THE BIG IDEA

ESTABLISH a COMPANY

START

1 STRESS TEST

2 FOUNDING TEAM

3 BUSINESS PLAN

4 NAME GAME

NEW!

4 UNVEIL

SALES

BOARD of DIRECTORS

1 NEW BOARD

3 OPEN OFFICE

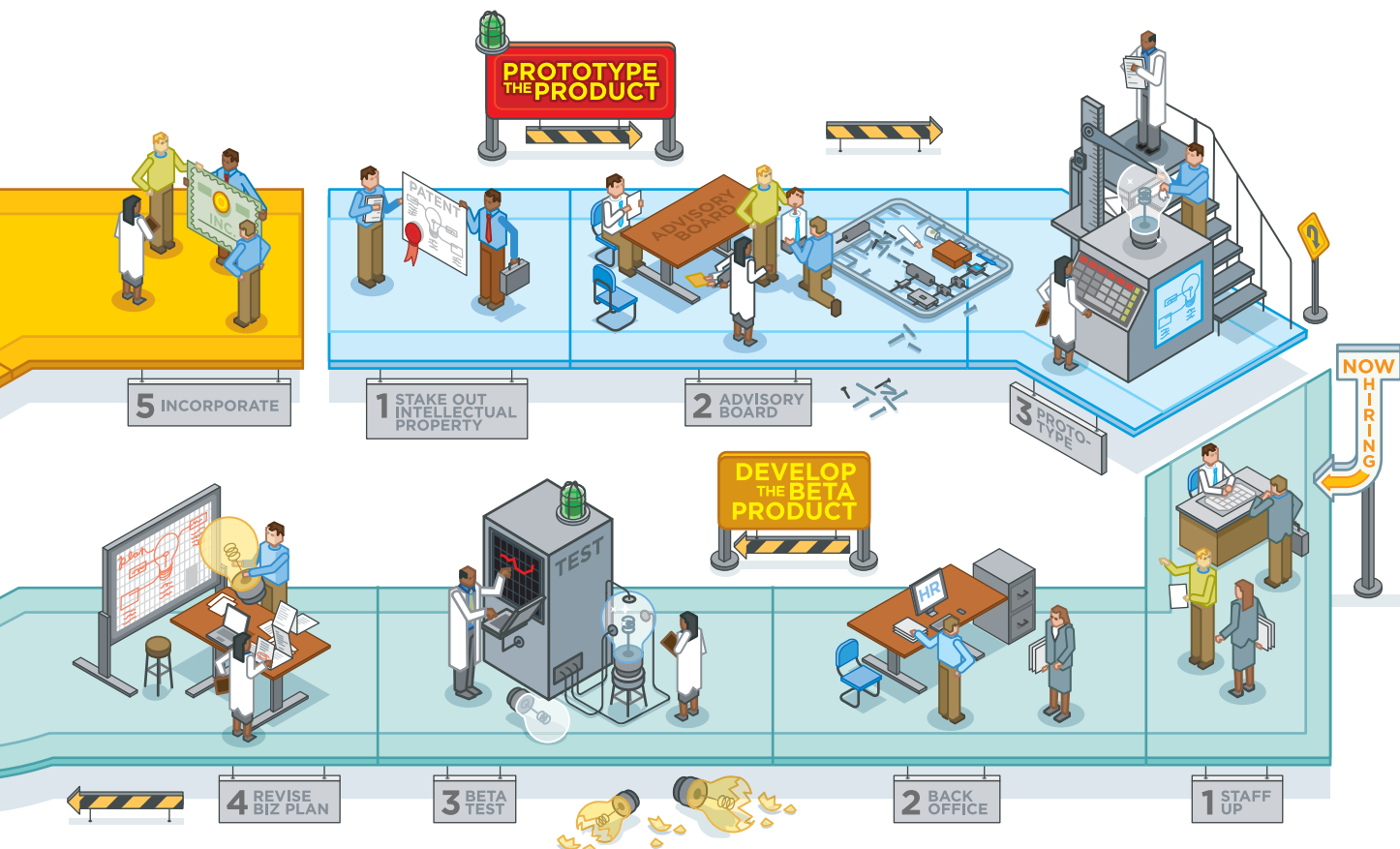2 SALES AND MARKETING

LAUNCH

NEW!

SALES

HOW TO BUILD A BULLETPROOF STARTUP

Got a great idea? There's never been a better time to turn it into a great company. Here's a 16-step guide to help you do it right.

BY MICHAEL V. COPELAND AND OM MALIK

ILLUSTRATIONS BY WWW.XPLANE.COM

5 INCORPORATE

1 STAKE OUT INTELLECTUAL PROPERTY

2 ADVISORY BOARD

3 PROTO-TYPE

4 REVISE BIZ PLAN

3 BETA TEST

2 BACK OFFICE

1 STAFF UP

PROTOTYPE THE PRODUCT

DEVELOP THE BETA PRODUCT

NOW HIRING

It's the spring of 2006, and the sweet scent of entrepreneurship is in the air. Growing numbers of Americans are pursuing their startup dreams. According to the National Venture Capital Association, seed-level VC funding nearly doubled in 2005. This year, based on current trends, it could double again. In Delaware, the country's incorporation capital, new business formation was up 19 percent last year, the highest one-year growth rate on record.

In other words, there's never been a better time to start your own company. New technologies are creating new business opportunities on the Internet, on mobile phones, in consumer products, and in information services. At the same time, many of these technologies have radically reduced the costs associated with launching a new venture. In the late 1990s, a typical VC-funded startup needed roughly $10 million to amass the infrastructure and staff required to carry the company from its first business plan to its first product launch. Today that cost has been reduced to just $4 million—and in many cases way, way less. The barriers to entry have never been lower.

While birthing a company is easier, succeeding is as difficult as ever. The general rule in the investment community is that only about a third of all startups ever turn a profit. Another third limp along at a break-even level, and the rest end in failure. Top among the reasons young companies fail are problems such as incorrect market focus and misguided executive leadership. With that in mind, we wanted you to have all the benefit of hard-earned experience without having to actually endure the pain of making your own mistakes. We spoke to dozens of experts—seasoned entrepreneurs, early-stage investors, venture capitalists, and first-time CEOs—to understand what they've learned about the art of getting a new company off the ground. Then we set out to create a set of blueprints describing just how to do it.

There are no guarantees in the world of entrepreneurship. But there is a right way to go about it, and we've mapped the process out for you here. As for the rest—well, that's entirely up to you. You can thank us later.

PROCEED TO PHASE ONE

PHASE ONE

Establish a Company

$$$ REQUIRED: $15K to $25K
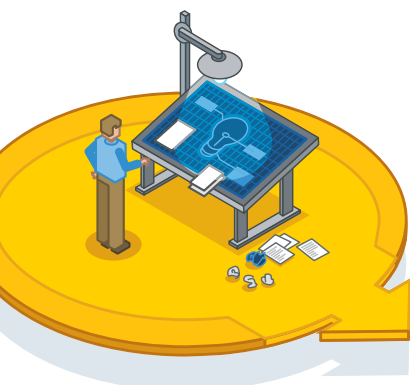
Your role as a spectator who merely watches as other adventurous souls launch their own startups is about to end. The decisions you make at this early stage of the game will do much to shape the long-term destiny of your venture. Most of all, don't procrastinate. If you don't act on your burst of business insight, someone else surely will.

TOOLS YOU'LL NEED

WHITEBOARD: Treat it like an incubator for your best thinking. Write. Revise. Erase. Repeat.

MOBILE PHONE: The one you have is fine, but make sure you've signed up for 1,000 prepaid minutes.

NEW CREDIT CARD: American Express's Platinum Business offers zero percent interest for six months.

ACCOUNTING SOFTWARE: Nothing fancy for now. QuickBooks Simple Start does the trick for $50.

STEP 1 — Stress-Test Your Big Idea

OBJECTIVE: DEBUG AND PERFECT YOUR BUSINESS BRAINSTORM.

You have a brilliant idea. It's shrewd. It's timely. You think about it so much it keeps you up at night. It might even make you rich. There's just one thing left to do: Make sure it really has legs. The only way to do that is by bouncing your idea off as many people as possible. Friends and family probably can't provide the critical insight you need. Track down at least a dozen people with expertise in the market you intend to enter. You want candor and honesty, not diplomacy. Understanding why your idea is flawed is as useful as knowing that it's pure genius. Many will likely express support, but the real question is this: Would they pay money for your proposed product? Use each conversation to sharpen how you explain what your company will sell—if you can't describe the product clearly and concisely, how can you possibly sell it? Finally, before saying goodbye, always get the name of another person with whom you can discuss your idea.
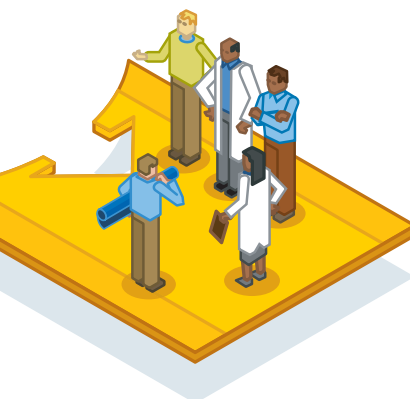
WORDS OF WISDOM

"People pooh-poohed our idea for more than a year. We took that to mean either we weren't explaining it well or we were dead wrong. Yet the more we studied the problem, the more clear it became that we weren't wrong. What you forget—because you've been living and breathing this idea for so long—is that others may not see what's obvious to you. You need to connect the dots for them. We did that by finding a metaphor that explained what our company would do." — **GIBU THOMAS,** *CEO and co-founder of personal media synchronization startup Sharpcast*

STEP 2 — Build Your Founding Team

OBJECTIVE: JOIN FORCES WITH OTHER EXECS TO NAVIGATE THE CHALLENGES AHEAD.

Starting a company isn't just a full-time job; in many cases, it's three full-time jobs. The ideal founding team is a triumvirate that includes an ace technologist, a big strategic thinker, and a dealmaker who focuses on sales and marketing. Although everyone must have relevant industry experience, a good Rolodex, and the willingness to wear many hats, trust and good judgment are the most essential ingredients. Expectations should be clearly laid out, and the founders' financial interests should be mutually aligned. "You need to feel confident that your co-founder will fight for a deal as hard as you would," says Dan Gould, co-founder of online news aggregator Newroo. It's tempting to partner with good friends, but that's not necessarily a pathway to success. In fact, it's dangerous—under the stress of running a business, your friendship will surely be tested and quite possibly destroyed.

TIP — Five Qualities to Look for in a Co-Founder

1. Loyalty to the business idea.
2. Honesty, including the ability to acknowledge errors and mistakes.
3. Versatility to focus on more than one aspect of the company.
4. Connections and the ability to attract talent to the team.
5. Flexibility in the face of changing circumstances.

STEP 3 — Draft a Business Plan

OBJECTIVE: MAP OUT THE MARKET AND EXPLAIN HOW YOU FIT IN IT.

A business plan is neither a core asset nor a sacred text. It's just a tool to help focus your ideas and a conceptual summary to share with potential investors, advisers, and employees. The business plan sells your vision for the company: why it's viable, why it's better than anything else out there, and why your team has what it takes to make it happen. It should also detail key factors that relate to the company—target markets, goals, product attributes, revenue projections, competitive differentiators, and founders' resumes. Visit the Small Business Administration's website (www.sba.gov) or Bplans.com for an overview of the structure and components of a typical business plan, as well as links to dozens of sample plans. But the most important thing is a well-honed executive summary that's no more than three pages long. Grab the reader's attention by starting with a simple two-sentence description of your company and what it will do. (Rest assured, you'll use those two sentences often.) And no matter what, don't fall in love with your business plan—it'll change many times in the months ahead.
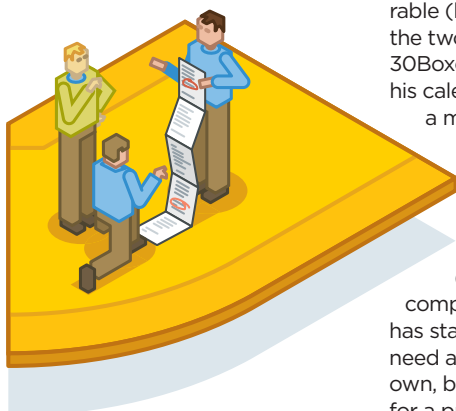
THINGS TO AVOID

Four Common Business Plan Mistakes

1. ASKING POTENTIAL INVESTORS TO SIGN A NONDISCLOSURE AGREEMENT. It's a rookie move. Besides, they won't sign anyway.

2. SPENDING TOO MUCH TIME DESCRIBING THE MARKET. Instead, provide lots of detail on your strategy to dominate it.

3. MAKING WILDLY OPTIMISTIC PROJECTIONS AND ASSUMPTIONS. Nothing will get the door slammed in your face faster. Save the hockey sticks for the NHL.

4. EXAGGERATING YOUR EXPERIENCE. They'll eventually learn the truth, and when they do, your credibility will be compromised. Permanently.

STEP 4 — Play the Name Game

OBJECTIVE: GIVE YOUR STARTUP A HANDLE THAT WORKS.

What's in a name? Plenty. It will make a first impression, carry brand equity, and provide a foundation for every marketing effort you'll ever launch. Naming gurus like David Placek of Lexicon Branding argue that startups should look for names that are either simple and easy to understand (like Salesforce.com) or quirky and memorable (like Google). Some names combine the two: Narendra Rocherolle settled on 30Boxes, an easy-to-remember name for his calendaring startup that also alludes to a monthly datebook. But creativity is only part of the naming challenge; there are legal concerns as well. Before you become attached to any name, check the U.S. government's trademark website (www.uspto.gov) to make sure no company serving an overlapping market has staked out a similar moniker. You don't need a lawyer to file a trademark of your own, but the $500 to $700 you'll spend for a professional trademark search—from a company like Thomson CompuMark—is a smart investment before you sign papers that make your name official.

TIP

Become Master of Your Domain

About 30 million new dotcom domain names are registered each month. Which means that coming up with a name for your company *and* matching it to an available Internet domain is very difficult. Check Instantdomainsearch.com to see what's available. If your preferred domain is in use, you have three choices:

1. ADAPT. In the Google age, it's not quite as important to get a URL that exactly matches your company name. Come up with a relevant adaptation, like acmewidget.com, instead of just acme.com. The Nameboy.com website generates lists of available permutations.

2. BUY FROM A BROKER. Some names are owned by squatters who sell online real estate through brokerage services run by popular domain-name registrars. Prices range from $10 to the tens of thousands. Discounters like GoDaddy.com and 1and1.com offer brokerage services, as do Networks Solutions and Register.com.

3. MAKE AN OFFER. If your desired name is already in use by an individual, politely inquire about buying it. Tony Conrad, co-founder of search company Sphere, spent months tracking down the owner of Sphere.com, which he then bought in exchange for cash and equity. "The equity was the important part, because it allowed [the former owner] to stay connected to the name," Conrad says. If cash is your only currency, don't overpay: $25,000 should be your absolute top end.

PROCEED TO STEP 5

STEP 5   Incorporate Thyself

OBJECTIVE: ADOPT THE CORPORATE FORM THAT'S BEST FOR YOUR GROWTH PLANS.

Your startup may consist of just a few warm bodies crammed into a living room, but you still need to establish it as a legal entity. A formal corporate structure solidifies the standing of the founders and provides potential investors with the assurances they need to participate in the company's financial evolution. Incorporation also provides tax benefits and all-important liability protection. Hire an experienced lawyer who specializes in setting up startups—many will even defer payment until the first round of financing. If your lawyer likes your business plan, he or she may also become a crucial source for later introductions.

THE FINE PRINT

What's Right for You Inc.

There are three main types of incorporation. Here's how to figure out which is most appropriate.

S CORPORATION: Fine if you don't plan to raise money from outside angels or VCs. Only one class of stock is allowed. Taxed at a lower rate than larger corporations, but enjoys the same liability benefits.

LIMITED LIABILITY COMPANY: Functions like an S-corp, but with no outside shareholders. A good choice for professional services firms that don't need to solicit investment. Can be converted to a C-corp later.

C CORPORATION: Preferred by most medium-size to large companies. Allows for multiple classes of stock (a common requirement for angel and VC investors). Taxation rates for C-corps are higher than for S-corps.

PHASE TWO   Prototype the Product

$$$ REQUIRED: $100K to $500K

A prototype is where the rubber starts to hit the road: It's the first physical embodiment of your business idea, and a tool you'll use to attract the resources you need to grow. Don't confuse a prototype with the final product—a distracting and potentially fatal mistake. Pretty looks aren't important. A good prototype is just a working demonstration that showcases what your product will do. Show your finished prototype to a dozen or so potential customers and investors who can validate your idea, define key features, and guide your product development.

TOOLS YOU'LL NEED

SPEC-DOCUMENT SOFTWARE: Omni Outliner and Microsoft Visio simplify writing product definitions.

DEVELOPMENT SERVER: Lease one for $300 a month from a Web hosting company like ServerBeach.

COLLABORATION TOOLS: Basecamp is a cheap Web-based application for sharing files and documents.
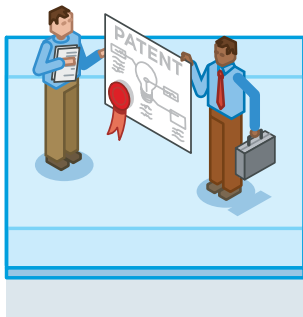
VOIP CALLING SERVICE: Skype is a free application that lets you make long-distance calls from your PC.

STEP 1   Stake Out Intellectual Property

OBJECTIVE: AVOID INFRINGING ON OTHERS' PATENTS AND SECURE SOME OF YOUR OWN.

Patents and patent law are a major headache for tech and Web-based startups, so you'll want legal guidance. Gordon Davidson, a partner with Fenwick & West in Mountain View, Calif., warns that the most important thing is to avoid falling afoul of a "blocking patent"—one that defies any engineering workarounds. Just ask Research in Motion, maker of the BlackBerry, how onerous that can be.

As you start to share your ideas with outsiders, you also want to protect your intellectual property. For that, consider filing for a provisional patent; it doesn't require the formal claims of a full patent but allows you to lay claim to an idea as "patent pending." Submitting a provisional patent application costs about $200 if you do it yourself, while a full patent application costs $12,000 to $15,000, including legal fees.

THE FINE PRINT

Patent Law 101

The U.S. Patent and Trademark Office will grant a patent to any new and useful process, machine, manufacture, composition of matter, or new and useful improvement thereof. Confused? Just remember there are two main types of patents:

TECHNOLOGY PATENTS describe and protect how a particular device, mechanism, or software program works—the classic "better mousetrap."

BUSINESS PROCESS PATENTS describe and protect a mechanism for making money and how it interacts with underlying technologies. Amazon.com holds such a patent for its one-click shopping feature.

PROCEED TO STEP 2

STEP 2 — Create an Advisory Board

OBJECTIVE: FORMALIZE THE NETWORK OF PEOPLE WHO CAN HELP YOU MOST.

Your advisory board is a group of six to 12 people who will provide expertise in the industry you hope to tackle, useful connections, potential funding, or (ideally) all three. At this early stage, it makes sense to load the board with people who can provide technical insight about your product, but you'll also want a few startup veterans who can answer questions about running a young company. In exchange for equity in the company—typically 0.1 to 1 percent—you should expect at least four hours a month of their time. Avoid big group meetings; they're inefficient. Instead, bring in specific advisers for task-oriented discussions as needed.

WORDS OF WISDOM

"We wouldn't be here today without the advisers we picked specifically for their expertise in our technology. They led me to my co-founder and CTO and were able to help on technical issues. It doesn't work to bring on general, name-brand technology people as advisers. They end up frustrated that they don't have much to contribute, and though you think they'll impress potential investors, they don't." — **MUNJAL SHAH,** *CEO and co-founder of photo search startup Riya*

STEP 3 — Build Your Prototype

OBJECTIVE: TAKE YOUR PRODUCT OUT FOR ITS FIRST TEST-DRIVE.
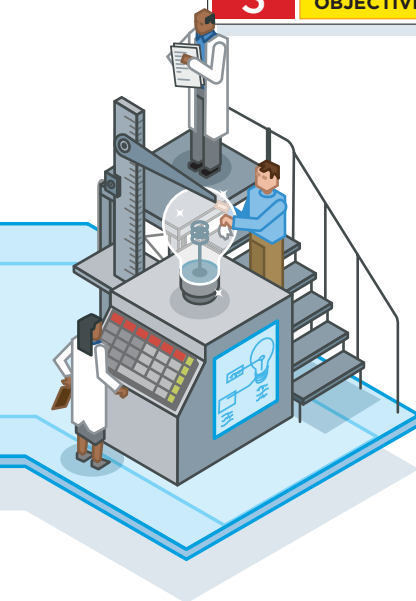
Prototyping is an iterative process. Start simple, with a basic mock-up, artist's rendering, or Photoshop screen shots. Show these to a few potential customers and use their feedback to define the specifications of your working prototype. Hire independent contractors if you need specialized expertise to build or code the thing, but it's best to stay local. You'll be gathering input on a daily basis and making revisions almost as often, so you'll want your contractors nearby—in town, if not under your roof. Keep them close, but be paranoid. Your attorney should draw up confidentiality agreements and noncompete clauses; make all contractors sign them.

TIP

Finding Contract Talent

DESIGN: Scour local schools. The American Institute of Graphic Arts (www.aiga.org) and Creative Hotlist (www.creativehotlist.com) list designers looking for work.

HARDWARE: If you need help with the electronic, mechanical, or physical configuration of your prototype, try the directory at Coroflot (www.coroflot.com) to find freelance professionals.

SOFTWARE: You can post jobs to Craigslist, Dice.com, Monster.com, and SimplyHired.com. Marketplaces like Elance, IPswap, and RentACoder match talent with projects.

PARTS LIST

Prototyping Essentials

DESIGN AND PHOTO EDITING: GIMP is an excellent and free alternative to expensive programs like Adobe Photoshop.

PRODUCT DESIGN: QCad is an open-source, 2-D computer-aided design package that sells site licenses for $260.

COLLABORATION SOFTWARE: Subversion is an open-source tool for tracking changes in files or code.

SEARCHING FOR ANGELS

What to look for in early-stage investors.

The right time to raise the first round of money varies from startup to startup. Some companies—mostly software or Web-based ventures—need little cash to get off the ground. But if you're building a physical product, you'll be looking for funding earlier in the game. That's where angel investors come in: Unlike venture capitalists, who usually wait until a company has a working product, they specialize in early-stage startups.

The main thing to understand is that not all money is the same. Friends and family are a natural place to start, but keep their investments modest to avoid throwing your relationships off balance. Never take investments from anyone who is not a so-called accredited investor—an individual with a net worth of at least $1 million. Remember, it's not just money you want; you also want brainpower, connections, and experience. "You always want at least one heavy hitter in an angel round," says veteran Silicon Valley angel Jeff Clavier. Instead of treating their investment as a loan, some angels may expect a stake in your company, so set aside 10 to 15 percent of your equity to allocate among early-stage investors. Get used to giving away ownership: In a venture-funded startup, the original founders may ultimately retain as little as 5 to 10 percent of the original equity.

PROCEED TO PHASE THREE

PHASE THREE: Develop the Beta Product

$$$ REQUIRED: $500K to $1M

If a prototype is the first manifestation of your big idea, the beta transforms it into a product you might actually sell. The focus here is on usability and design. Your task is to create something so simple, so powerful, and so effective that people beg to become beta testers. As you amass comments and feedback, look for opportunities to simplify production and keep your cost structure lean—that's much harder to do after the product is released.

TOOLS YOU'LL NEED

ENTERPRISE-LEVEL E-MAIL: Providers like the Message Center offer hosted exchange service for about $10 a month per user.

PHONE SERVICE: A hosted system from M5 Networks costs about $50 a month per extension for unlimited calling.

T-1 BROADBAND: $500 per month buys you heavy-duty service from a provider such as AT&T, Covad, or Verizon Business.

FEEDBACK COLLECTION: SurveyMonkey is a handy tool for setting up online questionnaires and compiling user comments. Prices start at $20 per month.

STEP 1 — Start Staffing Up

OBJECTIVE: BUILD THE CORE TEAM THAT WILL CARRY YOU INTO THE FUTURE.

You're ready to make some permanent (or semi-permanent) hires. For most startups, the bulk of your hiring here will be technical—people who can get your product to beta. Although it's shrewd to source talent globally, your core product-development team should be local. Enthusiasm is a precious commodity; look for people who are excited about your planned product. Hire the best you can afford, but as a general rule, Silicon Valley startups assume a burn-rate cost of $11,000 per person per month.

TIP

Better Living Across Time Zones

Contract talent is a global commodity, but location matters if you want to avoid middle-of-the-night teleconferences. On the East Coast, that means hiring in Eastern Europe, where the end of their workday corresponds to the middle of yours. West Coast companies should opt for China and India, where your day ends as theirs is getting started.

TIP

Where to Find Workers

CONTRACTING: Part-timers can help get a company started, but director-level staff should be permanent hires. Always visit new overseas contractors to launch the relationship. Nasscom.org provides listings of India's top outsourcing shops. Russoft.org does the same for Eastern Europe.
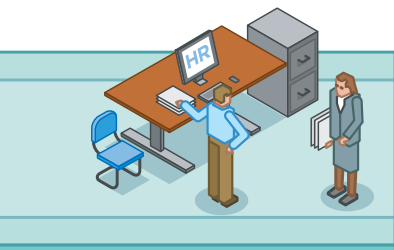
RECRUITING: Job boards can be useful, but old-fashioned networking often yields better results. When you interview, go with your gut: If the potential hire doesn't feel right, it probably isn't.

POACHING: Snatching workers away from rivals is ideal for adding sales staff or senior-level talent. You'll need to offer better compensation than they have now, but the most effective lure is the opportunity for them to put their stamp on an all-new venture.

STEP 2 — Assemble Your Back Office

OBJECTIVE: LET PROS HANDLE THE ADMIN SO YOU CAN FOCUS ON THE REST.

Accounting, payroll, and benefits administration aren't glamorous, but they're important parts of maximizing limited resources and keeping staff motivated. Early on, many startups tap one of the founders to keep the books using software like QuickBooks. That's fine when you have fewer than a dozen employees, but as you grow, a part-time bookkeeper or administrative assistant can help. Call in professionals for the heavy lifting, in the form of outsourced payroll and benefits administration services. Staffing is the opposite: In a small company, each personality impacts the team, so avoid using outside recruiters and headhunters.

PARTS LIST

Who's Who in Administrative Outsourcing

PAYCYCLE automates payroll processing and tax reporting. Best for smaller companies.

PAYCHEX works with small to midsize firms to manage payroll and tax compliance.

CERIDIAN provides services ranging from payroll to benefits administration.

TRINET provides health-plan and benefits services to larger firms. May be too expensive for early-stage companies.

PROCEED TO STEP 3

| | | | | | | | | | | | | YOU ARE HERE | | | | | |
|1|2|3|4|5|1|2|3|1|2|**3**|**4**|1|2|3|4|

ESTABLISH   PROTOTYPE   BETA   LAUNCH

STEP 3 — Launch Your Beta Test

OBJECTIVE: **SOLICIT THE COMMENTS YOU NEED TO PERFECT THE PRODUCT.**

Beta testing used to be a drawn-out ordeal, but for software, Web services, and online media companies, "agile development" has redefined the rules by emphasizing the release of fully functional products, asking end users for input, and addressing suggestions quickly to iron out bugs or add features. The lessons of agile development apply to other kinds of startups as well. Physical objects are obviously harder to alter, but the important thing is to solicit large amounts of user feedback (often by e-mail), respond to each comment, and incorporate changes quickly. Keep in mind that the factors that distinguish a successful product from a dud aren't always obvious. Guidance comes from highly granular research that measures the effectiveness of individual attributes and features.

WORDS OF WISDOM

"Test everything with real people—it's unbelievable how helpful this is. Go find civilians, real people who use [products like yours] because they have to and not because they love to. Find them in Starbucks or at the library or in a college computer lab. Give them $20 for 20 minutes, and you'll be paid back a hundred times over."
— "Entrepreneurial proverb" from **MARC HEDLUND,** entrepreneur-in-residence at O'Reilly Media. (For more of Hedlund's proverbs, visit radar.oreilly.com/archives/2006/03/entrepreneurial_proverbs.html.)

STEP 4 — Revisit the Business Plan

OBJECTIVE: **TRANSLATE ALL THAT YOU'VE LEARNED INTO A MORE REALISTIC BLUEPRINT.**

The product your company was created to sell may not be the thing you later unveil in the marketplace. "You're going to change your business three times by the time you're ready to launch," says angel investor Jeff Clavier. "Get used to it." You may be focused on the wrong market, or even the wrong product. Listen carefully, keep an open mind, and revise your projections and analysis accordingly. The assumption these days is that software and Web companies should break even after $20 million in investment; a hardware or consumer product company should do so with $30 million.

CASE STUDY

Flickr's New Image

Ludicorp, the original parent company of online photo site Flickr, began as a startup developing a massively multiplayer game called the Game Neverending. As part of the initial software development, the company developed a tool that allowed people to share photos and chat about them. As more and more of the internal team and their friends began to use the tool, it became clear that providing technology to share photos in a unique way was the real opportunity—a shift that led to the creation of the Flickr website and an all-new business model. The Game Neverending was never launched, but Flickr was acquired by Yahoo in 2005 for an estimated $30 million.

WHAT A VC WANTS TO SEE IN YOU

How to woo those fussy venture capitalists.

Most venture capitalists will tell you that they invest in people, not business plans. They like experienced entrepreneurs they've worked with before. With luck, you've got one of those people on your team, preferably as CEO. But if you're not a veteran and can't find one, don't fret. A common misstep is to pitch the wrong partner at a VC firm— that will get your business plan nixed immediately. Find the partner whose expertise aligns with your business and send that person your well-honed executive summary. (Save the full-blown plan for later.) If you get a meeting, highlight your experience and what differentiates your startup from others, but keep your ego in check. In such a close-knit business relationship, VCs much prefer to work with people they get along with easily.

In an early-stage round, VCs will want 40 percent of the company in return for their investment. VC term sheets are notoriously demanding, but the place where entrepreneurs can suffer most is in the liquidation preferences. In essence, liquidation preferences determine how money gets divvied up if your company is sold. Your VCs are entitled to protect their downside, of course, but not to the exclusion of common stockholders—management and employees—who also want their equity to be worth something. Proceed with caution.

PROCEED TO PHASE FOUR

ESTABLISH	PROTOTYPE	BETA	LAUNCH
1 2 3 4 5	1 2 3	1 2 3 4	**YOU ARE HERE** 1 2 3 4

PHASE FOUR

Launch the Product

$$$ REQUIRED: **$1M to $3M**

The testing is done, the product has been refined, and it's almost ready for release. Now you need to find paying customers, which means it's time to reassess your staffing needs. A rule of thumb is that a company should have about 20 employees at the time of launch, with roughly 60 percent of its headcount devoted to product development and engineering and the rest focusing on management, sales, and marketing. Ideally, this is just the first of many launches to come. Try to nurture the momentum your team will need to think beyond the excitement of the initial release.

TOOLS YOU'LL NEED

IN-HOUSE NETWORKING: Make it your own. You'll need networked storage, commodity servers, and a place to put it all.

E-MAIL/COLLABORATION SOFTWARE: Zimbra is more affordable than Microsoft Exchange.

A PBX PHONE SYSTEM: Asterisk PBX is a free telephone exchange that can be installed on any cheap server.

BUSINESS PROCESS SOFTWARE: NetSuite and Salesforce.com offer monthly subscriptions for customer-relationship management tools.

STEP 1 — Build a New Board of Directors

OBJECTIVE: EXPAND YOUR NETWORK AND CREATE THE PERFECT BRAIN TRUST.
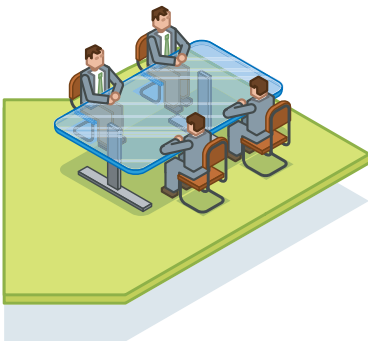
You have new investors, a broader network of contacts, and a slew of enthusiastic backers. Put the best of them together to create a formal board of directors. Your board will likely include at least one representative from your funders. Angel investors may not demand a seat on the board, but most VCs insist on it. The rest of your board should consist of people who understand your business, have practical operating experience, and can leverage their relationships to open doors with potential customers. Cultivate a range of expertise on your board, spanning finance, technology, marketing, management, and merchandising. The excitement of being involved in a red-hot startup is usually the main incentive for prospective board members. Equity is secondary, but here's a general guideline: Board members should receive the same equity package as your director-level employees.

WORDS OF WISDOM

"The people on my board are people I would love to hire but could never afford. They sit on our board because they're excited about our company and want to have a real impact." — **BRAD OBERWAGER,** *CEO and founder of startup juice and produce company Sundia, who just landed outgoing Sunkist CEO Jeff Gargiulo to serve on the board of his year-old company*

STEP 2 — Develop the Sales and Marketing Plan

OBJECTIVE: ESTABLISH A TEAM TO IMPLEMENT A TARGETED STRATEGY.
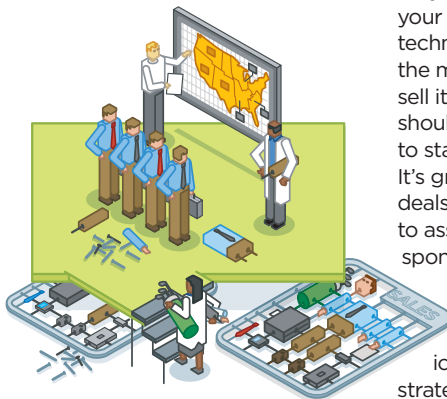
As you get ready to come to market, your staffing priorities will shift from the technical team that built the product to the marketing and sales team that will sell it. Your VP for sales and marketing should need only one or two salespeople to start pounding on customers' doors. It's great if they can close a few early deals, but the initial emphasis should be to assess how potential customers respond to your sales pitch. Once they find the pitch that works, institutionalize it throughout your company. Marketing efforts should have a specific goal that supports your company's strategic objectives. Make sure all your sales and marketing initiatives are precisely targeted to achieve them.

CASE STUDY

Focus! Focus! Focus!

When Krugle launched at the Demo conference in February, it became one of the great successes of the semiannual startup dog-and-pony show—not so much for what happened at the show, but for what happened afterward. Krugle is a search company that helps programmers find open-source software code. Most startups at Demo don't have a marketing strategy for the event, beyond just showing up. But the Krugle team had specific goals: Position itself as the most formidable player in the market, attract beta testers, and secure additional investment. With its VCs in tow, Krugle came to the show, trumpeted $1.2 million in funding, and wowed everyone with its polished demo. The result? The company signed up more than 35,000 beta testers, landed another $5 million in funding, and is now recognized as the market leader.

PROCEED TO STEP 3 ▶

HOW TO BUILD A
BULLETPROOF
STARTUP

| 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
ESTABLISH   PROTOTYPE   BETA   LAUNCH

YOU ARE HERE

STEP 3 — Open an Office

OBJECTIVE: BRING EVERYONE UNDER ONE ROOF AS CHEAPLY AS POSSIBLE.

Although seasoned entrepreneurs recommend toiling in your proverbial garage as long as possible, there comes a time when working remotely begins to take a toll on productivity—typically when your company has more than 10 full-time employees. In theory, opening an office should be cause for celebration: It's an opportunity to hang your shingle over an actual front door. In practice, it's perilous: Many young companies go belly-up after locking themselves into expensive real estate deals. Treat your first office as a temporary expedient. Figure out the minimum total square footage you need today, and how much you might need in the next 12 months. (Assume 80 to 100 square feet of floor space per worker.) Executive suites aren't prestigious, but the leases are flexible, and most come with high-speed Internet connections, phone systems, printers, and copiers. (Searchofficespace.com is a good one-stop resource.) Another option is to share space with another start-up or sublease space from a more well-established company—moves that can reduce leasing costs by as much as 50 percent.

THINGS TO AVOID

The Four Deadly Sins of Office Real Estate

1. OVERPAYMENT. Rent should be no more than 4 to 6 percent of total operating costs.

2. OVERIMPROVEMENT. Resist the temptation to renovate an existing space or splurge on furniture and fixtures.

3. OVERCOMMITMENT. Assume that your first office is temporary. Try to avoid signing a lease for longer than 12 months.

4. OVEROPTIMISM. Plan conservatively. Short-term overcrowding is less troublesome than paying for unused space.

STEP 4 — Hit the Market

OBJECTIVE: STOP FIDDLING AND START SELLING!
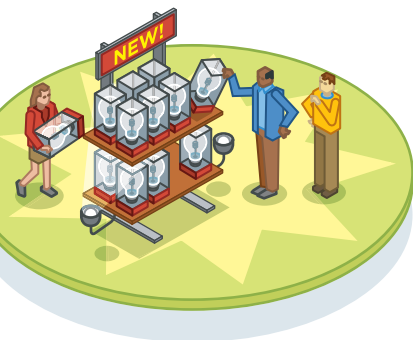
There are two ways to bring a new product into the world. With the quiet approach, a price tag is attached and beta customers transition into paying customers. That's great if you have a clear notion of who your customers are and your sales team has a comprehensive list of them. More likely, however, you need to attract a little attention. Industry trade shows are a common way to introduce yourself, but the best reason to launch at a show has nothing to do with making a grand entrance: It's the hard deadline a trade show creates. A public launch imposes a drop-dead completion timeline for everything your team is working on, and that counteracts the impulse to keep tinkering. Set specific but realistic publicity goals: a short list of journalists to reach, the number of blog mentions you want, a target for website hits and registrations. Treat early customers like VIPs. (Each early adopter is typically in a position to shape the buying behavior of 10 prospective customers.) Then pause for a moment to appreciate all that you've accomplished. It's probably too soon to know what happens next, but you've successfully reached the end of the beginning. Good luck! ∎

TIP

Building Buzz on the Cheap

No money for an elaborate marketing campaign? Here are three relatively inexpensive ways to jump-start sales.

GIVE IT AWAY. If you're selling a physical product or fee-based service, compile a list of the people you'd most like to have as customers. Then give them the product for free. That's how Brondell built buzz for the launch of its Japanese-style electronic toilet seats. Everyone on a marketing agency's list of "the 100 most influential people in Silicon Valley" received one of Brondell's seats for free, and the product is now sold in Home Depot and Bed Bath & Beyond.

THINK LIKE A BLOG. Weblogs are the obvious guerrilla route to publicity, but don't treat them like other media outlets. Online, it's essential to hone your message to an easy-to-digest length and keep it consistent. For example, Krugle's "Find code. Find answers." Says marketing consultant Don Thorson, "Three words is ideal, seven is OK. If it's 15, you're screwed."

CREATE A CLEVER GIMMICK. A simple stunt can generate a major splash if it's surprising, focused, and well targeted. In the early days, Salesforce.com employees "picketed" competitors at industry events, marching and carrying signs emblazoned with the hosted application provider's battle cry: "No more software."

Michael V. Copeland (mcopeland@business2.com) and Om Malik (omalik@business2.com) are senior writers at Business 2.0.