

START-UP BASICS

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Session Presented By:

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Arul & Associates (<http://www.arulandassociates.com>) provides outsourced finance & accounting services to start-up companies. We handle everything from basic bookkeeping to being a part-time CFO as well as special projects. We take care of the numbers so you can take care of your business.

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Seedport (<http://www.seedport.com>) helps startups located in San Francisco, Los Angeles, Silicon Valley, San Diego, and all points in between. Professional business consultants, experienced and personable, are at your disposal. We work with you and on your behalf to establish your company legally through registration at the California government's Secretary of State office.

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Seacliff Partners (<http://www.seacliffpartners.com>) was established to help organizations of any size protect their assets — whether people, property, or information — by bringing together business continuity, disaster recovery, and information security disciplines.

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Noisebridge (<http://www.danmcardle.org>) Dan is a software developer who most recently worked for a startup in San Francisco. On the technical side, he specializes in architecture planning, development, and deployment, as well as computer security. Most recently, he has been working with a "hacker space" in San Francisco called "Noisebridge."

Agenda:

1. Planning for Your Business: Business Plan, Initial Funding, Who's Involved
2. Legal Considerations: Type of Entity; Entity Formation; Name Protection
3. Financial Issues: Tax Implications; Budgeting Basics; Tracking Income
4. Marketing: Corporate Materials; Offline Marketing; Social Media Basics

PLANNING

Make a business plan:

- Don't spend weeks doing this, but ensure that you cover the important things.
- Understand what your business does and doesn't do; early stage start-ups are very fluid, you need to define your business clearly enough to allow for future flexibility but prevent wandering off in a new direction every few weeks.
- Talk to customers: find out what they need, what other solutions they have now, how much they are paying or willing to pay
- Study the Competition: Know who your competitors are; Understand what they do and how they make money; What will prevent an established competitor from offering the same product/service as you? What differentiates you from the competition? Why will a client choose you instead of them?
- Determine the Economics: How will you earn revenue? What expenses will you need to incur to provide your product or service? How much profit is left? Do you need employees? Can you outsource services which you need? How much money do you need to start the business?

Initial Funding

- Expect at least 3 months and potentially much longer before you are earning consistent revenue. How will you pay for living expenses during this period? Do you qualify for unemployment insurance? If so, apply ASAP! Can your spouse or partner pay all the bills?
- Where will the initial funding come from to start the business? Do you need equipment? Web hosting? To pay employees? Buy inventory? Rent office space? Create marketing materials? Travel for sales pitches?

Who's Involved

- Are you starting the company on your own? Do you need a co-founder? How well do you know that person? What type of business structure is best given the individual's involved (see next section)

Resources

- Business Planning: <http://www.sba.gov/smallbusinessplanner/index.html>
- Small Business Resources: <http://sba.gov/> ; <http://www.score.org/>
- Unemployment (California): <http://www.edd.ca.gov/Unemployment/>
- Office Space: <http://sandboxsuites.com/>

LEGAL CONSIDERATIONS

Type of Legal Entity

- There are four basic types of legal entities: Sole Proprietorship, Partnership, LLC, and Corporation
- Each entity has advantages and disadvantages - you need to choose the right one based on your needs and those of the business
- Sole Proprietorship: Simple & inexpensive to set up (Fictitious Business Name & Business Registration), no legal liability protection between personal & business assets, often seen as less professional, potential tax advantages, need to pay self-employment taxes on income
- Partnership: Similar to a sole proprietorship but with multiple owners, general partners have unlimited liability, additional tax forms to file (partnership return), can have limited partners with limited liability (with an LLP), minimal paperwork
- LLC: Limited Liability Company can have one or more members (owners), provides legal protection for personal assets, higher compliance costs
- Corporation: Includes both C and S Corps, can have many shareholders with different share classes having different rights, generally necessary for VC investments, allows you to offer stock options to employees, highest compliance costs, higher tax burden (double taxation)

Entity Formation

- There are Federal, State, and Local regulations and agencies which you need to deal with
- LLCs and Corporations need to file organization documents with the state - this will involve a name search to ensure that no other business is operating with the same or similar names
- For Sole Proprietors and any other entity operating under a different legal name, you must register a Fictitious Business Name (also known as a DBA - "Doing Business As") with your local county; this is the name under which you will operate your business for advertising and other public uses; any person or other entity can operate under multiple fictitious names to run different types of businesses but all the income, expenses, and compliance work is handled by the top level entity
- Businesses operating in a particular jurisdiction need to register their business with the local county; in San Francisco there is a \$25 annual fee and a payroll tax on your gross wages paid to employees working in the city; watch out for local zoning ordinances, landlord leases, condominium associations, etc - there are often many issues with where your business is operated, some can be mitigated by renting "virtual" office space
- If you will be selling taxable products then you need to obtain a seller's permit (resale license) from the state; This allows you to buy goods for resale without paying sales tax but also requires you to collect and remit sales tax on those sales
- If you employ people, then you need even more registrations, primarily with the EDD in California (unemployment, disability, state withholding)
- You should also obtain a Federal Taxpayer Identification Number (TIN) or Employer Identification Number (EIN) from the IRS

Name Protection

- Many areas where you may need to protect a name: business name, product or service names, internet URL
- In general, forming a legal entity will provide you with protection for your business name however in most cases you need to do searches with the state or county to check if your name is available

- Product or Service names may require trademark protection which is available at both the state (uncommon) and federal (common and internationally recognized) levels
- Don't just Google for names you want to use. There are business and product names in use which may not have a web presence - check business directories and local, state, and Federal registration databases. You don't want to be surprised after you have spent time and money on a name that you cannot use.
- Be careful when checking for available internet domains! Some domain registrars, even very large well-known ones, will register some names for which you do a domain name search and then offer to sell it back to you. This is a shady practice at best, and clearly unethical. A Unix command line "whois" is probably safest but beyond the capability of most people. For a quick search, just type the name into a browser window and see if anything comes up. So that said, if you are searching for domain names, be prepared to buy them at that time to be safe. Some registrars will also allow you to cancel your registration within 5 days and refund the fees (which is what the domain stealers do, so NEVER go back to a stolen name with a web browser in the first week, otherwise they will think it's valuable). But if you are ready to register a domain name, that means you should have already done name searches for DBA, LLC, or Corporation names that you want to use.
- You can do some of this work in parallel. After you have completed your name searches, start the paperwork and register the domain name. Don't wait for one to clear before beginning the other. At the California level, you can file to reserve a name while you are completing the legal paperwork.

Resources

- Secretary of State (California): <http://www.sos.ca.gov/business/resources.htm>
- State Board of Equalization (California Sales Tax): <http://www.boe.ca.gov/>
- California EDD: <http://www.edd.ca.gov/taxind.htm>
- San Francisco City & County: http://www.sfgov.org/site/treasurer_index.asp?id=8115
- US Patent and Trade Office: <http://uspto.gov/>
- IRS Small Business Website: <http://www.irs.gov/businesses/small/index.html>
- Legal Forms: <http://nolo.com/> ; <http://www.legalzoom.com/>

FINANCIAL ISSUES

Budgeting Basics

- Make both a personal and a business budget so you understand what money needs to be spent, when, and how you'll pay for it
- Look for things to save money on - Business Expenses: What non-core things can be outsourced; create a virtual presence online; utilize free online services; use on demand or cloud computing services instead of buying servers/hosting

Tax Implications

- The entity structure (Sole proprietorship, LLC, Corporation, etc) you choose has both legal and tax consequences
- Sole Proprietorships and LLCs (without an 8832 election) are "pass through" entities so all income and expenses are claimed on your personal tax return. This allows you to offset other income such as a prior salary, part-time job, etc with losses from the business to reduce your income tax.
- Corporations are separate legal entities which file their own tax return. Any losses stay in the corporation until they are offset in future years with income. You must get money from the corporation either by being paid as an employee or by receiving dividends as a shareholder - both are included on your personal income tax return
- LLCs and Corporations have various filing requirements and in California are subject to an annual tax regardless of income (\$800/year).
- You can always switch from a sole proprietor to another business form later on. This allows you to enjoy the benefits of sole proprietorship (offset losses against personal income, quick/cheap setup, etc) and when required convert to a corporation (provide legal protection, give out stock options or sell shares to investors, etc.)
- Get a separate Tax ID (EIN) for the business, you can do this online at the IRS website. This is necessary for corporations or LLCs, and recommended even for sole proprietors

Tracking Income & Expenses

- Its important to keep your business and personal income, expenses, and assets separate!
- Opening a separate bank account in the name of the business is a good idea for sole proprietorships and necessary for other legal entities. Investigate the use of a credit union where you can get low cost to free business banking if you have a personal account. You may not be able to open a bank account for your company until you have your DBA or LLC papers in hand
- Investigate credit cards specifically for small business - some offer discounts on goods and services - and get one so that you can keep business and personal charges separated
- If you can't afford a bookkeeper or accountant, use a simple software program or online money management tools

Funding

- We didn't cover this in the session due to time constraints but there was an afternoon session on Venture Capital which touched on some of the points below
- Venture Capital is NOT the only way to fund a new business! In fact, for most businesses, its not appropriate or even a good way to get funding. Most VC's won't even look at a proposal unless its referred to them by someone they trust or have done business with in the past; even of those plans they look at, only a small fraction will get asked follow up questions; of those only a handful will get to do presentation pitches; of those that present, only some will get term sheets; and even then, not all of them will be funded - you get the picture, its a hard, long

process to get VC funding. VC's also look for a huge return on their money - can your business provide that potential return in a short amount of time? Is that high rate of growth really the best thing for your business? There are many great businesses which provide a necessary product/service, create good jobs, have steady growth prospects, and are quite profitable but which would not be a success for a VC.

- Alternate sources of funding include: Personal Savings, Bootstrapping, Investments from Friends & Family, Angel Funding
- Angels are one step removed from VCs - wealthy individuals, often former entrepreneurs who either alone or in groups invest in promising people/companies. Usually they would invest anywhere from \$10K - \$1M and you will typically need a solid business plan, working prototype, and good team in place (not necessarily in that order).
- Friends & Family are investing in the business primarily because they believe in YOU. They often have less knowledge of the business or the technology and will invest smaller amounts. Usually the investment will be in the form of a convertible note loan. Generally, you are pooling funds from a large group of such people. There are also social considerations to take into account - what if your business doesn't work and mother/brother/best friend/etc lose money? Will it affect your relationship(s)? Will this put additional pressure on you? All are things to consider before raising funds from family and friends.
- Bootstrapping is often overlooked by entrepreneurs but is one of the BEST ways to fund a business. Start off doing something small where you can make money quickly, slowly build up funds to pay for development and other startup costs until you can launch your product/service. It takes longer, isn't "sexy", but it gives you complete control over your company and often increases your chances for success. An example of this would be working as a consultant in the area you want to start your business. Work with customers who will eventually be your business' customers. Understand their needs, what their problems are, the value of solving those problems, refine your solution until it is ready for a larger market.

Resources

- IRS Starting a Business: <http://www.irs.gov/businesses/small/article/0,,id=99336,00.html>
- Online Accounting Tools: <http://www.mint.com/> ; <http://outright.com/>
- Bootstrapping & Entrepreneurial Tips: <http://www.sramanamitra.com/2009/01/14/todays-entrepreneurship-webinar/>

MARKETING

Develop Marketing Materials

- Helpful hint - look at your competitor's materials (flyers, business cards, letterhead, etc.) and figure out why they made the choices they did.
- Logo - create a professional logo that projects your business image (don't have images of cute bunnies unless you are selling cute bunnies). Make sure the logo is simple, and has room for expansion. People should be able to look at the logo and within a few seconds recognize it and associate it with your company name. If you end up releasing additional products, you should be able to alter the logo slightly but maintain the same general idea. Eventually products that are successful assume their own logos and names. Hershey's Kiss is a perfect example - nobody needs to know that Hershey makes them anymore, because the "Kiss" icon is so prevalent.
- Business cards - design them for your customer base. If you are selling to 'traditional' businesses, it is best to use a standard size - not those popular half height cards. If you are selling to artsy or media companies, you can be more creative. Ensure that you have a thick, good quality paper that can be written on (not too glossy). Many business people use card scanners, so a plain font with little to no background might be best.
- Stationery - you can print letterhead on your laser or inkjet printer but use good quality paper. Again, design to your customers; don't get too cute if you need to be taken seriously.
- Tagline (e.g. McDonalds uses "I'm lovin' it") - you might want to trademark this at the USPTO.
- Lexicon - use one or two catchwords to get people to remember your product name. "Googled", "Slashdotted", "Dugg", "Twittered". Give people a reason to remember your name. Don't force it though. Build a small community and give them a reason to come back.
- Target your product differently to different groups. Show college students how fun it is, and how it can help them get good grades with little effort. Show businesses how they can make money and be more efficient. Figure out what your targets desire, and promote yourself accordingly.
- You are your company. Be careful what you say and put online. It could come back to haunt you. Example: Everything Mark Zuckerberg says, Facebook says. The higher up (more power) you are in a company, the more true this is.

Offline Marketing

- Social groups form a hierarchy, and there is always an unspoken leader who people listen to. Find this person (or persons) and target your product to them. If you're selling religious books, market to the priests. If you're promoting a new web business, look at the popular blogs (Scoblizer, BoingBoing, etc) and get them to mention it.
- Events to create hype. Either have in house events - social parties with a product debut - or offer to help out with other peoples events. Rather than showing up and soliciting, see if you can offer services (loaning equipment, printing fliers, etc) in exchange for a mention. Hold contests and post regular updates with new giveaways.
- Banking on the social groups, make people feel included. Offer "club" memberships with occasional discounts and special services. When Saturn (car dealership) launched in the mid 90s, they held special events that you could only attend if you owned a Saturn car. It makes people feel wanted, and gives them a reason to talk to one another.
- Trade shows - free stuff. Show up and pass out free things. Stationary, pens, erasers, mousepads, whatever. Something that people will think is useful and won't

throw away immediately. AOL was notorious for their free CD mailouts, but because of that everyone knew who AOL was.

- Mascots - Ronald McDonald, Pillsbury Doughboy, Wal-Mart smiley, etc. Create a persona for your product people can identify with. You can use this mascot on your stuff to make it look friendlier. You can also use mascots to create toy giveaways for kids, which helps create a sense of family.

Social Media Basics

- Positive vs. Negative PR. - "Any publicity is good publicity." If your name or your company's name keeps showing up in the news, people will remember. Scandals can often have very positive effects. People love drama. Twitter and Myspace were both down constantly for the first six months of their existence, and they are now a household name. On the flipside, having a working product is also good. Be able to take any type of PR and spin it to reflect your favor.
- Know what your online presence is - Google yourself, Review your Facebook, LinkedIn, MySpace pages, Check & change your privacy settings
- Ensure your online presence is professional and KEEP IT CLEAN - Pictures of you doing a keg stand at your friend's party may not be what you want potential clients to see
- If you are really worried about your online reputation, look into online reputation management. There are companies which will actually "cleanse" your identity for a fee.

Resources

- Business Card & Print Materials: <http://www.vistaprint.com>
- Social Media: <http://www.facebook.com> ; <http://www.twitter.com> ; <http://www.socialmediaexplorer.com/2009/02/27/5-essential-social-media-strategies-for-a-bad-economy/>
- Website Hosting & Designs: <http://www.squarespace.com> ; <http://www.freecsstemplates.org> ; <http://www.freewpthemes.net>