

The Sweet and Sour Spots in the Telematics Business Cycle



I have taken time out to reflect on my 20 years experience as a Telematics Service Provider (TSP) and to comment on some commercial and financial forensics. Here are my opinions as to why telematics for some is a boom-time industry and the complete opposite for others.

Steve Perham: Group MD - Airmax Group Dec. 2009

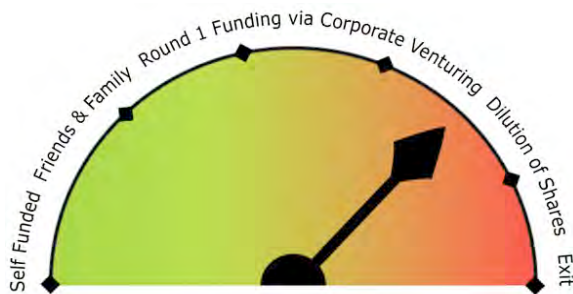
As I often preach, 'money isn't everything', though lack of it definitely will be the leading cause of small-business failures. There are other reasons for collapses but I'll attempt to concentrate on money issues in this paper.

Being Under Capitalised

Many small-business managers or so-called professional directors underestimate how much money they're going to need, not merely to get the business up and running, but also to sustain it during the struggles to gain a commercial foothold. Once you start out undercapitalised you may never succeed.

This is the start of the inevitable financial 'sour cycle'; all you do is play daily catch up. You might think step one is to look for an investor, but is it? You could ask a bank for help but that is unlikely in the current climate and Government grants are not that easy to obtain.

So if you embark out on the investment route then you should be aware that investment comes in various forms ranging on the 'swingometer' from friends and family to Corporate Venturing.



Direct, Indirect and Strategic Corporate Venturing

Corporate Venturing takes many forms. At a basic level it can be a larger company staking equity in a smaller company purely as a financial investment. This is often done through a separate fund being set up specifically to invest in start-up and growth

companies in the same way that a traditional venture capital firm would.

The investment can also be indirect through other venture capital funds or trusts. The larger firm hopes to make a return on its investment when the company is sold or floats on a stock exchange. The investing company is very unlikely to want to keep its money locked in a project for too long and if a public company (plc) it will be looking for news to heighten its company profile and raise the share price or give it some share liquidity. However news is not enough, for although 'good news' helps the share trading demand and therefore exerts pressure for an increased share price it is 'sustained revenue' that keeps the share value high. The investor is very unlikely to have philanthropic motives, however if it does then embrace it.

Investments can also be much more than purely financial. Some firms will offer a strategic alliance or support to smaller companies helping them to develop products or services that will generate income or cost savings for both parties. This form of corporate venturing does not have to involve any equity participation or cash injection and is often a preferred route as the risk is much lower and politics are contained.

Who offers Corporate Venturing?

The concept of Corporate Venturing has existed for years in the USA where many of the top companies have a venture capital fund or offer strategic alliances. While the number of companies involved is much smaller in the UK, it has existed for many years, in many sectors. Though these days so called 'teaming deals' are not only struck by larger companies but also by SMEs to save jointly on costs.

Traditionally Corporate Venturing has appealed to high-growth sectors such as pharmaceutical, bio or technology companies. Small, flexible companies in these sectors can challenge industry leaders with new technology that can revolutionise the market place.



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Corporate Venturing doesn't appear to have happened in the telematics industry, or if it has then it is well hidden. Telematics for the most part is still the playground of small enterprises. The companies that clearly should be offering Corporate Venturing are those with much to gain like, Delphi, Philips and Bosch, to name a few. Instead, they have often stayed in their technology space and in the OEM or Tier One sector. Not even the mobile phone operators, the MNOs, have done much; a few strategic moves have been made although not seen as alliances but acquisitions. Therefore, telematics would appear today to be mainly an aftermarket industry dominated by SMEs.

Sad really, as the UK Government has offered major investment tax concessions see http://www.hmrc.gov.uk/guidance/cvs.htm#corporate_venturing

Corporate Venture Capital (CVC) is the investment of corporate funds directly in external start-up companies. CVC is defined by the Business Dictionary as the "practice where a large firm takes an equity stake in a small but innovative or specialist firm, to which it may also provide management and marketing expertise"; the objective is to gain a specific competitive advantage.

In essence, it is best to think of CVC as a subset of venture capital whereby a company is investing, without using a third party investment firm, in an external start-up that it does not own.

CVC is unique from a private VC in that it commonly strives to advance both strategic and financial objectives. A strategic objective is usually "externally focused and can be considered anything that benefits the firm outside of traditional investment returns".

CVC investments are strategic when they are made primarily to increase the sales and profits of the corporation's own businesses. A company making a strategic investment seeks to identify commonalities between itself and a new venture. For example, a large TSP company's CVC division may invest in a Remote Vehicle Diagnostics start up that it believes will produce a key element that the TSP will be able to utilise in its own products.

In addition to strategic objectives, CVC investments also have financial objectives. This should come as no surprise, seeing as the primary motivation for venture capital is to ensure as high of a return to its investors as possible. Specifically for CVC, the parent company seeks to do as well as if not better than private VC investors, hence the motivation to keep its VC efforts "in house". The CVC division often believes it has a competitive advantage over private VC firms due to what it considers to be superior knowledge of markets and technologies, its strong balance sheet, and its ability to be a patient investor.

The second hallmark of Corporate VC investments is the extent to which companies in the investment portfolio are linked to the investing company's current operational abilities. For example, a start-up with strong links to the investing company might make use of that company's manufacturing plants, distribution channels, technology, or brand.

It might adopt the investing company's business practices to build, sell, or service its products. An external venture may offer the investing company an opportunity to build new and different capabilities—ones that could threaten the viability of current corporate capabilities. Housing these capabilities in a separate legal entity can insulate them from internal efforts to undermine them. If the venture and its processes fare well, the corporation can then evaluate whether and how to adapt its own processes to be more like those of the start-up. Although this happens far less than commonly thought, the Corporate VC parent company may attempt to acquire the new venture.

Types of Investing

By combining the two dimensions of Corporate VC investing - strategic and financial objectives - four distinct investment strategies can be outlined.

1. Driving Investments

Driving investments are pursued by Corporate VC's for strategic alignment that is tightly linked between the investment company's operations and the startup company that is being invested in. The purpose of this investing option is to advance the strategy of the current business. The Corporate VC's looks for key growth areas within the startup company and then hopes to combine them with their company's initiatives. Appropriately selected investing and alignment can benefit the investing company by furthering the corporate strategy. On the other hand, this could result in failure.

Closely linked investments essentially roll into the current strategy in place. This would not be useful in dealing with already existing disruptive strategies, or in finding new ones when the investing company needs to update processes when trying to keep up with a changing environment. Thus, if Corporate VC's are looking to "transcend current strategies and processes," they would need to look to other investing strategies.

2. Enabling Investments

Enabling investments are also made for strategic purpose, but in this case they are not closely linked with the investing company's operations. The thought process is that a tight link is not necessary for a successful investment to help the investing company to succeed. Although this may seem



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counterintuitive, the idea is to take advantage of complementary products.

Enabling investments complement the strategy of the current business. Ideally, the popularity of the investments will help to create demand for the investing company's products by stimulating the industry in which the products are used. The limits of enabling investments are that they will only be successful if they "capture a substantial portion of the market growth they stimulate".

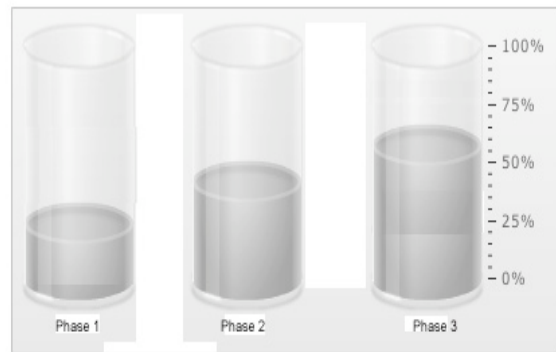
3. Emergent Investments

While emergent investments do not promote current strategies, they do link tightly with the investing company's operations. If the business environment or company's strategy changes, the investment could become strategically valuable. This design helps create a sort of option strategy that is independent of financial returns. Emergent investments allow investing companies to explore new untapped markets that they are unable to enter due to their focus on the current markets they serve. Investment products can be sold in new markets to help gather vital information that could not be otherwise obtained.

If the information looks promising, the company could look to shift towards this new direction. Emergent investments are initially made for financial gains but could ultimately result in strategic gains as well. On the contrary, if they do not prove to be important for the company strategy, they should be left untouched to generate whatever financial returns possible. In summary, emergent investments require "balancing financial discipline and strategic potential."

4. Passive Investments

Passive investments are neither connected to the investing company's strategy nor their operations. Thus, these investments do not help the investing company to actively advance their own business and can only provide financial returns. Essentially, passive investments are no different than typical investments whose financial returns are contingent on the volatility of the private equity market. Due to the lack of any strategic advantages with this kind of investing, passive investments are not very practical or advantageous.



Stages of Financing

Corporate VC's provide funding to startup companies during various phases of development. Each phase has its own financing requirements and Corporate VC's will often indicate the stage of financing needed and the type of investments they prefer to make. Later stages of financing usually mean less risky investments and thus investment in these companies typically cost more money due to higher company or product valuations. Investing in startup companies hope to provide Corporate VC's with a return on investment within 4-7 years whereas investments in established companies are expected in a shorter 2-4 year period.

1. Early-Stage Financing

In this stage, the startup company basically has a concept. Capital is used to carry out market research and product development. Startup financing can be used to establish management, research and development, marketing, and quality management teams and buy additional equipment and resources. An extension of early-stage financing is First-Stage Financing, where companies can start manufacturing and sales processes to initiate a product launch.

2. Seed Capital Funds

This phase finances early stage companies. The startup is still shaping its concept and production and service are not yet developed fully. Investment money can use be used at this time to construct a working prototype. Additionally, the funds can be used to further market research and legal issues such as patents. Investment firms only expect 20% of companies to succeed, moving to second round of financing. In this stage, the company can often be moved to another round of funding or even a series of funds that take over the management of the investment.

Investing firms expect a high percentage of the business and often provide funding in stages that is dependent on the startup company



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reaching set milestones. For example, a venture capital may agree to £5 million during this phase, but may pay out the funding in 1/3 installments based on the startup meeting set milestones. Finally, Corporate VC's often look to promote or insist on specific executives to manage the startup at this time.

3. Expansion Financing Second-Stage:

Companies already selling product are funded at this stage to help in their expansion. One to ten million pounds sterling can be provided to help recruit more employees to establish engineering, sales, and marketing functions. Companies are often not making profits at this time and these funds can also be used to cover negative cash flow.

4. Third-Stage or Mezzanine Financing

This allows for greater company expansion. It can include further development of management, plants, marketing, and possibly even additional products. Companies at this stage are often doing very well, breaking even or even turning a profit.

5. Initial Public Offering (IPO)

When a company goes public, it is called an Initial Public Offering. This is often the ideal scenario Corporate VC's hope to achieve with an investment. The startup company's stock can now be bought and sold by the public. This is when an investing company can finally earn a significant return on its investment.

6. Mergers and Acquisitions

Due to the current economic climate, IPOs have become a rarer occurrence recently, causing venture capital firms to look towards mergers and acquisitions. This is a more realistic scenario, especially when startup companies do not look to function independently. Acquisition financing uses investment funds to acquire or buy another company. This may be completed by venture capital firms to align their startup with a complimentary product or business line where the combined companies look to assimilate smoothly, creating advantages. Acquisitions could also work in the opposite direction where an invested startup is acquired by another firm. In this case, the Corporate VC would be cashing in by selling its investment. Using the capital gains, it can look to reinvest with a new venture. Mergers are similar to acquisitions; however, in this case one company is not buying another. Rather the two companies are combining to share resources, processes, and technology, which it hopes to leverage for several advantages such as cost savings, liquidity, market positioning and sharing burdens such as fund raising.



Each individual Corporate VC uses specific procedures and financing stages that serve its interests best. The financing stages presented above are only a basic format. Corporate VC's can have more financing stages or even less. Thus, it is important that startup companies understand that the financing strategies employed by Corporate VC's they are working with fit their needs.

When negotiating with others watch out for phrases like:

"Well I used to build boxes you know. It's actually very easy. All you need to do is use a Chinese or South Korean company to build them and your margin increases".

"Of course it will mean only taking onboard those guys with skills we need and the others can go. We'll use our own internal team from then on".

"We don't want the company itself. Just the cash flow and customers and not the legacy issues – they can stay behind. They are all too complicated anyway".

"We must have the IPR as without it it's not worth a penny".

"It won't take you long to get used to our system of working. You're soon be absorbed into the business".

"If you don't mind I must meet your clients before we sign and see if I can improve the offer".

"I was parachuted in to sort the mess out so can we please renegotiate."

"I guess when you get to your age you think differently".

"I suppose you do have the option to just manage your existing fleet connections and stop developing. That way you can keep all the cash and reduce you outgoings".

"We don't want your Inland Revenue approved losses as we have plenty of our own to use up over the next few years".



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"Having looked at your development roadmap it's all very complicated and difficult to understand – what we have to do is simplify your product offering and concentrate on just a bit of what you do. That way we can sell to the customer something he wants and can have now." – None of this blue sky stuff.

My advice when hearing this type of rhetoric is walk away. Sounds like you are about to be 'assimilated' by the 'Borg' to me. Anyone with an ounce of sense will know that you cannot and should not export manufacture to the Far East with sensitive or expensive IP. It will all end in tears and you'll have to rescue it in 6 months and rebuild its value after being trashed by an egotistical maniac. Indeed, when people talk of "hidden forces" and other currencies in business then: if there was ever and example it is illustrated here: it's corporate bullying. My point being that if you get the money you still won't be happy as other negative currencies kick in and take over – and, as sure as eggs are eggs, as the founder you will see the exit door reasonably early.

In my experience the sad reality, as a start up, is that without cash flow or capital, there is no office building, no monthly payroll, no benefits, and ultimately no people, as they require income to pay their rent or mortgage, etc. So there is compromise in all this somewhere if you are seeking investment. The trick is making it work and I fear that this process or journey is an art, not a science and often alien to the founder of the business.

Of course as years go by you may become a serial inventor and no doubt gain from the experiences along the way but deals only come along perhaps once every 5/7 years or so. You won't have the time therefore to do another deal if you are - shall we say getting on a bit. So be careful what you wish for. as they say. as.....

Financing Process

The financing process outlines basic steps taken by Corporate VC's from initial contact with potential startup companies through the first round of financing.

1. Startup companies looking for financing make initial contact with Corporate VC's. Corporate VC's can also seek out potential startups looking for funding.
2. Startup management team presents a business plan to the Corporate VC. If the reviewed business plan generates interest, the Corporate VC will ask the startup for more information including a product demonstration. Investors will also conduct their own due diligence to investigate and better understand the product, technology, market, and any other related issues.

Inventors do need to look at the potential investor. If you have an investor on the hook, before you commit, ask about previous deals and look at their success rates. Far too many investors think its all about the money and its not. Go and see other companies that accepted their previous offers and ask what the process was like and is the relationship still working

3. If the Corporate VC's are interested in the proposed startup's product or service, they will look to determine the value of the startup. They communicate this valuation to the startup, often via a term sheet. If the startup is happy with the offer, a purchase price and investor equity is agree on. Negotiations can take place during this stage of investment valuation. Mind you – its not just about startup capital as this is just the beginning so negotiate terms on secondary funding and 'draw downs' as you succeed. The investors will invariable talk about your exit even before you have accepted their money so this will give you a clue about their ultimate intentions. Corporations or fund managers are all encompassing machines that will want to own you or your ideas and always your revenue. It's what they do. You, as a counter balance argument, could introduce a debate and talk about them ratcheting out if or as you succeed - so add it as a clause.
4. Legal counsels from both sides agree to a finalised term sheet where business terms for the investment are specified. A closed period, referred to as a lock-up time period, is also established during which the startup company cannot discuss investing opportunities with other investment groups. This indicates that a pending deal is in the process of completion. Once a term sheet is finalised, both sides look to negotiate and finalise financing terms.
5. Negotiations are conducted between the legal counsels from the Corporate VC and the startup company. The startup legal team typically create transaction documents that the Corporate VC counsel reviews. Negotiations continue until all legal and business issues are addressed. During this time, the Corporate VC conducts a more thorough investigation of the startup company, understanding the startup's books and records, financial statements, projected performance, employees and suppliers, and even its customer base.



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6. Closing of financing is the final step. This can take place immediately upon execution of the definitive agreements or after a few weeks. The additional time may be necessary if the Corporate VC needs time to complete their due-diligence or based on the startup company's financial needs.

Things to look out for - If you are a potential investor in the telematics sector you also have to watch for the professional 'lurist' that casts visions of riches by convincing you that they have a good idea where in fact have nothing but a delusion - however they can sell it very well as they are passionate and infectious to unsuspecting and inexperienced investors. This usually applies, of course, to any grand money-earning scheme and rarely are they real.

Therefore, the relationship between the entrepreneur and investor is invariably wrong footed from the start or soon afterwards as expectations on or by both are wildly at odds. This often means start-up capital comes with attitude and terms that are not conducive to a good beginning and the business fails before its starts as a consequence. One often can hear the phrases 'you said', 'if only' and 'by when' followed closely by the less subtle 'how much?'

If you are dealing with 'expansion capital or round two' funding then a good indicator of a troubled past is that the founding MD or CEO is now Technical Director and the investor has ousted him. It's never going to work from now on as the company operates as a company within company and it's inevitably doomed.

Be careful though as rule one in many of the investor's rulebook is to sack the founders as soon as acquisition is made on the premise that in order to be successful you do need to be able to run the company without the founders. You just can't do that with an enterprise business as your main asset and driving force goes on day two and everyone will have lost your money.

For that matter I am beginning to believe that you simple can't buy an enterprise business and it's doomed before you start. The concept of an acquisition of an enterprise business is like a perfect oxymoron and like saying a wise fool or legal murder. So does "corporate enterprise" work- not in my book.

Those of you that are in this position will recognise some of the corporate dancing or shenanigans that surrounds these early days of courtship – the marriage between the inventor and the new money.

As the inventor and at the point at which you are most vulnerable having spent all your own money, your spouse somewhat adding to the pressure, your vision not quite finished and with the product visible or on the horizon you will invariably hear:

"If I'm going to put the money in I will need to run the business and clearly you are a great engineer but you don't know how to run a business".

"I do have some contacts in this area you know and I will invite them to help. They are not cheap but they know what they are doing and have done it before".

"We will be lucky to get them as they busy"

"Ill tell you what- I know the position you are in so I'll fund the business from now on – so that's your immediate worries gone - you go and tell me how much stock you have, list your customers, work out how much you owe and what you need monthly to keep going and then we will put some real money in".

"Don't worry about the money that why I'm here".

Interestingly of course as we now have open lurist behaviour by both parties and all the hard work and money will simply disappear if attention is not paid at this point in the game. The odds of success in this kind of environment, in my opinion, are little to non existent. Why you may ask? Put simply both the parties have very different views, are running on different agendas and have no real reason to be working together other than greed or power.

Asking for money from the new money source will be like Oliver Twist asking for more food - More Boy???

Usually of course the suggestion that the money is to come later is 'prima facie' to the evidence that the investor or so called 'new money' doesn't have any other than a small hand at the poker table and whose only intention is to leverage your hard work to raise money elsewhere. Not a problem in my book if it was open but it never is. The intention is always to get the big money by showing some of their own and leveraging their position with more from others. Nice work if you can get it I'd say.

It doesn't take long in these negotiations for the reality of the situation to be come apparent. The big money just doesn't come, the deadline comes and goes and you are left with trying to undo all the promises and default any written word in so called agreements. Not easy as you still have little money but now a dispute on your hands.

Inevitably the blame will come your way in this play out with claims of wrongful or over exaggerated forecasts, sales figures and false accounting. Enjoy.



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Telematics is a big breeding ground for lurid behaviour and many a fledgling inventor will have a new application and everyone involved will think they can make millions if they invest in the idea. In fact, the opposite is often true. It's very difficult to find a profitable telematics company that owns its own 'cradle to grave' solution with its own distinctive IPR and is not just a reseller. Those, in the industry that appear to buck the trend are often small operating units funded by bigger and more successful holding companies or plc's. I guess that's how it should be as companies with cash should invest in smaller ones that have ideas.

If alternatively you want to follow the lemmings and go for a market placement on Aim or Plus then buyer beware as market take-up for your shares can be slow or zero and so if you think your capital is coming from the market – forget it. Annual costs for NOMADS or Financial Advisers just eats away at your cash flow and the corporate compliance will be distracting.

Watch out for the 'boiler room' guys who buy shares at a discount and Hoare your company on the telephone. 'Boiler rooms' are high-pressure sales firms, often based overseas, that target investors illegally, offering them non-tradable, overpriced or even non-existent shares. Boiler rooms usually target existing shareholders by legally obtaining a company's list of shareholders. This is unwanted noise of course and once noise creeps into the daily routine then no work gets done.

In the current climate of recession, then one has to reduce costs and try to increase revenue at the same time. A clever trick if you can pull it off. A merger with another like-minded or symbiotic company may accomplish this. Usually in this environment the management will suddenly decouple themselves for their previous loyalty to their own shareholders and switch to whichever regime is going to employ them. With inevitable casualties in these arrangements, it is often foolhardy to negotiate with the incumbent management, as they should step aside and allow non-executives to chair the meetings and agree the deal. Watch out for the inevitable theatre that plays itself out whilst people jostle for position. If you are a people person then it is all very interesting but totally distracting and a waste of time – more noise.

It's not all one way either as there are predators out there looking to absorb technology into their portfolio and then cast aside the unsuspecting inventor or developer. Clever contracts written by so called in-house lawyers is often a clue as to what's to come and often words used such as joint venture, heads of terms, MOU all lead to nothing, as the smaller party to the agreement can't defend any actions of the other party because of scale.

Watch out for the abuse of the NDA culture, as it's often a recipe for litigation. Also beware of the

Delaware Companies seeking to operate out of a relaxed tax and legislative regime but also predatory because of it.

There are currently around 7,000 lawyers employed in commerce and industry in the UK. This group is made up of solicitors and barristers, of whom many have opted to move into industry from previous careers in private practice. There are as many different specialist roles in industry as there are in private practice. In-depth specialist legal knowledge gained in private practice is often what the employer will be buying from its in-house lawyers. A construction company may look to hire a good legal mind to oversee its planning and environmental workload, just as a City financial institution may require a lawyer with broad experience of banking and capital markets work.

A TSP will need the services of a lawyer and does clearly have IPR to protect and often issues of wrongful billing by MNOs with also the consequential effects of launching disruptive technology. So fighting protectionism is an issue for emerging technologists.

In a nutshell the inventor has to decide what game he wants to play and also what stage of the game he is in. He is either in the company game, and all that it entails, or the science game. One is an open approach to business and the other closed. Also watch out for the signs of division. Is the IPR in the company or held separately offshore. Are their performance or sales royalties linked to the inventor? Has the inventor the rights to compete if he leaves the company and so on. Is he locked in or frozen out? Who owns the patents and have they been assigned for the benefits of the company?

The other issue, for me at least, is that no one can demonstrate that there is a telematics market price model that works. Often the costs or liabilities are greater than the reward and also the customer's perceived value is always less than the price and therefore sales are slow and begrudging. It doesn't matter how good the technology is -no amount of capital can solve that. Look at the 'Goggle effect' on Tom Tom and it makes my point. Maps and navigation are virtually free now but will become perceived a free from now on. It's almost the classic phrase of a new technology looking for a market and not helped by 'pumping' from Telematics Update Magazine and Berg Insight talking in billions and growth forecasts in double digits. It all paints a much distorted picture of the industry.

How can anyone enter into a telematics support contract for 3 or 5 years when the variables are not known and the functions and features are improving all the time and the costs are falling? As a realisation of this many TSP's are now offering pay as you go services with no commitment – just a monthly roll over and maybe a small cancellation fee.



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Bad revenue flow

Actually revenue is a different form of currency to capital, money yes but not the same. Even businesses that progress past the start up stage often collapse later when incoming cash doesn't at least match expenses and other costs. Watch your "burn or torch rate" "When it comes down to it, cash and frequent cash is what really counts as it's timing is also so important. New start-ups may work with low costs and overheads but assuming the company survives into phase 2 then the rules change; "professional managers" then appear who need and demand salaries with different and conflicting motives to the early founders. This can be a wrong and fatal move and the beginning of the slippery slope as well as the accompanied need for yet more capital. Early talks about "exit routes" or "making it" or "selling out and running" is the death nail. It's about survival, scalability and certainty in the first instance then growth and value.

These days however, more and more entrepreneurs are discounting the value of investment money, especially as it becomes very evident that it is just one of many currencies to think about. Organic and controlled growth is one safer style here and works very well in most circumstances as the inventor remains in control and reaps what he sows. This is not the case if he gets it wrong with other people's money and will be forced out of the business all together by the investors. Keeping it lean and mean and using multiple currencies does have some value.



So here are some currencies that have value but may not be money as you accept it:

- Effort equals reward. A day's pay for a day work.
- Invention equals royalty
- Sales equals commission
- Invest and you expect a return or dividend
- Consultation equals fee - give advice and you should get a fee

- Introduce a customer or deal to a third party and you should get a fee
- Lend money and you should get the return of the capital plus interest and if risk is involved then agree a bonus. Lend can be free though
- IPR should mean franchisee or right to use, but can mean aggressive and passive protection via patent
- Time (other peoples) is said to equal money but could be converted to shares via sweat equity or promise or could mean revenue share. Actually underestimating time can be the biggest killer for IT companies as cash runs out and deliverables are late. Time overruns become cash overruns
- Happiness, clearly not money, but it is very important. Regardless of money if you're not happy you should not do it and no amount of remuneration can buy it.
- Terms always negotiate on terms and not money. The terms may have great value so be sure what they are.
- Environment these days seen as a currency so should be thought about
- Risk clearly require a premium
- Lobby means to pursue and is a currency to put your point of view across
- Social awareness or responsibility is a bit like environment but has to be built in. It can be seen as a cost but also necessary and these days a legal requirement
- Legacy often the cause of business failure. Great idea but too much legacy. Can be good but often negative.
- Like minded - a good trait as it removes all barriers to agreement and way forward
- Mutuality - symbiotic, jointly benefit
- Tangibility - used as great idea but not tangible - a negative connotation
- Visibility or vision - clear path, can see it work etc, factored by time
- Fun - definitely needed or the business can collapse unless you are just in it for the money and that won't last
- Peace of mind - probably the most forgotten of all - until things go wrong.



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So why do I mention these other currencies? The issue is simple as individuals, and for that matter, organisations usually get their currencies wrong or mixed-up and are a big contribution to disquiet and a cause of business failure.

"I have completed the work in my own time so can I have some shares please"

"I have invented a great new product in your time and with your money so I need to be a director"

"I have won a big order so I need a dividend"

"Yes I'm one of the founders as I have been here from the beginning"

Whilst I define these as currencies as generally a good thing I am coming round to the idea that there is such thing as an anti-currency – that which has a negative effect on the business. This is when the invincible forces at play are working against each other. A manager working in a different direction to others or with different expectations or simply drifting along is an example. All you do is pay out all the costs each month and nothing is achieved.

Telematics revenue is usually based on monthly subscriptions for hosting data and application management and the trick is to extract value from the service. The issue for the TSP however is that it is jam tomorrow and it is not until there is sufficient monthly income does this type of revenue assist in the company growth and remove some of the risk. The issue for the TSP is to share in the value and not give too much a way to the partner or customer.

Instead the majority of TSPs are unable to do this and have to spend most of their development time improving services and lowering costs at the same time and have to take full hit on the customers wants and woes. Parts, product failure and driver curiosity account for 10% failure rate and in most cases difficult for the TSP to recover costs even if an SLA allows for recovery of costs. Product failure rate should be below 1% and this is often the case but not provable. So getting the finance model right is not simple as it can be said that a telematics contract is a way of losing money over its lifetime. Unlike most other products someone else often procures telematics so that the ultimate customer may not be the known, planned or willing beneficiary.

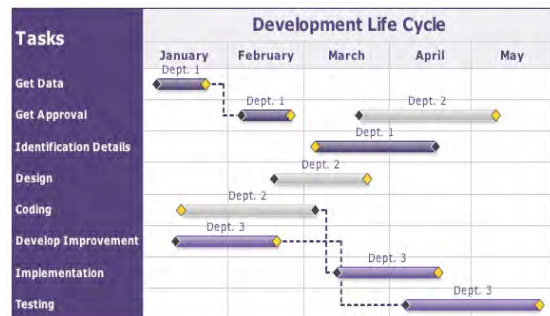
Leasing companies install equipment to collect odometer data but may offer upgrades to drivers. Drivers therefore perceive the telematics system as free but valuable but will not upgrade as they see its value as supplied with the car. New services such as duty of care reports, fuel management, CO₂ measurement and so on are valuable but still not a true ubiquitous solution.

What telematics needs is a solution and technology that pays for itself in a few months and offers

modular upgrades. This is probably not so far away now with fuel costs still rising and new initiatives like HHO and HFI. Also new to the scene are level 3 reports (line by line receipts) from Corporate Prepaid Cards, expense management, adaptive ECU mapping and so on.

Also costs are not helped by MNOs not being able to support the airtime contract properly, inadequate or wrongful billing and, not least, network spamming has the effect of shutting boxes off and frying SIMs. Oh and I forget the usual loss of packet data on GPRS often leading to a customer dispute through no fault of your own. So financial contingency has to be built into the monthly contract with proper T&C's. So-called 'bundled deals' are wrapping the hardware and hosting service into one monthly payment.

A good trick is to sell on this income stream and capitalise the equipment and so called thin air. Well OK if you need the cash and if the model is right but this actually works out at 30% over 3 years and strips out your margin but brings your cash forward. It's also off-balance sheet funding and distorts your balance sheet. Don't forget by doing this you are selling your monthly income and your risk of survival worsens as any poor decisions made now as a due to your creative funding could result in your early demise. For the most part, all you are doing is building up trouble for later unless you can get the client to pay the costs of finance. Turnover chasing then becomes the new bible, as you need to get your monthly service revenue back to pay your fixed monthly costs.



Inadequate planning - not surprisingly, this is the reason problems like capitalisation and bad cash flow happen in the first place. It's critical that you map out as comprehensive a business plan as possible, especially in the early days, covering financial issues, marketing, growth and an array of other elements. Granted, it can be time consuming, as a well-prepared plan can take weeks or months to complete. Often the process of planning will determine the business plan and product design in any event. "If you don't plan and still go ahead, you may end up with heartache and thousands of investment pounds going down the drain."



SWEET AND SOUR CYCLE

Don't rely on one product and get your income ratios thought through. Over the years I have found it risky to have just one product on offer. It would be wrong to have 100% of sales from one product set. This makes you vulnerable to challenge, price wars and falling margins and competition from new suppliers. You end up on the treadmill where the more you work or sell the less your income becomes. You need multiple income streams or multiple routes to market. It's said that it's easier to earn from the first 20% of a project than the last. Some experts will always bang the drum that keeping it to a single core business is the only way to behave but in my experience that may actually work against you. So don't listen to those guys that say that it has to be simple. Simple may just kill you.

You don't have to own the technology either. How many CEO's fall in to the trap of insisting on owning the technology? If the excuse or reason offered is shareholder value or protectionism forget it. In a crowded market someone will have already spent their hard earned cash on development so swallow your pride and become a reseller or strategic partner. Don't do anything twice if it works elsewhere and has been done once. This is a classic case of vanity before sanity and will burn cash.

A competitive edge

Genuinely unique ideas are as rare as banking profits these days, but it's still critical that your business gains some sort of singular niche that you can exploit. Albeit a slightly different product or customer support that goes beyond your competitors; earmark that one element that sets your business apart. "Too many small businesses are simply 'me too' operations," "Make sure something is unique or different." There are over 300 telematics companies in the UK in some form and that just can't be good for an already confused market. Remember often the product is good but to be competitive you need excellent customer support and response times and a shared vision with the client. What is missing from the industry generally is that constant day in day out service level promising to deliver and then doing it. The technology being, say, only 20% of a successful offering.

Sticky marketing

You might think your product or service is special but what about your prospective customers? It's essential to develop a marketing strategy not merely to identify those that might buy from you but understand why. Make certain your marketing strategy sets you apart so a customer can clearly see why they would rather come to you than go to competitor. Watch out for all sizzle and no sausage offerings.

Profiling and personality testing

Large company cash to die for or seasoned troops, every small-business owner knows the advantages a larger competitor or partner can bring to the game. Well, one thing he can't necessarily do is turn on a penny, something small businesses can exploit. Never forget to remain flexible. Certainty is not easy in an IT market where the technology appears to drop in price every year and double in functionality. A truism is that if you are making good profits then it will attract competitors and if you were somehow enjoying certainty or stability someone will try to topple you. If a product isn't quite right or a marketing campaign isn't really flying, don't be afraid to tinker. Making those sorts of in-course adjustments is much more unwieldy for the big guys.

We don't do credit checks any more but we do call in the shrinks first to assess any potential clients corporate personality. If it doesn't suit you then don't take the order or it will end in failure – however much the temptation is to take the money. Think of the customer as a person in your minds eye and imagine a personality. If you wouldn't normally mix with this type of person in real life then be cautious and walk away. So when you are dealing with a company for the first time then think gender, age, job etc and you'll get the picture.

Great boss, mediocre staff - make certain your employees are well trained, fairly compensated and somehow share in the enthusiasm. Motivation can come in various forms and not always from money. Yes they have to be paid but they need to know what's going on. They need to be empowered which produces adrenalin and becomes a daily fix. It is a two-way thing though so they will have to be compensated when successful. It is also often said. "Great staff no boss to be found".

Watch out for the conflict in style from two opposing groups within the business; the engineers and the sales team. God forbid your MD is an engineer with no previous experience of running a business as this can tilt the business away from daily reality. You end up in a purist debate about the product or the purchase order coming first before the work is started and cash just simply drains out of the coffers or worst still you simply do not ever finish the products but still spend those development pounds.

Watch out for your investors saying

"we only pay for goods when you have an order- we don't speculate"

"There's no point in you having the income as you are a private company. At least we have a PE and that's gives us both real value if you join us".

"It's very rare for us to place an order on a SME that's greater than their book value. In these circumstances we would normally offer to buy you".



SWEET AND SOUR CYCLE

Yet another example of arrogance - the Pecking Order theory with attitude.

Uncontrolled growth - Ironic as it seems, but a small business that simply succeeds too quickly often pushes itself into an early grave. If your production fails to keep pace with demand or necessary expansion coincides with insufficient cash, the growth you dream about as an entrepreneur can actually threaten your business' very existence.

Again, cover foreseeable growth in your original plan and track it adequately to make certain that it never gets dangerously out of hand. Lack of proper management, lack of cash and uncontrolled growth with no accountability or accepted responsibility could mean the inevitable end of a yet another technology company start up. Yes, it may have won

contracts to secure its future and has carried on developing. In the main, it has done this with alternative currencies to money and has found other ways to keep going. Make sure the back office is working well as many companies can't invoice and lose the plot when it comes to micro billing. Don't underestimate the back office either as often the cost of generating reports and maintaining the back bone of the business is much more than allowed for.

So it's all about choices and I hope that these little insights will pave the way to a "success cycle" and not a sour one.

Ref: Wikipedia

