

# Chapter II

## Starting your own company

After you searched the Patent databases and did keyword searches in Google, and you did not find identical or similar ideas, you may decide that it would be worth while exploring the starting of your own company.

**Here are some considerations:**

**A. Do you have a team of experienced people who can turn your idea into a successful company?**

**B. Do you have the financial resources needed?**

A. **The Team.** Unless you plan to do it yourself (not recommended, even though I did exactly that with my first company Giltronix, Inc.) you will need some team members. If you are a technical person (technician or engineer), and can develop your idea to a working prototype, you may search for a CEO (Chief Executive Officer) type. An MBA graduate or a retired CEO would make good choices. In addition you will need a Marketing professional who can develop initial market needs for your product and develop a marketing strategy for your start-up company. Ideally the Marketing person should have 5 to 10 years experience in the market intended for your products. Once you have a CEO and an experienced Marketing person you can start developing an Executive Summary. If you are a technical person but cannot develop your idea into a working prototype, you may consider adding to your founding team a CTO type. A CTO (Chief Technology Officer) is a person who managed a technical staff and delivered successful product on time and within the allocated budget.

B. **The Financial Resources.** The best way to establish the financial resources you will need is by developing an **Executive Summary (ES)**. The first step in developing an ES is to write an **Elevator**

**Pitch (EP).** The EP is a brief summary of your idea or product in very few words (two or three sentences). It is called an elevator pitch because it must be so focused and be so good as to convince a potential investor to make an investment in your idea during a few short stops in an elevator. If you did not make a good enough presentation, the opportunity is gone and you may not get a second opportunity. How do you know you have a good EP? Try it on your friends or business associates (do not forget the NDA issue). If your friends have many questions after you present them the EP or they do not understand your business or the need for your product, your EP failed and you need to redo it.

Assuming you now have a great EP, and you can describe in a few words the need for your product and how you are going to make money with it, it is a good time to start writing the Executive Summary (ES).

**The following are the main parts of an ES (See Appendix E for a sample ES):**

- a. Elevator Pitch
- b. Goal/Mission of your company
- c. Defining the problem or the need
- d. Your solution
- e. The Business Model
- f. Marketing Strategy
- g. Competitive Analysis
- h. Financial Projections for 3 years
- i. Management Team

We will discuss in detail each section of the ES but first let us establish the length and the detail of the ES. A good ES should not have more than 5 pages. If it can be reduced to 3 or 4 pages it is

better. The ES can and should contain a number of attachments that are not included in the initial 3 to 5 pages. The attachments are there for people who want to see how you derived some of your figures or how you decided on the market size and pricing for your product (s).

There are many books written on how to write an Executive Summary or a Business Plan. Some of these books are also referenced below (see the Reference section). I will make a few comments on each of the sections but one mustn't rely only on these comments.

- a. We already discussed the **Elevator pitch** (see section B on page 19)
- b. The **Goal/Mission** of your company should clearly articulate your goals. Becoming the leading company selling “super-ringtones” is not a good Goal. Introducing the unique advantages of the “super-ringtone” to all the Cellular users in California or the USA would be a more suitable goal.
- c. **Defining the problem** or the need. This section is extremely important and should not be based on your feeling alone or the feeling of a handful of people. You must conduct a simple survey (questionnaire) and ask at least 1% of the intended users what is the problem with their cellular phone (as an example). If you want to sell your idea/invention to every cellular user in California, be prepared to conduct a survey of several thousand users otherwise you may not get a true indication of the consumer “wants and needs”.
- d. **Your solution** must match the expectation of the end users. If you solved a problem they have, make sure that your solution is exactly what they want and at a price they are willing to pay. The price could also be integrated in the survey. You can use a question like: “If you had a good solution that would fix the “ringtone” problem how much would you be willing to pay”? You

must also suggest a price or a price range otherwise you will get very low prices and/or very high prices.

- e. **The Business Model.** This is perhaps one of the most misunderstood issues by entrepreneurs. In this section you must clearly state how are you going to make money from selling your products. It is not enough to say: “We will sell x amount of units via Distributors or via the Internet”. You must show exactly what will be the end user price, the cost of distribution, and the minimum profit margins you will have. Many people use the model: “We will sell the products to a large company and we will ask them to share their profits with us”. This model does not work and large companies will not agree to share their profits for many reasons. Similarly the “advertising business model” did not prove to be a successful business model.
- f. **Marketing Strategy.** Many books have been written on this subject. There is very little I can add to what was already published in books, articles and conferences. For those who are novice in Marketing, keep in mind that we are not talking about detailed description on how you will sell your products. That would be the tactics. The strategy is the overall plan. For Example of a possible strategy may be: We will sell only via the Internet since the margins are so low that selling via Distribution would be prohibitive.
- g. **Competition and Competitive Analysis.** The following chapters will go into great detail with respect to Competition. Over my career I have seen many companies who never got funded because they did not do a good competitive analysis. Other companies failed after they got funded because they did not evaluate their competitors and were surprised by new competitors, by price wars, etc. The following chapters will also address an Entrepreneurial approach to competition. For further details See Chapter III.

- h. **Financial Projections.** The ES needs only a summary table of the 3 year financial projections. However, in order to prepare this summary table, you must do a detailed 3 year projection and extract from it the table summary. Appendix E shows a Sample ES with a Summary Financial table. The CD that is part of this book also contains a Sample 3 Year Financial form that can be modified very easily. This financial table also contains a Valuation Formula that can be used as a guide for the valuation of your company. The Valuation of the company together with the Financial Projections will determine how much money you need to raise and what percentage of equity you will need to give to the potential investors.
- i. **Management Team.** As I mentioned earlier, the best start-up team has a CEO, CTO and a experienced Marketing person. The team must have both industry experience and experience on working together (not necessarily in the same companies). So many start-ups have failed because of disputes amongst the founders or managers. Selecting your partners and/or founders is a task that must be addressed very seriously.

## Start-up Checklist (Part I)

### To be used only by DMwl Entrepreneurs™!

This checklist is intended for tracking the initial steps following an idea/invention

√	Task	Date	Comments/References
<input type="radio"/>	Define your technology or business idea. Describe the problem and the proposed solution.		Use diagrams or charts as much as possible
<input type="radio"/>	Write an Elevator Pitch (EP) – 2 or 3 sentences maximum		See additional information in the text book "From IP to IPO™"
<input type="radio"/>	Write the EP + other details in your Record Book		See additional information in the text book "From IP to IPO"
<input type="radio"/>	Send a copy of the Record book information to your own home		See additional information in the text book "From IP to IPO"

	address. Make sure the envelope is not opened.		
<input type="radio"/>	Receive the self addressed envelope and file it properly in a binder or file cabinet with all your important records.		See additional information in the text book "From IP to IPO"
<input type="radio"/>	Add additional information to your idea (drawings, pictures, statistics, references, etc.)		Flow charts and Block diagrams are very helpful info.
<input type="radio"/>	Prepare a Provisional Patent Application. Download the forms and instructions from US PTO but do not file yet.		See <a href="http://www.uspto.gov">www.uspto.gov</a> also see Appendix B of the book "From IP to IPO"
<input type="radio"/>	Use Google and other DBs to research your potential competitors. Use the 5 types discussed by Michael J. Porter		See additional information in the text book "From IP to IPO"
<input type="radio"/>	Develop a comprehensive Competitive Analysis using the CBRC Method.		See additional information in the text book "From IP to IPO"
<input type="radio"/>	Use Google, USPTO, WIPO and other DBs to research patents that are similar or identical to your idea.		See additional information in the text book "From IP to IPO"
<input type="radio"/>	File the Provisional Patent Application if you are convinced that there are no infringing patents or patent applications.		See <a href="http://www.uspto.gov">www.uspto.gov</a> also see Appendix E of the book "From IP to IPO". <b>This will cost \$105</b>
<input type="radio"/>	Receive the Provisional Patent confirmation from the US PTO and file it with your important records. Make sure you contact a Patent Attorney and you file an actual Patent Application.		Note the date in the confirmation letter. This is going to be the effective date of your Patent. Remember you must file an actual Patent Application within 12 months of the above date

**A more detailed Check List (Part II) is provided in Appendix H**

## The Amazon Case Study

As indicated in Table 1, Amazon is ranked #2 with 825 points (out of 1,000).

Amazon has reached great financial success in the past few years. Last year they introduced the Kindle (Reading Tablet) which is offered at \$259. Hundreds of books can be downloaded and read via the Kindle.

The ranking of Amazon was based partially, on the following Financial Summary:

Income or Revenue	FY 2007	FY 2008	FY 2009
(\$ Billions)		19.17	24.51
<b>Net Income</b>		0.645	0.902

(\$ Billions)			
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The information in the above table were collected from SEC filings and/or Audited Financials

The following summary table is available from Wikipedia <http://en.wikipedia.org/wiki/Amazon.com>

	
<b>Type</b>	<a href="#">Public</a> ( <a href="#">NASDAQ: AMZN</a> )
<b>Founded</b>	1994
<b>Founder</b>	<a href="#">Jeffrey P. Bezos</a>
<b>Headquarters</b>	<b>Seattle, Washington</b>
<b>Area served</b>	<a href="#">Worldwide</a>
<b>Key people</b>	<a href="#">Jeffrey P. Bezos</a> <a href="#">Chairman, CEO, &amp; President</a> , <a href="#">Tom Szkutak</a> <a href="#">CFO</a>
<b>Industry</b>	<a href="#">Retail</a>
<b>Products</b>	<a href="#">Amazon.com</a> <a href="#">A9.com</a> <a href="#">Alexa Internet</a> <a href="#">IMDb</a> <a href="#">Kindle</a> <a href="#">Amazon Web Services</a> <a href="#">dpreview.com</a> <a href="#">Javari.co.uk</a>
<b>Revenue</b>	▲ <a href="#">US\$</a> 24.509 billion (2009)
<b>Operating income</b>	▲ <a href="#">US\$</a> 1.129 billion (2009)
<b>Net income</b>	▲ <a href="#">US\$</a> 902 million (2009)
<b>Employees</b>	20,700 (2009) <sup>[1]</sup>
<b>Website</b>	<a href="#">Amazon.com</a>

<b>Alexa rank</b>	19 <sup>[2]</sup>
<b>Type of site</b>	<a href="#">e-commerce</a>
<b>Advertising</b>	<a href="#">web banners</a> and <a href="#">videos</a>
<b>Available in</b>	<a href="#">English</a> , <a href="#">Japanese</a> , <a href="#">German</a> , <a href="#">French</a> , & <a href="#">Chinese</a>
<b>Launched</b>	1995

Based on information on the Internet Amazon does not have an Innovation Time Off policy but it has a number of programs to encourage innovation. Table 3 above indicates that Amazon received a grade of 5 (out of 10) in the “Dream Factor” category.

