



# **Business Start-up Preparation and Considerations**

Presentation and Resource List for Engineers Unite

February 16, 2012

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# Business Start-up Preparation and Considerations

- Business life cycle stages – an overview.
- Key questions to answer before investing your money.
- Why is a business plan and financial model so important?
- Assembling a team – Why is it so important? How to start?
- Partial checklist for starting a business.
- Financing: Angel Capital, Venture Capital, Banking/Lending.
- “Building a business” versus licensing your technology/product?
- Some additional resources for Arizona start-up companies.
  
- Questions/discussion?

# Business Lifecycle Stages

- **Conception** – Evaluation of feasibility is *more than product development* (define market needs, commercialization plan, financial viability, needed resources)
- **Start-up** – Initial investment of time and money, validation of Conception analyses, pursuit of key initial technical, marketing and financial milestones. Cash and milestone management go hand in hand.
- **Growth** – Viability has been deemed possible, sales are growing, infrastructure is being assembled (staffing, facilities, customer base, supply chain, etc.). Financing, cash flow management and improving efficiencies are critical.
- **Maturity** - If successful, competition appears. Pricing pressure, technological change, customer retention, cost management and other risks challenge the status quo.

# Key Questions to answer before Investing Your Money (“Viability Screening”)

- What exactly is my product/process/service? (Note: Focus is critical)
- Why is it important and to whom (i.e. potential customers/market)?
- How is it *significantly* advantageous (cost, efficiency, new way to solve a problem, etc.) *and* are those advantages worth paying for?
- Can my product/process/service be protected: (1) legally (patent, trade secret, etc.), (2) “secret recipe” difficult to reverse engineer, (3) barriers to competition, (4) first-to-market with branding?
- What is the commercialization plan, and is it financially viable (see next slide)?
- What are the other risks to my investment (technological advance required, technological obsolescence, reverse engineering by strong competitors, inability to attract sufficient funding, etc.)?
- Have I reviewed answers to the above with trusted advisors (peers, industry experts, patent attorney, financial and marketing consultants)?
- Am I capable of seriously considering advice from others?
- Can I afford to lose most or all of my investment if it doesn’t work out?

# Why is a business plan and financial model so important?

- Requires discipline of examining financial realities of your business.
- Gives your trusted advisors an opportunity to question, critique and challenge your assumptions, and identify potential gaps or weaknesses that need to be addressed.
- Will be a foundation for any fundraising required.
- Gives you a plan against which you can measure your progress (note: plan should cover all key areas/milestones of your proposed business and should include non-financial metrics such as key staffing additions, critical supply chain or customer alliances, technology milestones to be achieved, etc.).
- Examples of planning...or not: (1) Restaurant that never should have opened (back-of-the-envelope review could have saved life savings), (2) Semiconductor materials product line: stopping a \$25 million potential mistake, (3) The \$7 million profit...from cutting prices.

# **Assembling a team**

## **Why is it so important? How to start?**

- Investors rate the quality of the team as high, or higher, than the quality of your product/service idea in their list of reasons to invest or not.
- A diverse and qualified team stands a much better chance of avoiding a critical mistake or omission in building the business.
- You don't have to hire everyone at once, but you do need to cover your bases from early in your business (SBA, SCORE, part-time, pay-by-the-hour, network resources, bankers, and other consultants and professionals can fill gaps as you grow).
- If you are going to be the CEO, "hire" trusted advisors to cover your personal weaknesses and/or areas of little interest.

## Partial checklist for starting a business

- Research industry, target market, competition, factors of success.
- Prepare (and have reviewed) a written business plan with financial projections.
- Locate/retain key advisors.
- Determine form of entity (C Corp, LLC, partnership, proprietorship).
- Determine and comply with registration, filing, permits, naming, tax ID and other administrative requirements.
- Establish banking relationship.
- Establish financing commitment.
- Set up initial infrastructure and support services (computer, software, phone, utilities, payroll service, bookkeeping, CPA, etc.)
- Obtain insurance as appropriate for business.
- Develop understanding of labor regulations and hiring practices and/or engage resources to cover this area if hiring employees.

# Financing: Angel Capital, Venture Capital and Bank Lending

- Angel Capital – Very early stage private investors, usually up to about \$250K (typically groups of wealthy individuals who pool investment funds to support high-risk, high-reward ventures).
- Venture Capital – Next stage private investors, \$500K to \$2+ million, funds who have 3-5 year horizon and look to exit via IPO or sale of business to a larger corporation or investment banking group.
- Bank Lending – Generally requires multi-year history of profitable operation, personal financial statements and guarantees, quarterly reporting of financial results against lending covenants, etc.
- What all parties above expect: They expect you to have skin in the game, a well-rounded, complete and reasonably achievable plan and have a functional team and support system adequate for your stage in the life cycle including appropriate industry, technical and management experience.



# Licensing your technology/product versus “Building a business” or selling patents

Potential reasons to license technology versus “building a business”:

- Your strength and interest is in invention and technology advancement, not running a business.
- Speed to market is important (short commercialization window), and there are large companies ready and willing to produce and market the product/service.
- You can license by geography, niche, etc., for distinct purposes.
- Risk of reverse engineering and/or strong competitors working around patents is high.

Potential reasons to license technology versus selling your patent:

- Retain ownership of intellectual property.

Potential Reasons to license versus either option above:

- Protection against product liability.
- Less capital is required.
- Technology serves as a component of a larger product versus stand alone product.

## Some additional resources for Arizona start-up companies

- Arizona Commerce Authority (ACA) ([www.azcommerce.com](http://www.azcommerce.com)) – Grant programs, loan participation, investor incentives, small business services and programs.
- U.S. Small Business Administration (SBA) ([www.sba.gov](http://www.sba.gov)) – Grants, loans, bonds and other financial assistance. Free, on-line self-paced courses related to starting a business. Business plan templates and other tools. Business counseling, training and connections to local resources.
- SCORE – Non-profit organization comprised of retired executives who serve as consultants and mentors to small businesses. Connect through SBA and/or locate Phoenix chapter.
- Arizona Small Business Development Centers (AZSBDC) ([www.azsbdc.net](http://www.azsbdc.net)) – On line materials for starting and running a small business, free 5,000 page Business Owners Toolkit™ and links to numerous resources.
- Arizona Angels Investor Network ([www.arizonaangels.com](http://www.arizonaangels.com)) – Angel capital.
- Arizona Technology Investor forum ([www.atif-az.org](http://www.atif-az.org)) Angel capital.
- Arizona Corporation Commission ([www.azcc.gov](http://www.azcc.gov)) – Business registration.
- B2B CFO® ([www.b2bcfo.com](http://www.b2bcfo.com)) - Business planning and counseling, part-time CFO services. ([bobbeane@b2bcfo.com](mailto:bobbeane@b2bcfo.com), 480-861-7750).