

IMPORTANCE OF UNIQUE TECHNOLOGY TO START-UP COMPANIES

A Survey

Conducted by:

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## 1.0 Introduction

In December, 2005, Roeder-Johnson Corporation contacted approximately 70 key members of industry who each had a long history of involvement in or frequent contact with start-up companies, including venture capitalists, entrepreneurs, industry analysts, and journalists, in order to survey their attitude about the importance of unique technology to start-up companies in today's business environment.

The survey was motivated by a perception of the principals at Roeder-Johnson that a definite shift in attitudes - particularly among venture capitalists and the entrepreneurs and companies that they funded - had occurred since the dot-com "collapse", and that in today's start-up environment, companies were no longer promoting their technology assets as a key part of their business strategy or competitive position.

Roeder-Johnson received 56 total responses, or 80% of those contacted.

## 2.0 Methodology

The survey was conducted via e-mail. Each respondent was asked the following questions:

1. Do you believe that unique technology is crucial to the success of start-up companies today? (1-Rarely; 5-Always)
2. If unique technology is important to today's start-ups, please weigh each the following in terms of importance (1- Low; 5-High)
  - a. For market differentiation
  - b. As proof of competence
  - c. As a marketing or PR "hook"
  - d. To secure a competitive advantage
  - e. For patents and defensive reasons
  - f. To attract suitors for acquisition
3. If you do not believe unique technology is important to start-up companies, did you ever believe it was? (Y- for Yes; N- for No); About when (year) did your attitude change?
4. When you are considering investing in/joining/working with a start-up company, how important is its technology in your decision? (1-Low; 5-High)
5. Are there particular categories of companies for which unique technology assets are important?

For the sake of interpreting the results, the top three response categories (that is, "3", "4", and "5") were considered "affirmative", while the bottom two response categories (that is, "1" and "2") were considered non-affirmative.

In addition, although the questions were not framed in this fashion for those surveyed, we additionally added qualitative labels to the scores to assist in interpretation. Reviewers can revert the data to the numerical answers if they feel that doing so represents a purer interpretation of the results.

In particular, "1-Rarely; 5-Always" is reported below as "1-Rarely, 2-Occasionally, 3-Frequently, 4-Usually, 5-Always". As described above, "frequently", "usually", and "always" were considered affirmative.

Similarly, in the questions about for which factors is unique technology important, "1-Low; 5-High" is reported below as "1-Not Important, 2-Slightly Important, 3-Moderately Important, 4-Very Important, 5-Crucially Important". As described above, "moderately important", "very important", and "crucially important" were considered affirmative.

### 3.0 Summarized Version of Results

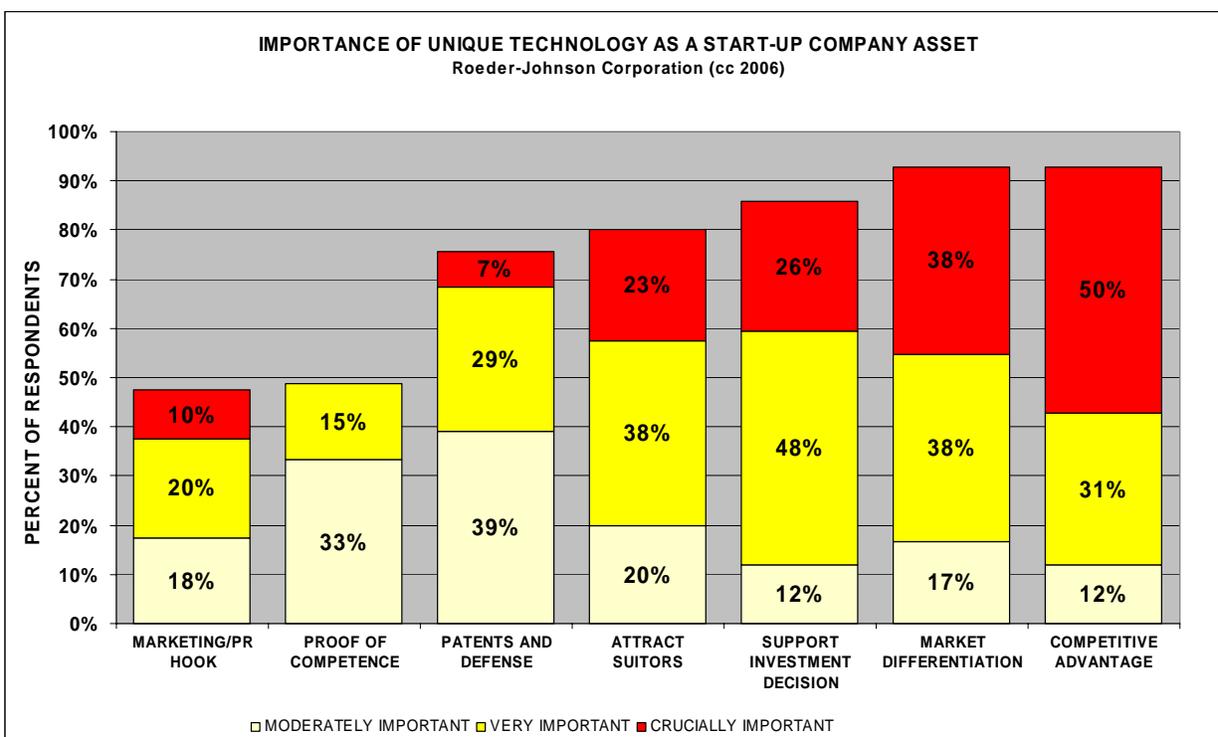
#### 3.1 Overall Question: "Do you believe that unique technology is crucial to the success of start-up companies today?"

- 0%: 1-Rarely
- 9%: 2-Occasionally
- 39%: 3-Frequently
- 39%: 4-Usually
- 13%: 5-Always

Takeaway: 91% of respondents felt that unique technology is frequently to always crucial to the success of start-up companies.

#### 3.2 Reasons that Technology is Important to Startups: Summary

Following the methodology described above, the results of question 2: "If unique technology is important to today's start-ups, please weigh each the following in terms of importance [see list above]" and the result of question 4: "When you are considering investing in/joining/working with a start-up company, how important is its technology in your decision?" were re-interpreted into the chart shown here. For each reason, the top three "affirmative" responses were graphed. The



affirmative results then can be interpreted as follows:

“If unique technology is important today for start-ups, why is it important?”

- 93%: For market differentiation
- 48%: As proof of competence
- 48%: As a marketing or PR “hook”
- 93%: To secure a competitive advantage
- 75%: For patents and defensive reasons
- 81%: To attract suitors for acquisition
- 86%: As an important criteria in your investment/matriculation decision

A high-resolution version of this chart may be found at <http://www.roeder-johnson.com/RJDocs/RJTechnologySurvey2006Chart.jpg>.

#### 4.0 Detailed Responses to Each Question (Charts)

The responses to each question, in tabular form, are presented below.

Response	1	2	3	4	5	
Interpretation	Not Important	Slightly Important	Moderately Important	Very Important	Crucially Important	Mean
Technology Importance	0%	9%	39%	39%	13%	3.6
Marketing/PR Hook	13%	40%	18%	20%	10%	2.8
Proof of Competence	23%	28%	33%	15%	0%	2.4
Patents and Defense	7%	17%	39%	29%	7%	3.1
Attract Suitors	10%	10%	20%	38%	23%	3.5
Support Investment Decision	0%	14%	12%	48%	26%	3.9
Market Differentiation	2%	5%	17%	38%	38%	4.0
Competitive Advantage	0%	7%	12%	31%	50%	4.2

#### 5.0 Comments

A sampling of the comments received follows:

- *The value of unique technology is based on what the company is trying to do. It's all about fulfilling the customer need which can be done with technology, service, packing or existing technology etc. All are valid ideas for company creation. Last I looked Dell is quite successful without unique technology and there are many others. (serial entrepreneur, senior executive, enterprise software)*
- *Relatively speaking unique technology is less important now than 5 years ago. Today, companies appear to be valued on their market success (as evidenced by customers and revenue) rather than purely on "game changing" technology. (venture capitalist)*
- *Companies that are "me too" need something that will differentiate them from the pack. (CEO, OEM)*

- *[Is technology important?] It depends. Most often it is. However, there are situations where that is not the case. For example, start-ups looking to capitalize from web-advertising, which today has been proven to be very effective, need to drive traffic, in which case content, viral marketing, and other such qualities are what matters and unique technology does not. (serial entrepreneur)*
- *[Unique technology] can be valuable to get past the "why should I do business with a start up" issue. (VP; serial entrepreneur)*
- *[Unique technology] helps Customers pay attention. (venture capitalist)*
- *[Unique technology is useful] for category creation. (VP; serial entrepreneur)*
- *[Unique technology] is important to gain investor interest and attention in the fundraising process. (VP; serial entrepreneur)*
- *Today it's more a provable bottom line business benefit that's crucial. (journalist)*
- *The days of innovative business models might just be so "yesterday". (CEO; serial entrepreneur)*
- *Current opportunities are as much about bolting together off-the-shelf technologies into new business models as they are about introducing innovations. (CEO; serial entrepreneur)*
- *Technology matters so long as it supports market position. There are more opportunities today to package technology in innovative ways. (analyst)*
- *Unique technology is critical but also market size, people quality, competitive threats are all equal and must haves. (CEO, serial entrepreneur, former venture capitalist)*
- *In theory, every category needs unique technology. But, in practice, the best, most unique technology doesn't always win -- in any category. Execution is more important. (journalist)*
- *Unique technology was overpaid for during the boom years of the bubble. So, if the outcome is a good investment, then yes, it was important. It has never been a definitive requirement for running a good business though, and by that [criterion], execution can trump tech. I have always had this attitude, but post bubble, unique technology has certainly been a nice to have but not necessarily a requirement for business success. (venture capitalist)*

## 6.0 Types of Companies Where Unique Technology is Most Important

Many respondents listed the types of start-ups where they felt technology was most important to success. Those categories are listed here, followed by the number of respondents who selected them.

- Chips/semiconductors/components/materials (12)
- Biotech/Pharma (7)
- Hardware (5)
- Software (3)
- Enterprise/IT software/business applications (3)
- Infrastructure software (2)
- Medical (2)
- Networking (2)
- Automotive (1)
- Communications (1)
- Companies that want to be big and long term (1)
- Consumer-related internet e-commerce (1)
- Electronic design automation (1)
- Emerging markets (1)
- Hardware. Less so for software and services (1)
- High tech, not low tech (1)
- Industries with few "soft" factors (such as a customer-service orientation) (1)
- Intersection of IT and life sciences (1)
- Markets with undifferentiated products
- Materials platform companies (1)
- Media related companies offering consumer services. (1)
- Military (1)
- Nanotech (1)
- Optics (1)
- Petrophysics (1)
- Security software (1)
- Seismic engineering (1)
- Sensor networks (1)
- Some software like Service-oriented Architecture (1)
- Storage (1)
- Tech-dependent companies (1)
- Vertically oriented service companies (1)
- Wireless (1)