# THE STARTUP CLUB GUIDEBOOK

How to Start and Grow Your Business

By

## THE STARTUP CLUB

*of*

SAN ANTONIO

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# ABOUT THE STARTUP CLUB

Ready to start and grow your business?  Welcome to THE STARTUP CLUB, you've come to the right place.  This book is PACKED full of information to help you take your business idea from a startup to an empire.

A word about us: THE STARTUP CLUB can be hard to explain - We're an education site… but not just any education site; we're San Antonio's #1 small business resource, publishing tons of content… for free. We're also a networking site but not just any networking site; we are a community of like-minded individuals all walking the same path toward financial independence together, helping one another along the way. We're a marketplace, where professional services and books are offered at great prices. We also have a collection of tools designed to help you make the best business investment decisions with ease.

THE STARTUP CLUB is a lot of different wonderful things to a lot of different amazing people, but most of all - it's a journey toward financial freedom.  Won't you join us on the journey? Sign up for free and discover what The Club means to you.

# INTRODUCTION

*"Remember to dream big, think long-term, underacheive on a daily basis, and take baby steps. That is the key to long-term success."* – Robert Kiyosaki, Author of *Rich Dad, Poor Dad* (Net worth $80 million)

With this book you will learn the “secrets” of successful entrepreneurship that will help turn your dream into a full blown reality. Over the years, we’ve witnessed this paradox manifest itself with entrepreneurs who turned small ideas into global businesses. These small business owners turned CEOs come from all walks of life, with varying levels of education and expertise. These dreamers who have launched amazing companies (many of whom are featured in this book) took different paths, but all landed at the same place: the top. How did they do it? Simply put, they found the recipe for success: a combination of inspired action, hard work, and calculated risk. They discovered the “secrets” and so can you.

If you are reading this, you’re thinking about taking the leap into business ownership. Maybe you have a corporate job with perks and benefits. Maybe you have a young family. Maybe you have student debt. Or maybe you can’t find a job that fits you. Whatever it is, perhaps you’re hesitating because you’re not sure *how* to do it. You can envision your product (or service) sitting on store shelves, floating on a mobile phone screen, sitting on a plate, or in people’s homes and offices all over the world. But you’re just not sure how to get there. If this is you, we welcome you to THE STARTUP CLUB. Many of our members are further along than you, some are not quite where you are, but all of us are with you. This book will help you connect point A to point B and together we will walk through the crucial stages of taking your startup idea to empire.

# CHAPTER 1: THE IDEA

*"We couldn't sleep, because we thought it was such a good idea."* – Neil Blumenthal, co-founder of Warby Parker, (Now valued at $1.75 billion)

If you're here, you might already have a brilliant idea for a business. If so, that's great! So should you skip this chapter? Sure, you can. I can't stop you. Think of this book like a buffet of ideas; you can always come back for more. Some of the content may not be relevant to you, some of it may have already been accomplished, and some things you may not be ready for, or quite understand yet. That's ok! (The great thing about the Club is that you can always ask questions) However keep in mind that this book builds on itself, and this chapter is the foundation. So stick around, and let's talk about the fundamentals. It all starts with an idea.

A startup idea can come from anywhere, but the best ones emerge from "pain points." Pain points are themes or problems from your daily life. They are inefficiencies in the status quo, and you have probably encountered many of these in your lifetime, but just never noticed. Take for example Spanx underwear. Sara Blakely, the inventor of Spanx underwear, said:

*"I spent all my hard-earned money on this one pair of white pants that hung there, and I decided to cut the feet out of control top pantyhose one day, and I threw them on under my white pants, and went to the party. I looked fabulous, I felt great, I had no panty lines, I looked thinner and smoother… and I remember thinking, 'this should exist for women."*

The pain point in Sara Blakely's life was that she had two options, choose a different pair of pants, or tolerate panty lines because that was the status quo. How many people put on clothes and hated the way it looked, but did nothing about it? She recognized this pain point and

decided to solve the problem.  (Her net worth is now valued at over $1 billion, and rising.)

Recognizing that a pain point exists in your life is the best motivation for starting a company. Why?  Because starting a company is not easy.  It will require a lot of hard work and concentration.  Both of which are much easier when you have a personal connection to the purpose of the business.

*"The advice I have or entrepreneurs is… number one, you need to solve a real problem. I look for those problems in my own life.  Mint was because I had a challenge managing my own finances using Quicken and Microsoft Money.  So I built it for myself."* – Aaron Patzer, founder of Mint.com.  (Which he later sold for $170 million.)

If you are experiencing a pain point, chances are, other people are too. Look for those suffering the same thing because they're called your customers.

The first few months or years of running a business are notoriously difficult. You will likely find yourself wondering if you made the right call. Especially if you left a well-paying job or are sacrificing time with your family to pursue your dream. The desire to make money alone may not be enough to carry you through the first several years. But if you find the right pain point, and start with the right idea, something that excites you to get out of bed every morning, then you stand a fighting chance.
So many newbies give up too soon. Most successful entrepreneurs will tell you it takes at least three years for your startup to gain real traction. Set out to solve a problem that you are passionate about, and it will give you the drive to stick it out.

You may think to yourself, "Someone else is already doing this." And you're probably right. Almost everything has already been done before, and almost every idea is already out there. But that shouldn't stop you. A defining factor in your success is the way you implement your idea, how you execute your plan, and how you position your company. Many billion dollar companies began as tweaks to other ideas. Look at Facebook for example. It was far from the first social network: there was Friendster, SixDegrees, Myspace, VirginStudent, and others. What made them successful wasn't the idea, but the way they presented it. Tell yourself, the world NEEDS your business. There is always room for your company in the marketplace.

Once you have developed your idea, the next step is to get feedback. The best way to fine-tune your idea is to get outside perspectives. Some of the best sources of feedback include:

- Friends and Family
- Classmates or Teachers
- Co-workers
- Members of networking groups (like THE STARTUP CLUB)
- & Potential Customers

*"For several years, I worked closely with a brilliant inventor named Natan Parsons, who had almost a hundred patents under his belt and invented the mechanism behind automatic flush toilets. He would always solicit feedback about products he had in the works from prospective customers. He'd tell people what he was doing, but not how--and it was the "how" that he patented. Remember, if sharing your idea gives away all its value, it's probably not a defensible idea to begin with."* – Robert Glazer, the serial entrepreneur behind Acceleration Partners. (Acceleration Partners generates ~$8.7 million in annual revenue.)

**Patents, Copyrights, and Trademarks**

When you are considering launching a new product or service--especially if there is nothing like it on the market--it is important to get feedback from potential customers in order to gauge their reaction and see if it suits their needs. Don't be afraid to share your idea. It is far better to get valuable advice on how to improve your idea than it is to operate in stealth mode. You may think you need a patent, but experts say your limited resources are better spent on developing your business. Patents can be great for companies (investors may insist on them) because they give you some legal standing, but when you're starting out, there are more important steps. The truth is, in order to defend a patent you would need large sums of money to litigate and retain a qualified law firm. Instead, focus on launching and creating revenue. Fend off competitors by creating better products, smarter marketing, better pricing, or higher customer service not spending time and money building legal walls around you.

You have up to one year after launching your product or service to file a patent. You can also file a provisional patent to claim your invention and have the option to file a patent later. Bottom line, you don't have to do this alone.

Copyrights are the same story, but for creative works like writing, video, and music. Having a copyright is great, but it takes several months for the U.S. Copyright Office to review your work and give you a decision. Ultimately, even if they do decide to register your work, there is little that can be done from stopping imitators from slightly changing your words and republishing on their website as their own. Having the ability

to scour the internet for copy-cats and then pursue legal action against them is most likely outside your budget when you're just starting out. So it is up to you to make the decision: Is a copyright worth the trouble for blog content? Probably not. Is it worth the effort for a book or other art work? Maybe. Sometimes your publisher or "label" will have copyright protections in place and will provide you with rights and safeguarding. If you're on your own, you can publish through Amazon or direct through your website and forego the copyright. Keep in mind, it is always illegal to copy someone else's work, with or without copyright, and filing for a copyright does not guarantee you'll get one.

Trademarks on the other hand, are fairly easy to get. You can apply for your logo and name to be trademarked, which will prevent anyone from using that exact logo and name for that particular line of work. Keep in mind that reserving your business name with your State does essentially the same thing, and so the Trademark may be redundant effort. A cheap and easy way to file for your Trademark is through LegalZoom.

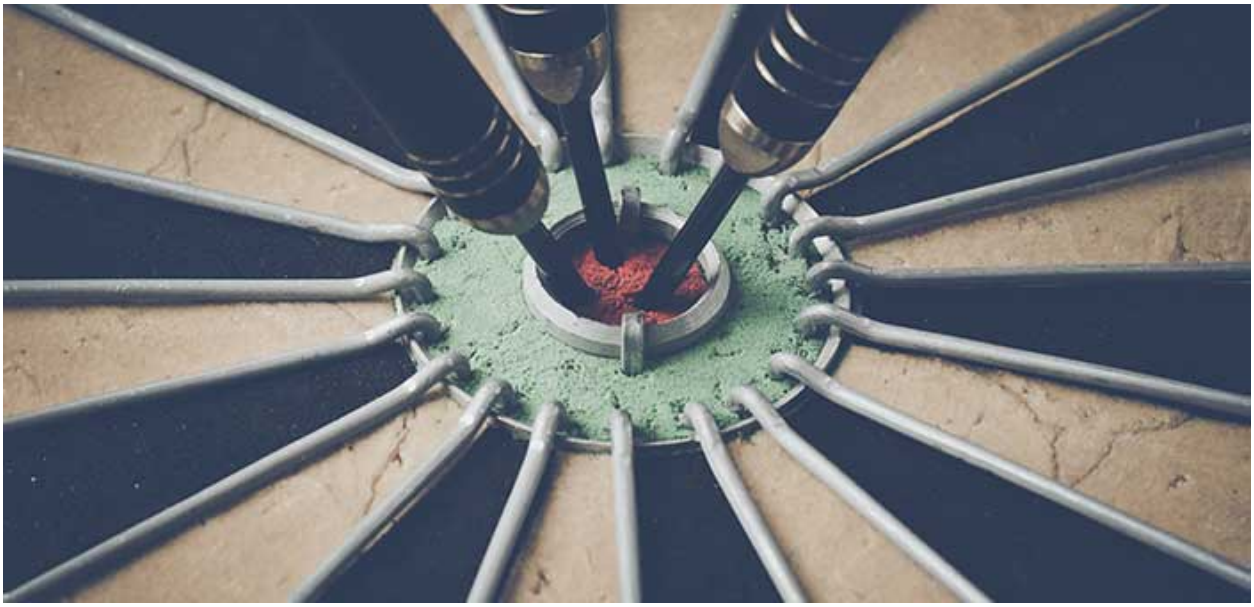
## Build a Team of Advisors

It is never too early in your entrepreneurial journey to surround yourself with good people. Dave Ramsey (whose net worth is now $55 million) once said, *"Surround yourself with people who add the fuel of advice and encouragement to your fire."* Starting a business can be lonely, so surround yourself with people who have the same goals who can give you support and accountability. Antonio Neves, a leadership speaker, recommends that new entrepreneurs build a "personal board of advisors." This can be a small group of experts that help guide your

decision making and provide important feedback and advice. To choose them he recommends listing the areas that you will need help with; maybe that's fundraising, marketing, design, accounting, or some other area of weakness. Whatever gaps you need to fill, one way you can find someone to help is to join the San Antonio Startup Club. At the Club you'll find guidance, connection, and encouragement. Whether you need feedback on an idea, solutions to a problems, advice or a referral there are amazing and trustworthy small business owners right here in San Antonio. They can help you, and you can do the same for them. We're in this together.

Other ways of finding advisors are through your family, Facebook, LinkedIn, college, or church. There are tons of ways to find a team to inspire and motivate you. Just be sure to thank them and recognize the value they bring to your business.

## Next, Gather Information on Your Target Market



Whether your product or service is a niche item or is intended to help everyone, you need to know what makes your market tick. Understanding your target audience is the best way to know if there is potential demand for your idea. Big companies spend millions on market research to determine whether it would be worthwhile to launch a new product or service. Luckily for you, it does not have to take a big budget to know your customer. There are many ways you can learn who your customer is, what they want, and how many potential customers there are. Here are some good places to start:

**Crowdfunding Sites**

Though we will cover more on funding in Chapter 3, crowdfunding is also a way to gauge interest in your product or service.

**Social Media**

Try asking questions to your potential market by finding Facebook groups, Meetup, Twitter or LinkedIn. San Antonio garage sale Facebook groups for example, are great places to start. You may receive some biased feedback through these sources but it's a good way to measure engagement.

**Surveys**

Tools like SurveyMonkey or mailers can be used to gather research from a focus group. Try to start small. Ask your office (or one nearby) or local school if they are willing to respond to a written or

online survey. You don't need many people to give you a general idea which direction to go.

**Events**

One of the best ways to conduct market research is at industry events or conferences. These venues are a great place to meet face to face with your future customers. Expos are not only a place for new ideas to collide, it is also a place to survey what is new to the market, or in development.

However you research your market, be sure to document what you find. Every customer input, whether email, in person, or through a survey is important. Capture them and study them. Get to know your customer, what are their habits, lifestyles, and pain points.

## Refine Your Elevator Pitch

The next step is to summarize your idea. Create an "elevator pitch" to describe your company. This should be a short and sweet, under 30 seconds, spiel about who you are, what problem you're trying to solve, and how your solution will fix it. This is known as an elevator pitch because of an old adage. Imagine finding yourself in an elevator and a customer or CEO of some big investment bank steps in to ride with you. This is your shot, you may only have one. How would you convince this person to take an interest in your company in just the 30 seconds it takes to ride the elevator to your floor? Though the elevator scenario may never happen, there will be thousands of opportunities to tell people

about your business. Represent your business well by having a practiced and refined "pitch" prepared and ready to go at all times.

## Analyze Your Competition

A competitive advantage is defined as something that sets your company apart from everyone else--a unique strength that allows your business to gain more customers and sell more than your rivals. Finding your competitive advantage can be the difference between success and failure.

In order to find your "special sauce" you need to scout your competition. Especially if you are entering a market that has many big players already operating. What are they doing or not doing that you could capitalize on? Can you beat their price, their quality, their distribution, customer service, or strategic relationships?

Jim Koch, the founder of Boston Beer Co., once said, *"In business, you have only two ways of surviving: either your product is better than your competitors'; or its cheaper. There's simply no other foundation on which to build a successful business. None. Better or cheaper, take your pick."* (The Boston Beer Company now has a $1.9 billion market cap.)

Remember a good way to find your competitive edge is to survey your potential customers. What do they wish your competitors did, watch how they navigate the competitor's store, read their reviews of your competitors' products or website.

Michael E. Porter, the famous Harvard economist and author of the book *Competitive Strategy*, described the "five forces" that shape every industry. Knowing these five forces can help you discover your competitive edge:

1. **Threat of New Entrants.** Sometimes referred to as a "moat," barriers of entry surround every industry. Some industries are easy to penetrate, like the lemonade industry: anyone can sell lemonade on the side of the road, you just need to build a stand and squeeze some lemons. Other industries are harder to break into, like cell phone carriers: you need enough money to launch or rent a satellite and receive authorization to transmit signal frequencies over the air. How easily can competitors enter your industry?
2. **Threat of Substitute Products or Services.** How easily can someone copy your product, or create another option for customers? If you sell wooden tables, you should worry about metal and plastic tables.
3. **Bargaining Power of Customers.** How much room is there to lower pricing? Are materials expensive? Is time your biggest cost?
4. **Bargaining Power of Suppliers.** Do you have options when it comes to suppliers, or is there only one? They have a lot of power to set your prices if they are your sole source, or if they have lots of other customers and they don't need your business.
5. **Competition Intensity.** How fierce is your competition? Do they actively try to crush each other, or do they operate in peace? Some industries eat their young.

Which of these five forces play to your strengths? Which to your weaknesses? In an interview with *Inc.* Porter listed three strategies for achieving a competitive advantage:

1. **Lower Your Costs.**
   You can be cheaper, so long as your quality remains acceptable.

2. **Be Different.**
   Whether it's a superior brand name, better color, or sleeker design you can simply be different from the competition. As long as costs are under control, you can command a more premium price for small differences. Take regular chips vs Pringles; same basic taste, just a different shaped chip, or packaging.
3. **Be Focused.**
   Maybe your competition is doing too much. For example: Raising Cane's only sells chicken, they focus on making that one product great, while their competition tries to do it all. McDonald's sells egg sandwiches, burgers, chicken nuggets, shakes, salads, wraps, and barbecue.

Plan your competitive advantage early, so you can build your marketing around it. However you choose to be different, commit to it. Jack Welch, the former CEO of General Electric, said, *"If you don't have a competitive advantage, don't compete."* (Welch's net worth is $720 million)

## Face Your Fears

As an entrepreneur, you should not fear failure. Daymond John, founder of Fubu and star of *Shark Tank*, says *"I spot winners by looking for somebody who went out and tried a business by him or herself and maybe failed several times, but still has that determination, that love, and that passion for the company. It's very important to me that somebody has failed."* (Daymond John's net worth is $250 million)

In the startup world, *failure* is almost always synonymous with *learning*. Successful entrepreneurs everywhere say not to fear failure but to embrace it. In the book *Happy Accidents*, Morton Meyers says failure is the foundation to innovation. Without mistakes we wouldn't have penicillin, smallpox vaccine, pacemakers, Viagra, and many other medical innovations. Failure is simply a departure from expectations. A famous failure, Thomas Edison, said "Many of life's failures are people who did not realize how close they were to success when they gave up." Do not let the fear of failure, keep you from accomplishing your dreams. Fail fast, and often, but never give up.

# CHAPTER 2: THE STRATEGY

*"A good mission statement becomes an out-of-bounds marker for your ideas. If your company builds lawn mowers, then is interior design really a good thought? Be real with yourself. Examine why you started the business, and don't set yourself up for failure."* – Dave Ramsey

It is time to take your ideas out of your head and onto paper (or online document). The next step in your entrepreneurial journey is to write a business plan. What is a business plan? A business plan is a document that describes your concept, outlines your goals, and maps out your strategy to turn your idea into a successful business. Ellen Rohr, the founder of Bare Bones Biz says, "The primary purpose of a business plan is to help you gain clarity and hold yourself accountable for moving in the direction of what you want."

Here are five reasons why you need a business plan:

1. A plan helps you avoid mistakes.

Organizations fail because they lack clear goals and focus. They run down rabbit trails and run out of capital or take on the wrong partners. They ignore their mission statement. Any long-term successful organization will have a rock-solid vision—clearly spelled out in the mission statement.

2. A plan takes the emotion out of it.

There are so many emotions when you set out to start a business. At first you are crazy passionate, to the point you lose touch with reality. Then comes overwhelming fear, doubt, and exhaustion. When emotions flare, a business plan helps you come back down to earth and look at things objectively. It reminds you what you are doing and why.

3. A plan puts everyone on the same page.

Whether you have mentors, partners, employees, or investors sharing your plan on paper keeps everyone informed and headed in the right direction. Having a clear plan is just good leadership.

4. A plan will help you execute.

When you have a solid plan in place, you are able to establish goals, measure performance, identify questions or concerns, and set your priorities. It will become your game plan.

5. A plan will help you raise money.

If you plan to raise capital or borrow money you will need to communicate your ideas on paper, in a clear and compelling way. Whether you are asking friends and family for money or bankers and venture capitalists, having a written plan will help you show whether or not your business has the potential to make a profit. By putting statistics, facts, figures and detailed plans in writing, a new business has a better chance of attracting investors.

## So how do you write a business plan?

As a Startup Club Member, you have free access to a great business plan template. It will lay out the blueprint of a good plan and help you navigate each section to make your business plan look professional and presentable to lenders, partners and investors. Check it out: here.

A business plan is typically thirty pages long and is never quite finished. It is a living document, which means you are always reviewing, revising, and updating it as you grow your business and your plan evolves. In his book, Thou Shalt Prosper, Daniel Lapin says, "*To begin a software design project or a business plan, you must focus on your ultimate goal. You must then break down that goal into intermediate phases, ensuring that each phase links seamlessly with those around it. Then, you need to break down each phase into specific tasks, each of which can be tackled without any distraction from the bigger picture. At regular intervals, you should glance up at the bigger picture to make certain that you are still on course.*"

Stuck on your plan?  That's ok.  Join THE STARTUP CLUB, our growing community of business owners are always happy to help.

## Next Step: Paperwork

The stack of administrative paperwork that comes with the process of starting a business can be overwhelming.  But don't worry! We're here to help.  All of the below documents can be accessed on THE STARTUP CLUB website, under Tools.  Let's get started with the basics.

1. First things, first: Pick a Name.

It's time to choose a name for your business. A great way to do this is to sit down with a cup of coffee and brainstorm. Your company name should convey who your business is, what it does, and stick in customers' minds. However, if you just aren't able to come up with anything now, don't let it stop you from continuing onto the next steps. Keep in mind that you may want to sell the business someday or expand, so avoid naming it after yourself, or your region (i.e. Alamo Ranch Furniture). You can always change your company name later, or operate under a different name with a Doing Business As (DBA).

2. Get your Employer Identification Number (EIN)

An EIN is a federal tax identification number to ID your business with the IRS. Having an EIN is required for LLC's, partnerships, and corporations but even sole-proprietorships should consider getting one. Having an EIN is free, and only takes a few minutes to get. An EIN keeps you from having to use your Social Security Number on forms.

3. Get a business bank account.

You absolutely should keep your business finances separate from your personal finances. Not keeping your money separate is one of the fastest ways to get into trouble. Not only will it make your business accounting very difficult, it can also forfeit your liability protection, as it will void your corporate veil. So open a business account using your EIN. It is free at most banks, and will help to give your business credibility when you have company checks, debit card, and account to give to vendors

and customers. Select a bank or credit union that is convenient for you, and is also a local or regional bank. As you'll see in Chapter 3, getting financing from smaller banks is considerably easier, and having a banking relationship with them early will help establish a track record with them.

4. Get a certificate of resale.

Also known as a seller's permit, a certificate or resale will allow you to collect state and local taxes on sales. You will need this permit if you plan to sell products or some types of services. You can access more information: here. For your convenience, THE STARTUP CLUB has an application for a San Antonio certificate of resale: here.

5. Obtain a business license, permits, and other documentation for San Antonio.

THE STARTUP CLUB has all the forms you need to get your paperwork, permits, and licenses in order with the City of San Antonio, for free here. Check out our e-Coaching for step by step guides on how to fill out and file, or visit your local administrative office.

6. Set up an accounting spreadsheet

Until you have sales, a simple accounting worksheet will be all you need to forecast costs, and budget for your business. Filling out this spreadsheet will help you become well acquainted with your numbers, before you start relying on software like Quicken or FreshBooks. These tools are great at tracking expenses, mileage, and payroll but forecasting

your sales, expenses, and making those work within your personal income will be your responsibility. To help you really get to know your numbers, THE STARTUP CLUB has a Pro-Forma Net worth Spreadsheet that will help you track your personal balance sheet and income statements, while also tracking your net worth.

7. Register for a DUNS number

A Dun and Bradstreet or DUNS number is a unique 9 digit number assigned to each of your business locations and does two things: 1. It is required for business with the SBA, or bidding on Federal government contracts and grants. 2. It is the number that tracks your business' credit score. The sooner you get a DUNS number, the sooner your business' credit history can begin. The best way to get a DUNS number is to register for System for Award Management (SAM) at sam.gov. This will kill two birds with one stone, as you will also gain a CAGE code that is necessary for payments through Wide Area Workflow (WAWF). For Startup Club members we have a walk-thru video that will show you step by step how to navigate the SAM registration and explain things like NAICS codes, entity representations and certifications.

8. Choose a Legal Structure

The next step is to choose your legal structure. One of the most important choices you will make when forming your new business is which legal structure to choose from. Also called a business ownership structure or business form, your choices include LLCs, partnerships, sole

proprietorships, corporations, and non-profits.  We'll cover sole proprietorships, LLC's, and corporations in greater detail.


**Sole Proprietorship**

What we see most often from newbies, is that they think starting a business is something very formal or regulated.  The truth is you can officially start a business by doing nothing.  If you got out of bed tomorrow and said alright I'm now a business, by default you become a sole proprietorship.  The startup's income would be reported on your taxes as your personal income, and legally speaking, you're in business.

However, as easy as that sounds, there are drawbacks to being a sole proprietorship.  For starters, you have unlimited liability for your business debt.  This means you are personally liable for any deals gone bad, lawsuits, and mistakes.  Even though you can setup agreements to limit your partners or employees individual authority, if anything

happens you will still be held accountable. This means, you could not only lose the company, but also everything you own.

Other options for legal structure include Limited Liability Company or a corporation. These options limit your liability to just the investments you make into the company, but also come with drawbacks of their own including different tax rules.

Partnerships are nearly identical to sole proprietorships, except there are two or more people sharing the profits. For more info, check out the book *LLC's for Dummies*.

**Limited Liability Companies (LLC's)**

An LLC combines the tax benefits of a sole-proprietorship and the legal protection of a corporation. Most states did not adopt LLC's until the mid-1990's but since then they have become a favorite because of their flexibility.
An LLC is a pass-through entity, which means that the profits, losses, credits and deductions flow through to the owners' (called members) tax returns. The members of an LLC can be a single person, 2 or more individuals, corporations, partnerships, trusts, or other LLC's. Members can use losses to offset other income, but only up to the "basis" which is the amount the member is invested. However, unlike a Corporation, the LLC can decide how income and losses are distributed to its members. As an example, one member can take all of the losses but then distribute profits to all members based on their ownership interest. This provides some interesting liability strategies (more on that in our blogs and other books).

**Several cautionary notes:**

LLC members cannot separate income earned and passive investment income, so the LLC's profits are subject to Social Security and Medicare taxes on top of income taxes.

Liability protection is not absolute. Creditors may be able to "pierce the corporate veil." The "veil" being the legal distinction between two entities. It's called a veil because it is an imaginary separation between you and your business. A judge may rule to pierce the veil in cases of fraud, failing to follow legal and reporting requirements, and when entities are too intertwined. Luckily all of these are avoidable, and we'll talk about intertwining in the money chapter.

*How to file an LLC*

After choosing your name, you must file articles of organization with the state of Texas. THE STARTUP CLUB has provided a template articles of organization to use: here. Next, you must create an Operating Agreement. Though not required by law, an Operating Agreement defines the by-laws of the LLC, stating the basic rights and responsibilities of the LLC's members. This is crucial because it will be the document the judge relies most on in a trial. THE STARTUP CLUB has also provided an excellent template and example of an Operating Agreement: here.

## C Corporation

A C Corporation is the most basic form of an American corporation. A corporation is an entity that is completely separate from its owners because its ownership shares (stocks) can be traded among an unlimited number and type of owners. The C Corporation is most commonly used to offer an Initial Public Offering (sometimes called taking the company public). This is when you begin selling shares to investors or on the stock market. The benefits of a C Corporation is the ability to offer shares to employees and professional investors. However, most small businesses stay away from this structure because of the "double taxation" and strict requirements for reporting, and board & shareholder meetings.

C Corporations file their own tax returns and pay the corporate tax rate (currently 20% as of the new 2018 rules, see more about these changes in our blog). Profits are distributed to shareholders as dividends, and those dividends are taxed again at the shareholder's income tax rate. With that said, sometimes the individual tax rate is higher than the corporation tax rate, and it makes sense to form a corporation, especially if the corporation is reinvesting profits. Because, unlike an LLC, a C Corp can distinguish between active and passive income and pay employment taxes only on the salaries of the active shareholders.

## S Corporation

Another strategy to avoid the C Corporation double taxation, is to form an S Corp. An S Corp is limited to no more than 100 (U.S.) shareholders with one class of stock. Unlike an LLC and C Corp, an S

Corp cannot own other companies, nor be owned by another company. The S Corp is a good choice for banks or insurers who can't legally form LLC's, and companies that may face higher taxes than LLCs.

Texas allows S Corp income to flow down to its owners (shareholders) and pay federal tax at the owner level only. Owners can pay themselves "reasonable" salary before profits and pay the individual tax rates on that income, and then share in the profits as dividend distributions which is free of employment taxes. Keep in mind, if profits are reinvested into the company, owners still must pay taxes on the profits, despite not receiving any of the money.

**B Corporation**

B Corporations are for entrepreneurs who wish to "do good" as part of their for-profit business. Essentially what a B Corp does is allow its owners to pursue social good goals without being sued by shareholders for not maximizing profits. Corporations in Texas can meet the legal requirement for B Corp certification by amending their articles to become a Social Purpose Corporation and then including further language designed to create stakeholder consideration. For more information on how to certify as a TX Social Purpose Corporations (SPC) click here.

How to Incorporate

Once you have selected your name, you must file Articles of Incorporation, which in Texas means completing a registration form. (Filing fee of $300 applies) Next you must appoint directors and create

the company's bylaws, which describe how the business will operate. Finally, new corporations must distribute stock certificates to shareholders. If you need help or more information go to LegalZoom.com.

What's the most common type of legal structure for a small business? According to the National Association of Small Business's 2015 Economic Report, the majority of small businesses surveyed are S-corporations (42%), followed by LLCs (23%).

Now that we've outlined some early steps for your startup, next we'll talk about the crux of any young business: money.

# CHAPTER 3: THE MONEY

The single biggest reason entrepreneurs give up, fail, or never get started is: Money.

## Cash Flow

According to the 2015/2016 Global Entrepreneurship Report, over half of businesses discontinue operations because of lack of funding. U.S. Bank launched their own survey and found that 82% of businesses fail due to poor cash flow management or because they had a poor understanding of cash flow. They also found that 79% fail because they started out with too little money.

Clearly, funding is a BIG deal. So below we'll discuss how to avoid cash flow pitfalls, where to get more money, the pros and cons of those different sources of money, and some crafty workarounds to help you be one of businesses that do survive and thrive.

First: what is cash flow? Cash flow, put simply, is the amount of money that flows in and out of your business account. If you have more money coming in than going out, you have positive cash flow.
How do you know if you have a cash flow problem?
If your expenses (money out) exceed your income (money in), then you have a cash flow problem (also called negative cash flow).

Note: When you're first starting your business, it's perfectly normal to have expenses far exceed your income. Sometimes, you may have negative cash flow for several months or years depending on your industry. You're still trying to figure out your product research and development, bringing your product to market, learning sales and marketing, admin costs, and contractor relationships, etc.

**How do you avoid a cash flow problem?**

Budget, Budget, Budget! Your first step should be to know exactly how much you will need to spend, and where you will be spending it. Categorize your expenses into General and Administrative (G&A), Research and Development (R&D), Sales & Marketing, Operations, and materials or Cost of Goods Sold (COGS). Take a look at the percentage of spending for each category, and analyze whether the cash distribution makes sense. Does anything stand out? Creating a budget is probably the most crucial thing you can do for your business. It keeps your spending under control and helps you know exactly where the business' money is going. An effective budget will help you forecast your expenses, and can ensure you accomplish growth in a sustainable and efficient way. THE STARTUP CLUB has several great budget templates you can use in our Tools section of our website. Check them out, make a budget, and then STICK to it.

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Need help understanding and creating a budget? Of course THE STARTUP CLUB will help you with templates and training videos, but we also recommend that you read *Profit First*, by Mike Michalowitcz. This book may arguably be one of the greatest "hacks" of all time. Mike explains how the old school way of budgeting is flawed, and how changing your mindset (and the method of how you budget) will unlock the financial freedom that entrepreneurs are seeking. Learn how to apply the pay-yourself-first principle to your business and your and watch the profits roll in, today.

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**How do you know how much to budget?**

Benchmark your spending by doing a little market research and see how your competitors spend. Consider too that other businesses in your industry may not be in the same stage as you are, and adjust your budget accordingly.  For example, an established business on a busy street corner may not need as high of marketing budget as you will when starting out.  Remember, work within your budget, not theirs.  Focus on their percentage of spending, not actual dollars, to be your guide.


You may have heard the saying “It takes money to make money,” but this common belief can cause new entrepreneurs to start overspending, especially during the first few months of business. While it does take money to make money, not all expenses are created equal. Remember that every dollar you spend is reducing your profit margin, so it is important to consider the cost-benefit of every single expense, especially

in the early stages.

**If your small business has a cash flow problem, does that mean you need to focus on selling more?**

Not necessarily.

Tim Berry, founder of Palo Alto Software (now worth over $14 million), once said: *"One of the toughest years my company had was when we doubled sales and almost went broke. We were building things two months in advance and getting the money from sales six months late. Add growth to that and it can be like a Trojan horse, hiding a problem inside a solution. Yes, of course you want to grow; we all want to grow our businesses. But be careful because growth costs cash. It's a matter of working capital. The faster you grow, the more financing you need."*

The next biggest reason companies fail is that they did not start with enough funding.

## Underfunding

The issue of under-capitalization is because business owners frequently underestimate how much money will be needed to fund operations. Similarly, they may overestimate how fast their products and services will sell--causing a cash flow problem.

**So how much startup capital will your business need?**

It depends on who you ask. According to the Wells Fargo Small Business Index, $10,000 is the average amount of startup capital required by a small business owner. The Kauffman Firm Survey suggests that the figure is more like $80,000. Another opinion will say $1,000. I have started several companies for under $2,000. It really depends on what business you are in, and how well your personal financial situation is doing (more on that later). In any case, I will re-emphasize the importance of a budget. THE STARTUP CLUB has a great tool to help you think of all the expenses you may have when starting your business.

**Where does startup financing usually come from?**

There are really only 4 ways to fund a new business: self-fund, investor, business loans, or government help. Let's discuss the pro's and con's of each one of them, as well as some helpful tips about getting them.

**Self-funded**

The majority of small businesses are funded from the pockets of the business owner. This means that most entrepreneurs start by using personal income, savings, credit cards, loans, retirement, home equity lines of credit, or family and friends to fund their business. Let's talk about these.

a. Income and Personal Savings

*"I started Learnvest out of my savings account. I started paying designers tiny chunks of checks. Because I was actually paying for things myself with my own savings. It sharpened my focus of how to spend money. Quickly you'll be able to say, we don't need that."* - Alexa Tobel, founder of Learnvest which was later sold to Northwestern Mutual for $250 million.

This is by FAR the best way to fund a business.
One advantage of using your bank account to fund your business is that you will have "skin in the game," and the greater level of risk will force you to be cautious and frugal.

Additionally, paying out of pocket will cause you to slow down and take your time. As you build your bankroll to fund your business, stash away money from every paycheck, you will be unable to purchase everything you need all at once. This is OK! Newbies often get in too big of a hurry, and skip important steps, or buy everything they need only to pivot a few weeks later and create waste. Remember what we said in Chapter 1, don't rush to get your product out there in fear someone else will do it first. They may beat you to market, but if you rush to market and are unprepared, you will certainly lose to the competitors anyway.

Another reason newbies rush to market, is to get cash flow coming in right away, needing to fund their business and feed themselves. If this is you, it likely means that you did not save up enough money to start with. Don't quit your job until the "boat is closer to the dock." Wait until your business is bringing in enough money to support you and your family, before making the leap into full time entrepreneurship.

What is important is that you do not spend every last penny of your savings into an unproven startup. Instead, build an emergency fund in addition to your startup budget that will allow you overcome bumps along the way. This emergency fund needs to be at least 3 months of personal expenses. Having this cash reserve will ensure your business doesn't fail, simply because you have an unexpected expense.

Lastly, funding your business yourself will mirror how you handle your personal finances. If you live paycheck to paycheck, so will your business. Make sure your personal finances are in order, and that you are financially stable enough to take on the challenge of being a business owner. For more information on personal finance, I recommend reading the book *Total Money Makeover* by Dave Ramsey. This book will teach you how to manage money, and the lessons can be applied to running your business as well.

b. Credit Cards

*"I probably had about twenty grand in the bank when Under Armour started. A lot of money for a college kid. I ended up going to just under $40,000 in credit card debt spread across five cards. In the summer of 1997, I was totally broke...Then all of a sudden I started getting my first round of orders."* - Kevin Plank, founder of Under Armour, now valued at $5 billion.

Using personal credit cards to fund a startup is an extremely risky move. It worked out for Kevin Plank, but high credit card debt and a failed product could just as easily have ruined his life. Fall behind one payment and your credit score plummets, making it harder to get funding for yourself or your business in the future. In addition, credit cards are easier to use and cause a less emotional response, which invokes overspending and can lead to crippling debt. With that said, if used responsibly, a credit card can be a useful tool to shore up your cash flow and cover working capital gaps. Note: a credit card does not constitute as an emergency fund. You should always maintain a cash reserve to cover the occasional jam.

c. Home Equity

If you own your home, you may have access to your home's equity. A home equity loan gives you a lump sum for a set rate and monthly payments. A home equity line of credit (also known as a HELOC) is more like a credit card--you use it when you need it, and only pay interest on the amount that you use. A HELOC usually has a variable interest rate. Both a HELOC and a home equity loan uses your home as collateral, and like a credit card, can affect your credit score. So like a

credit card, using your home's equity is an extremely risky decision. With that warning out of the way, this source of funding is common in the real estate investing business. HELOC's and equity loans (when used wisely) can be great ways to fund fix and flips, invest in growth, and other capital needs.

d. Retirement Savings

Like home equity and HELOC's, retirement savings are becoming increasingly popular with real estate investors. This is because there are some instances that 401(k)'s, and other retirement assets, can be rolled into property and C Corporations without penalty. Before considering this strategy, consult with an accountant, because without carefully following the legal steps you could be penalized heavily. Be careful with this option, if your business fails you will lose your nest egg.

**Friends and Family**

Many entrepreneurs get their start by asking for money from family and friends. An estimated $60 billion is invested into startups from relatives and friends every year. That surprising amount, is bigger than any other major investor. But does that make this a good idea? Not necessarily. Asking for money from friends and family should not be taken lightly, because nothing will tear a relationship apart faster than money. There's a lot that can go wrong. If you choose to borrow the money, your friends and family will become your debtors and your relationship will change before your eyes. If you sell them equity in exchange for their money, you will have family members telling you how to run your business. Trust me, those fights are way worse than disagreements with unknown investors. If you choose to go this route, make sure you are well prepared. Bring a formal business plan, and create a clear contract that defines exactly what will be done with the money, how it will be repaid, when it will be returned, and what the friend/family member will receive. Make sure they understand the risks involved, and that they are prepared to lose it all.

**Investors**

There are very few companies (roughly 2%) who actually receive funding from investors. There are two types of professional investors: Angels and Venture Capitalists. Angel investors are individuals who have high net-worths and are willing to invest into very early stage companies. Sometimes they form angel groups in order to invest large sums into businesses and reach more entrepreneurs. They usually select companies by referrals. A great way to connect with Angel investors is to increase your network. Join THE STARTUP CLUB to increase your reach, and possibly get your business in front of local angel investors.

The second type of investors are Venture Capitalists (VC's). These are actually firms that collect cash from investment institutions and groups of individuals to disburse to startups. As a result, they typically have more money to invest than Angel investors. According to Crunchbase, the average first round of funding (also known as "Series A") was around $6.6 million. However, like the Angel investors, they are very careful where they invest their money. They want businesses that are relatively safe investments, have clear exit strategies, and have the potential to grow exponentially. The most common receivers of investment are real estate and tech companies.

The most common way to reach a Venture Capital firm is by personal connections. Once a mutual contact is made, and they agree to introduce you to the VC, prepare a proposal package for your business. A proposal package should be no more than 2 pages long, and contain an executive summary and a white paper that teases the business plan. If the VC firm likes what they see, they will get in touch with you. If they reach out and request a meeting, come prepared with a prototype or demonstration of your product. Finally, if they decide to invest, they will give you a term sheet. The term sheet will include a dollar amount and expectations for level of ownership and other terms like board seats and conditions. Before signing this document, be sure to read it carefully because it will become your contract.

Both types of investors will be highly engaged in the company. If you take this option, expect to lose control of your company, as the investors take an active role and dictate how their money is used.

Workaround: One alternative to the above investor types is to crowdfund. Crowdfunding sites like Indiegogo and Kickstarter are effective ways to raise money without giving up ownership of your company. Instead, your investors usually get something for their investment, like early access, a first run of the product, swag, or a package deal. These sites work great for product based businesses. Other options include Groundfloor and Realtyshares for real estate companies, and CircleUp and AngelList for those willing to sell equity to crowdfunding platforms.

**Banks**

According to the SBA, business loans, business credit cards, and lines of credit make up about 75% of all financing for startups.

*"Before going for your ideal loan from the bank you want, go to a several other banks first. Perfect your pitch with them, get over your fear of getting denied, and learn what sort of questions they ask and what you need to bring to the meeting. If you don't get denied then, hey, you have options."* - Dr. Gordon Sanford, former CEO and mentor at SCORE San Antonio.

If you are seeking a conventional business loan from a bank, there are a few pointers you need to know. These will help increase your chances of being approved for a loan.

Decide whether to

1. Fill out the forms meticulously, make extra copies, and be prepared for questions

2. Provide lots of documentation to back up your experience and education and other info like tax returns, income statements and balance sheets.
3. Have a specific, good reason for needing the loan, and provide the name of who will manage the money
4. Establish a track record; usual expectations are at least 2 years of being in business, and at least that much time using that bank for checking, savings, or credit accounts (personal or business)
5. Do not approach a bank if you are struggling to pay your bills, they will ask for statements and a list of debts, accounts payable, and stakeholders if any.

You'll likely need to fill out several applications to get one loan. National chains are less likely to approve your application, so start by trying with them. They have very rigorous application processes and becoming familiar with them will help reveal holes in your proposal. Once you feel confident with your pitch, approach a local bank or credit union. They are more likely to invest in local entrepreneurs, and support their community. Biz2Credit's Small Business Lending Index reported that in March 2016, national banks approved 23% of funding requests, institutional lenders (which include savings banks and life insurance companies) approved 62.8%, small banks approved 48.7%, alternative lenders (like the ones we'll talk about later) approved 60.7%, and credit unions approved 42% of loan applications.

You probably already know that a bank will examine your personal credit score and debt to income ratio. But something people don't know will be examined are credit limits. If you have several credit cards with low balances and high credit limits, the banks will worry that you may

be tempted to fall into more debt if the going gets tough. Having too much extra credit can trip you up.

Banks will also look at the company's credit score, so they will need the Tax ID Number, the name of the business, the legal structure and documents, and information like DUNS number and North American Industry Classification System (NAICS) codes. (This is discussed in detail in THE STARTUP CLUB video library).

The next type of loans provided by banks are SBA backed loans. They include the 7(a), Microloans, and CDC/504 loans.

The SBA 7(a) loan is a great option for business owners with stellar credit, and is the most popular type of SBA loan. Though it is the most difficult to obtain, the low interest rates, the $5 million cap, and flexible repayment terms make it worth the laborious conditions. The 7(a) can be used for working capital, equipment, real estate, and other startup expenses. In some cases, it may also be used to refinance other debt. The SBA's published statistics from 2015 break down the approval rates along gender, ethnicity, and location factors: 29% approval for all minority-owned businesses versus 57% white-owned, 71% for male-owned businesses versus 29% female-owned, 67% existing businesses versus 33% new business, and 17% rural companies versus 83% urban. In 2015, the average SBA 7(a) loan size was $371,628.

The microloan program offers smaller loans (averaging $13,000) for startups and growing small businesses. It can be used to purchase inventory and smaller equipment. It cannot be used to refinance other debt, or purchase real estate. This program gives priority to low-income,

minorities, and women business owners in most cases.  It is given based on credit score, revenue, time in business, and other factors.

Finally, the SBA CDC/504 loan program is designed to help established businesses invested in fixed assets.  These loans can fund up to $5 million to purchase buildings, office space, or improve other large assets.  Companies eligible for this program are usually larger businesses.

The drawback to SBA loans are that they come with government red tape, and are therefore slow to move through the bureaucracy.  The larger the loan, the longer it will take for the funds to hit your bank account.  For a conventional short-term loan, the average time to funding is fewer than 10 days, whereas for an SBA loan take an average of 45 days.

## Government Help

There are a number of ways to get government assistance to start your business, such as Grants, SBIR's, STTR's and OTA's.

**SBIR's**

The Small Business Innovation Research (SBIR) program is a highly competitive program that encourages domestic small businesses to engage in Federal Research/Research and Development (R/R&D) that has the potential for commercialization. Through a competitive awards-based program, SBIR enables small businesses to explore their technological potential and provides the incentive to profit from its commercialization. By including qualified small businesses in the nation's R&D arena, high-tech innovation is stimulated and the United States gains entrepreneurial spirit as it meets its specific research and development needs.

**STTR's**

The Small Business Technology Transfer Program (STTR) has similar goals as SBIR, but requires its small business applicants to collaborate with a research institution. Federal agencies with R&D departments have to set aside a bit of their budget to work with small businesses, and that's where this small business grant comes into play.

**OTA's**

Other Transaction Authority (OTA) is a type of contract with the Department of Defense. OTA's were invented to help non-traditional defense contractors do business with the DoD. It is DoD's effort to attract innovative startup technology and "Silicon Valley" companies to want to do business with the Federal Government. As a result, OTA's reduce the administrative burden and red tape compared to standard Federal Acquisition Regulation (FAR) contracts. The Government does

not retain data rights in most cases and will provide seed money to very small businesses (1-2 coders in some cases) who provide the most compelling white papers. Check them out on DIUX or tune into THE STARTUP CLUB Podcast during our SBIR and OTA's episode.

Next is a list of grants that are available to you with links and dollar values. Though this list does not go into detail, you should certainly do more research on them. Grants are basically free money, given selectively to small businesses to help grow America's community of entrepreneurs.

## Texas Grants

As of this writing, there are 89 different Texas Grants with varying dollar amounts and purposes that small businesses can apply for. Check them out here.

## San Antonio Grants

The Awesome Foundation, San Antonio Chapter, offers $1,000 per month to San Antonio Small Businesses.

## Corporate Grants

1. **Intuit Small Business Local Buzz**

Small Business Local Buzz program gives away 10, $1,000 prizes.

2. **FedEx Small Business Grant**

The Small Business Grant Contest offers up to $25,000 annually.

3. **West Elm Small Business Grant**

This small business grant contest offers $25,000.

**4. Chase Mission Main Street Grants**

Chase Bank puts aside $3 million to split between 20 small businesses.

**5. Visa Everywhere Initiative**

Visa's Everywhere Initiative looks for startups with innovative fixes and offered $50,000 to the final three winners.

**6. Marriott International's Canvas**

Canvas Startup is offered by Marriott to help philanthropic efforts.

**7. Miller Lite Tap the Future**

This business pitch competition offers $200,000 to small businesses.

**8. Sam's Club Grant Program**

This grant program doesn't directly assist small businesses—instead, it offers funding to nonprofit organizations that support entrepreneurs.

**9. Wells Fargo Community Investment**

The Wells Fargo Community Investment program focuses mainly on nonprofits.

**10. Walmart Foundation**

Walmart has a number of different grant programs, again mostly aimed at nonprofits.

**11. ExxonMobile Foundation**

Exxon creates economic opportunities to women, and STEM education.

**12. Coca-Cola Foundation**

The community-giving branch of Coca-Cola matches contributions from their customers and employees to fund women, water, and well-being.

**13. National Association for the Self-Employed**

NASE offers small business grants of up to $5,000.

**14. LendingTree**

LendingTree's Small Business Grant offers up to $50,000 annually.

## Small Business Grants for Women

1. **Eileen Fisher Program**

This initiative awards $100,000 in grant money to 10 recipients/year.

2. **Zions Bank Smart Women Grants**

Zions Bank offers $18,000 across six categories, including child and elder care, arts and culture, and teacher support.

3. **Walmart Global Women's Economic Empowerment Initiative**

GWEEI's goal is to source $20 billion worth of Walmart goods from Women Suppliers.

4. **The Amber Grant**

The Amber Grant program awards grants from $1,000 up to $10,000.

5. **Huggies MomInspired**

This initiative provides up to $15,000 grants to 12 "mompreneurs."

6. **American Association of University Women Career Development Grant**

The career development program provides funding for women wishing to change career fields or pursue advanced academic degrees.

7. **InnovateHER Women Business Challenge**

Co-hosted by the SBA, this competition offers $70,000 annually.

8. **Open Meadows Foundation**

Open Meadows funds projects with $2,000 grants.

9. **The Halstead Grant**

This funding opportunity is for women business owners who make and sell jewelry. Winners receive $7,500, and a $1,000 gift card to Halstead.

10. **New Media Women Entrepreneurs**

This program, offered by NMWE, gives $14,000 to women annually.

## Small Business Grants for Minorities

1. **Minerals and Mining on Indian Lands**

This Department of the Interiors grant funds Tribes to perform technical evaluations of energy and mineral resources within reservations.

2. **Community Programs to Improve Minority Health Grant Program**

All businesses can apply for this grant. But minority owned companies will have priority. It funds health activities and solutions.

3. **POWER**

This program grants approximately $15 million between 30-40 awards.

4. **Rural Business Enterprise Grants**

RBEG program grants usually range between $10,000 and $50,000.

5. **Rural Business Opportunity Grants**

Similarly, the RBOG program gives up to $100,000.

6. **Community Connect Grants**

This Department of Agriculture grant helps fund broadband deployment into rural communities. It funds up to $150,000.

7. **Water & Waste Disposal Loan & Grant Program**

This grant initiative provides funding for clean water initiatives (like water softeners).

8. **Minority Business Development Agency**

The MBDA is not a grant, but is an organization established to help Minority Business Owners navigate loans and business.

9. **First Nations Development Institute Grant**

The Native Arts Capacity Building Initiative gives up to six grants of $30,000 each.

10. **Tribal Energy Development Capacity Grant**

This program aims to fund as many Tribal Energy projects as possible.

## Small Business Administration 8(a) Certification Program

This program is not a grant—however, it is a federally-funded initiative aimed towards helping minority-owned small businesses capture more clients and work. The SBA's 8(a) program helps "socially and economically disadvantaged entrepreneurs gain access to the economic mainstream of American society"—or in other words, it guarantees minority-owned businesses special government contracts that they might otherwise not have special standing for.

## Small Business Grants for Veterans

1. **Small Business Administration SDVOSBC**

Similar to the 8(a) program, the Service-Disabled Veteran-Owned Small Business Concern Program makes your business eligible to compete for the program's set-aside contracts (up to 3% of all federal contracting dollars).

2. **Small Business Administration The Veteran's Entrepreneurship Act of 2015**

The SBA's Veteran Entrepreneurship Act removes the borrower fee on Express Loans of up to $350,000.

3. **StreetShares Commander's Call Veteran Business Award**

This program rewards veterans or military spouses who run businesses with up to $5,000 in grant money. It also offers the same service as the SDVOSBC!

4. **USDA Veteran and Minority Farmer Grant**

The 2501 Program, will enable community-based organizations and other partners to work directly with Veterans to successfully acquire, own and operate farms and ranches and equitably participate in all USDA programs.

5. **UPS Franchise Discount**

While not quite a grant, this initiative gives veterans looking to join the UPS franchise a $10,000 discount off the franchise fee, and 50-75%% off the initial application fee. The UPS Store ranked as the top participant of the Veterans Transition Franchise Initiative program in 2008, and has a large number of its locations run by veteran entrepreneurs.

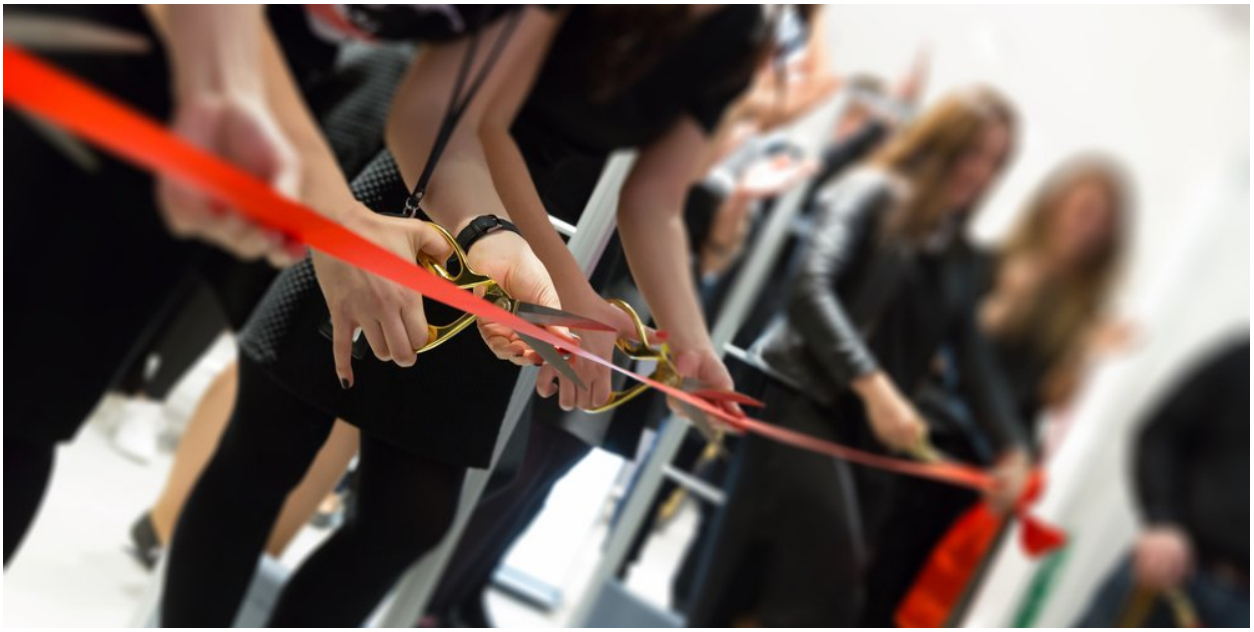
6. **7-Eleven Veterans Franchising**

Similar to UPS and a number of other companies, 7-Eleven offers special benefits to veteran franchisees. If you're eligible, you can receive up to 20% off the initial franchise fee, up to 65% financing through 7-Eleven, and special financing options.

7. **Little Caesars Veterans Program**

Little Caesars offers a set of discounts to honorably discharged veterans, including a $5,000 franchise fee discount, the same amount off the first equipment order, and other marketing and supply services that total up

to $30,000. Service-disabled veterans qualify for even more, including a full waiver of the full $20,000 franchise fee and $30,000 worth of other benefits.



## New Small Business Grants

1. **A Grant for Greatness**

Hosted by AT&T Experts, this grant offers $1,000 to unique business ideas submitted in the form of a two-minute video. (Note that if your business is already established, its annual revenue can't be greater than $20,000.)

2. **ActivityHero Business Grant**

Co-sponsored by GoDaddy, this grant awards cash and prizes (worth $15,000) to 9 Kid's Camp and Activity Providers to grow their

businesses. To win, fill out an application, get 3 family reviews, and boost your odds with votes from customers!

3. **Fundera's Zach grant**

Fundera now hosts a small business grant, giving out $2,500 every year to entrepreneurs looking to start or fund their businesses. All you have to do is submit a video entry to the annual contest explaining why you started your company.

## Other Funding Options

If you're having trouble getting funding from all the other options, you may turn to other funding options. These alternative lenders usually have lower approval hurdles or alternative ways of underwriting. Though there are more categories out there, we'll talk about factoring, asset-based loans, and non-bank lenders.

### Factoring

For a while factoring was considered the payday lending of business owners, and carried with it a negative connotation as being sleazy and a loan shark. But recently companies who offer factoring (also known as factors) have lowered their rates to more competitive levels and have cleaned up their practices. Factoring allows a business owner to borrow money based on receivables. In other words, a signed purchase order will allow the entrepreneur to borrow (sometimes up to 80% of the purchase order value) to fulfill the order. The factoring company will sometimes take over bookkeeping, collection, and risk of customer bankruptcy. In exchange you will be charged a commission fee of about 1 percent of the loan's value plus an interest rate between 5-10 percent.

The largest factors are Wells Fargo, Rosenthal & Rosenthal, and CIT. You can also check out Factors Chain International, which is a consortium of 400 factors from all over the world. Note: many traditional banks will factor for a signed Federal purchase order since the risk of Government not paying their contracts is very low.

### Asset Based Lending

Asset based loans are made based on the value of your assets. If you have ever borrowed money to purchase a car, you have used an asset based loan. Using a company's equipment, inventory, or real estate a lender will underwrite using the asset as collateral. The asset based lender will have claim to these assets if you fail to pay your debts, and if you do declare bankruptcy, these collateralized loans will be paid first. These loans usually include a closing fee up to 1 percent of the loan and have interest rates several points higher than traditional bank loans. The three biggest are Rosenthal & Rosenthal, Simplified Leasing, and Triton Financial Solutions.

### Non-Bank Lenders

The advent of online lending has exploded with companies offering small loans to businesses. Services like Kabbage, OnDeck, Lighter Capital and others have become major players in the short term funding space. Rather than rely on credit scores, these non bank lenders rely on metrics such as sales, revenue, social media presence, and other criteria to determine loan eligibility. They can provide capital into your PayPal account in hours rather than days, and have a streamlined approval

process.  Though they do come with short term loan interest rates, which are usually 5-10%.

For all of these funding sources and more options, check out THE STARTUP CLUB's Endorsed Funding Partners!

# CHAPTER 4: THE MARKETING

*"I was just really trying to find a fun, resonant way to tell the story of what our business did and why it existed."* - Michael Dubin, founder of Dollar Shave Club, which started with a YouTube video, and was later sold for $1 billion.

Large businesses have an almost unlimited budget to market their products to potential customers. As a startup, you will not have this luxury, even though you likely have tons of great ideas on how to market your business. For entrepreneurs, you have to become scrappy, and spread your brand's visibility and awareness in a way that doesn't break the bank. In this chapter, we'll give you some ideas on how to do that.

Luckily, you aren't starting from scratch. If you followed the steps in chapter 1 and 2 then you are well prepared to begin marketing your business. You already know your customer, your competitive advantages, and your target market. You also know what pain points your product helps fix. So here are some classic ways to get the ball rolling with marketing:

## Networking

The best way to get your name out there is to network. You should network the old fashioned way AND online. The old fashioned way involves showing up to community events, getting involved in your church, school, or groups; and introducing yourself and your business to the Chamber of Commerce (there are 3 in San Antonio), trade shows, conferences, and (shameless plug) THE STARTUP CLUB! At the same time, you should be joining Facebook, LinkedIn, and Meetup Groups. Remember that every outing can become a networking event, so bring business cards to every Topgolf game, dinner, and social function. Don't be afraid to work your contacts, and reach out to mutual friends and former coworkers too.

## Referrals and reviews

Speaking of friends and colleagues, another very effective way to gin up business is with referrals. Remember that every single sale is an opportunity to reach more people, and gain more sales. So leave a great impression, and make sure every customer is happy with your service. Leave a hand written thank you card, with a refer-a-friend deal; encourage Facebook or website reviews with discounts and rewards; and ask for feedback. Word-of-mouth is a powerful marketing tool, and so create a relationship with your customers. People are more likely to refer a friend to another friend.

## Interest Groups

Look for ways to get your business into group marketing campaigns, sometimes called affinity groups. These are newsletters, Facebook pages, or other outreach efforts that target fans of a specific market. Know your customers and know what forums, or circles they hang out in. For example: if you are marketing to seniors, they probably aren't reading mobile ads. But they are reading the local paper, or Ad Pages. You could get your business featured in the paper by reaching out to columnists with a press release. Another example would be teaming up with a well-known brand that your audience recognizes. The co-branding or joint effort will be better accepted by your audience. An example would be sending product samples to YouTubers, Instagram Models, or Facebook Fan pages.

## Search Engine Optimization (SEO)

Search Engine Optimization is an art as much as it is a science. There are lots of resources available for free online, and tons of consultants in San Antonio that teach SEO. SEO is the "findability" of your site or business on search engines like Google, Bing, and Yahoo. The more visible your site is when a potential customer "Googles" a word related to your products, the more sales and traffic you will generate. THE STARTUP CLUB offers training on SEO and Premium and Elite members receive a SEO evaluation of your site. Search Engines constantly update their algorithms to provide the most relevant content to their customers, so keeping up with SEO is a constant struggle. The keywords and content you use are important, as well as backlinks, and metadata, tags, and other tools will help you rise to the top of your searches. Checkout our preferred list of vendors who are willing to help you out with SEO, here.

## Press Releases

A great way to get your business in the public eye is to show up in the news. Local news, small publications, and even free press release sites offer avenues for getting your business and your story in the spotlight. Depending on the quality of your story and the timing of the release, larger news agencies will pull popular press releases from local news and syndicate them nationally. THE STARTUP CLUB offers a Press Release Assist Tool to Premium members that will help you write and publish your press releases.

## Cold Calling and Mailers

Cold calling has a really bad connotation because no one likes telemarketers, but there is a reason telemarketers still exist. Some markets are still receptive to cold calls, as long as the script of the call is well prepared and not overly aggressive. If you are innovative with your message and way of connecting with people, you may be able to pull cold calling off. Another old timey form of marketing is direct mail (aka snail mail). Most people tear up ads as soon as they receive them, spam has become an annoying part of everyday life as advertisers try everything to get you to open and read their ad. Your mailbox is probably full of shiny soft paper, with colorful pictures and logos begging for your business. But, as you sift through the pile of bills and marketing mail, will you see a simple, hand written note on a card, with something specific about you in it? Realtors use this method often, sending pictures of the recipient's home in the card noting "Your home is so beautiful! Do you know how much it is worth? Let me find out for

you!"  It gets attention, but what if you had something like "Hey it was a pleasure meeting you at the Cyber Texas event on Saturday, I remember you said you had kids, and I wanted to send you a discount to my children's clothing boutique."  Would that get your attention?  Though it takes time, it is cheap and worth the effort to get your first bunch of clients.  The same methods can be used for email.  Though there are lots of great mass-email services out there, the best way to avoid getting your email caught in a spam filter is to send a simple, direct and personal email, one client at a time.

## Paid Advertisements

The rule of thumb for established businesses is to spend about 5% of revenue on advertising.  However, startups with no revenue will need to spend more to get their sales off the ground. With that said, small businesses need to ensure that every penny spent is effective.  You can't afford to spend money on every type of advertising hoping to reach millions of people.  In advertising, quality is better than quantity.  You want your ad spending to result in sales, not impressions.
The most common ads are Twitter, Facebook ads, Google Adwords, and Bing Ads.  With these you can set your spend limit and runtime.  You can also set parameters by demographics, psychographics, and location.  Google and Bing ads have two options, Text ads that bring your company to the top or "sponsored" section of searches, and Banner ads that present your image advertisement on their network of websites and advertisers.  The problem with these ads are that many Ad Blockers will keep them from showing up on your customer's screens, and there may be bots on the web that "click" on your ads and cost you money.  The problem with paying for clicks or likes is that costs can add up, and not

result in higher sales if your ad is not just right. Thankfully, there are other ways to have paid advertisements:

## Affiliate Marketing

Affiliate marketing is a new trend in advertising, where advertisers, like podcasters, freelance bloggers, and advertising agencies will use a specific link or promo code you assign to them. They do not get paid unless they bring in sales because they work on commission. When a sale results from their link or promo code, you will pay them as if they are a contractor (and report those payments with a 1099). The great thing about affiliate marketing is that you do not have to pay any money up front. You can run as many affiliates as you want without breaking the bank.

Influencers

There are many influencers on Instagram, Facebook, and other social media platforms that are attempting to start their business just like you. To them, a $50 bill and validation that they are being noticed by advertisers will go a long way. By complimenting them, asking them to advertise for you, and showing them that you trust them with your brand will appeal to their vanity and win their loyalty for cheap (usually less than $500). Reaching out to bigger influencers will cost too much, so target the up and comers. You can have several of these influencers working for you at once. Simply communicate your expectations, and provide good logos, banner ads, links, and copy to help them do their job.

Paying Customers

One of the best ways to advertise isn't to give money to marketers, but instead give back to the people (your customers). By running free giveaways, sweepstakes, cash prizes, and discounts you can get your customers to like, share, and promote your business for you. Try going to a yard sale group and offering something of value in a raffle. The prize needs to be something with enough value to get people to engage, whether that's free products, services, gift cards, concert/game tickets, or cash. To enter the raffle, tell them they must like and share your Facebook page. If done correctly, you will go damn near viral. Later you can post a live video of the raffle drawing to gain even more followers!

## Social Media

You probably already know that Social Media should be a quintessential part of your company's marketing plan. Most companies now have social media pages, because that's where their customers are. The good thing is that setting up a business page is free on just about every social media platform. But which one is best for your company?

### Facebook

If you are attempting to reach a certain geographic area, or build a community around your product, Facebook is for you. It's great for messaging with clients and setting up groups for your customers to interact within.

**LinkedIn**

If your services are more business to business, or professional seeking, used LinkedIn. Or, if you are targeting a higher income demographic, LinkedIn typically has higher income, and higher educated users.

**Instagram**

If your product is very visual, i.e. Clothing, flowers, food, etc. Instagram should be your platform of choice. Instagram's demographic are younger users, and typically friendlier than YouTube. If your product doesn't have a visual impact, you can still be creative and post to Instagram. Feature things like behind the scenes looks, personal updates, or even motivational quotes; just don't expect the same large following as fashion bloggers.

**Twitter**

If your product or service is more information based, Twitter is right for you. Users on Twitter like to be in-the-know and up-to-date. Twitter is more effective as a 2-way conversation, so be sure to engage with your followers.

**YouTube**

YouTube is the second largest search engine. This means that large portions of the population are turning to YouTube to have questions answered or learn more about topics or products. Video reviews, demonstrations, tutorials, or DIY videos are very popular videos, and great ways to get your product or service into the public's eye. Just keep in mind that comments on YouTube are

mostly negative.  Don't let that get you down, viral videos have been responsible for launching many successful brands.

**Pinterest**

Like Instagram, Pinterest is best if you are in a highly visual industry.  Pinterest has a majority female audience, but male users are increasing.

**Snapchat**

If you are trying to reach millennials, Snapchat is right for you. Your content will not be in front of your audience for long, so you will need to post often in order to stay relevant.  If you are on the go, Snapchat is great for quick unedited videos.

*"Marketing is telling a story about your value, which resonates enough with people that they want to give you money."* - Seth Godin, Author of Purple Cow: Transform Your Business by Being Remarkable (net worth: $34 million)

The key to a successful marketing campaign is to combine all 8 of the above strategies.  A good marketing mix will cause your company to appear to be “everywhere” and will help solidify your brand name in customers’ minds.

Check out THE STARTUP CLUB podcast, blog, and video library to learn more about Marketing Strategies, Sales, and Social Media Tips.

# CHAPTER 5: THE CUSTOMER

*"You can't just ask customers what they want and then try to give that to them. By the time you get it built, they'll want something new."* - Steve Jobs, co-founder of Apple (at death, had net worth of $10.2 billion.)

We talked about knowing your customer in previous chapters, so why are we dedicating Chapter 5 to customers? At this point in your business you have formed your legal structure, raised money, launched, marketed, and started selling. It is time to refocus on your customers and make sure you are addressing their needs, and have not veered off the path that got you started on this journey in the first place.

Someone who knew his customers well was Steve Jobs. He anticipated his customers' needs and fixed problems they didn't even know they had. His phones, computers and devices solved his customers' problems and created a delightful experience that keeps them coming back for more.
Similarly, you need to anticipate your customers' needs. A large part of your sales should be from returning customers, so you need to be prepared to offer former customers that next best thing. Knowing your customers like your own family and friends enables you to continue to design products and services that will keep them returning for more.

As a small business, your biggest advantage over the large corporations is your ability to connect with customers on a familiar scale. The big box stores may have better prices and larger selection, but you will excel in customer service, satisfaction, and one on one attention (even if you are an online business, more on that in our e-Coaching sessions).

Here are some ways that you can "predict the future" when it comes to your customers' needs:

1. Walk in their shoes

Put yourself in your customer's shoes. See the full range of choices your customers have, look at the ecosystem of your product. This goes beyond knowing what the competitors' prices and products are, but also what are their marketing schemes, what is their customer experience. Track your customers through your store. What paths do they take? Is there anywhere that the experience breaks down? Does your website cause people to linger on pages, do they skip over pages, and do all of your links work properly? Perform an "Undercover Boss" and talk to your employees as a customer, better yet (since your business is small and everyone will know they are talking to the boss) hire an intern or consultant to perform a sale and report back to you. Perhaps have them encounter a problem and need to speak to customer service.

2. Seek help

Speaking of hiring outside help to evaluate your user experience, you can also seek advisors. If your company is large enough, you may be able to hire and maintain a board of advisors. Otherwise, you can seek help from THE STARTUP CLUB. The club is an excellent place to network and surround yourself with smart people. Fellow business owners can help give you outside perspective, and give insight to what is happening in their industries or perhaps even yours. Connect with Club Members to stay informed and see things that are in your blind spot, or better yet, what's around the corner.

3. Look for Trends

There are a number of different tools and metrics that will help you identify trends in your industry. Google AdWords and Moz are two that

will help you nail down what customers are searching, what keywords they are using. Customer Relationship Management (CRM) software is becoming more and more affordable. CRM tools offered by companies such as Salesforce, HubSPot, and Insightly will help you analyze patterns and maximize per customer profits.

4. Read, A Lot

Regularly follow publications and influencers in your space. Look to leaders in your industry and follow their blogs, articles, and books. If you don't have time to read, try podcasts or audio books. Another alternative is to read newsletters and headlines by subscribing to email lists. The saying goes, "One who reads has lived 1,000 lifetimes" because the more you read, the more mistakes you can avoid. Learn from others who already learned the hard way. Another great resource is the blog posts on THE STARTUP CLUB, keep up with them by becoming a member.

5. Learn to like change

One of the greatest assets of small businesses is their ability to pivot quickly and adapt to their environment. Larger companies become bureaucratic and enacting change is like trying to turn a barge on the ocean--it takes time and money. Small businesses are much leaner, and able to change. As a result, many large businesses get stuck in their comfort zone and get used to things going well. That gives you an opportunity to come in an disrupt their industry. But it won't be easy or happen overnight. Their methods of doing business are established by decades of proven concepts and management techniques. To dethrone

them you will need to test many different strategies until you find one that works best for you.  In order to do this you will need to learn to embrace change.  Trends are facts.  Instead of playing catch up, stay ahead of the trends before the competitors beat you to the punch.

## Innovation

A mistake I often see with new business owners is that they realize their pricing needs to increase for growth, so they begin slowly raising prices of their most popular products.  They expect more money to flow in at the same rate as before, but instead they suddenly face poorer customer reviews, higher order returns, fewer orders, and lower revenues. Confused, they turn to me and ask what happened.  What they don't realize is what made their product so popular in the first place: the price to value.  As soon as they messed with the price, without increasing the value of the product, the demand shifted lower.  What they could have done instead, was innovate.  They could have improved their product,

released a new version for a higher price and caused not only higher revenue, but more sales as their former customers return to buy the newer, better version of their product. Innovation is not just a coy way to increase prices, it is the key to a company's long term survival. It's easy to stop innovating once you have found a product or service that sells. However, if you do not continue to risk failure and innovate the next product or solution, your competitors will.

Here are a few tips to ensure your company stays on the cutting edge.

1. Revisit the customer journey. Start from square one all over again, find the customers pain points, even if it's within your own product or services and improve.
2. Make room for innovation in your budget. Large companies budget for Research and Development (R&D), you should too. Try allocating a portion of your budget for your employees to test new ideas, or try new ways of doing what they do.
3. Focus on your next product. Rediscover your roots, put your thinking cap on and get back to the drawing board.

As CEO of your business, your job is to be the idea man or woman. Budget your time to give yourself room to think. Sometimes the most valuable use of your time is to just sit and think about your company's next moves. Then you must lead your company to enact your ideas.

# CHAPTER 6: THE LEADER

*My job as a leader is to make sure everybody in the company has great opportunities, and that they feel they're having a meaningful impact. –* Larry Page, Co-founder of Google (net worth ~$50 billion)

Since this is a business book, I will not spend much time on Leadership. However, it is a topic that cannot be overlooked in the business ownership discussion. When you first launch, it may be just you, but eventually you will have a staff, and you will be their leader.

In 2005, the Air Force conducted a study to find what subordinates thought were the most important traits of a leader. These are the results of the study:

## Decisiveness

As the leader, your job is to make decisions. There will be times when all the facts are unknown, and you are crunched for time, but a decision must be made. Your organization will look to you to make quick decisions and make them with confidence. You will not be able to please everyone, and you may not make the perfect decision, but a good decision made quickly is better than a perfect decision later.

*"Fortune does favor the bold, and you'll never know what you're capable of if you don't try."* - Sheryl Sandberg, COO of Facebook, a company formed in 2004 and now valued at $444 billion.

## Communicate

The second most desired leadership trait was effective communication. In reality, communication is the true role of the leader. And like leadership, effective communication is not a skill that you're born with, it must be learned and practiced. To become a great leader, you must become a great communicator. Great communicators inspire people, and create connections with their audience on personal and emotional

levels. This will allow you to convey a clear and concise vision that others can internalize and follow.
Here are three ways to improve your communication skills:

## Talk When People Will Listen

There are times to talk, and there are times to listen. Read your audience and understand when they are ready to receive your message. Otherwise, you're wasting your breathe and your employee's time. Read your audience, and see if they need to hear your message (maybe they already know it), if they are ready to hear it (are they distracted, sleepy, sad/happy-wrong state of mind?), and are they already getting it. There is no reason to drone on if these conditions are not met. How do you know if you're on the right track? They will be focused, asking questions, and engaged in meaningful dialogue. That's how you know you're doing it right. Note: this may require you to reschedule meetings, talk and listen to the team leaders or group members ahead of the meeting to gauge the audience in advance. Then make a decision, even on the fly, to delivery or change your message accordingly.

### Speak To Groups Like Individuals

Once you are ready to deliver your message, and your audience is ready to hear it, speak to the group like you are talking to one person. This will help you deliver the message on a personal level, create intimacy that draws the audience in, and captures their attention. To do this, imagine the crowd is gone, and you are talking to a single person in the crowd, speak directly to him or her. This will not only help with anxiety

of public speaking, but will also exude genuine emotion and feelings. Which brings us to the third point…

### Connect Emotionally

"People will forget what you said and did, but they will never forget how you made them feel." - Maya Angelou
Speak with emotion, get animated, and be passionate about what you are saying. This can be difficult for some people to pull off, because they suddenly switch to a persona that isn't themselves, and it comes off as fake. To avoid this, be transparent, relax and show your audience that you are human. Be yourself, but be driven. If the audience feels that this is your normal self, but that this speech is what got you out of bed that morning, they will be more trusting and connect with you. Note: this cannot be done in an email, or a typed memo. These types of connections must be forged from face to face interactions. Get out of your office, and talk to your people. They need to see their leader, and hear your voice.

*"The quality of business communicators has become poorer in recent years as people avoid phone calls and face-to-face meetings, I can only assume, in come misguided quest for efficiency."* - Robert Branson, CEO of Virgin Group, which as a net worth of $5.5 billion as of November 2014

## Generosity

Next on the list was Generosity. At first glance this one seems obvious--of course employees favor leaders who give them more money. But remember, this is an Air Force survey and pay is set by Congress, so the

survey responders were not talking about money. They know their immediate supervisors have no control over their pay, and yet generosity was high on their list of traits; why? Because generosity doesn't have to just be money, generosity really means putting your followers first. When you are truly generous, you are constantly thinking of ways to benefit your subordinates. That can be money, or enthusiastic praise, trophies, time off, gifts, quality of life improvements or pretty much any other "out of your way" form of rewarding your employees.

## Delegate

*"The surest way for an executive to kill himself is to refuse to learn how, and when, and whom to delegate work."* - James Cash Penney, the Founder of JC Penney, a $940 million dollar company.

If you truly want to grow your business, you will need to someday hire employees and learn how to delegate the day to day operations to them, so you can focus on bigger problems. As easy as it seems, when the time comes, you will likely have difficulty letting go. For most people, trusting someone else with their baby is way outside their comfort zone. It feels like passing off work that could be done faster and better by yourself. As a result, many entrepreneurs spend countless dollars and company time (while overworking themselves) to do low value work. So how do you avoid this?

Stop believing you're the only one who can do it.
Just because an employee may do the job differently than you, does not mean that it has been done wrong or poorly. Employees will never learn

to do things better, and be able to take on more work, if you do not trust them to do their jobs. Fight the urge, and relinquish control.

Provide better instructions.
Before even placing a new hire, make sure you have well written instructions. And then see if those instructions result in the desired outcome. If they do not, try rewriting the instructions; perhaps they were unclear the first time. Nothing is more frustrating than being told to do a job, without having all of the instructions. So listen to your employee, and make sure they understand the task. Encourage them to ask questions, and then incorporate your answers into a continuity book for the next time you need to fill the position.

## Be Grateful

Check on your employees' progress, understand that it doesn't have to be perfect, and then be grateful for the help. Let your employees know how much you appreciate them and praise them publicly for stepping up to the responsibility. With that said, thank yourself, because by delegating, you have freed up your own time, and grown your company.

*"You know, as most entrepreneurs do, that a company is only as good as its people. The hard part is actually building the team that will embody your company's culture and propel you forward."* - Kathryn Minshew, co-founder of The Muse, valued at $50 million.

## Hiring Your First Employees

Once your business is off the ground, you'll need to consider hiring. Hiring, can be one of the most time consuming endeavors you ever face. Searching for qualified candidates, sifting resumes, scheduling/conducting interviews, and then onboarding your new employees with training and paperwork. The smartest way to save time and money is to use a hiring service like Ziprecruiter. Ziprecruiter will send your job posting to all the major job search websites and social networks. Their algorithms will find the right candidates and then invite them to apply. Use Ziprecruiter to find your next hire, and try it free, by going to https://ziprecruiter.com/thestartupclub/

Bonus Tip: Some of your first hires should be sales representatives, because they will help you grow and work with customers while you focus on the backend. Additionally, hiring salesmen offers a way to grow your business affordably because you can pay your salesman on commission, and offset their cost with higher revenues from their sales.

## Integrity

Finally, subordinates demand integrity of their leaders. Integrity is always doing the right thing, even if no one is watching. It is consistency, and striving to do the right thing. Nothing is more important in business than your reputation. If you lie, cheat, or steal you will permanently damage your integrity. Maintaining your integrity with your employees, and customers, is paramount. So underline all of your actions with integrity, and always make decisions that are the "right" thing to do. This means treating your customers, and employees with respect, and doing what is right by them. Integrity is an international standard. If you earn the trust of your customers and

employees, your company will be successful, and soon, you be taking your business global.

# CHAPTER 7: THE WORLD

*"Timing, perseverance, and ten years of trying will eventually make you look like an overnight success."* – Biz Stone, Co-Founder of Twitter (Net Worth: $200 million)

This chapter is on how to turn your small business into a large business. Becoming a large business does not require you to sell internationally, in fact, you can become a large business selling only to San Antonio. But we titled this chapter "The World" in case you do want to leave your local area, and expand into other parts of the world. Every industry is a global industry, so let's talk about becoming the largest business in yours.

## Intense Growth

Reaching your company's full potential requires a growth strategy. Think of a growth strategy as a flight of stairs; with each step representing the next phase in your business. Each step comes with a little more risk and a little more effort, but must be taken one at a time to avoid falling down. These are the five steps to reach your goals and graduate to a large business.

### Market Penetration

The easiest way to grow is to sell more product to your existing customers. Large companies do this all the time, take Coca-Cola for example, they started selling single soda's, then 6 packs, then 12, 24, and whole cases. Clorox wipes started as a quarter gallon liquid, but now you can buy it in gallons or essentially the same product, but in the form of wipes, Swiffer pads, dishwasher packs, and toilet bowl sponges. If you have a consumable product, sell more, if you have a product that lasts forever, find new ways to use the product. These strategies will increase sales, without selling to new customers. Once you're selling all you can to your existing customers, you can move on to the next step.

### Market Development

The next step is to begin selling to markets adjacent to your own. For example, if you are selling in Schertz, begin selling in Converse or work your way deeper into San Antonio, or around the rim of 1604, and on into 410. Focusing on one area at a time will help you maximize your marketing budget, and focus your efforts. Nearly every successful business started this way, Facebook for example started by focusing on becoming popular with one school, then other Ivy League universities, regional colleges, and then eventually the world.

### Alternate Channels

This step involves offering new avenues for customers to buy your products. Perhaps thats selling on Etsy, and then adding a website, or selling door to door and adding a Facebook page to sell on, delivering your products and then adding a storefront. Seeking alternate channels is a way to make your business more accessible and even penetrate new markets, but do this carefully. Before jumping into an expensive lease in a hot area, make sure your product is selling well in other venues. Start selling to friends and family, then Facebook, website, farmers markets, and cheap locations, then once you have proven your concept and have solid sales you can safely move into a brick and mortar store. You will have less risk, because you can have some confidence in the ability of your product to keep the doors open.

### Product Development

The next step is to develop new products to sell. This will allow you generate more income from existing and new customers, as well as stay ahead of competitors. We talked about innovation in Chapter 5, but this is when you will implement it. Selling to existing customers is easier

and less risky than learning a new market and desires of a new customer base. With that said, the last step is to sell...

### New Products to New Customers

Sometimes you must branch out and sell new products. (Or sometimes your entrepreneurial spirit gets the best of you, and you get excited about a new idea.) Perhaps your market is drying up, or you foresee a shift in the industry, whatever the reason this new product or service can be a complement to your original offering, or a substitute. Consider Apple, their iPod was wildly popular, but remember they started with the Apple Computer, and later the iPhone. Another example is Polaris, which started as a snowmobile only company, but after a few bad winters, branched into all-terrain vehicles. Now they sell all sorts of vehicles, including military light attack rovers. All of these seem like no brainers in hindsight, but before these companies made these decisions they were no doubt fearful of entering markets outside of their base. It is high risk to create a new product, as you know, because you experienced it creating your first product. But in some cases, you have no choice but to accept that risk and make the leap.

## Integrative Growth

Once you have maxed out all of the steps above, the next way to grow your business is to swallow up other small businesses. Acquiring and integrating other companies into your own is a great way to increase value for existing customers, improve your efficiency, and reach new markets. There are three ways to seek growth with a merger and acquisition strategy:

### Backend

A backend integration approach means buying one or more of your suppliers. This will help you take control of your supply chain, lower costs, and dictate quality. As the owner of your vendor, you could decide to be your vendor's only customer, or continue selling to others but at increased prices while giving your business a discount. This method can also help you develop new products faster, since you will own the production facility of your supplier.

### Frontend

Buying your frontend means acquiring your distributors. When you've reached the point that your product is primary source of income for other stores, you can look into buying those stores out. This will allow you to sell to your customers more directly, at a discount, while also increasing prices of your competing products. Imagine if you had the ability to place your product front and center of your distributors' store, without competing with other manufactures for the space. If you own your frontend distributors, you can do just that.

### Upend

You can upend an industry by buying your competitors. Employing this strategy not only eliminates an opponent, but also adds to your company's growth. Buying your potential (or up and coming) competitors can also help secure your business position before a substitute product gets traction. Additionally, if you see a product has potential and is selling well, you can buy the ownership of the company to offer that product to your customers. It is a shortcut to innovation. Buying a competitor may be cheaper than researching and developing

new products on your own. Many software companies have done this over the years, like Facebook buying Instagram and Oculus.

This is a great strategy to help you diversify your product offering, but some companies take this too far. Take General Electric (GE) for example. GE has a nuclear power division, a home appliance division, and insurance division, a railcar manufacturing division, a loan division, an engine division, and many others. At some point, GE lost its way and perhaps got into too many things, as now they are rumored to be teetering on the edge of bankruptcy. Diversify and buy competitors, but always remember your roots.

Whatever your strategy, integrative or intensive, the important thing is that you put the strategy to action and be willing to change along the way. Don't worry about planning the entire life of your business, just strategize growth in quarterly (90 day) increments. The best approach is to take it one step at a time.

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**Case Study: 99 Designs**

Patrick Llewellyn, the CEO of 99 Designs, (a $100 million company) said, "*A startup that wants to go global has to build trust in each new market locally.*" It's not easy. Customers respond to companies differently based on where that company is from, and how the service is tailored to their needs. That's why becoming a "local" is essential. "[Localization is] *both time-consuming and expensive.*" Llewellyn says. 99 Designs, which was founded in 2008, is an online graphic design marketplace based in San Francisco with offices in London, Rio de Janeiro, Paris, Melbourne, and Berlin.

Llewellyn says that if a company wants to go global, at a minimum a website is required. Make sure the domain is on a regional server, and is in the local language. "*You can hold off on other aspects of localization, such as offering adapted payment options, while you are building your initial presence… But you do need that crucial element of a person fluent in the local language and culture who can relay feedback.*"

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Another way to enter a local market is to buy a local business that is doing something similar to you. This is a great way to gain traction right out the gate. "*This gives you both market entry and instant local reference data to test against, and unlike just opening an office, it also creates a newsworthy event… There are obvious PR, social media, and SEO benefits to that kind of event, but just as importantly it shows your commitment to the region or country.*" Once you have expanded into a new region, Llewellyn recommends keeping the management of the local business, local. "*Our one major hire in each new market we enter is a country manager… We then ask that person to treat their operation as its own mini-startup.*" The country manager handles the growth, marketing, and business strategy. They are fully immersed in their market. Finally, Llewellyn says that 99 Designs relies on their communication tools to keep their teams together, despite being scattered all over the world. Tools like Dropbox, Slack, and Basecamp help them to keep their team on the same page, no matter where they are. (This is something that most small businesses don't recognize when they are just starting. These cloud based tools are easy to incorporate into your business when you're starting out, and they can help you scale globally later. It's much harder to switch tools and systems when you realize you need them later.)
Llewellyn says, "*Going global is costly in terms of time, money, and focus. But it's a great way to grow a business as long as your develop a strong connection with your new market first.*"

99 Designs is a great tool to help startups create stunning design work, whether that's a book cover, logo, t-shirt design, packaging, or you name it. 99 Designs is a cost effective way to look professional from day 1. Check them out at 99designs.com.

# CONCLUSION

*“The biggest risk is not taking any risk. In a world that's changing really quickly, the only strategy that is guaranteed to fail is not taking any risk.”*
- Mark Zuckerberg, Founder of Facebook.

## Manage Risk

No matter what business you start, there will always be some level of risk. As a business owner, it's your job to monitor your risk and decide how much risk you can accept. Too much risk = you crash. Too little risk = never taking off. Risk management is a balancing act, but it can be done. Here are four ways to avoid common risk pitfalls.

### Track your Cash Flow

How much money is available to you right now, this instant? Is it enough to pay your bills? Give several customers a refund? What if your biggest project customer bails? Ideally you need 3-6 months' worth of operating expenses in reserve, tucked away to cover unforeseen circumstances. Always be conservative with your business, don't rely on a customer paying on time to keep the doors open or feed your family. Ask your vendors to give you thirty to sixty days to pay (called NET 30 or 60 days). And always know your financial status, as well as a contingency plan in case something goes wrong. Successful businesses are able to make big moves quickly. If you see an opportunity, you need to be able to quickly deploy funds and act on it. Living without a reserve is not only risky, it prevents you from being able to jump on opportunities. Here are two examples; one of a company without a cash reserve, and the other with a large reserve:

***Example 1***: The Custom Woodworker in Waco.
This business owner had no cash reserves, and was using the money from the business bank account to buy groceries. With nothing in the bank, she could not purchase materials to build new products without

either paying on credit card, or requesting that customers pay up front for their order. So, she opted to take “deposits” from customers of 50% at time of order.

What she didn’t realize was that by taking deposits, she exposing herself to great risk. Without a way of tracking her cash flow, she inadvertently used deposits on purchases not directly incurred by the customer’s order. Maybe it was an indirect cost (like utilities or shop wipes), or maybe she needed to buy material for a rush order, and so she used some of the money in her account that should have been ear-marked for her custom orders.

Next, her husband was injured on the job and had to spend time in the hospital. This caused delays and even more bills to pay. Then her truck broke down, causing even more delays in delivery and unwanted costs. Before long, her custom order customers were inquiring on the status of their orders. She had to admit to them that, because of unforeseen circumstances, their orders would be late. The customers understood, and agreed to an extension. However, now she had no money to buy the materials to begin their orders. The money they had given her in deposits was gone. She had to sell other completed inventory quickly in order to recover the deposit funds from her other customers. This caused further delay to beginning work on her custom orders, and strained her bank account to its limits.

Like a Ponzi scheme gone wrong, the custom order customers began messaging her again. “Where’s my table? We’re now a month behind schedule. Send me a proof I haven’t been scammed!” Unable to hold them off any longer, she had to admit she hadn’t started on their orders, or she had to send pictures of half complete projects. This resulted in customers leaving bad reviews, and others to demand refunds. She had no money to give back in refunds. The deposits were gone, and she had no reserves to finish the projects. The customers threatened legal action, and new customers were turned away by the negative reviews. The business suffered greatly, but it could have all been avoided with some cash flow management and having a “rainy day” fund in her savings account.

***Example 2***: The Thrifty Paintball Field Owner.
There once was a thrifty paintball field owner in Colorado Springs Colorado, who kept a healthy reserve fund for safety and to keep Murphy’s Law at bay. He was able to maintain this savings account because he tracked his cash flow every week. One day, one of his

competitors declared bankruptcy and was selling his assets as quickly as possible to cover divorce and other legal costs. The thrifty paintball field owner saw an opportunity to snatch up his competitor's field, with all its assets like premium Astro-turf and high netting. He offered $5,000 to purchase the field, which had been purchased only 3 months ago for $20,000. The bankrupt competitor agreed to the amount and the thrifty owner won big time, scoring a brand new field for 75% off regular price.

What is the lesson here? Always, Always, Always track your cash flow, have a contingency plan, and keep a reserve of funds for emergencies or opportunities like the ones listed above.

**Avoid Contracts**

Bill Sansom, CEO and sole owner of H.T. Hackney (a $5 billion company), once said, *"We don't do contracts. We never have. The only reason you need a contract is if you don't trust the person you're doing business with. So just ask yourself, is that really the kind of person you want to do business with?"*

Did you catch that? At first glance, that sounds crazy! H.T. Hackney provides products to convenience stores and gas stations for much of the mid-west, a critical part of those stores' supply chain. So how could they possibly be the main vendor to so many stores with no contracts?

Simple.

H.T. Hackney has proven themselves for years as a reliable vendor. They always do the right thing by their customers. But here's the key: not just anyone can be H.T. Hackney's customer. You may have heard the phrase, "the customer is always right." It's true. You should always bend over backwards to appease your customers. But does that mean you bend over backward for everyone? Nope. You can (and should) be selective with whom you do business. Evaluate your potential customers, and see if they are the type of client you want to bend over backwards for, in the first place.

Think about it. Do you have to sign a contract to get a doughnut? No of course not. You pay cash, you get doughnut, and it's that simple. But what if that doughnut is a custom one-of-a-kind doughnut with your first and last name painted on the doughnut with gold flake icing? Would you expect to sign a contract to have that doughnut made for you then? Perhaps you would, but why is that?

It all comes down to risk. The baker may ask you to sign a contract for a custom doughnut because he's about to take on the risk of you not showing up to pay for the doughnut. He is about to spend time and money on premium ingredients and he will only be able to sell this doughnut to you. So to protect himself from risk he asks that you sign a binding contract that says you will pay for the doughnut or he has the right to sue you and throw toilet paper at your house. But is this the only option for the baker?

Absolutely not. He has the option to turn down your request for a gold plated doughnut. Or he can agree to make a golden doughnut but refuse to put your full name on the doughnut. So if you get cold feet, he can

still sell to someone else.  Or he can agree to make the doughnut, assuming all the risk, and just trust you to pay for the doughnut without a contract.  What else could he do to avoid a contract and still protect himself?  He could ask to see your financials. Do you have enough money to pay for the doughnut?  Have you ever missed a credit card payment?  Have you been his customer before? Or do you have glowing references?  Does someone he trusts recommend you?

If you're saying to yourself, well that's absurd, I would never tell my baker my credit score.  Of course you wouldn't.  So why would you sign a contract for a custom pastry?  Because history has told us that a contract protects BOTH of us. Right?  By signing the contract, you aren't thinking about the consequences of you not paying, (no one ever thinks of themselves as untrustworthy). Instead, you're thinking that the contract binds the baker to make a damn good doughnut. And now you have something in writing to hold him to it.  If he misspells your name in gold, you can throw the contract at him and demand a refund.

So now our poor baker is in a tight spot.  What if his child gets sick and needs to be rushed to the hospital? Or he rolls his car on his way to work?  How will he finish your custom doughnut on time?  He knows you have a contract to hold over his head, and he can't rush to get it done, it may cause mistakes!  He'll get sued for breach of contract, call the BBB, or worse, you'll ding his Yelp reviews!  Oh no!

Consider this:  on the occasion that everything goes well, he makes the perfect doughnut, and you still refuse to show up, even with a signed contract.  What can he really do then?  His money spent on ingredients is gone, you're nowhere to be found, and he has a failed contract.  The last

thing our baker wants to do, is hire a lawyer and sue you. The legal expenses on top of the sunk ingredient costs, will likely never be recovered. On top of that, he barely has time to serve all his customers much less spend his time in court.

What's the morale of this story?

So often, entrepreneurs put themselves in the position of the baker. And fear makes us rely on contracts. When in reality, the best thing to do is avoid them altogether by just saying "No thanks." Had the baker turned down the request for a custom job, or simply agreed to make a "made to measure" (business term for one step below custom) doughnut, and therefore able to sell to others, he would have been better off.
**Bottom line: Find a way to Avoid Contracts**.

## Fire Bad Customers

As business owners, we aim to please. We enjoy serving people. But sometimes we get so caught up in pleasing everyone that we forget that we can say "no." We call this, "firing" a customer. When you realize that a customer is maybe more trouble than they're worth, you just have to say no more.

Bill Sansom told the story of a time when he once "fired" an $800 million/year customer, because they were not treating his people right. The Executives in the room audibly gasped at Sansom's idea. "How do you walk away from $800 million?" they asked. Bill Sansom said, "*Because it is the right thing to do*."

The bad customer in Sansom's story was cursing and yelling at Sansom's employees, and as any great leader should do, Sansom stood up for his people. After several warnings, Sansom made the tough decision to fire this customer.

And because Sansom's company had no contracts binding him to that bad customer, he was able to drop service to them that same day.

What was the result? That bad customer did not stay in business for long, and Bill Sansom had made up the $800 million in other customers by year's end. (Most likely because his people were willing to work even harder for him when they saw the sacrifice he made for them.) And now H.T. Hackney is a $5 billion company, with very happy employees.

What can you learn from that? Sometimes you have to **fire your bad customers**. It will all work out better in the end.

## Listen to Warnings

As you probably already know, when people find out that you are starting your own business (much like having a baby), they will offer tons of unsolicited advice. Though not all of it will be helpful, you shouldn't write it off altogether. Be vigilant and listen to warnings.

If you have close advisors, honest employees, and have selected your vendors carefully, then you have good reason to trust what they tell you.

If they are seeing something concerning in your business, whether it's a contract, another employee, vendor, customer, or even strategy; they'll tell you because they have your best interest at heart. Don't dismiss their opinions. Instead, thank them and reward them.

Whether it's from friends, family, customers, employees, or even the news; a successful business owner always has their ear to the ground, and heeds all warning signs.

**Finally…**

Why do you do it? We ask this question to successful business owners as well as newbies on our Podcast and in mentoring sessions all the time. Why do you risk so much and sacrifice time to work so hard? It seems easier to just go get a steady paycheck with vacation time and benefits.

"I always wanted to be able to call my own shots." "I want to be in charge of my destiny." "I saw and opportunity." "I wanted to chase my dream." "I'm never going back to being a corporate robot again." "I want to make more money." "I didn't want to look up someday and wonder what could have been." "I wanted to forge a legacy."

We've heard it all, and though the answer is always a little different, **the excitement in the entrepreneur's voice is always the same**. It's always there, in the difficult times, and in the great times. That excitement is the entrepreneurial spirit, and it's what we at THE STARTUP CLUB live to see.

You’ll have your own reasons for starting your business. But whatever they are, I hope the advice, insight, and stories in this book will help you in your journey, and I hope you’ll join THE STARTUP CLUB to meet entrepreneurs with that same drive and motivation as you.

I know you will not regret giving your dream a shot, so join The Club and let’s get started!

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I'm Samuel Riehn, an Investment Analyst/Blogger on Seeking Alpha, owner of LT Capital LLC, and Cyber Contracting Officer in the US Air Force.

Entrepreneurship has always been my passion. I come from a long line of small business owners with my father, brother, sister, both sets of grandparents, 3 uncles, and 6 cousins all owning their own businesses. I earned my BS in Military Strategic Studies from the US Air Force Academy in 2013, and my Masters in Business Administration from Eastern New Mexico University in 2016. Over the years, I have helped hundreds of small business owners start and grow their businesses, as well as start six of my own: An apparel company, security firm, custom furniture business, a real estate holding company, a sports consulting

company, and now THE STARTUP CLUB.  Where you can find me hanging out on the Facebook Group, blogs, and podcast.
I hope you enjoyed reading this Guidebook, and I hope to get to meet you out and about San Antonio someday.  Take care, and good luck!