

## **BUILDING A BUSINESS AROUND YOUR IDEA**

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If you are so fired up about your invention or idea that you want to build a business around it and launch it into the world, we are here to help! We believe entrepreneurs make the world a better place by developing and offering solutions to unsolved problems. **We love supporting entrepreneurs willing to do what's needed to improve their own lives by improving the lives of others.**

We put these guidelines together to help you think through and set up your business right from the beginning so you can avoid costly tangents that don't take you closer to your goals.

- 1) Business Plan. Remember, the most important part is the planning, not the plan. The plan likely will change as you proceed, learn more, investigate opportunities. The act of planning crystallizes your thinking so you can make better decisions along the way.
  - a. Find the People You Need – Technical experts or vendors, legal, accounting, marketing.
    - i. SCORE is a nonprofit organization where you can be matched with a retired executive to help you put together your business plan or solve a particular challenge – at no cost to you.
    - ii. Ask the people in your network if they know anyone with the expertise you need. Vet and interview
    - iii. Decide if you are offering money or equity in exchange for their work
    - iv. Make sure you don't disclose your "secret sauce" unless you need to and only then after they have signed an NDA (nondisclosure agreement).
    - v. Once you find the right people and have negotiated the arrangement with them, be sure to document it in a written contract you both understand.
      1. Even if you are related to the person or they are your best friend, write down who is expected to do what, what each person gets and gives, who takes which risks, who pays for what, details about time, money and quality expectations.
      2. Have everyone sign and date it. **Especially if you value the relationship with that person, have a signed contract.** I have seen friendships torn apart when friends start a business on a handshake or fail to address the difficult deal points ahead of time.

- b. Know Your Market –
  - i. who are they,
  - ii. what do the need solved,
  - iii. what solution are they using now,
  - iv. how is your solution better,
  - v. how much are they spending now,
  - vi. how much will they spend for your solution?
- c. Set Your Price or Price Range
  - i. Many people put off all thoughts about pricing until they know how much it will cost to make or deliver. I recommend making pricing part of your business plan.
  - ii. Pricing is about the value your solution delivers to your customer. Once you know your market, you should have an idea what they are currently paying and what your solution would or could be worth to them. This is where you start the analysis of pricing.
  - iii. Knowing your market and your price range means you have clarity on the rest of the decisions you will need to make. Are you a value leader or a quality leader? Are you a luxury item or a cost-saving item? The answer to those questions will affect your decisions about branding, product design, materials, packaging, manufacturing, quality control, literally every aspect of your business.
  - iv. If you then find you cannot produce the product or deliver the service as planned at your target price range and still make a profit, then you know ahead of time to adjust the strategy and maybe rethink your pricing or your target market.
  - v. Pricing is communication. If you plan to market your solution as a quality leader (“the best”), the pricing must match the value proposition. If you charge too little, it will not be perceived as the best – even if it is.
  - vi. Don’t be fooled into thinking your solution must be cheaper than the competition in order to sell. Focus on the value delivered.
- d. Put Protections In Place (for yourself, your family, your business) –
  - i. Incorporate (LLC or corporation) so your personal assets stay safe;

- ii. investigate patent, trademark, trade secret and copyright protection early, while all options are still available;
- iii. investigate insurance and be ready to buy it when you need it (find a good independent insurance agent who will take the time to understand the coverage you need and find it).
- iv. Don't sign contracts without going over them with an attorney you trust.
- v. Get a non-disclosure/non-compete agreement (NDA) that's tailored to your needs and don't share your secret sauce with anyone who won't sign it (at least until you get a patent application filed).

**e. Products:**

- i. You will need a “works-like” prototype (prototyping firms can help), a “looks-like” prototype (product designers can help), packaging, manufacturing, inventory management and storage, distribution, quality control
- ii. A word about distribution: How will you offer and sell your product? Will you sell online only? If you want to be in stores, find out what they require. The more you know at the planning stage, the more you can adjust your strategy as needed,.
- iii. A word about manufacturing: Generally, the more you spend on tooling, the less cost per item you will pay. Find a balance that works for you. And I recommend looking for manufacturing in the US if possible and not be seduced by low costs from Chinese factories. If you manufacture overseas, consider these risks:
  - 1. Knockoffs and counterfeits – For many years it has been a well-known practice in China for a factory often sets up a second factory making knockoffs or counterfeits of your product. They then advertise and sell the copycat products in the US, undercutting your price.
    - a. If you have a patent or registered trademark, you at least can sue them in the US and have the products seized by Customs. If you have no patents or trademarks, you have very little recourse.
  - 2. Supply chain delays – if you manufacture on the other side of the world, you become more vulnerable to risks your products will be late or supply interrupted.

- a. Delays can happen with US manufacturing as well, but the closer your manufacturing is to your warehouse or fulfillment center, the smaller the likely delays and the lower the risk.
3. Quality control – if you manufacture overseas, you will need to rely on a factory rep to ensure product quality is maintained. If you manufacture in the US you can more easily visit the factory yourself.
4. Accountability – Especially at the beginning of launching a new product, service or business, I recommend doing business with people you meet face to face, who are bound by the laws and courts of the United States.
  - a. If everyone knows they can easily be sued for breach or theft, they are likely to take their obligations more seriously.
- iv. A word about inventory management: How many widgets should you order?
  1. Generally, the more you order, the lower the price per unit. But that doesn't mean you should order the maximum number. Consider how long your products will keep; the cost of shipping them and unloading them; the cost of warehousing them; how many you expect to sell in the first month, six-months, year; and the lead time you need for a second order.
  2. You don't want to run out, but you don't want to be left paying month after month to store unsold inventory, either; and if your product ages, you'll want to err on the side of ordering fewer and figure out when you need to put in a second order (knowing how long it will take to get them into your warehouse).
- f. **Service:** Design the service, including signing up customers, the new customer intake process, who will do the work and how will it get done (policies & procedures), who will oversee the work or otherwise manage quality control, billing and accounts receivable,
- g. **All Businesses:** Pricing adjustments, Marketing plan, sales and delivery process, customer service/customer engagement, growth plans.
  - i. What happens when everyone in your market already has bought what you sell?
    1. Do they need more? What else do they need?
    2. Will you offer something complementary?

3. Will you build your business around selling consumables (what I call the “K-cup model”, where the real money is not in the machine they buy once but in the patented and trademarked consumables they need to keep buying in order to use your product).
- ii. How will you get repeat business? What other goods and services do your customers need, and who (if not you) would be interested in selling to them?
    1. Can you license your brand (trademarks) to communicate to your loyal customers that a third-party company or its products are endorsed by you? Trademark licensing is a way to gain passive income from the customer goodwill you have developed while also expanding your brand into markets you would not otherwise reach. Your brand becomes more well-known and you receive royalties from your licensee, ie. a small percentage of every sale.
- 2) Get the Money --
- a. How much money do you need to get your project to where you want it?
    - i. Do not underestimate the power of knowing how much you really need, as in do the work and figure out how much each piece will cost.
    - ii. Put together the budget. Investors and banks are much more likely to invest in or lend to entrepreneurs who have thought through what they need and where the funds will go.
    - iii. Once you have a real number and can picture how you’ll spend it, you’ll have an easier time finding the money to build your business.
      1. Does anyone owe you money? Collect it.
      2. Friends & family
      3. Bank loans or lines of credit (lower interest rates than credit cards). Look at [sba.gov](http://sba.gov) to find SBA resources for startups and banks that offer SBA-backed loans and lines of credit.
      4. Investors – friends & family, angel investors, angel groups, incubator programs, financial planners who focus on high-net-worth clients.
        - a. I recommend “What Every Angel Investor Wants You To Know” by Brian Cohen to give you an idea what angels are looking for and how to choose the right angel for your project.

- b. Talk to financial planners who focus their practice on high-net-worth individuals. Their clients have the problem of insufficient high-return opportunities, and often they are willing to take the risk for the chance at the kind of payoff only possible with a startup. If they also have connections or expertise in your industry, then you'll have found yourself a smart angel investor (read the book above to learn more about "smart money").
  - c. Look and post on sites like Gust.com.
  - d. If you have a tech startup, consider Y Combinator and some of the other Silicon Valley incubator programs.
  - e. Look in your local community for startup incubators and angel groups. They are everywhere, particularly in and around major cities like Philadelphia, New York, Los Angeles, Chicago, Atlanta and San Francisco.
5. Grants from private or public organizations. Don't forget to look for free money, especially if you are a member of a particular group which might have grant money available (veterans, women and people of color, to name a few). You may find grants for people from your town, alumni of certain schools, or people looking to solve particular social or engineering challenges. Look and ask around!
  6. Crowdfunding
  7. Presales
  8. Sweat-equity partners (people who will do the work you need done for a piece of the company instead of cash now, which reduces what you need to spend on that work)

IP Works is here for you with the answers to your questions along the way. Happy Building!

For more information on patents, trademarks, trade secrets or copyrights, as well as resources for startups, go to [www.ipworkslaw.com](http://www.ipworkslaw.com) .

When you are ready, schedule a no-charge, confidential call with one of our attorneys:

[I'm ready to learn more!](#)

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