How to Start Up a Start-up

By Wendy Smith

So you want to start up a business, but have cold feet due to the current market, and wonder if you're ready. Since the Internet bubble burst in April, the illusion that there is a get rich quick business out there has evaporated into cyberspace.

Define the scale of the business... determine the amount of capital needed...decide how much of your capital will be equity versus debt.

According to Larry Simpson, partner in Ennovasion, former CEO and co-founder of Web PRN, who has raised over five million dollars in capital, there is no replacement for the tried and true business model (i.e. "pre-Internet") where you first do (yes, alas) your business plan, then debug it by going out and testing it to ensure that you have sufficient feedback from investors and customers to verify that your plan is good.

One of the first steps in financing any venture for Paul Wetenhall, venture coach for the Technology Incubator at High Technology of Rochester, is to define the scale of the business. Is it a family run pizza parlor or a high-end technology company? After answering that question, you'll need to know how rapidly to grow your business. This leads directly into the third step, which is to determine the amount of capital needed for your business. You'll then need to decide how "bankable" you are, i.e., how much of your capital will be equity versus debt. The answers to these key questions will determine how much money you need to raise.

Larry Simpson, partner in Ennovasion, former CEO and co-founder of Web PRN.

Once you've decided how much money you need, you then decide how much of this can come from you, close friends, and family. Most businesses need some initial funds from these sources, since it is very unlikely that someone unknown to you will give you money. Finally, you will need to decide where you will go to get your investors. If you look at equity investment like rings in a concentric circle, *you* fill the first circle (your own money), then the next two rings are occupied by your family, then your friends. In the fourth ring out, are "angel investors", who are wealthy investors interested in investing their own money in the early stages of a business, each angel investing anywhere from $25,000-$500,000.

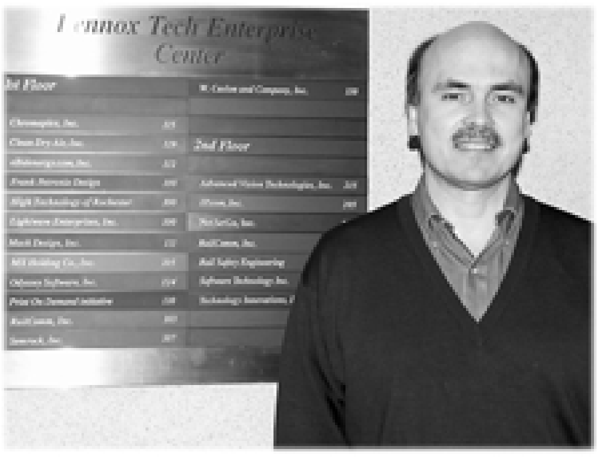
Once you find investors, you need to let them know that you recognize and plan to achieve liquidity, i.e. when they will get their money back and how much of a return they will receive. To their question, "what's on the horizon?" venture capitalists will apply their own filters, according to Larry Simpson. When and how much you intend to return on their investment, may not coincide with when and how much your investors are expecting. "These investors will expect to make at least ten times their original investment on those companies that do have a successful liquidity event."

Wetenhall offered some final tips on raising capital. First of all, know the legal issues involved, especially the security law issue, and the limits on the number of shareholders. In three words, *get a lawyer.* Tip two concerns valuation - know how much value of the business you're giving up when you increase the number of its shares. Thirdly, decide from the get-go if you have a co-investor, what you will do if he/she becomes a problem (and wants to buy you out, for example). Fourthly, you need to decide what type of organization you will form, since it influences both how you will raise your capital and what your tax structure will be. Will you incorporate, form a limited liability, or a partnership? Mr. Wetenhall warns that you should never assume someone you don't know will give you money and never assume you'll be successful just because you have a good idea.

For Larry Simpson of Ennovasion, there are also five key ingredients you must possess in order to attract investors to your business:

- an experienced management team
- a prototype product or service
- established, early ("alpha") customers
- financials that make sense i.e. prove you can sell your product for less than it takes to make it. Here is where a good business plan is key.
- prove your idea is viable vis-à-vis the competition. You need to prove your competitive advantage.

Despite the fact that there is less funding these days, Simpson believes you *can* start a business provided you have a structured approach, a good idea, and experience. A question one might ask is, how do you meet these venture capitalists? Simpson says you will need an introduction, either from a legal or accounting firm, or your own contacts in the business world. Wetenhall indicates that there are various resources on his Website www.htr.org.



Paul Wettenhall, venture coach for the Technology Incubator at High Technology of Rochester.