

**Edgar Baum, Managing Director North America of Brand Finance
The Business of Wearable Computing 6.6.14
Interview for TMC by Donatella Giacometti donatella@CEOMediaCoach.com**

TMC/Donatella Giacometti: Hello everyone. I am Donatella Giacometti, contributing editor for TMC, the global media company. I cover the business of wearable computing and today I'm happy to be speaking to Edgar Baum, Managing Director North America with Brand Finance, the world's leading brand valuation and strategy consultancy. Mr. Baum specializes in marketing ROI and financially quantified brand strategy. He has extensive experience in brand analytics, business development, and corporate finance. His firm, Brand Finance, advises organizations on methods to maximize value through effective management of their brands and intangible assets. Mr. Baum is an active representative of Brand Finance on the Marketing Accountability Standards Board of the US, an organization of leading academics and Fortune 500 companies committed to providing cross-industry standards for marketing measurement. Welcome Edgar Baum of Brand Finance.

Edgar Baum: Hello, pleasure to be on here.

DG: Thank you so much. So I guess we jump right in and let me get to the first question. I'd like to ask you what key elements do you look for in a business plan?

EB: One of the key elements that I would say we look for in a business plan is differentiation. So, how different are you from the competition or alternatives in the marketplace, and how defensible is that position and is it something that can provide a premium for you? So you might have a great idea, but nobody actually wants to buy it. Or, you could have something that generates good cash flow, but anybody could come in and replace you in the marketplace. So as part of that differentiation, brand becomes a significant key.

DG: That's a very interesting answer. If you don't mind, I'm going to follow up on that. Do you want to say something more about brand being a key element in that mix you've described?

EB: Yeah, absolutely. So at a certain point, an organization is no longer about the products and services they sell, but it's also about the experience and expectation that can happen in the marketplace. So the brand is kind of a short form for the whole world of experiences with that. Not just in terms of the logo that is being used but the association of interacting with that company, in terms of their employees, the expectations that you have around product and service reliability and quality. And another way to go and put it is, if you're not orienting your business around your brand, what are you actually selling?

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DG: Well I think we could have a whole interview to get to that answer, so instead for this moment I'll move on to question two. When should entrepreneurs turn to the investment community for financing?

EB: That is a very good question. It's tied I think very much to where are you as an entrepreneur. So if you're an entrepreneur with a great idea and a conceptual product or service that really has the ability to add value to the category that you're operating in or even provide discernable disruption, then that's when you'd want to go for funding. However, if you're a serial entrepreneur or you've had success before, you may want to go and retain some of that money and build up more of that value in to the organization before selling it or going the IPO route.

DG: So if at that point an entrepreneur is at the point where they decide to turn to the investment community for financing, where might they go to raise capital?

EB: Oh it's very heavily driven by the industry that you're in. If you go and take a look at any industry, barriers to entry are very critical things. In the modern era, services have very low barriers to entry and increasingly so does the field of applied technology, especially software. So if you come up with a great software tool or program or app or something like that that solves a need or creates a new need in the marketplace, then it's pretty easy to go to a series of seed capital partners or angel investors or even larger organizations. If you get into something with much higher barriers to entry such as the fields of financial services, manufacturing, etc, at that point you will probably want to come up with an idea and find a strategic partner who is willing to work with you, and that may not necessarily go through the investment community. It may have to go directly with an organization that buys into your idea and is willing to add it to their portfolio.

DG: So there's kind of a complex landscape, and the entrepreneur maybe needs to answer some questions about who they are, what they offer, how they're structured in order to really be able to choose the best route.

EB: Yeah, and I think one thing that I would like to add to that is brand is still the key focus here because you may have an individual brand. So you could have been somebody who was a successful developer of products and services at a recognizable firm, and you've just gone and identified something that can provide tremendous value that you'd like to launch yourself. At that point, you want to emphasize the qualities that you bring to the table, what is your individual brand, where have you been a contributor to others, where did you exceed expectations inside your organization, can you put your name

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behind some publications or patents that you've written or something that can be recognized by somebody in the marketplace. And I think this is why you take a look at something like LinkedIn, it has given the rise to merit-based branding of individuals.

DG: That leads exactly to the next question, because this question is about how can entrepreneurs calculate the value of their enterprise?

EB: Well, there's a lot of different ways that one can go about doing that. The place to go and start is this: If you're generating revenues and cash flows, then there's a lot of standards in the marketplace. You can literally go and download an epub, or go and purchase a book in a store that goes and tells you how to calculate net present value of future cash flows. Where things get a bit more interesting is the value of an idea.

So I'm just going to use something that we can all pretty easily relate to right now. Google is presently testing driverless cars. They're not selling any of them so there's no cash flow being generated. In fact they're losing money playing around with that idea. So to calculate the value of driverless cars, you would now need to come up with something that is forward-looking. Go and take a look at, well what is the likelihood of the need in the marketplace? And this is where it becomes a very good idea to follow a couple of different pathways. One is to go and speak to people who cover the industry – it could be analysts, it could be people who are executives in that industry, it could be academics, and ask them what is the value or the likelihood of a disruption? And then put all that feedback together into a summary report. Another thing is if you have a bit more money in your pocket, you can actually commission a formal survey to go and ask people if they would change their behavior pattern, to go and buy a product or service that doesn't exist yet but could really make a difference in their lives. And then based on what they think they would go and spend as an alternative, you can now go and anticipate what the future value could be.

DG: So you mentioned a word in there about the alternative. Is there sometimes no alternative to what an entrepreneur may be offering, especially to use your phrase about a disruptive technology?

EB: Well there is always going to be an alternative. Unless you identify a new necessity in life that all of us have had but have never thought of, you're probably going to have a hard time not finding alternatives. However, if you go and take a look at something that may be fun that we do in our lives or that complements our lives, some parts of that experience may now become a necessity. So for example, it has become a necessity for a lot of people to have very quick transactions with their use of credit cards and online

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purchases, where previously they could have been willing to spend time. So that's one way to look at it.

DG: Following on, how can entrepreneurs then capture the attention of potential investors?

EB: So the way that entrepreneurs can capture the attention of potential investors in this situation is to go to those potential investors and identify if anything like this has been attempted before and if it's successful. So if you're the 4th person to the scene with a great idea, well it might not be as disruptive as you thought it was.

DG: Understood. But I'd like to maybe restate what I was asking on that one – I'm really looking to see how does that entrepreneur capture the attention of potential investors, imagining that there's a lot competition for those investors to be looking at business plans or different models of opportunity that are out there.

EB: So the way that they can go and do that would be to probably pick up the phone and call them. Alternatively, you could go and write a thought leadership piece and put it out there. If they have already gone and started their company, then it may be just literally starting to communicate this out there in an audience that is already open to it. So to go and find out are there LinkedIn groups about this, are there people blogging about this area, and then tapping into them? So unless you're in completely virgin territory, these blogs and these discussions are already being tracked by investors. And if it sounds like a good idea, you might even get a phone call from them.

DG: Well that's an interesting angle. So you're saying that the conversation in specific industry sectors are being tracked by potential investors?

EB: Yeah, they are at times being tracked. It's heavily dependent on how niche of an industry that you're in. If you go and take a look at the story of Tumblr, that's something that just kind of tumbled in to our societal lexicon and very quickly people went and picked up on it. It wasn't really generating any revenue, but it started filling a need, it started becoming an alternative to other uses of time, and then it was seen as something that was worth a billion dollars.

DG: That's a great answer, thank you Edgar. So let me move on to kind of looking at current events, particularly in the technology sector. Is there anything especially notable these days that you might want to highlight for folks tuning in?

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EB: Yeah I'd be happy to. I think there's an interesting thing happening in the marketplace. I'm noticing a significant entrepreneurial response to industries that have a constant presence in people's lives such as banking, transportation such as taxis, trains, etc, healthcare and hospitality. And what is happening is that each of these sectors has accumulated over decades, if not centuries, negative experiences or apathy and entrenchment of the status quo. And what is happening through the advent of technology and people's willingness to try new things in our contemporary society, through the access of that technology, you have companies very rapidly coming in, taking advantage of those accumulative negatives and building new brands.

So you have Airbnb, you have Uber, Lift. Apple is actually a response to a lot of negatives that people were experiencing. In the banking sector you have Simple Bank that is a purely app based bank that actually just got recently purchased by a multinational. And then you have something like Square and PayPal, which are really just making lives easier and something that people consistently complained about but nobody in the established industry was actually willing to take on and disrupt for themselves. So we've reached a point in society no where there's a sufficient number of dissatisfied people, somebody's willing to come up with an idea and find an audience willing to pay for a solution very quickly. And actually that's something happening right now. If you take a look at a recent invention, by technology standards, such as email, which really we haven't even been using for 20 years, we already have paid service organizations coming in to help manage free email providers. So Sanebox is an example of somebody who's doing that.

DG: Well you're leaving me speechless, so I'd better move on to my last question. Looking ahead, how do you imagine wearable technologies enhancing our lives?

EB: I think this is going to be a very interesting field for the next 5-10 years where it's going to be fun, novel, exciting, thought-provoking and then it's just going to become part of our everyday life, kind of like mobile phones became. And what I see in the wearable technology space is I think we're going to start discovering a lot of information about ourselves. We already have some devices that we're wearing or tracking our behaviors, how many steps did we take, how many calories did I burn etc. And now with what Apple just recently announced in terms of their foray into healthcare, I really see that there's an opportunity with wearable technologies to start getting the measurement of our own lives and what we're up to, and to be able to save time, have access and convenience.

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A good example of it would be the smart watch. And what is interesting to see is how people who did not have smart watches before started changing their behaviors. So when they would get an email notification, previously they would go to their pocket, they would go to their purse. They would go and start digging around, Oh I got an email, or I got a text message, or a WhatsApp note. And they would go and try and interrupt what they were doing. Now you go and have your wearable watch with your high definition screen, you pop it open – Oh, okay, it's my friend running 10 minutes late for dinner. So the amount of time that is being spent using wearables is so much less than other tools or things that we used to do before. So we no longer need to have a physical calendar that we need to go and open – we'll have a little buzz on our watch saying dinner in 15 minutes or meeting with the boss in an hour. And all you have to do is just turn your wrist a little bit and get that world of information at a glance instead of the physical act of opening up your calendar or opening up your phone and typing in the password etc in there.

DG: Edgar Baum, you have made me look forward to the future. I want to thank you so much. Edgar Baum, Managing Director North America with Brand Finance. This is Donatella Giacometti, contributing editor for TMC, covering the Business of Wearable Computing. Thanks again.

EB: Thank you. It was a pleasure.

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