



# The Life Cycle of the Entrepreneur in Today's Economy

## The Inception: Starting Your Company

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## Starting Your Company



- What does it take to start a company?
- How do you know if you have the personality, risk tolerance, vision, leadership skills and other intangibles it takes to be an entrepreneur?

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## “What It Takes” to be a Successful Entrepreneur



- Tolerate high risk
- 12-14 hours a day
- Personal funds at risk
- Making enemies
- Willingness to change strategy
- Can you close a deal?

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3

## Intangibles of an Entrepreneur



- Entrepreneurs are two types:
  - Innovations
  - Lifestyle
- Young: Bill Gates, Steve Jobs, Michael Dell
- Mature:

Harland Sanders (65)	Kentucky Fried Chicken
Gary Burrell (52)	Garmin
Herb Kelleher (40)	Southwest Airlines

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4

## Is It A Good Idea?



- How do you know if you have an idea that can become a business?
- Are customers ready for your idea?
- Are investors ready?
- What's in your business plan?

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5

## Identifying an Opportunity



- **What is an opportunity:**
  - Greater value for customer
  - Offers profit potential
  - Matches skills level of management team
  - Is durable
  - Amenable to financing
- **How to find an opportunity:**
  - New knowledge and technology change
  - Regulatory change
  - Social turmoil
  - Changing tastes
  - Under the radar

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6

## How To Build Your Team



- How do you assemble your management team?
- How do you define their roles and value their contributions when dividing initial ownership?
- How do you incentivize the team at a time when you have few resources?

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7

## The Right Team

SAGE COUNSEL CRITICAL AT ALL STAGES



ADVISORS CAN FACILITATE EVEN THE EARLIEST STEPS

- **FIND ADVISORS THROUGH:**
  - Personal networks
  - Current advisors
  - Professional associations
- **LIKELY MEMBERS OF “THE RIGHT TEAM”**
  - Directors
  - Attorney
  - Accountant
  - Business Valuation Specialist
  - Investment banker or business broker
  - Wealth Manager

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8

## From 0 to something.....



1. People
2. Idea
3. Market need
4. Product

.....to financing

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9

## #1 – hardware/software product for engineers



### From 0 to something

- |  |   |
|--|---|
| <ol style="list-style-type: none"> <li>1. People</li> <li>2. Idea</li> <li>3. Market need</li> <li>4. Product</li> <li>5. Financing</li> </ol> | <p>1 engineer, some advisers, MIT VMS</p> <p>Lived the pain – “I can build a better solution”. Faster, better</p> <p>Rough prototype w/two prospects; \$0 sales</p> <p>Early code; lots to be built</p> <p>Founders own \$/ no salary</p> |
|--|---|

~ 12 months

### Financing

1. Technology & approach was very unique
  2. Lots of uncertainty about the market, but interviews suggested could be a valuable tool
  3. Team needed a business person
1. Seed financing to:
- Hire engineers
  - Build product
  - Validate w/3 – 5 customers

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10

## #2 – consumer online service for backup



### From 0 to something

1. People 2 very experienced, successful founders
2. Idea Daughter had lost data on her PC
3. Market need Hired consulting firm – survey consumers, review competition Partnership with retailer
4. Product Tried various approaches; settled on V1 backup for photos at an affordable price
5. Financing Founders own \$

~ 9 months

### Financing

1. Experienced team
2. Problem we could all relate to
  - Big market opportunity....but would need lots of \$\$
1. \$ to test:
  1. What is the right product?
  2. How do we best market & sell?
  3. Early

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11

## #3 – digital media – online tech news & events



### From 0 to something

1. People 3 founders with one primary founder (1<sup>st</sup> time), advisers
2. Idea Came from publishing industry & felt there was a gap in the market for local tech news
3. Market need Pre sold 3 sponsorships Signed up 30 content contributors
4. Product Daily online news on local tech – but not launched
5. Financing Family & friends \$

~ 12 months

### Financing

1. Great team, new CEO
2. Agreed gap in local market; news moving online
3. Capital efficient
1. \$ to test :
  - Produce good content?
  - Attract an audience
  - Generate revenue (sources?)
  - Replicate in another city?

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12

## #4 – online media/behavioral targeting



### From 0 to something

- |                |   |
|----------------|---|
| 1. People      | 5 founders; 1 success   |
| 2. Idea        | If you know what consumers own = better targeted advertising  |
| 3. Market need | 100M searches user manuals<br>Low cost test site & SEM<br>- Validated audience<br>- Benchmarks for COA & registration |
| 4. Product     |   |
| 5. Financing   | Founders own \$   |

~ 6 months

### Financing

1. Close to full team; experienced
  2. Agreed with core premise on ownership information
- 
1. Validated audience & cost.....but could they sell advertising campaigns?
- 
1. Seed financing to:
    - Ramp operations
    - Early sales to validate concept

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13

## Finding the money!



- Do you use your own money?
- What are the different sources of funding?
- What is the right type of investor for your company?
- How do you find potential investors?
- Are there some investors who bring more than money to the table?

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14

## Finding the Money



- Credit cards account for much of the growth in small business lending over the past few years
- Nearly 75% of most firms startup capital is made up of equal parts owner equity and bank loans and/or credit card debt.
- “Vast majority of money comes from personal debt or from the “Fs”
  - Friends
  - Families
  - Fools
- Commercial banks are the largest lenders of debt capital to small businesses

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15

## Finding the Money



- **Banks: Commercial Banks**
  - Short term demand loans
  - Seasonal line of credit
  - Single purpose for machinery equipment
- **Source of Funds**
  - Personal savings
  - Credit card lines
  - 2nd mortgage
  - Loans from friends and relatives
  - Trade credit from suppliers

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16



## Valuing Your Company



- How do you value your start-up?
- How do you negotiate valuation with prospective investors?

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17

## How to Value a Start Up



- Multiple of
  - Revenue / Sales
  - EBITDA
  - Net Income
- Growth
- Professional Appraisal
- Internet
  - Unique visitors or “hits”

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18

## Small Business Resources



- Entrepreneur's Tool Kit: Tools and Techniques to Launch and Grow your New Business *Harvard Business Essentials* Copyright 2005
- *Harvard Business Review on Entrepreneurship* Copyright 1999
- The Small Business Start-up Guide *Hal Root & Steve Koeng* 4th Edition Copyright 2006
- Ewing Marion Kauffman Foundation: ([www.kauffman.org](http://www.kauffman.org)) 2.1 billion in assets
- "A Special Report on Entrepreneurship" *The Economist* March 14th 2009

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19

## What's Next?



### **The Emergence: Growing Your Company**

Tuesday, June 23, 2009

BNY Mellon Wealth Management's Boston Office

### **The Payoff: Selling Your Company**

Tuesday, September 22, 2009

BNY Mellon Wealth Management's Boston Office

### **The Life After: Post-Sale Considerations**

Thursday, November 5, 2009

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20