

## **Of Mice and Money: Entrepreneurs Need Focus, Communication Skills**

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Almost every entrepreneurial company is out to make a better mouse trap. It is important to stay fixated on the core mission -- and not embark on, say, making better mouse jackets. Jeff Morhet, Chairman, CEO and President of InNexus Biotechnology, had a top researcher who wanted to do just that.

Morhet related the tale while speaking at "Entrepreneurship: From IP to IPO and Beyond," a seminar presented by the W. P. Carey MBA Executive Program.

Entrepreneurs and their companies, the speakers said, need optimism, luck, communication skills and focus.

The InNexus researcher lacked focus when he designed jackets for lab mice. He did so for a practical reason -- to keep the animals from slipping off transdermal patches the company was using to test a drug. But the researcher was so taken with his idea that he invited Morhet, who is based in the Phoenix area, to Kentucky to see the contraptions, then advocated that there was a commercial market for the jackets.

Out of respect for the researcher, Morhet checked with the intellectual property firm InNexus uses. After the laughter died down, the intellectual property firm found that there were a number of previously invented mouse jackets. InNexus decided to stick with developing drugs that treat cancer and stay out of the rodent apparel industry.

"When you're at that stage you have to make sure (the business) fits," Morhet said. "And you have to look at the long haul. Do I really want to be selling clothing gear for mice?"

### Too many patents

At a prior company, Morhet reviewed all the company's patents and found they held 355. One was for a mouth guard like a football player would use. It had a spot where neon lights could be placed, and the idea was if one needed a flashlight, one could put it right in one's mouth. Morhet saw limited potential for that invention as well. Spending time or money with products that have little or no potential for commercial exploitation uses up too many resources, he observed.

"Our industry is the greatest example of what I call Economics 101 -- the law of scarcity and alternative choices," he said. "So if you start to put your money into things that aren't related to the focus of the business, you are suddenly going to wind up running in the red."

In biotech, the time between patenting an idea and bringing it to market -- which usually take between 8 and 12 years -- is what Morhet calls "survival time." Statistics show that overwhelming numbers of research projects never make it to the commercialization stage. To get through that process takes business acumen, Morhet said.

### Intellectual property

"Intellectual property is no longer an asset," Morhet said. "It's the currency of our business." InNexus Biotechnology, headquartered in Vancouver, British Columbia, and listed on the Toronto Stock Exchange, uses antibodies to develop new treatments to fight cancer.

In fact, intellectual property can help fund the operation. An Irish trust with a strong track record of identifying biotech projects in their infancy paid \$35 million each for 50 percent of the royalties for two products that at the time didn't exist.

"Take care of the folks that may come up with the ideas. Guide them not to invent mouth guards with flashlights embedded in them," Morhet said. "Stay in your business. Work with those folks. At the end of the day you may have a greater number of assets and a greater amount of currency that you can exploit."

Biotech involves scientific breakthroughs and patents -- the obvious outputs of intellectual property. But other businesses rely on intellectual property as well.

There's the kind that people keep between their ears, said Michael Jalbert, President, CEO and Chairman of the Board of EFJ. EFJ, which traces its roots back more than 80 years. The company makes communications equipment for first responders such as police and fire personnel.

Three years ago, EFJ moved its operations from Waseca, Minn. to Irving, Texas in the Dallas–Forth Worth area. The main reason: it was hard to find employees with skill sets EJJ needed in a town of less than 10,000 a little more than an hour away from the Twin Cities. One of the things the company didn't account for, however, was what Jalbert called "tribal knowledge."

"Make sure the documentation you take with you is accurate," Jalbert said. "Make sure you convince a couple of people who are the brain trust" to relocate.

Jalbert explained that even though EFJ makes a high tech product there's still art that goes with the science. "The guy on the bench knows how to do this" -- he tapped the side of chair -- "and it works." When you forget to tap the radio, it doesn't work.

"That's where the intellectual property comes in from the guys who have tribal knowledge," he said. "That's one thing we didn't document."

### Managing expectations

In the late 1990s, the company, then known as Transcript International, also ran into accounting problems and its stock was de-listed from the Nasdaq. In 1999, Jalbert, who had been involved in other turnarounds, and his team were brought in. By 2004, the stock regained its listing and the company prospered, but then ran into tough times again.

The company lost money in 2006 and has announced it will show a loss in 2007. On Friday the stock closed \$1.18 per share, just slightly above its 52-week low. Two years earlier it closed at \$10.99 a share.

One of the keys to stock value is its perception on Wall Street, Jalbert said.

"One of the most important things to learn about that perception is managing your expectations," Jalbert said. "How many of you have been in a start-up where the start-up has hope? It has a strategy for hope. But the market will buy into that strategy for hope until you disappoint them because you didn't meet your expectations."

Perception can trump even profitability, he said. "It's about what you tell The Street. And what you deliver."

EJJ missed its guidance three times last year. "There were consequences for that," he said. He restructured management and promoted Massoud (Max) Safavi from head of a division to the new position of chief operating officer.

And so, Jalbert finds himself having to turn around a company he's already turned around once before.

"Hopefully, history will repeat itself," he said. "We got a little cocky. We did certain things that we ought not have done in the time frame that we did them. We paid the price. Now we have to group and move forward. The opportunities are still there."

As a public company, Jalbert said you must communicate effectively with the outside world. "That's one of the things that killed us this year," he said.

You must also communicate internally. That centers on having the right people in place, focusing them on a strategy and clearly stating the company's objectives.

"Then you create a culture that rewards success," he said. "That's a very important message for entrepreneurs. Because entrepreneurs will surround themselves with capable people at the time. The capable people become loyal people. And those loyal people are being rewarded for loyalty rather than performance."

Do you feel lucky?

Jalbert said while strategy and planning are important, there's another element. He paraphrased Napoleon, who is said to have told his generals: "I don't care how smart you are, are you lucky?"

EFJ and the earlier Transcript International incarnation were burned when the U.S. Government didn't switch communication protocols on the date it announced. In both cases, the company acquired other firms for technology that would meet the new government specifications. In July 2006, EFJ had acquired 3e Technologies International for its wireless security technology. The federal government had said it would adopt this technology in 2006–07.

"We partnered with Cisco," he said. "Everything was great. We were going to show a whole bunch of revenue through this acquisition."

Jalbert said fortunately this was not 3e Technologies International's only line of business and the other lines are performing well.

A plug for optimism

Morhet and Jalbert spoke at the end of one of the wildest weeks on Wall Street in recent memory, which began with a 465–point plunge shortly after the market opened on Tuesday, January 22, followed by wide fluctuation for the next three days.

Gary Naumann, a W. P. Carey School management professor who lectures on entrepreneurship, said one of his themes is optimism. On the tombstone of the prototypical entrepreneur, he said, would be this inscription: "Here lies an optimistic man. He'll be back."

"What opportunities will this dislocation create for us?" he asked. "To be an entrepreneur you have your antenna up to be looking for those opportunities."

## Bottom Line:

- \* Entrepreneurial companies don't have the time or money to spend on side businesses -- stick with the core business.

- \* Intellectual property is the lifeblood of almost any business, particularly biotech, and can even lead to funding opportunities.

- \* Intellectual property extends beyond patents and trade secrets to knowledge of processes that workers carry in their heads.

- \* Investors don't just don't look at the bottom line -- hope can be asset as long as a company delivers.

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