

7 RULES FOR SMALL BUSINESS START-UPS

By Jennifer J. Hagan

1. LIMIT YOUR LIABILITY

Don't expose your hard earned *personal* assets to the risk of your business venture. It's just not worth the sleepless nights. Limited liability business entities such as corporations and limited liability companies (LLCs) offer entrepreneurs and new business owners solid shelter from potential personal liability created from their business activities. Whether you are a solo consultant or a founders group starting the next Google, you should conduct your business from the safety of a limited liability entity.

The two entities which afford excellent protection are the Corporation and Limited Liability Company. Both afford the business owner ease of administration, limited liability from business claims, and passive taxation. Both are authorized by every state and recognized by the IRS. By structuring your business as an LLC or corporation, you limit your financial exposure to the assets in the business, thereby protecting your personal estate. In this day and age of rampant litigation, especially in the employment scenario in California, it doesn't make any sense to conduct business in any form other than through a limited liability entity.

2. MIND THE MECHANICS

Every business should have a good lawyer and accountant. They are the mechanics that keep the wheels on the bus and the train on the track. Plus, they make it easy for you to set up your business as a limited liability entity. They know where and what to file and when. They know about business and occupational licenses, filing forms with the IRS, making the application for the EDD number so you can pay payroll, and notifying the Commissioner of corporations about the sale of securities. Focus your energy on what you do best – running your business. It will run more efficiently when you have specialized people doing what they are trained to do best. A good lawyer and accountant will act proactively to keep your business out of trouble so you can make money and keep it.

3. HAVE A PLAN

If you are serious about going into business, you should have a business plan. You don't need a plan to start a hobby or moonlight, but if you are involved in a new venture which will consume substantial time, energy and money, and which you intend to generate a profit, you should invest the time to write a plan. Do your

research. Your plan should reflect reality with accurate information and financials, and it should be a living, breathing document to which you regularly refer and update. In addition, almost no business can attract quality employees, bank support or venture capital financing without a business plan in place.

4. PROTECT YOUR INTELLECTUAL PROPERTY

Ralph Waldo Emerson once wrote about innovation, "*Build a better mousetrap, and the world will beat a path to your door.*" The maxim is still true today. If your business depends on intellectual property, or provides a service that you wish to brand, you should take immediate steps to protect it. This means that you may need to file applications for trademark and service mark protection with both the state and United States Patent Office. You may also need to file for patent protection if you have made a discovery, or developed an invention or device that is unique. Protecting your IP from misuse creates immediate value for your business. Even if you walk dogs for a living, people remember "*MetroTails*" and "*Wags Hotel*" when they forget Nancy's dog service.

5. KNOW YOUR PARTNERS

Never play cards with any man named 'Doc.' Never eat at any place called 'Mom's.' And never, ever, no matter what else you do in your life, sleep with anyone whose troubles are worse than your own."

Nelson Algren

It is always nice to contemplate going into business with a friend or a respected colleague. But don't do it unless you have seen them battle tested first. Many people are simply not cut out to be entrepreneurs or small business owners. It's very challenging to be your own boss and to have the lives of others depend on you. Know well your fellow business partners before hitching your own venture wagon to their horses. You don't want to learn in the midst of hard times that your fellow founders don't have the right stuff, or that they have left you in the lurch.

6. USE CONTRACTS

Yes, Contracts **ARE** made to be broken. But there is method to that madness. Contracts establish the reasonable expectations of the parties, and the civilized remedies if those expectations and promises are broken. Simply said, contracts avoid gunplay and radical self help when things go really wrong. When you are starting out in business, building your reputation, and maximizing resources, you cannot afford to become ensnared in a nasty misunderstanding, especially one about money. Contracts afford both you and the other party confidence in dealing with each other, and they provide the added benefit of making you look professional. It's smart practice and good business to memorialize agreements and understandings to writing.

7. BURN THE BOATS

Very often, success is only a matter of necessity. In 1519, the explorer Hernando Cortes burned his entire fleet of boats in the bay of Vera Cruz so that he and his crew could not turn back to the safety of Cuba. The burning of the boats demonstrated the conquistador's daring resolve to make his mission a success in the face of unknown risks and dangers. If you wish to be successful in your own venture, you must give your business the same unwavering, full time dedication. So burn the boats and commit to success.