Morgan Stanley

Playbook: Your Guide to Life & Money

Starting a Business: Setting Up Shop

"It's not about ideas. It's about making ideas happen." —Scott Belsky, General Partner, Benchmark

What Is Covered in This Chapter:

- First steps for founders when starting a business.
- Understanding what business structure is right for you.
- The importance of creating an all-star team and network of advisors.
- The landscape of funding opportunities.
- Things to consider before investing in a startup.
- Steps for filing taxes as a business owner.
- Best practices for planning and pitching your business.

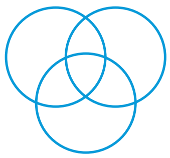
Do what you love. Advances in technology and unprecedented access to information have drastically changed the way we work and created an environment in which entrepreneurship can thrive. Career paths are no longer restricted to the traditional 9-to-5, allowing people to pursue new ideas and opportunities. Whether you are opening a small restaurant in your hometown, starting an online retail business or investing in your friend's new mobile app idea, you are in for one crazy ride. Building a business from scratch can be a lot harder and riskier than some may think, but if you are able to align your profession with your passions, it can be worth all the blood, sweat and tears that go into the process.

The Adventure of Starting a Business

As exciting as the pursuit of a new adventure can be, starting a business is easier said than done. Getting from an idea to a successfully operating business requires a great amount of discipline. Being your own boss comes with big responsibilities like choosing a legal structure, securing funding, paying taxes and building a world class team—to name a few. The key to making your entrepreneurial dream a reality is having a clear understanding of the value your business will create, a solid plan for delivering that value and the perseverance to see it through.

One of the most difficult hurdles to overcome is taking the first step. Use the following set of questions, inspired by the "start filter" in Derek Handley's **Turning Ideas into Action: The Field Guide**, to help you determine whether an idea is worth the commitment of your time, energy and resources.

ALIGNMENT WITH YOUR CORE VALUES



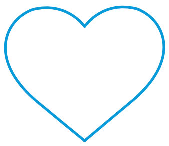
Are you pursuing this project or business because it aligns with your core values and passions?

If there are ulterior motives, what are they? Money, fame, boredom?

Is there a chance you will lose interest in this project or idea in a few months or years?

Takeaway: You want to be sure that you do things based on motivators that will stand the test of time.

THE RISK OF FAILURE AND YOUR TOLERANCE FOR RISK TODAY



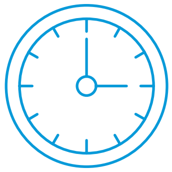
How much risk can you take?

Do you have the financial means and social confidence to start from scratch?

Do you feel confident in your ability to take a big leap and bounce back if at first you don't succeed?

Takeaway: With any new venture you may be risking time, energy, relationships, reputation and sometimes money.

THE TIME COMMITMENT REQUIRED



Is this going to be an "all in" or part-time commitment?

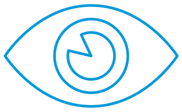
If it's a part-time commitment, exactly how much time are you able to commit and exactly when will you work on the project or business?

What are you willing to stop doing in order to free up enough time to work on this?

Who is going to be affected by your decision to pursue this project or business, and how are you going to communicate your decision to them?

Takeaway: Don't underestimate the amount of time and energy you will need (and want) to invest in your new venture, and don't forget that you may not be the only one who will be required to make some sacrifices.

THE SCALE OF THE VISION AND PAY-OFF.



Do you have a realistic understanding of this opportunity's potential?

Will the long-term pay-off be worth the trade-offs in the near-term?

Are you swinging for the fences or reaching for some low-hanging fruit?

Takeaway: Setting the right height for your goals first will determine how you assess opportunities that come your way.

Adapted from: Handley, Derek. Heart to Start. Auckland, New Zealand: Penguin Random House New Zealand Ltd, 2013.

Startup Checklist

SIX BASIC STEPS EVERY FOUNDER SHOULD TAKE

So what exactly is a "startup?" Eric Ries of *The Lean Startup* defines a startup as "a human institution designed to create a new product or service under conditions of extreme uncertainty." Neil Blumenthal of Warby Parker defines it as "a company working to solve a problem where the solution is not obvious and success is not guaranteed." In other words, a startup differs from an established company in that its value has yet to be proven.

Before a new business can take off, it's important to be thoughtful about building a solid foundation for it to launch from.

1 Create a Plan

Once you have decided that an idea is worth pursuing, the last thing you probably feel like doing is creating a tedious, 30-page business plan for it. However, while you don't need to have all the details set in stone, creating a business plan can be a valuable exercise to help you clarify the opportunity, identify who you may be competing against and outline how your business will operate. If you plan to seek investment, you may need this basic roadmap to explain your vision and the reality of how you're going to get there.

Your plan does not need to be finite. A key element of building a startup is your ability to pivot because the road to success is often far from a straight line. View your business plan as a living document that will evolve as you build, test and iterate over time.

2 Assess Your Strengths

Being an entrepreneur is not for the faint of heart. As a business owner, you will have to wear many hats, especially in the early days. Founders may find themselves responsible for everything from product strategy and fundraising to managing day-to-day financials and hiring an experienced team. Over time, you will want to bring on people who are experts in certain areas to make sure the business is run as efficiently and effectively as possible as you scale.

In order to hire smart, it's essential that you have a strong sense of your strengths and weaknesses. This will help you understand where to focus your own time and energy and what gaps you should fill by adding to your team. There are several helpful self-assessments online that provide valuable insight into your character and working style including Myers-Briggs Type Indicator, The Enneagram of Personality Test and the CliftonStrengths Assessment.

3 Choose Your Legal Structure

The difference between an idea and a business is incorporation. While you can technically get started without incorporating, you may face an uphill battle trying to run and grow your business without the proper paperwork in place. The type of legal structure you choose can have implications on your taxes, your personal liability and your fundraising options. Consider working with a lawyer and an accountant for guidance on determining the right structure, filing the necessary paperwork and addressing intellectual property issues such as trademarks or patents. They can help you avoid making mistakes that could have serious repercussions down the road.

4 Apply for an Employer ID Number (EIN)

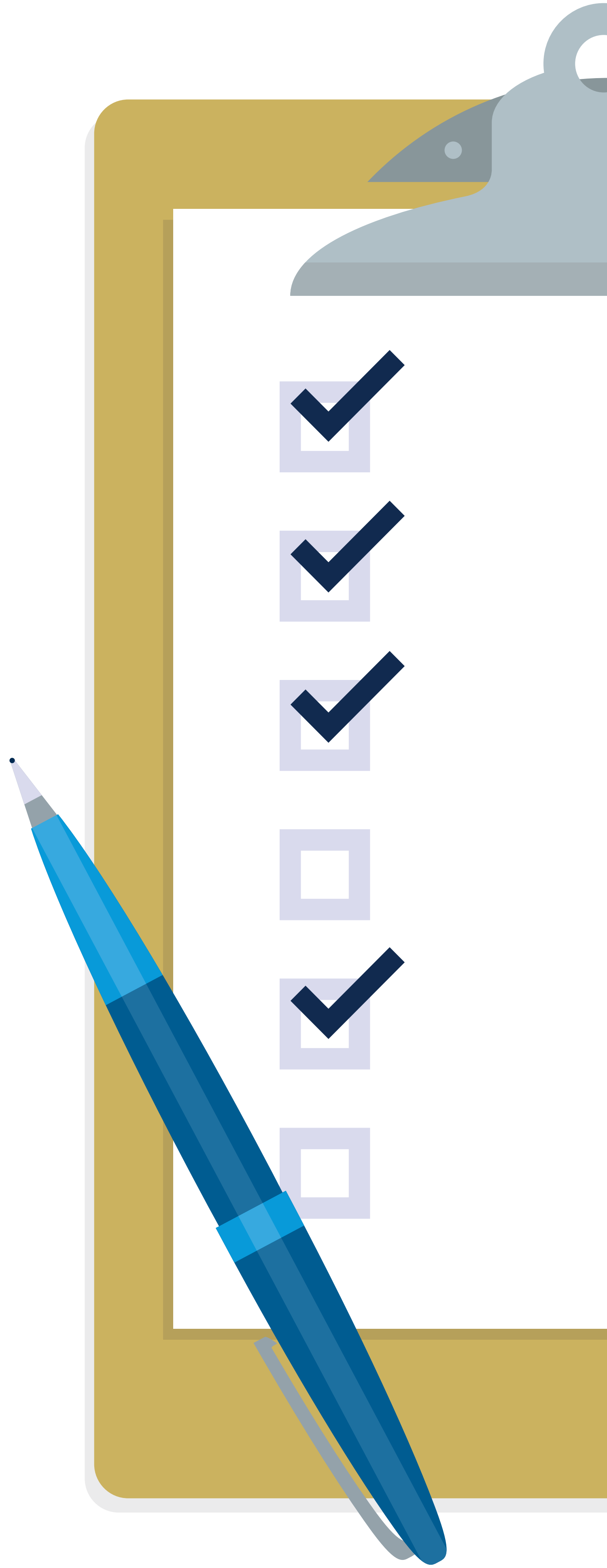
An EIN is also known as a Federal Tax Identification Number and it is essentially a social security number for your business. You can apply for an EIN on IRS.gov at no charge. Make sure you keep several copies of your IRS-issued EIN, as you will be required to use the number on most tax forms and other administrative documents.

5 Choose a Tax Year

Business owners can choose when they want to file their tax return. Many small businesses use the calendar year as their accounting period, but some cyclical businesses may prefer to choose another fiscal year. You can align your tax year with the school year for instance, beginning in September and ending in August. Be sure to consult with a tax advisor to see what is appropriate for your business.

6 Choose an Accounting System

Don't wait until you start earning revenue to get your accounting infrastructure set up. It can be a lot harder to do after the fact and you can get into some serious trouble if the numbers don't add up. Consider using accounting software for bookkeeping to help save you and your accountant a lot of painful number crunching when it's time to prepare your tax returns and financial reports.



Business Plan Essentials

1

EXECUTIVE SUMMARY
The most important part of a business plan is the executive summary. At a minimum, it should include a top-line description of your business, an overview of your key goals, and a compelling mission statement. The truth is, a lot of people don't bother to read beyond the first two pages so make sure you tell a crisp, accurate and engaging story that sparks reader curiosity and leaves them wanting to know more.

2

COMPANY DESCRIPTION
Describe what your company offers, what differentiates your business from others (your "secret sauce") and which markets you will serve.

3

MARKET ANALYSIS
Based on the research you have conducted on your potential customers and industry trends, provide a realistic assessment of the size, scope and nature of your market opportunity.

4

ORGANIZATION AND MANAGEMENT
Detail how your business will be structured and who will serve in the key roles.

5

SERVICE OR PRODUCT LINE
Describe the products or services you will sell and how they will benefit your customers. Describe your product lifecycle and how you will keep your product pipeline full.

Mastering Your Elevator Pitch

You've got 30 seconds to capture someone's full attention, explain why they should bet on your idea and leave them wanting more. Ready, set, pitch.

Here are the ingredients for an all-star elevator pitch:

- *Set the stage* by stating the facts of the consumer problem or need you are addressing. For example, "Today, x% of Americans pay x% for [a service or product you will affect]."
- *State your mission clearly.* Use a formula such as "We are addressing [problem] by providing [solution] to help [target market] accomplish [user goal]."
- *Explain how you will add value* to people's lives. "By creating [advantage/differentiator], we are delighting customers with [value]."
- *Avoid tangents*. Be prepared to provide concise answers to questions like:
  - *What's your business model* (how does the company make money)?
  - *How are you different* from your competitors?
  - *Who is the team* and why are they qualified?

Try this at home: Every word counts. Try to describe each part of your pitch in a 140-character tweet to understand how you can communicate quickly and clearly. Practice makes perfect.

6

MARKETING AND SALES

Discuss your plans for positioning and promoting your products and services, and the channels through which you will sell them.

7

FUNDING REQUEST ("THE ASK")

If you are seeking funding for your business, include how much you will need, when you will need it and how you will spend it.

8

FINANCIAL PROJECTIONS

It's critical to provide financial projections to back up your funding request. If you are already in business, provide historical income statements, balance sheets and cash flow statements. Include projections for each of these metrics for the next five years, as well as projected capital expenditures.

9

APPENDICES

Attach any additional information that adds credibility. This might include resumes of the principals and advisors, patent documents, permits and leases, favorable press clippings and so on.

Making it Official

There are several types of incorporation structures. Keep in mind that, while not impossible, it is challenging to change the structure of your business once you're up and running. Talk to your lawyer and accountant to understand the legal and tax implications of each structure and think through various scenarios: What if you decide to fundraise after all? What if your partner wants to leave unexpectedly? What are your exit options?

2 3 4 5

SOCIAL ENTREPRENEURSHIP

"The Millennial Generation is characterized by a strong entrepreneurial spirit that is driving them to take their business acumen, access to information, social networks and big ideas and create something meaningful and scalable. As the field of charity is learning lessons from the world of commerce, businesses are becoming more informed about the values of charity. Combining charity and commerce is what millennials are pushing. It's not going to be an 'either/or' going forward, it's going to be an 'and'!"

MELANIE SCHNOLL BEGUN—MANAGING DIRECTOR, HEAD OF PHILANTHROPY MANAGEMENT, MORGAN STANLEY WEALTH MANAGEMENT

More and more businesses are being built with greater purpose to help address social challenges and improve the lives of others. To recognize companies that are successfully using business as a force for good, the nonprofit B Lab created the B Corporation (B-Corp) certification. B-Corps are for-profit companies that meet certain standards regarding social and environmental performance, accountability and transparency. Learn more at www.bcorporation.net.

Organizational Structures

1	SOLE PROPRIETORSHIPS	**Sole proprietorships are unincorporated businesses (i.e. not officially registered) without employees that are owned by a single individual**. This option is mostly applicable for freelancers or one-person shows. If your business is organized as a sole proprietorship, you are personally liable for the debts and liabilities the business incurs. In other words, if your business gets sued or goes into debt, it's on you. To help ensure you are mitigating personal risk, consider setting up your sole proprietorship as a single member liability company (LLC), so you are protected if things don't go according to plan.
2	LIMITED LIABILITY CORPORATIONS (LLC)	**LLCs are also referred to as "pass-through" businesses, unless the LLC elects to be taxed as a corporation**. Instead of paying corporate taxes, all profits and losses from the business are passed on to the owners and reported on your personal tax return. Unlike a sole proprietorship, LLC owners are protected from personal liability but you can stand to lose what you invest in the business.
3	LIMITED LIABILITY PARTNERSHIPS (LLP)	**LLPs operate similarly to LLCs, but they must have more than one owner**. This structure is preferred by a lot of licensed professional groups, such as attorneys and doctors. The benefit of an LLP is that each member is protected from the liabilities created by other limited partners.
4	S CORPORATIONS	**The IRS created the S-Corp especially for businesses with up to 100 shareholders**. The benefit of an S-Corp is that it is also a pass-through entity, meaning that shareholders pay personal income tax on dividends or salaries drawn from the business, but the business itself does not pay any corporate taxes. While shareholders of S-Corps are protected from liability, they have to obey certain rules and remain compliant with government regulation. For instance, S-Corps have to issue stocks and keep detailed meeting minutes from shareholder and director meetings.
5	C CORPORATIONS	**Most companies you know are probably C-Corps. A C-Corp offers more flexibility because there are no limits to the number of shareholders you can have**. The government even allows C-Corps to establish guidelines related to voting privileges, which makes it easier for the company to grow and become more valuable. Think about it, Coca-Cola has more than 4 billion shares outstanding; if they were to let all of their shareholders weigh in on important issues, they would never come to a decision. Unlike the other legal structures, C-Corps are not pass-through entities. This means that they are subject to double taxation: shareholders have to pay personal income tax on dividends and the company has to pay corporate taxes. Similar to S-Corps, C-Corps are not liable, but are held to the same compliance standards.
6	501(C)(3)	**501(c)(3) is one of the most common statutes under which nonprofit organizations that were created with the sole purpose of benefiting the public can be tax-exempt**. A 501(c)(3) charitable organization is generally exempt from paying federal income taxes (and occasionally state taxes) and donor contributions are tax-deductible for donors, subject to certain limitations. Most 501(c)(3) charitable organizations must file an application with the IRS to be recognized as tax-exempt. Other eligible organizations that may be tax-exempt can include community groups, trade associations, labor unions, veteran organizations and social clubs. Visit www.IRS.gov for more information on qualifying for tax-exempt status.

“Build a team that complements your strengths. There are three types of mindsets: the artist (visionary, storyteller), the manager (systems builder), and the capitalist (risk taker). It’s important to be aware of which role you were born to play and play it really well. If you’re a capitalist who is comfortable taking risk, hire a manager who can create processes that manage this risk.”

SERGEY PETROSSOV—*FOUNDER, JETSMARTER*

Who to Have on the Bus

With far more enthusiasm than working capital, many early-stage entrepreneurs try to build their businesses with little to no help. However, as chief executive, salesman, accountant, administrator, tech support and virtually everything else, you will find it increasingly challenging to know how and where to focus your attention in the most productive way.

One approach is to focus on the task with the highest potential for impact first—in other words, the task that can make all other to-dos easier to complete. For most entrepreneurs, that task is talent.

Learning how to hire complementary staff and efficiently outsource non-core functions is one of the more important skills a new business owner can develop. When it comes to functions that are directly related to generating revenues for your business, hire the best possible people you can find and make sure they complement your skill set. For other operational and administrative support activities such as bookkeeping, marketing, human resources and legal, consider hiring another firm or freelancer.

> **"When it comes to hiring, I am a big advocate of leveraging your network, especially for finding early team members."**
>
> •
>
> ALEXANDRA WILKIS WILSON,
> CO-FOUNDER OF GLAMSQUAD AND GILT

TIP: No matter how quickly you are growing, avoid hiring anyone before you have properly interviewed and vetted him or her. It can be helpful to do reference checks and small companies may consider instituting a "trial period" of 1-3 months before hiring someone full time.

How to Curate a Personal Board of Advisors

Whether or not you have a formalized board of advisors for your business, consider creating a personal board of advisors that can act as your sounding board and provide invaluable advice and connections throughout your career, no matter where it takes you.

Step 1: Determine What You're Looking For

Create a wishlist of what type of advice or expertise you need right now, as well as what you anticipate needing in the future. Are you looking for advice or access to certain networks or people? Are you looking for a particular skill set or industry experience? Is the primary need professional or personal?

There are several types of advisors you might want to consider adding to your personal board:

Mentor	Someone who has relevant experience and insights.
Sponsor	Someone who will open doors and facilitate connections.
Influencer	Someone who can leverage their personal platform to promote your company.
Friend or Family Member	Someone who will keep you grounded and is not afraid to call you out (in a fair, respectful way, of course).

Step 2: Research and Rank Your Top Candidates

Once you know what you're looking for, create a shortlist of candidates who meet your criteria and rank them in order of priority. If you do not know someone on your target list, leverage your personal and professional networks to find their contact information or request a warm introduction if possible.

When creating your shortlist, try not to focus exclusively on pedigree. An alignment of values is just as important when it comes to developing these relationships.

Step 3: Pitch or Woo Your Target

When you are ready to pitch your top targets, there are a few different approaches to consider. Some will appreciate a more direct approach, while others will need to be wooed. Always be mindful of who your audience is: will he or she appreciate a formal or informal email? What or whom do you have in common that might be worth referencing?

The people on your shortlist are likely busy, accomplished individuals who will appreciate clear and concise communication. Flatter them and show them that you've done your homework, but be specific about what exactly you need and how they can be most valuable to you.

Don't forget to offer your time and any expertise that may be of value to them in return.

Funding Your Business

Finding the seed money to start a business may be one of the biggest challenges you face as a business owner. Thanks to the rise of entrepreneurship over the past decade, there are a variety of funding sources that cater to young entrepreneurs. However, the glorification of this career path has also led to growing competition for these funding sources. Accepting an investment from someone is a major commitment so it is important to have a clear understanding of their integrity, experience and the value they can add to your efforts.

"At the end of the day, it's not about resources but about resourcefulness. You have to go out and do everything you can to make it happen."

SERGEY PETROSSOV, FOUNDER, JETSMARTER

"If you're a first time entrepreneur, it's important to show investors a track record of success in other areas of your life, like athletics or academics. Show them that when you are dedicated to something, you excel. Also, take time to develop relationships before you need them. Start meeting with investors to get to know them before you begin fundraising and need to make the ask."

ALEXANDRA WILKIS WILSON,
CO-FOUNDER OF GLAMSQUAD AND GILT

Different rounds or "series" refer to instances where multiple people or parties make an investment at the same time and are usually associated with a company's stage:

SERIES A

Often used to execute a business plan, growth strategy and additional hires.

Example:
Snapchat raised a $13.5M Series A round from venture capital firms and used this money to hire 5 new people, bringing the total employee count to 10.[1]

SERIES B

Often used to help companies scale.

Example:
After success in San Francisco, NYC, Seattle, Chicago, Washington, D.C. and Boston, Uber raised a $32M Series B round to expand into new cities across North America, Europe and Asia.[2]

SERIES C

Used to maintain momentum, make acquisitions or expand internationally.

Example:
Digital fitness company FitOn raised $40 million in Series C funding after hitting 10 million users for its app.[3]

In order to cover costs of their startup, Airbnb founders sold boxes of cereal in 2008. Playing into the election year, they sold 800 boxes of "Obama O's" and "Cap'n McCain" for $40 each, earning $30,000 in two months to help fund their company.[4]

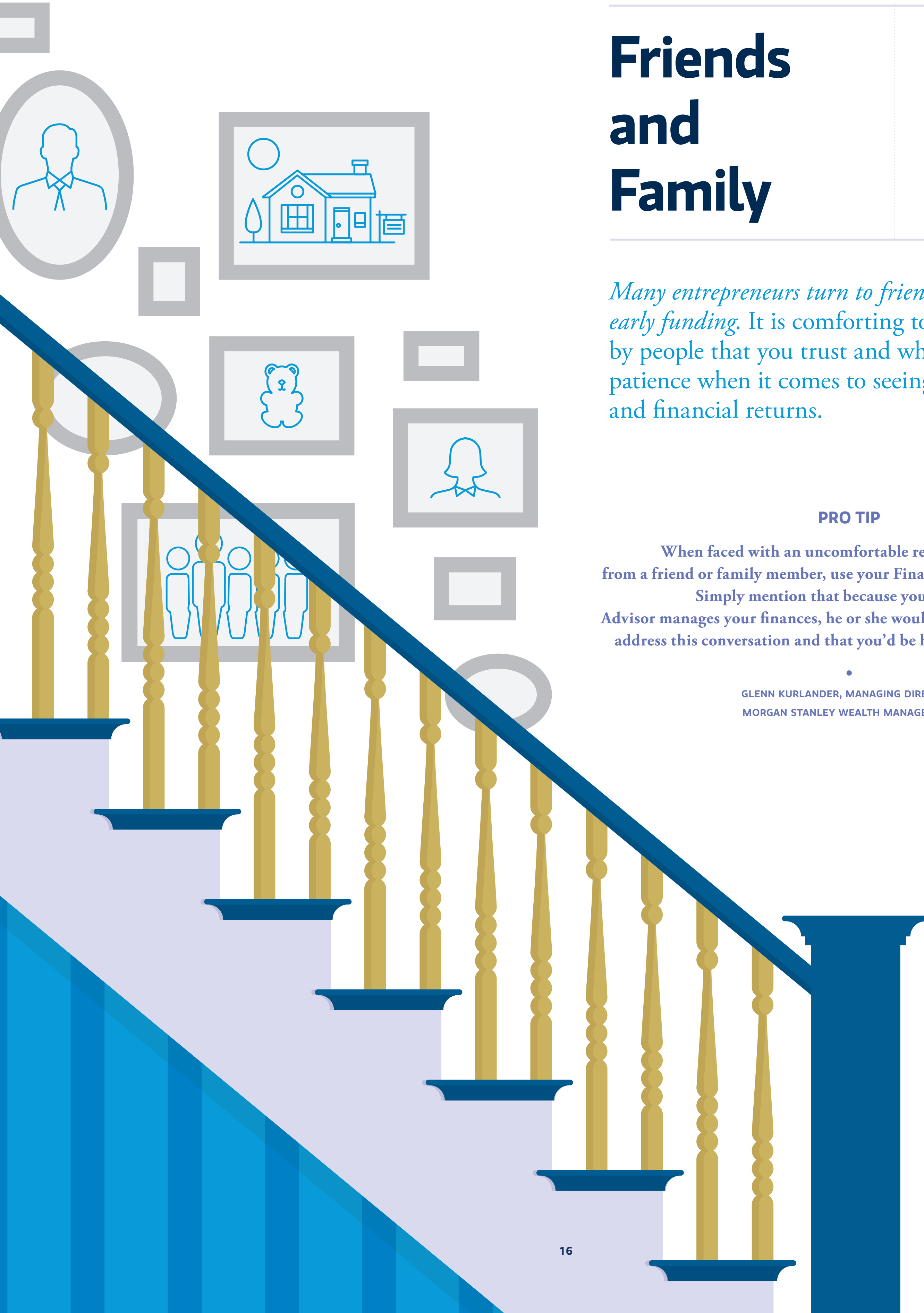
"Valuation is only one input as you consider early investing partners. Pay close attention to their experience, vision and communication style. These factors will have a long term impact on your growth as an entrepreneur as well as the growth of your company."

ELIZABETH DENNIS—*MANAGING DIRECTOR, HEAD OF MORGAN STANLEY PRIVATE WEALTH MANAGEMENT*

The source and type of funding you need varies greatly depending on what phase your business is in. There is no one-size-fits-all approach to fundraising, but here is an overview of various funding stages.

	1 **Founder's Round** Or Pre-Seed Round	2 **Seed Round** Can Also Include "Angel Round" or "Early Stage"	3 **Equity Stock Financing**
SAMPLE SOURCE OF FUNDS	Founders, Friends and Family.	Angel Investors, Friends and Family, Incubators and Accelerators, Venture Capital.	High Net Worth Investors, Venture Capital, Private Equity.
TIMING	No measurable revenues, less than 6 months in business.	Some initial proven traction, 6-18 months in business.	Steady monthly recurring revenues, 12+ months in business.
CONSIDER THIS	When you first incorporate your business, it probably won't have any measurable value. As a result, the company can issue you and any other founders "founder's stock," most or all of which is subject to vesting–in other words, you won't officially acquire your ownership stake until you have been with the company for a predefined period of time.	Once you have distributed the original shares to founders and early partners or team members, your next step is to raise enough startup capital to test and prove your idea. One way to do this is through a convertible note, which allows investors to loan you money in exchange for future equity.	Once you have established a track record and perhaps even some recurring revenues, you can consider raising capital through equity financing.
IMPACT ON YOUR OWNERSHIP	Minimal.	It depends. You may give up anywhere from 5% to 30% of your equity based on the type of investor, the business climate, your track record to date and several other factors.	At this point, it's a numbers game. If the capital you raise has the potential to 10x or 20x the size of your business, it may be worth giving up a considerable amount of equity. Keep in mind that as you bring on more investors, your voting rights may be affected as well. Consider including a contractual clause that preserves your ability to make decisions about the company (e.g., by having the majority vote), regardless of the dilution of your ownership.

TIP: If looking to get more exposure to startup investment opportunities or experienced investors who can provide insight on assessing an early stage investment, consider attending startup pitch events or joining an angel investor network.



Friends and Family

Many entrepreneurs turn to friends and family for early funding. It is comforting to be supported by people that you trust and who may have more patience when it comes to seeing business results and financial returns.

PRO TIP

When faced with an uncomfortable request for money from a friend or family member, use your Financial Advisor as a buffer. Simply mention that because your Financial Advisor manages your finances, he or she would be more appropriate to address this conversation and that you'd be happy to connect them.

GLENN KURLANDER, MANAGING DIRECTOR,
MORGAN STANLEY WEALTH MANAGEMENT

Before accepting a check from a friend or family member, consider the following:

IT CAN BE TOO EASY
When you go to strangers for funding, you can expect every aspect of your business plan to be challenged. This kind of scrutiny can help you refine your business model and improve your chances for success. When someone writes a check simply because they want to help you or feel compelled to because of family ties, you may miss that opportunity.

PROFESSIONAL VENTURE CAPITALISTS OFFER MORE THAN MONEY
Venture firms and small business incubators are professionals who have learned what to avoid, where to focus and are often able to provide invaluable business connections. If your investor does not have an entrepreneurial background, you may miss out on the perspective value beyond capital that can be provided by a professional.

THERE CAN BE TAX CONSEQUENCES
A relative may decide to give you money to start a business as a gift, a loan or an investment. Each approach may involve different tax consequences depending on the terms of the agreement. Seek out advice from a Financial Advisor or accountant to help ensure you are considering all implications and have the proper documentation in place.

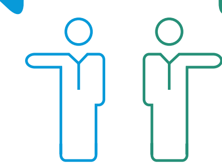
IT CAN CAUSE FRICTION IN THE FAMILY
If a parent makes a sizeable investment in your company and it doesn't work out, it may impact the size of their estate, or their ability to make similar investments in your siblings' ventures. Consider how these circumstances could impact your relationships within your family.

Before offering a check to a friend or family member, consider the following:

GOOD IDEAS DO NOT NECESSARILY EQUAL GOOD EXECUTION
Believing in an idea is one thing; having confidence in the individual's ability to deliver on that idea is another. Make sure to dig into the nitty gritty around how the company plans to get from Point A to Point B and more importantly, what (if any) backup plans he or she has in the event that things don't play out as hoped.

QUALITY INVESTORS OFFER MORE THAN A CHECKBOOK
Sometimes the best investors add far more value through their experience and guidance than the financial investment committed. As a potential investor, consider what you can offer the founding team beyond cash (e.g., your network). Are you looking to take a more hands-on approach to supporting the company, or do you prefer to remain a passive investor?

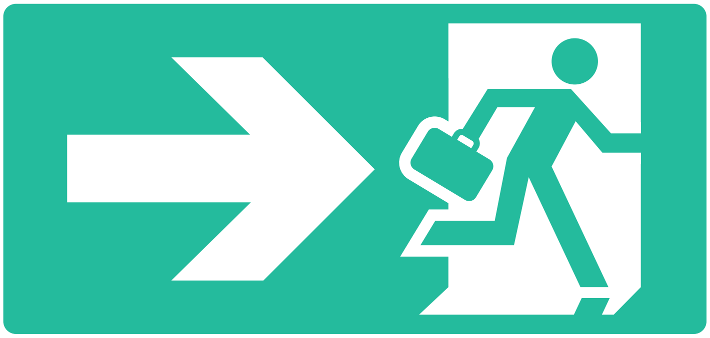
NOTHING IS CERTAIN
Just like in life, a startup's journey can involve many detours. Some new businesses may require several rounds of additional investment in order to keep afloat; while others may pivot from their original idea and use your funds to tackle an entirely different problem. What expectations do you have in regards to the financial return? If the company doesn't work out, will your relationship with the family member or friend suffer? It may be worth exploring how you will navigate the worst case scenario prior to committing your capital.



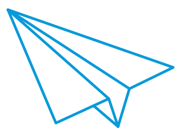
When accepting funds from friends and family, it is especially important to take a moment to ask yourself the tough questions upfront. With added emotions at play, a failed venture can have repercussions that are far more complex than those tied to a professional outside investor.

"If you are thinking about making an investment in a friend's business, be honest with yourself and with your friend. Are you making an investment in which you fully expect a return? You have to be prepared for the reality that their decisions about how to spend the money may not always agree with you. By adopting a mindset that accepts this from the start, you can maintain a healthier relationship."

GLENN KURLANDER,
MANAGING DIRECTOR, MORGAN STANLEY WEALTH MANAGEMENT



Exit Strategies



While you may be content running your business for the rest of your life, there's always a chance someone might make you an offer you can't resist. This final phase can involve opportunities for a strategic acquisition or an IPO.

ACQUISITION

Companies may consider an acquisition offer from another company if the upside is too good to pass up, or alternatively, as a strategic way to address cash flow or management issues.

INITIAL PUBLIC OFFERING

Private companies can only raise so many rounds of capital. As a result, companies that have big expansion plans or need funding to maintain current momentum may decide on an IPO. This is when a company "goes public," issuing shares of the company to the general investing public via a stock exchange to receive an influx of capital.

WINNING PLAYS for Startup Founders

Follow Your Bliss

The passion you bring to work attracts investors, motivates your employees and keeps you going when times are tough (and times will be tough). If you are not excited about the business you are starting, your energy will be better spent elsewhere.

Build for Scale

Even if you are a solopreneur launching a business from your couch, it's important to think about how your business will operate by the time you're occupying a swanky downtown office. As your business grows, you will only have less time to think about these details so choose tools and software that can scale with you.

Focus on Cash Flow

Managing your cash flow effectively is critical to the health of your business. A positive cash flow may not always be realistic during the early days, but it should be part of your near-term goals. Proper planning and foresight around when you pay your bills, send out invoices and purchase inventory can help avoid sticky situations.

Test Before You Invest

Would you buy a car without taking it for a test drive first? Trust your gut, but don't bet everything on a single idea without doing proper due diligence first. Identify what your biggest and riskiest assumptions are and focus on setting up a series of small experiments to play these out.

Hire Up and Don't Be Afraid to Ask for Help

No one is good at everything. Focus your efforts where you add the most value and spend the rest of your time finding excellent people to fill in the gaps. Never let your ego prevent you from hiring people that are smarter than you and listen carefully to those who have valuable business experience you can learn from.

Be Careful in Choosing Your Partners

This applies to investors, advisors, as well as your co-founders and early team members. Make sure that both parties have a clear understanding of expectations and don't be afraid to play out the worst case scenario to get a feeling for people's true colors. When it comes to choosing co-founders, ask yourself whether you have complementary skill sets and networks and be sure that you trust and respect each other's work ethic and judgment.

Shield Yourself From Liability

Take the necessary legal and insurance measures to protect your personal assets from potential liability stemming from your business.

View Your Business as an Asset

With all your attention focused on day-to-day operations, you may forget to consider how your business impacts your overall wealth planning. This can lead to an unintended concentration of risk and have serious tax implications. For instance, if you run a technology business, you may want to limit your exposure to technology stocks in your investment portfolio.

Taxes for Business Owners

While it is never enjoyable to write a check to Uncle Sam, it is particularly painful for small business owners when you consider the blood, sweat and tears that go into earning each and every dollar. However, by paying your taxes you may be eligible to benefit from certain privileges that the government offers, including certain grants and tax subsidies.

Every year, you will need to file certain tax forms depending on your legal structure.

THERE ARE FOUR MAIN TYPES OF TAXES BUSINESS OWNERS SHOULD BE AWARE OF:

1. **Income Tax**
Income that a company recognizes is generally subject to income tax. Income tax is typically paid both at the federal and the state level.

2. **Self-Employment Tax**
Self-employed workers pay Social Security and Medicare taxes directly to the government. For wage workers, employers typically withhold this tax.

3. **Taxes for Employers**
Companies with employees are responsible for paying employment taxes, including social security and Medicare taxes, Federal and State or City income tax withholding and Federal Unemployment Tax Act (FUTA).

4. **Excise Taxes**
Certain types of businesses are required to pay an indirect tax for the sale of a particular product or service. An example of a product that is subject to excise taxes is cigarettes.

When you are employed by a large company, the company automatically withholds your taxes every month—this is why we talk about gross (pre-tax) and net (post-tax) pay. As a small business owner, you are not only responsible for doing this on behalf of your employees, but for your clients as well. Seek advice from an accountant or other tax professional to help ensure you are operating in the most tax-efficient manner.

Tax-Deductible Expenses
The government wants to help support small business. One way they do this is by giving small business owners a small break in the form of tax-deductible expenses, which lower taxable income, and therefore the amount they are required to pay in taxes. Many expenses that are incurred to operate your business are generally deductible; as long as you can make the case that the costs are “ordinary and necessary.” Ordinary in that these types of expenses are commonly incurred in your field of business, and necessary in that they help you fulfill your day-to-day obligations as a business.

Questions to Ask Your Financial Advisor

1. How do I establish clear boundaries between my personal wealth and my business so that I can protect myself if the business fails?
2. What business expenses are tax-deductible?
3. Can you help me formulate a business succession plan?
4. How can I prepare for the future monetization of my business and how could that event impact my tax, trust and estate planning?
5. How can I diversify my personal investments so my exposure and risk are not concentrated in one particular industry or company?

Must Reads

The Startup Playbook: Secrets of the Fasting-Growing Startups from Their Founding Entrepreneurs

AUTHORS: DAVID KIDDER AND REID HOFFMAN

With lessons learned from leading entrepreneurs and CEOs from PayPal, LinkedIn, AOL and Zipcar to name a few, this book goes inside the minds of great innovators and shares their secrets for building great companies.

The Lean Startup

AUTHOR: ERIC RIES

Provides a scientific approach for creating and managing startups more efficiently through idea validation, minimum viable products and adaptation in a fast-paced world of innovation.

Shark Tales: How I Turned $1,000 into a Billion Dollar Business

AUTHOR: BARBARA CORCORAN

An inspiring story of how the famous Shark Tank judge, Barbara Corcoran, built a $6 billion dollar real estate empire with a $1,000 loan from her boyfriend.

Zero to One: Notes on Startups, or How to Build the Future

AUTHOR: PETER THIEL

An inspiring, intellectual dive into the future of innovation and the opportunities for creating an exceptional business.

Good to Great

AUTHOR: JIM COLLINS

Sharing management best practices, this road-map for organizations and leadership uses research findings and case studies to highlight what makes a great company.

The Art of the Start

AUTHOR: GUY KAWASAKI

This book is a guide to mastering the start of anything, from a new company to a new product launch, with strategies for success from a bestselling author.

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[3] Iris Dorbian. "FitOn Brings In $40m Series C," Venture Capital Journal (February 2022).

[4] Peng, Tina. "Where to Get Startup Cash Now," CNN Money (March 2010).

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CRC 4914184 03/2023