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Lessons from Duke Startup Challenge - Biotech, Focus, Friends & Family, Rising Angels, and More

By John Yates, Special To LTW

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ATLANTA - Last weekend I had the privilege of judging the business plan competition at the Fuqua Business School at Duke University.

The five finalists were impressive and represented a select group selected from dozens of entrants in the competition.

Several lessons emerged during the weekend event.

One: Where are the software companies?

Only one of the five finalists was a software company -- and the word "software" was largely missing from the business plan document.
One of my co-judges, Vivek Wadhwa (former senior executive in RTP at Relativity Technologies, where he remains chairman) highlighted some of the reasons for the absence of more software ideas:

- More software development is moving offshore (Vivek's former company has moved development to Russia).
- Proprietary technologies are more difficult to develop in a software arena than there were a decade ago.
- There are only a handful of large software companies in RTP that could spawn a new generation of software entrepreneurs.

These trends are similar throughout the Southeast. However, Atlanta is more fortunate to have several industry software leaders that continue to lead the pack in their markets – Internet Security Systems (security), Manhattan Associates (supply chain), and Silverpop (messaging).

Two: The biotech/life science bubble is growing

Two of the five plans were medical device businesses. The businesses were founded by physicians and/or biomedical engineers and their friends and family. Interestingly, both businesses forecasted small capital raises (possibly a miscalculation, but they were certainly not going to scare away investors because they were asking for too much money!).

These entrants in the competition reflected a recurring set of themes in the early stage life science/biotech arena:

- These businesses usually include a practicing physician with a keen understanding of the utility and value of the medical device. (In contrast, most software companies have been hatched by a young entrepreneur with little practical business experience. Still, many have been remarkably successful despite the absence of a gray haired leader.)
- The exit strategy for strong medical device companies may occur early in a life cycle – usually in the third to fifth year. (By comparison, software companies in the current environment are finding the runway to a liquidity event to be ever-expanding – or worse, never ending!)
- Patents are a condition to funding – but not necessarily a guaranty of success. Many startups are focusing on securing patent protection at the earliest stage possible, keeping in mind the cost and time for filing and prosecuting the patent.

Caveat - a life science startup shouldn't cut corners with patent protection. Your investors will smell this problem a mile away.

Three: Friends and Family are more important than ever

Many of the business plan competitions now evidence active involvement by family members. No longer is the family relegated to writing checks for entrepreneurial relatives. Now, family members are becoming actively involved in startups, and often are the source of the entrepreneurial seed from which the company is founded. (Two of the five finalists in the Duke Startup Challenge had family members as active players in the business.)

There are several benefits to having family members on your entrepreneurial team:

- They are usually very loyal to the concept and the founders.
- Their experience may serve as a dose of reality in preparing the business plan and financial forecasts.
- They often provide a subject matter expert (for example, where the family member is a practicing physician and the company is focusing on a medical device used by the family doctor – as was the case with one of the Duke Challenge Startup finalists).

Four: Fundable business plans will be more focused

The next great idea or killer app may have "crowed appeal" but is unlikely to be funded. Until the "big idea" is legitimized by attracting several viable customers or paying strategic partners, the idea will remain a cool concept – and no more.

By contrast, the targeted solution has the most promise for being funded in our current startup world. The early stage business should provide a unique, patentable solution to a problem in a growing market where legacy solutions provide the competition.

Five: Medical Devices will be hot

Medical devices represent the hottest new area of focus in the startup arena. There are several reasons:

- They are usually invented by a physician or a biomedical engineer with a keen awareness of the problem confronting doctors with current legacy solutions.
- Many of these startups include a subject matter expert with an understanding of the economics of the healthcare industry. In other words, the founders generally appreciate the price points that will be attractive to the ultimate buyers of the medical device.
- The successful medical device companies will focus on an initial market but have expansion opportunities to address healthcare problems in other areas.

Six: Look for Rising Angels

My experience has been that angel investors understand healthcare solutions, even if they are not schooled in medicine. Your neighbors may not understand the complexities of JAVA, supply chain management or the finer points of an ERP or CRM solution – but they understand that SARs is a serious problem, that their knees start to hurt after age 40 when they exercise, and that quality of life is important in healthcare.

Look for the new breed of startups to be healthcare solutions with early stage funding coming from a broad range of new angels – the neighbor next door, new angel organizations or the extended friends and family network.

(In an upcoming column, look for information on angel networks in the Southeast and the way they work.)

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