for Dennison with IBM and Gillette.

Currently Executive in Residence and Professor at Suffolk University, he is on the faculty of Babson College. He holds a PhD in chemistry from Université de Liege, Belgium and an MBA from Suffolk University.

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100 INSTITUTE ROAD, WORCESTER, MA 01609
Gina M. Betti, Administrative Director
508.831.5075 I ventureforum(at)wpi.edu

A LETTER FROM A CHAIR

Marketing and Sales Work Together

Barbara Finer

Some of you know that I teach marketing and sales at local colleges and universities. One of the first questions I ask my class is, "What is marketing?" This is followed closely by "What is sales?"

It isn't just students who confuse the two. As a consultant, I find that companies, large and small, often confuse the roles or undervalue the synergies that should exist. Add the term "Business Development" and the waters are muddied even more.

Marketing is not the same as advertising. As a matter of fact, the most crucial steps of marketing – understanding the target market, what its needs are, how it is accessed, what the competitive and industry landscapes look like and what segment (problem) you intend to address – have to be undertaken long before a pretty picture becomes a banner ad or words fill up a website.

Sure, marketing then develops the visibility, brand elements and leads that the sales team craves, but only after all the upfront work is done. Crafting a tight value proposition and competitive points of difference help get the right leads so the sales force pursues the right prospects with the right messages. Working as a team, marketing learns what the sales process is for the particular product, market and industry, and creates tools that support each step of the process.

The initial structure of the sales organization often evolves and depends on characteristics such as complexity of the product, the price, how novel the product is, and existing channels, characteristics of the intended market and resource constraints.

During the WPI Venture Forum's Second Tuesday Monthly Program in March, panelists will provide feedback to a local company that has several possible options for structuring their sales organization. While the CEO is often the one that sells the first several units, putting in place a professional sales team is a chasm-crossing point.

Come to the March 9 program to discover new possibilities and share your thoughts with other entrepreneurs. I look forward to seeing you there.

Sincerely,
Barbara Finer
Chair, Marketing Committee
Founder, QuiVivity Corporation, LLC

Advice for the Budding Entrepreneur

by Justin Nesbit, Esq.

GesmerUpdegrove LLP

As record snowfalls continue to snarl the mid-Atlantic, I am reminded of some simple but useful advice from childhood: When shoveling the driveway, lift from your legs, not your back, and stay away from yellow snow. If only all rules governing the success or failure of a business venture were so obvious, but I do offer a few key pieces of advice.

Consider Business Structure *Before* Formation

A new business has many business structures available: C-Corp; S-Corp; Limited Liability Company; Partnership and Sole Proprietorship are the most common. In choosing a business structure, the goal is to minimize your taxes while maximizing your liability shield. A number of factors will determine which type of business entity will work best for your particular situation. Walk through the proposed structure with your legal and tax advisors. A competent CPA or tax/corporate attorney can help you make the appropriate choice right from the start, so you don't waste time and money converting into the "right" type of entity at a later time.

Don't Blow Your Cap Table

Once the business is up and running, keep meticulous records of the issuance of all equity securities, including convertibles, and all promises and agreements to issue any equity securities. Not only is it critical to know exactly who owns what, you also need to ensure the company has enough shares of each class or series of stock to cover all of the shares that are outstanding on a fully diluted basis.

Your capital table is something that you can control, so make sure that it is up-to-date and squeaky clean at all times, ready for a full-fledged due diligence review at a moment's notice. Think about it. Would you invest your money in a company that can't keep track of its cap table? Most other investors wouldn't either. At the very least, proper maintenance of your cap table and stock records will avoid the need to conduct an embarrassing (and potentially costly) last-minute fire drill to clean up your records in advance of a sale or financing event.

Never Promise X% of Your Company

In discussions with new investors or potential employees, it is common to speak of what percentage of the company the new person will receive. Make sure that when your deal is finalized, your documentation does not suggest that you have guaranteed their ability to maintain X percent forever. The agreement should indicate that the securities received represent X percent of the equity as of the date of issuance.

If you are forced to provide a right of first refusal or other anti-dilution protection, be very careful. Thoroughly analyze all the issues and draft the language carefully to include all proper obligations, responsibilities and exceptions. A carelessly worded document could seriously constrain your ability to bring in new talent or funding. Once your business achieves success and you are negotiating a large investment or exit event, you do not want the due diligence process to uncover security holders to whom you once promised a given percentage of the company. Even if your deal is not destroyed, obtaining a waiver or buy-out could be a costly nightmare.

Beware Independent Contractor Classification

All businesses operating in Massachusetts must be aware that the Massachusetts Independent Contractor Law (the "MICL") imposes the nation's strictest test of whether a worker can be classified as an independent contractor rather than an employee. Under the MICL, to overcome the presumption that a worker is an "employee," *all* of the following requirements must be met:

- in performing the services, the worker must be free from the employer's control and direction (as stated in the contract and in fact);
- the service to be performed must be outside of the usual course of business of the employer; and
- the individual performing the services must be customarily engaged in an independently established trade or business of the same nature as that involved in the services performed for the employer.

The sticking point here is the second test — *the service must be outside the employer's usual course of business.* Thus, if a software development company hires a software programmer for a short-term project, the employer would be hard pressed to claim that the service to be performed falls outside of its usual course of business, and the programmer would be considered an employee under the MICL. Treat the coder as an independent contractor and the company risks incurring civil and criminal fines, the imposition of punitive damages and attorneys' fees. If ruled a willful misclassification, jail time also is a possibility, as well as violation of Massachusetts and federal statutes covering minimum wage, overtime, employee record-keeping, income tax withholding and workers' compensation insurance.

From the start, a new business requires careful attention to details far beyond the actual conduct of the business. Make them a priority to avoid painful problems down the road.

Justin Nesbit is a corporate attorney with Gesmer Updegrove LLP, one of New England's premier law firms for technology companies and emerging businesses. Having created a track record of success working with and helping to grow many thousands of these companies, the firm has built a stellar 20-plus-year reputation for providing quality legal services, extraordinary business advice and value-added services that drive client growth.

A Look at the February 2010's Meeting

Innovation, Survival,

by

Paul Danis, PhD

&

Philip Cyr '86, MBA'01

February meeting co-moderators Norm Brust and Phil Cyr

New ideas and approaches to growing a business are not the sole property of entrepreneurial enterprises. As demonstrated by the three company executives at the February 9 WPI Venture Forum meeting, improving and innovating strategy and operation are as key to the success of 100-year-old companies as they are to a start-up.

The evening began before the presentations with an "Ask the Experts" session with representatives from groups that offer resources to manufacturing enterprises: Massachusetts Manufacturing Extension Partnership and WPI Venture Forum Founding Premier Sponsor Massachusetts Technology Development Corporation (MTDC). Individuals stopped by tables to ask questions ranging from information on lean manufacturing to modular robotics. MTDC's representative received several business plans to review. Sponsors are invited to participate in future "Ask the Experts" sessions.

The meeting's first speaker, Dennis Leonard '84, Vice President, Operations at IPG Photonics, spoke of how vertical integration has played a major role in the company's growth. They were facing major obstacles to growth because of the cost, availability, and performance issues of their laser diodes, the key component of the commercial and industrial lasers they manufacture. In addition, the diodes were sourced from a competitor, causing significant concern for the long term. While many businesses are turning to outsourcing to drive costs down, IPG decided that the best way to meet their challenges was by gaining greater control over key components through vertical integration. This allows them to control cost, quality and availability, decrease their time to market versus other suppliers, protect their intellectual property, and raise the barrier to entry.

After the presentations, a lively panel discussion with speakers Dennis Leonard '84 (left), Dick Longo (second from right) and Kurt Wadensten (right) was moderated by Norm Brust (second from left).

Though the value in doing this is compelling, it comes at a cost. Building out their capabilities took several years and more than $20 million in capital. This build out

and Revival

Presenter Dennis Leonard '84 (right) shared ideas with WPI Venture Forum volunteers.

expanded the scope of core technologies and improved new products' time to market, which in turn increased their revenue stream and market share. In closing, Leonard cautioned that justification using conventional financial analysis might overlook some of the more intangible benefits he had described. Similarly, expanding vertical integration to include non-core components may not yield a positive return on investment.

The second speaker was Dick Longo, President and COO of Walker Magnetics. Longo presented an entertaining historical perspective of how a company founded a century ago can evolve and transform itself into a 21st century leader. Walker had a dominant market position supplying magnetic chucks to high volume machine shops, but their business was challenged as the original patents expired. To diversify, they moved into European markets with the purchase of a company in the Netherlands, and expanded their product line into heavy lift magnets. Additional purchases of plants in France and the Czech Republic gave an even greater geographic reach and additional products.

Another key dimension of their growth was innovative applications of their magnet technology to areas such as scrap recycling, drill stands for girders, and separators for aluminum cans in recycling streams. In response to a need from the recycling industry, they developed magnets with radioactivity detectors to help identify contaminated scrap metal. Innovation in design has led them to opportunities in Europe for magnetic brakes on trains. Longo noted there is a four-year process to get approval for brake use in trains. They have

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A Look at the February 2010's Meeting

Continued from page 5

A standing room only crowd filled the Odeum to learn about manufacturing innovations and survival techniques.

surmounted this barrier and are now working with a major train builder to co-develop the brakes.

The final speaker was Karl Wadensten, President of VIBCO Vibrators, whose products are used in many areas of construction and materials handling. Wadensten told a compelling story of how one customer's extreme dissatisfaction was the wake-up call for them to change their operation.

They adopted "lean" manufacturing approaches to decrease lead time, increase quality, improve morale, and increase profits. By setting a goal that they needed to ship customer orders on the same day or next day, they drove tremendous improvements in all aspects of their business. Machine throughput greatly improved, inventory was reduced by more than $2 million, defects dropped 85 percent, and they have experienced no layoffs during this economic downturn. They have met their goal of shipping orders within two days, while their competitors still require delivery lead times of two to six weeks.

They achieved this not through large capital investment, which was actually less than $100,000, but through incremental improvements. Some of the areas they focused on were smaller work cells, point-of-use inventory, testing at the source, improved data and information sharing, and a cross-trained flexible workforce. But Wadensten was clear to caution the audience that these are the results of an engaged and inspired workforce, and the leader's role is to unlock the "genius" of the employees.

The presentations were followed by a lively panel discussion on additional topics of interest. Wadensten mentioned that they often have open houses to let other company leaders see and learn about their lean success. As he said, the leader needs to "get it" if there is any chance for change in the organization. Another area mentioned was developing the workforce for jobs in these industries. All spoke about outreach to local technical high schools and organizations to help with the education of young people. The closing discussion concerned leveraging partners for growth, and Longo spoke about how Walker used its strategic alliances to help enter new markets.

Paul Danis, PhD is the Founder and Principal of Eastwoods Consulting (www.eastwoodsconsulting.com), where he helps life science companies translate innovations into profits. He can be reached at 508.869.2303 or paul.danis@eastwoodsconsulting.com.

Phil Cyr '86, '01 is Vice President of Business Development at R.H. White Companies in Auburn, MA and holds a BS in Mechanical Engineering and a Masters in Business Administration, both from WPI. He can be reached at pcyr@charter.net.

Community News

SBIR Grant for ECI Biotech

In a Phase II grant, bronze sponsor ECI Biotech has been awarded $522,472 from the National Institutes of Health's Small Business Innovation Research (SBIR) program. The grant will fund development of a handheld diagnostic tool, ExpressDetect, to identify infection in chronic wounds.

Owl Power Kitchen Innovator

Audience Choice winner of the June 2008 Five Minute Pitch Contest, Owl Power Co. has won the Kitchen Innovations 2010 award from the National Restaurant Association's Hotel-Motel Show. Owl Power's Vegawatt machine converts a restaurant's waste cooking oil into fuel that generates electricity and lowers utility bills.

WPI Venture FORUM

2010 Calendar of Events

Second Tuesday Monthly Programs

WPI Campus Center Odeum
5:30-8:30 p.m.

MARCH 9	Selling is a Team Sport
APRIL 13	Non-equity Financing in 2010
MAY 11	New Opportunities in Robotics
JUNE 8	**Five-Minute Pitch Contest**

Radio Programs

WTAG 580 AM/94.9 FM
Saturdays, 5-7 p.m.
Streamed live at www.wtag.com
Call in number: 508.755.0058

Networking Events and Focus Workshops

pre-registration required
Check the wpiventureforum.org home page announcement box for more program listings throughout the year.

Do Reporters Sleep Well?

As Diane Sawyer prepared to leave "Good Morning America" to become the next anchor for ABC's "World News" program, she received a Zeo™ Personal Sleep Coach device, featured in the December 2009 case presentation by CEO David Dickinson. Now she can track how much restful versus disrupted sleep she's getting.

WiTricity "Next Little Thing"

October 2009 keynote speaker Eric Giler, CEO of WiTricity Corp., graced the cover of the *Fortune Small Business* December 2009/January 2010 issue as part of its annual "Next Little Thing" survey. His wireless electric power delivery system joined several other businesses in that issue. The previous year's survey group included Terrafugia, whose "roadable aircraft" was described in the February 2009 WPI Venture Forum meeting.

New Website for Gesmer

WPI Venture Forum Premier Sponsor Gesmer Updegrove LLP has launched a new look for its website at www.gesmer.com. Sporting a bulletin board style, the home page directs visitors to sections for businesses that are starting, expanding or seeking an exit. Links to additional websites and blogs feature articles by the firm's attorneys.

WPI Venture Forum RADIO SHOW

Are you looking for an entertaining, educational and interesting way to spend a couple of hours on a Saturday evening? **Tune into the WPI Venture Forum radio show, every Saturday* from 5 to 7 pm on WTAG 580 AM or 94.9 FM** to hear interviews with area business professionals from a variety of industries. Call 508.755.0058 to participate in the discussions and ask your questions about entrepreneurship and managing technology-based companies.

WANT TO BE A GUEST?
Visit **wpiventureforum.org/Programs/radio.html** and click on the Guest Form link at the bottom of the page.

**Sports events or late-breaking news stories may occasionally pre-empt the regularly scheduled program.*

Spotlight on Entrepreneurs

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Steven and Joshua Rothschild, co-founders

Product: Building and operating e-commerce specialty stores, web 2.0 sites and lead generation sites. Common technology platforms on multiple websites achieve lower operating costs, superior skilled management leveraged over multiple brands, and enhanced ability to grow. Management's objective is to build a very profitable $100M company over the next 10 years. Now in second full year of operation, revenues could exceed $1 million in 2010.

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Phone: 508.657.8600, Ext 1000

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MAKEIT LABS

Joseph Schlesinger '10, founder

Product: A 10-15,000 sq. ft. open access workshop with all the tools and resources needed to create and innovate in a safe environment, available for a modest monthly fee. New concept in Massachusetts, well-established in California. Workshop building identified.

Seeking: $250,000 in startup capital to outfit building, initial operating expenditures

Phone: 603.722.0006

Email: joe.s(at)ieee.org

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wpiventureforum.org/Programs/spotlight.html

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