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Starting Out on the Right Foot

Strategies for start-ups to enhance value and reduce risk

You've:

- decided upon the vision, values and goals;
- assessed the competition and resources challenges;
- identified your target customer base and sought feedback from them (and your suppliers), to identify what is likely to work and what isn't, and
- prepared your business plan.

What next? What strategies can you employ from the outset to maximise value, protect your business and enable it to respond best to the challenges all startups face?

Having advised many new businesses (the good, the bad and the ugly) over three decades, here are my thoughts:

1. Find the right advisers

It's important to invest the time at the outset to find the right advisors (most commonly, in accounting, financial and legal) to guide your business as it grows.

This is about more than choosing the most well-known name your budget allows. It's about finding someone who understands you, your business and what you want to achieve. Getting that fit right in the beginning will give you access to real wisdom, and save time and significant expense over the journey.

2. Choose a suitable business structure

Various options are available - your advisers can help you choose the best.

If you are starting the business with a view to selling in the future, a structure which is likely to be the most attractive to a potential buyer will avoid the discount and/or restructuring costs of a poor structure.

It's likely that a company structure will be the most suitable option for the trading entity, rather than a discretionary trust or a unit trust.

3. Seek out appropriate funding

Finding the right investors/financiers can be tricky - some demand too much in return.

Don't give it away! Try to source funding which doesn't require you to give up a share of your business (i.e. loans from friends and family may be a simpler and cleaner option than issuing equity).

Similarly, as much as possible, avoid giving personal guarantees for the business' obligations.

4. Select the right bank

Don't just go straight to the bank you've used as a consumer. Find one that understands your business and with which you feel comfortable.

Some banks offer incentives for new business customers - find those relevant to your business.

5. Ownership rights

If you plan to own the business with others, agreeing at the outset on how ownership relationships will function will save time and expense if disagreements arise later (e.g. an owner unexpectedly decides to exit the business and demands to be paid their "fair share").

Like a marriage, no one starts a business with others expecting the ownership relationship to break down. But if it does, having a written agreement to point to when issues arise and owners aren't willing to cooperate is crucial.

For example, if your business is structured as a company, these rights can be set out in a Shareholders' Agreement covering issues such as:

- how are decisions made?
- how do we decide if we want to allow a new owner on board?
- if I want to leave, to whom can I sell my share and how is the price set?

6. Manage employment risks

Investing in reliable employment agreement templates for both ordinary and management staff will help manage risk (and the cost if things going wrong) as you take on more staff. These days, the cost of this investment represents real value in the medium term.

Preparing a basic but appropriate employee handbook containing your internal policies, will provide new starters with a clear understanding of what is expected and reduce your risk.

Depending on your business, you may also need to address OHS compliance.

Research/seek advice which awards or agreements will apply to employees in your industry to ensure you are providing the proper pay rates and conditions.

7. Understand regulatory requirements

Depending on the nature of your business and where it is based, different licences, permits, registrations and certificates may be required.

Understanding the regulatory requirements which apply (here and possibly also overseas) will improve your business planning and avoid future compliance issues. Government and industry websites and your advisers can help you with this.

8. Branding and marketing

Your business name can be one of your most valuable assets – it is your identity with your customers, differentiating you from competitors.

If you want to trade under a different name from your company name, you'll need to register a business name and potentially a trade mark as well, so only you can use it.

Before deciding on a name and checking availability for registration, check if your preferred name is available as a web address and social media profiles.

Do a web search to check for any similar sounding names or initials both here and overseas and check their reviews to minimise any reputation risk by association.

If you have a designed logo to identify your brand, this is also something to consider protecting with a trade mark

9. Protect IP

Intellectual property is increasingly valuable and so important to protect. Usually, this means registering a trade mark so only you can use its identifying features. It may also mean ensuring that you own the copyright in developed software or key marketing material.

If you have developed something novel that may be able to be patented, take great care not to generally disclose this, as it may preclude patent registration.

It is important to understand how intellectual property can be created, owned and protected and a helpful guide can be accessed here.

10. Consider appropriate insurance cover

Insurance cover is a key tool for protecting your business and minimising exposure to risk.

This can include insuring your main commercial risks, insuring your income and insuring against relevant liabilities.

The right insurance broker will help you identify possible risks and assess whether insurance is a sensible solution.

11. Maintain business records and protect privacy

Financial and tax records must be properly maintained and stored for well after the relevant financial year. Your accountant can help.

Legal documents such as company records, key contracts and employment agreements should also be safely maintained.

If your business involves handling your customers' "personal information", understanding your privacy law obligations will help avoid complaints and protect your reputation.

12. Make it "owner-proof"

From the start, set up your business so that dependence on you is minimised. Your exit value depends on this – a buyer will only pay good money to the extent that they are confident the business will operate profitably without your involvement.

So establish systems across the business to build this separation and, as far as possible avoid anything (key relationships, name, technical competency, brand etc) that relies on your ongoing involvement.

These strategies are just a small, but important, selection of things you should do to ensure you get the most out of your startup, making the foundations the most secure and avoiding unnecessary headaches (and the costs that come with them) in the future.

Nick Miller

Principal
Melbourne

T +61 3 8602 9269
E nmiller@huntvic.com.au

Lynne Grant

Principal
Melbourne

T +61 3 8602 9246
E lgrant@huntvic.com.au