Startup Strategy Basics

By Sharon Sheridan, Contributing Writer

So, you've built a better "mousetrap," or you've designed an innovative service to assist mousetrap users. Now you want to launch a business to make and sell those mousetraps, or to provide your service to eligible mouse catchers. What steps should you take?

First, you might like to know that the stakes are high. According to the Small Business Administration, "[Only] about half of all new establishments survive five years or more, and about one-third survive 10 years or more."

If you're not disillusioned by this fact, then one of the first steps to take is assessing the market. "That is primary," says Matt Barbieri, partner-in-charge of entrepreneurial services, technology and life science at CPA firm Wiss and Company, LLP. Funding can upgrade your business team, and the best team can upgrade the funding. But, he says, "The whole key is the market. The most money in the world can't change the market.

"The most important thing entrepreneurs need to do is set up a business plan that addresses the real market," Barbieri says. Entrepreneurs should test the market, getting feedback from potential buyers. Then they should develop a business plan and budget to satisfy potential investors.

Having secured that first round of funding, Barbieri cautions, "it's not a lottery. Your goal is to spend that money very wisely.

"That's your showcase for securing additional funding," he explains. "You must live within your budget, set and stick to a timeline of milestones, and keep in touch with investors, including explaining any changes to your plans. They're giving you money that's at risk. The way that you keep them comfortable is by giving them information."

Be organized from the start, he advises. Wiss offers a complete, outsourced accounting department to help entrepreneurs keep track of finances and keep everything in one place. This "avoids early mistakes that can cost you time and money down the road," Barbieri says.

Howard J. Heyman, CPA and partner with ParenteBeard, advises new companies to buy "decent software" to establish all their accounting records properly and, if they have employees, to hire a payroll company.

From the start, it's important for entrepreneurs to "align themselves with some good advisers, both accountants and attorneys," Heyman says. "Then consult with those advisers as to the best type of entity they should be setting up. A

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lot will depend on what their goals are. Are they looking to finance their venture? Are they self-funding? Are they tax-motivated? Are they motivated with an exit strategy? All of those things should be taken into account."

Today, the LLC is "the entity of choice," says Gianfranco Pietrafesa, a partner at the Haddonfield-based law firm of Archer & Greiner. "First, it has limited liability to the owners, just like a corporation. … The liability is limited to whatever he or she invested in the company. Their personal assets are protected."

Second, he says, "There's one level of taxation." A corporation, by contrast, pays corporate taxes. "Then, if it pays dividends or distributions to the shareholders, the shareholders pay taxes on their share.

"What really distinguishes the LLC is the flexibility," he says. One can modify LLC owners' rights and obligations contractually, he explains. "If you have an LLC and you want it structured like a corporation with a board of directors and officers, you can do that. If you want to have different types of ownership units, shares that have different economic terms, you can very easily do that."

Having chosen an entity, Heyman says the next steps would be determining the business name (which may first necessitate a name search), incorporating and setting up the entity, obtaining tax ID numbers, registering with the state where you're doing business and getting any required local business licenses and permits. While some people try to incorporate on their own, "usually, I advise [clients] to use an attorney. That's part of aligning yourself with good advisers," he says.

It's easy to set up a company online, but many people "don't do the next few steps that are important," Pietrafesa says. For a corporation, that means holding an organizational meeting, adopting bylaws, issuing stocks, appointing officers and directors. An LLC with two or more owners needs a written operating agreement, addressing issues such as what happens if an owner dies, is disabled or leaves. "It's like a pre-nup agreement," Pietrafesa says.

Pietrafesa conducts seminars that include instruction on avoiding common startup-company errors. Common mistakes, he says, include: not having an owners' agreement; not classifying workers properly; not having written contracts with customers and vendors; and failing to protect intellectual property. "We tell them to have employee handbooks with information about maintaining confidentiality of business information and preventing solicitation of your customers after employees leave your employment."

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Some common mistakes, such as setting up the wrong entity or not establishing a proper accounting system from the beginning, stem from "just not having the right planning," Heyman says. When helping clients start a new business, "we usually stay fairly involved," he says. "We become trusted advisers. … We encourage our clients to keep us in the loop on decisions." NJB