

# INTRODUCTION TO SPINOUTS

HOW TO  
GUIDE  
NO 3

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# INTRODUCTION

Spinouts are not for the faint-hearted! They can be exciting, rewarding and stimulating. But they can also be time-consuming, demanding and stressful.

To proceed you will need energy, grit and a passion to see your research have wider impact.

The aim of this guide – the third in the series – is to give you a better idea of what creating a spinout involves. It will help your understanding if you have already read the first guide on working out if there is a clear market demand for your product or innovation, and the second guide on intellectual property.

**500+**

spinouts and start-up companies\* created out of the University of Cambridge, with a combined market capitalisation of over

**£40bn**

\*Source: HE-BCI

# JARGON BUSTER

**A START-UP** - A business, usually set up as a limited company, that has just been created.

**A SPINOUT** - A start-up company that is created based on intellectual property (IP) generated through a university's research.

**FOUNDER(S)** - The person, or group of people, who have started a business.

**SHARES** - Shares represent units of ownership in the company.

**LICENCE** - Permission granted by the owner of intellectual property (IP) that allows another party (licensee) to act under some or all of the owner's intellectual property rights, usually via a written legal document (the licence).

# SETTING EXPECTATIONS

Before embarking on what will inevitably be a time-consuming endeavour, it is important to think through what you are trying to achieve through creating a spinout:

You may love the idea that your research, hard work and creativity can have wider impact. It may have the potential to change lives or make people's lives much easier. You could be interested in financial returns for you, your department or research group. Or you might be looking for a challenge and the opportunity to develop new skills.

You will need a strong vision that can be simply articulated to customers and your internal team, that has the capacity to inspire investors and other stakeholders.

Just over **£23 billion (78%)** of the University of Cambridge's economic impact is generated by the companies spun out from – or closely associated with – the University, as well as research and commercialisation activities carried out at the University.

# QUESTIONS TO CONSIDER

- ? IS YOUR IDEA STRONG ENOUGH** to justify creating a spinout?
- ? ARE YOU CERTAIN YOU WISH TO SPINOUT?** Would licensing your research to an existing company be more sensible?
- ? IS THE TIMING RIGHT?** Could you achieve more within the safety of the University to 'incubate' your venture before spinning out?
- ? ARE YOU WILLING** to commit the necessary time?
- ? HOW RESILIENT** are you feeling? Are you ready to repeatedly explain why your business will be amazing?

You need to be optimistic about all these questions – after all, if you don't believe in it, who will?

# PRODUCT/ MARKET FIT

To embark on a spinout you will need to demonstrate that your product or innovation satisfies a strong market demand.

Undertaking customer discovery and getting feedback on your innovation can take many forms. Nothing replaces getting out there and speaking directly to as many customers as you can.

**For customer discovery to be effective, it has to be thorough.**

At minimum, spinouts should be looking to speak to 70-100 potential customers.

**Get people to poke holes in your idea!** Ask them to interrogate all your assumptions. You really need to know if you are in the right market, at the right time and if the demand is there.

You might also want to engage with support programmes such as **ICURe**, which is specifically designed to complete the customer discovery phase.

**What data and evidence do you need to demonstrate that your technology solves a real problem, and that **the market is big enough** to justify the effort and resources involved?**



# OWNERSHIP ESSENTIALS

**As a founder you need to ensure that you have the correct rights in place to start your company.** This is extremely important to have in place from the get-go.

Is your idea based on IP that has its origins in research conducted at the University of Cambridge? In other words, have you or any of your team been working on a particular research project run by a staff member of the University?

If the answer is YES, disclose the idea to Cambridge Enterprise, the innovation management arm of the University, and make sure you have talked it through with the head of your research group or department.

Sometimes not all stakeholders are immediately apparent. The University, your department, other researchers and external funders may all need to be considered. To go ahead with a spinout, you need to find out exactly where you stand in this regard – otherwise you might risk infringement of third-party IP rights.\*

**Being transparent is more important than rushing to get started.**

\*Please read guide number 2 to better understand Intellectual Property.

# THE SPINOUT

A spinout will have to negotiate a licence for the IP from the University, and generally this includes a portion of equity in the company.

The two main questions to agree with the University are:

## 1 HOW WILL THE IP BE TRANSFERRED AND UNDER WHAT TERMS AND CONDITIONS?

Licensing terms at the University are amongst the most founder friendly as it is keen to support entrepreneurial endeavours so you can confidently start with the expectation that everyone is looking for a fair outcome.

## 2 HOW MUCH EQUITY WILL THE UNIVERSITY WANT IN EXCHANGE FOR THE TRANSFER OF IP AND USE OF RESOURCES?

The University adopts a standardised policy and you can decide to opt-in for the full suite of support, or opt-out. Full details are on the Cambridge Enterprise website.

# CONFLICTS OF INTEREST

In the early stages a spinout may not have the financial resources to pay a founder to have a full-time position. This can sometimes result in the founder feeling pulled in different directions as they try and balance their time between continuing a research role and working on the company.

It's important to be aware of the potential for conflicts of interest. Be clear about when you are working for the company and when you are conducting your research.

Transparency and proactive communication can help avoid misunderstandings and conflicts related to time commitments.

As a founder you may wish to go part-time or leave the University to focus on a spinout full-time. According to the USIT guide this tends to be more common with PhD students or postdocs compared with principal investigators.

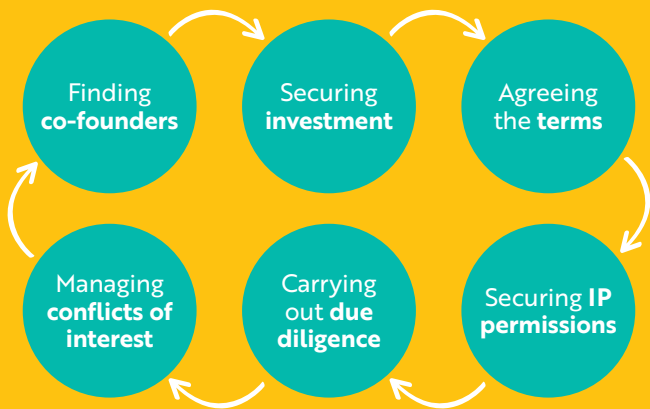
**WHAT HAT  
ARE YOU  
WEARING?**

Are you doing this with the **knowledge  
and awareness of your colleagues?**

# HOW LONG DOES IT TAKE?

There is sometimes a perception that the spinout process can take an unnecessarily long time, but not all spinouts follow the same journey.

The time taken to spin out depends on various factors, including:



Most spinouts take

**4-12  
MONTHS\***

from the point at which the academic founder and Technology Transfer Office agree to spinout to completing all necessary processes to having all agreements and paperwork complete to establish the company.

It also depends what sector you are in. For instance, life sciences spinouts tend to have complex IP and often seek external executives, whereas software spinouts tend not to have patents and are more likely to have a sole academic founder as CEO.

The most time tends to be spent on identifying and clarifying the spinout's value proposition and business model: What will the spinout sell? Who is going to buy it? And why will they buy it instead of a competing solution?

\*source: USIT Guide

# WHAT FUNDING IS NEEDED?

Most spinouts are based on early-stage technology that requires further development before becoming commercially viable. Due to the high costs of R&D, most spinouts rely on equity investment to fund their operations from the outset.

This means you will need to find a number of pots of funding resources. Most of these are explained in the **Access to Finance Guide**.

A brief note here is to say there are several translational funds, such as **Innovate UK funding**, which are helpful for early-stage ideas. They also help to reduce the perceived and real level of risk for investors who follow in the longer journey.

For some spinouts, particularly those from the social sciences, humanities and the arts, access to high amounts of investment is not essential. Some spinouts have customers and contracts lined up from their start and can earn revenues early on.

**Cambridge Enterprise** provides early-stage pre-seed funding for selected University spinouts and can support you through investment from the University Venture Fund as you build teams and raise the financing you need to develop products and services.

# BUSINESS PLAN SUMMARY

Wherever you turn for investment you will need to create a Business Plan to convey the business opportunity. This describes what the business will do and how investors will get a return.

The language should be clear and concise – not all investors will be specialists in your sector, so steer clear of overly technical or academic explanations.

With some spinouts the business is at too early a stage for projections to be meaningful. In these cases, the investment decision will be based on confidence in the research/researchers, proposed management team and the technology.

A business plan usually goes through a series of iterations as new facts and ideas emerge and it is common for investors and managers to impact the thinking as the plan evolves.

A great tool to help summarise your findings is called the **Business Model Canvas**. You can download it from [strategyzer.com](http://strategyzer.com)

# BUSINESS PLAN CONTENTS

Some of the key elements that a spinout should include in a business plan are:

✓ **EXECUTIVE SUMMARY**

A brief overview of what makes the company unique. What is its USP? Why should investors listen? Describe the product or service, target market, competitive advantage, and financial highlights. It needs to capture the reader's interest and provide a clear value proposition.

✓ **COMPANY DESCRIPTION**

A description of the company, its history, its mission, its vision, its values, its legal structure, its ownership, and its team.

✓ **MARKET ANALYSIS**

A comprehensive analysis of the industry, the market, the customers, the competitors, and the trends that affect the spinout's opportunity.



✓ **PRODUCT OR SERVICE DESCRIPTION**

A clear description of the product or service, its features, its benefits, its differentiation, its development stage, its technical specifications, and its intellectual property protection.

✓ **MARKET ACCESS**

This is a description of how the spinout plans to reach, attract, and retain its customers, and how it will generate revenue from them.

✓ **OPERATIONS PLAN**

This is a description of how the spinout will deliver its product or service to its customers, and how it will manage its day-to-day activities

✓ **FINANCIAL PLAN**

A projection of the spinout's financial performance, based on realistic assumptions and scenarios.

# WHAT SKILLS ARE NEEDED?

Creating a successful spinout requires a mixture of technical and commercial skills, as well as other legal, negotiation, and problem-solving skills.

Academic founders are often experts on the technical side, but may have little or no commercial training. This does not mean these skills can't be learnt! Some founders find that they are natural entrepreneurs, and there is a huge amount of training available across the University to help develop commercial skills.

## YOU ARE ALSO NOT EXPECTED TO GO IT ALONE.

Identify what skills you are missing and work on finding the right person/people to fill those gaps. You may want to bring in an external CEO from the beginning, or perhaps find one to mentor you. You may be willing to take on the mantle yourself. Be realistic though – are you going to be able to dedicate sufficient time to learning how to be a CEO and will investors back you as a credible first-time leader? Maybe you see yourself in more of a Chief Technology/Science Officer role?

For more in-depth information and advice, read the **Building a Team** guide.

# WHAT DOCUMENTATION IS NEEDED?

Good business practice is keeping a thorough record of all the **contracts and documentation** involved in setting up a spinout.

Before you get to contracts you will need to provide materials to investors to support their due diligence. Companies may for example set up a shared on-line folder initially containing evidence supporting your business case.

This might include **published papers, unpublished research data, patents, copies of any relevant agreements, market survey reports, company business plan, current share structure, companies house details** and **letters of support** from potential customers. This is not an exhaustive list!

In order to secure investment a company will, amongst other things, need to agree and finalise staff employment and consultancy contracts, update the company Articles of Association, establish a shareholders agreement and confirm details of the investor subscription arrangements.

# HOW THE UNIVERSITY CAN HELP

The University of Cambridge is a world leader in establishing successful spinouts and can provide a lot of advice and support. The IE Cambridge support guide provides information on all the programmes and events happening across the University to tap into. Full details are at the end of the guide.

Just some of the ones you may be interested in to help you in the early stages of development are:



**FOUNDERS.**  
At The University of Cambridge.





**Cambridge Enterprise** can also help you by:

- ✓ Evaluating the market potential of your idea
- ✓ Working with you to develop a business plan and commercialisation strategy
- ✓ Helping you to understand, manage and protect the intellectual property (IP) underlying your research
- ✓ Providing you with access to a huge social network of professional advisors, mentors, industry contacts, introductions, resources and talent
- ✓ Providing you with a lot of credibility in the market

Being part of the University venture portfolio provides an **opportunity to connect** with other founders and learn from their experiences and knowledge.

# USEFUL TIPS

- ✓ Creating a spinout is often an iterative process, and it may take a few tries to refine the business idea. It is rare for someone's first idea for a customer or investor to be correct. It's more a case of "try, try and try again", and eventually the spinout will become credible, or the inventor will decide to pivot to something else!
- ✓ Even if creating a spinout is not successful, researchers learn a lot about evaluating the commercial potential of their idea. Conducting market research often leads to making useful connections in the outside world that can be very valuable for future careers, such as new research collaborators, employers, ideas for new areas of research, consultancy or even new inventions.
- ✓ Reach out. Engage. Have that conversation. Who knows where it could take you!

# RESOURCES

This guide is very much a brief introduction to spinouts and these further resources can help you to dive deeper into building your knowledge.



Royal Academy of Engineering  
**The Entrepreneur's Handbook**



KPMG  
**Startup Success Guide**



University Spin-out Investment Terms  
**The USIT Guide**



The Open University guide  
**Entrepreneurship- from ideas to reality**



Providing courses on how to grow a digital business.

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## Download the Community App



The complete resource for future  
Innovators and Entrepreneurs,  
located at: **ie.cam.ac.uk**

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