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Foreword by Bill Gross
Founder and CEO of Idealab

THE STARTUP CHECKLIST

25 Steps to a Scalable, High-Growth Business

DAVID S. ROSE

Bestselling Author of *Angel Investing* • CEO of Gust • Founder of New York Angels



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*To Daniel and Joanna Semel Rose,
my unwavering supporters throughout a half
century of entrepreneurship.*

Foreword

BEING AN ENTREPRENEUR is one of the greatest ways to make the world a better place. Building a company the right way with a great product, mission, and structure, unlocks human potential and allows you to have enormous impact in your immediate and extended community.

This book is priceless in helping you do just that. It is a step-by-step guide to taking an idea and turning it into a business.

I have been starting businesses all my life, since I was 12 years old in Junior High School. Since founding Idealab as a technology incubator in 1996, I have started more than 100 companies. The steps shared in this book are so clear and logical, it's painful to think about how wildly useful it would have been to have in my hands 20 years ago.

This book will help you avoid mistakes and make you 1,000 percent smarter in your approach to building a business. I guarantee that there will be at least one chapter in this book which could dramatically change the trajectory of your success and happiness. David describes how to approach your business when it's just a kernel of an idea, how to develop a plan and test your product in the market, how and when to hire the right talent (and importantly, how to think about equity splits and compensation), and takes you through the various administrative tasks that can be seen as tedious but are critical to avoiding expensive mistakes in the future. He outlines how to approach raising money and investors and the different sources of money available for a startup.

Preface

Why Every Entrepreneur Needs This Book . . . Instead of the Other 93,210 Books on Entrepreneurship

"To open a business is easy, to keep it open is an art."

—Chinese proverb

ENTREPRENEURS HAVE BEEN STARTING COMPANIES without reading instruction books since the first Phoenician trader bought his first ship over 5,000 years ago. And for those who do want some guidance, Amazon would be pleased to sell you any of the 93,210 books listed in its "start a business" category, many of which are quite good. So why is there a need for yet another startup book?

Because this book is designed for a very specific type of business starter: the entrepreneur who is deliberately setting out to create a scalable, high-growth business designed for the twenty-first century, a business that will likely hire employees, issue stock options, raise money from outside investors, grow rapidly, and eventually either be acquired by a larger company or "go public" through an initial public offering. It turns out that starting that kind of business gets very complicated, very quickly. Making even small mistakes at the beginning can cause problems at every later step along the way.

I've been starting companies myself for over 45 years as a serial entrepreneur (more than half a dozen of them), and as an active business angel investor I have personally funded and advised over 100 others. I've founded, taught in, or advised many of the country's leading entrepreneurship training programs, and, as the founder and CEO of Gust,

I've learned from the aggregate experience of providing the tools used by more than half a million startups around the world. I've also answered over 4,000 questions from aspiring entrepreneurs on Quora, the online question-and-answer site, and heard of just about every variety of problem in the playbook.

Along the way, I have learned firsthand the problems that can quickly arise from starting off on the wrong foot. They range from the fundamental (charging off to start a business that just doesn't make sense) to the painful (hooking up with people whose interests are divergent from yours) to the tragic (getting equity allocations wrong at the beginning and never being able to recover), all the way to the really, really expensive (making simple mistakes at the incorporation level that result in five- and six-figure cleanup costs the first time a serious investor is thinking of supporting you).

This book is intended to be your one-stop checklist to starting up right. I assume no prior knowledge on your part about business—just a strong desire to create something seriously big, and to do so in the most effective, most efficient, and least expensive way possible. My goal is to walk along beside you throughout the process, providing the background you need to understand the *whys* in addition to the *whats* and the *hows*. I will take you step-by-step through the nitty-gritty practical tasks of starting up a high-growth venture, introduce you to the latest online tools that will save you time and money, point you to the standard books that should be in every entrepreneur's library, and give you a peek behind the angel/venture curtain so you can understand what potential investors are thinking when they are considering funding your startup.

As my hero, Benjamin Franklin, wrote, "Experience keeps an expensive school, but fools will learn in no other." Having spent a lifetime painfully learning from experience, my goal now is to shorten the time that you will need to spend in Ben Franklin's "expensive school."^{*}

^{*}Benjamin Franklin was an amazing entrepreneur. You should read his delightful *Autobiography* for some cool startup experience and tips. (Not to mention his will, which established the first seed fund for entrepreneurs . . .)

Starting a great company is so much more than just a great idea. There are a thousand things you can do to unwittingly undermine your success. This book will help you navigate some of the critical junctures that will make or break your progress. In addition to the actual checklist, David provides a wealth of online resources that will allow you to become fully educated on every aspect of building your company. This book outlines that process better—and all in one place—than any other thing I have ever read.

David S. Rose has seen it all, over many years and across thousands of companies, and then, to the great benefit of the rest of us, has distilled the essence of what it takes to succeed. I can't say strongly enough how much I feel following the checklist David has created will help you make your company more successful.

—Bill Gross

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Introduction

25 Key Action Steps (Plus One) for Every Entrepreneur

BECAUSE YOU ARE undoubtedly raring to go out and change the world with your amazing business concept, I'm going to open this book with a crash checklist in "starting smart" so that you can avoid the biggest bone-headed errors made by many bright-eyed and enthusiastic first-time company founders. I'll give you a quick overview of each of the steps that will take you from an idea to an exit, and I'll explain how to use this book as your companion along the way. Even if this Introduction is all that you read, at least you'll know what you should be doing, and where to find an in-depth discussion in the book on each of the following topics.

Now, off we go!

Prepare to Launch

0. Before You Start, Educate Yourself.

Just as you would not start a trek to the North Pole without reading at least *Arctic Exploration for Couch Potatoes*, you should start your entrepreneurial journey by getting oriented to the basics . . . and that's exactly what this book is about. Once you've finished, if you are typical of most hyperactive entrepreneurs, you'll be off getting your parka and snowshoes. But if you can eke out a bit more patience, among the other 93,210 startup books, a few have become known as classics

for a reason. They deal with everything from “What is entrepreneurship?” to “How can I start cheaply?” and “How do I turn an idea into a company?”

Therefore, after you finish *The Startup Checklist*, the next thing I suggest you do is take the time to read a few of the other basic books on the “starting a company” thing. While this book deals with the hands-on, practical aspects of starting up, there are others that will provide invaluable context, advice, and theory, as well as detailed help with specific challenges many entrepreneurs face. I realize that the thought of reading even one book, let alone more, may seem boring or painful, or a waste of time. But when you stack the task up against the vital future of your enterprise, it begins to look like the best deal in town. In this book, I have pulled out a few gems of wisdom from the industry’s leading thinkers and teachers to get you started, but I have also included in Appendix A my *Startup Reading List* of classics that are full of too much mission-critical information to cover here. Read them.

1. Translate Your Idea into a Compelling Business Model.

A business is created in order to execute on an idea. Not having a clear picture of that idea is guaranteed to result in an extraordinary amount of wheel spinning. While you will spend the rest of your business career refining your idea, there must be something at the core, or you’ll have nothing to refine. In particular, it is crucial at the beginning to distinguish the *business concept* from the *product concept*. It is well and good to come up with an idea for a cool new widget, app, or website, but it’s more important to understand what value the product brings to which customer, and to understand who will be willing to pay you for your work in developing it. At this point you don’t need a full-fledged business plan, but you do need the ability to explain clearly what you’re doing and why—and that’s your business concept. In Chapter 1, I discuss creating a visual business model using the Business Model Canvas.

Once you have your business concept sketched out, I suggest you invest the time to get prefeedback. Take your nascent idea around and talk to domain experts in your field to see what they think about it. Don’t worry, they’re not going to steal your idea (they won’t!). What they will do, however, is to give you a reality check to see if your idea makes sense to people who know the industry you’re preparing to enter. Whatever they tell you shouldn’t necessarily be dispositive

(sometimes it takes a fresh creative look from outside an industry to make a conceptual leap), but it should absolutely be taken into consideration . . . and not just given lip service. It is far better to find out before you start that your idea has been tried multiple times with no success than it is to learn it after you've spent two years trying fruitlessly to smash a round peg into a square hole.

2. Craft a Lean Business Plan to Serve as Your "Plan A" Road Map.

Assuming the prefeedback you're getting indicates that you may be on the right track, now is the time to start organizing your business concept into a more detailed road map for your venture. In Chapter 2, I discuss how to prepare and use a Lean Business Plan. This is not a lengthy, text-heavy document, but rather the essential framework for everything that you will be doing down the road. It provides the context that will let you assess each new opportunity, product, option, and even employee in light of where you are trying to go and how you plan to get there.

While you will only produce a full written plan in the event that you are specifically requested to by a bank or other interested party, investors will be asking detailed questions of you . . . questions that you can answer only if you have already carefully thought through your business to the level of detail required to do a plan in the first place.

3. Find and Know Your Competitors, and Analyze the Strategic Landscape.

With an idea in hand that seems promising, take a look around to see who else is working on the same thing. That's because—as much as I hate to spoil the surprise—someone else is. Consider this: as of this writing, on the Gust online platform for early stage businesses, there are over 500,000 companies that have created startup profiles. Do you believe that there are 500,000 different business types in the world? No, there are not. How about 50,000? Nope, not that either. 5,000? Maybe, but I don't think so. 500? Yup, that sounds about right. So what does this mean to you? It means that, at this moment, as you are about to pour your soul into a new venture, there are between 100 and 1,000 other founders doing the same (or similar) things!

That being said, just because there are competitors is no reason to assume that they will succeed and you will not. Counterintuitively, experience has shown that a business arena with no competitors is considerably more difficult to conquer than one in which other people have paved the way for you (that's a lesson I learned painfully in the mid-1990s when I had a brilliant, breakthrough product for which we could never actually find a market.) But it is important that you are aware of what the competitive arena looks like so that you won't be unhappily surprised down the road. Chapter 3 is about the competition: who they are, where to find them, and how to analyze them.

4. Draft Your Founding Dream Team.

Talented as you may be, it is unlikely you have all the skills required to launch and build a successful business on your own. And even if you do, you won't have the time and energy to do so, especially as your company begins to grow. Sooner rather than later, you will need to identify a handful of other people who can complement your talents, forming a founding team that can help you launch your venture on a profitable, high-growth trajectory. It is important to consider the skills, background and knowledge that you will need to make the company a success, figuring out which ones you have and which ones you lack. Understanding the role of The Entrepreneur in a startup is the cornerstone of building a high-growth venture, and in Chapter 4 I talk about how to assess whether you *are* one . . . or need to *find* one, as well as how to set clear expectations among the members of your founding team.

5. Allocate the Equity in your Startup.

Once you've joined forces to create a founding team, you will need to have a discussion about equity—how much of the venture each person will own. In the same way that “good fences make good neighbors,” a clear, rational, and mutually agreed-upon equity structure sets a company up for success, whereas a poorly thought-out one is a recipe for conflict and failure. I walk through the intricacies of equity allocation in Chapter 5, including why the logical 50/50 split is not in the best interest of the company. The important things to remember are that (1) “equity is forever,” so once it's in someone's hands there is no easy

way for you to get it back; and (2) equity is all about the future upside of the business, and thus should be held by those likely to be instrumental in making that upside real, rather than people whose services can be purchased on the market for cash.

6. Build a Minimum Viable Product and Validate Your Plan with Customers.

Up to this point, your business concept has existed only in theory. You haven't been trying to sell any products or services to real-world customers. Now it is time for the rubber to hit the road. Your goal is to see whether any of your potential users are willing to pay for what you want to sell.

In Chapter 6, I introduce you to the famous Lean Startup Methodology, and its most important tool, the Minimum Viable Product (MVP). This is a basic version of the product or service you plan to offer that is just “real” enough to make it testable with live customers. The MVP can be a bare-bones prototype, a web page advertisement, or a small-scale service designed to simulate the kind of operation you will use to service hundreds of thousands of customers. It facilitates experiments in the marketplace—tests that will generate feedback you can use to tweak or redesign the offering, each time enhancing the likelihood that your offering will be a huge hit.

If the responses to your landing page, crowdfunding campaign, or other market test come back positive, you're good to go. On the other hand, at any of the above stages, if reality or sage advice suggests you're off target, reformulate the concept or pivot the business model, and try again as many times as it takes to build a truly successful model.

7. Establish Your Brand with Online Public Profiles.

Today's electronic communication tools make it much easier and more affordable than ever before to create a public image and presence for your business—a brand with a meaning and value all its own. Start this process early in the launch phase of your business and it can benefit you in many ways. Individuals and companies that may want to team up with you—talented employees, strategic partners, even investors—will have a way to find you, as you begin to tell your startup

story. Chapter 7 outlines the process of creating your online public profiles, with a brand name, logo and website, and discusses the social media platforms that have become essential venues for entrepreneurial ventures.

8. Network Effectively within the Entrepreneurial Ecosystem.

Back in the Dark Ages, around 2000 AD, there was no such thing as an “entrepreneurial ecosystem.” Today, entrepreneurs are as highly regarded as baseball players and the world in which you are starting your business is replete with individuals and organizations who can help you nurture your talents. These are the equivalent of Little Leagues, coaches, sporting goods stores and back-lot *Fields of Dreams*. While it is possible to survive as a loner, you will recruit many more allies (and have access to many more benefits) if you proactively put yourself in the middle of the action, as I describe in Chapter 8. Whether it is attending Meetups, applying to an accelerator program, pitching your concept in business competitions, or participating in online forums, embracing the ecosystem will pay off in the long term more than you realize.

Launch and Build Your Company

9. Incorporate as a Delaware “C” Corporation for Protection and Investment.

Everything you have done so far can (and probably should) take place before there is an actual business in existence. But as soon as you are ready to bring on partners, hire employees, develop intellectual property, raise capital, or generate revenues—in short, anything that creates or shares value of any kind—you need to establish an official business entity to be the owner of that value. In Chapter 9, I take you through the various types of possible business structures, including sole proprietorships, partnerships, LLCs, and corporations.

In the real world, however, there is only one serious option. If you plan to do anything involving employee or advisor options, venture capital, or serious angel funding, you need to be established as a C corporation so that ownership of the business is divided into shares of stock. And while the corporation can theoretically be formed in any