Preparation for Entrepreneurship

How to develop autonomy

Definition

- An entrepreneur is defined as a person who creates a new business, and enjoys the rewards of the business.
- Examples: Steve Jobs, Bill Gates, Elon Musk

What’s needed to become an entrepreneur

- 1. An idea

- 2. Capital

- 3. Identify a need (How to do this? If you know your business you know where the needs are) Cite Henry Ford, Ned Johnson, Steve Jobs.
- 4. Projections
- 5. A plan

- Once you have the idea, how do you finance it?

Getting the money

- Loan: Risky
- Venture capital: Dilutive
- Self financed: The purpose of this presentation is to provide ways to either self finance the budding entrepreneur, or to obtain financing within an umbrella organization

How?

- Self finance: How can I get the money to finance my venture?
- Answer:
- 1. Multiple jobs (downside, creates possible family issues if married.
- 2. Leveraging your compensation: Use other people's money (OPM), or get compensated on direct performance (portfolio performance, or sales)

Money Makes Money but How do You Start?

- It’s a well known fact that money makes money. However, how do you develop the initial nest egg in the first place, which you can then make work for you?
- The Job: Most people don’t have very much left over from their paychecks, and live “hand to mouth”. This lifestyle makes it difficult to take financial risk, and is not conducive to becoming an entrepreneur.

OPM?

- Avenues of tapping into OPM
- 1. Banks (risky due to personal guarantees)
- 2. Family money (risky due to family relationships)
- 3. Jobs with leverage
  - A. Trading with firm's money
  - B. Sales jobs with percentage participation
  - C. Hedge fund where compensation is based on AUM
  - D. Personally financed (bootstrap financing)(Shutterstock is an example of this)

Other financing

- More difficult to secure
- Venture capital
- Seed capital
- Downside is giving up equity
- A. Giving up control as well, possible board membership
- B. Potentially conflicting goals

Why an entrepreneur?

- Less risky way is to be an entrepreneur within the context of a supporting organization
- In other words, start a department within a firm, insist on a certain amount of autonomy

Rather go it alone?

- You need:
- 1. Capital
- 2. Projections (even if your own capital)
- A. Financial
- B. Labor
- C. Supply chain projections
- D. Cushion if timing is off

Most Importantly

- Do what you know
- For example, it is a hard transition to go from Wall Street to farming, or from construction services to management consulting.

Do What You Love

- Follow your passion
- A. Time commitment of new business
- B. Do what you love, never work a day in your life

How to keep expenses down

- Once up and running, keep close eye on expenses and cash flow.
- Most businesses fail due to undercapitalization, often exacerbated by unnecessary expenses. They simply run out of money.
- A. If sales is part of your business model, pay commission only upon occurrence of sales, for example.
- B. Use technology to keep expenses low (iPhone calendar instead of an admin assistant, use GoToMeeting or Zoom instead of traveling)

Costs Are Lower Today

- C. Contemplate the idea of securing shared work space if you need to meet clients, contractors or employees in the office.
- D. Keep your distributions low until the income supports the distributions, try not to “eat into capital”.

So, You Hit the Ground Running, But….

- Your actual income is much lower than you projected, and the market that you entered is more competitive than you expected. What do you do?

Be Nimble

- Pivot
- A. Change direction, either enhance the product, or create and embrace another product, always staying within your core skill area.
- One of the reasons you are an entrepreneur is the autonomy. That autonomy gives you the flexibility to quickly change your business model.

Don’t be a one man band

- Don’t spread yourself too thin. Hire support people and delegate to take some of the burden from you. You are no longer effective if you get bogged down in paperwork instead of doing something more creative.

Pay for Production

- Hire producers
- If you pay on production, your fixed costs are minimal. Hire multiple people, the more the merrier, as long as you keep track of them properly.

Pay Your Bills!

- If you are newly established, your reputation is on the line since this is your first venture and you do not have a track record.
- Your reputation will be either enhanced or tarnished depending upon how fast you pay your bills.

Use Competent Professionals

- Attorneys and accountants can get expensive.
- However, not having good attorneys and accountants is more expensive.
- Be careful who you choose, they will likely be your largest fixed expense, but without them you are destined to fail.

Stay with what you know

- Resist the urge to become a serial entrepreneur!
- A. Ok if you have the support system around you such as an umbrella organization funding you, or readily available investors
- B. Risk of failure increases if you venture outside of your familiarity
- C. However, keep your eyes open for opportunities (Bill Gates, Steve Jobs, Elon Musk)

Have an Exit Strategy

- One option is to continue until you fade into the sunset. This may be a conscious effort NOT to have an exit strategy, and is somewhat risky if there is no succession management
- Other options:
- 1. Sell part or all of the company
- 2. Go public
- 3. Take in partners

Leave it behind

- 4. Train successors
- a. Gradually give them autonomy
- b. Go to Costa Rica