

Eight strategies to consider before starting a tech business

By **Terry Corbell** posted 05:55 PM PDT on Monday, October 16, 2006 <excerpt>

So, you've got an idea for a tech business, but you're unsure about your prospects.

What are important strategies to consider before starting a tech business? Consultant Joey Tamer consults to Fortune 500 companies and capitalized start ups to launch, build and expand technology companies.

She has some definite ideas:

Q: How much capital do you recommend?

A: Have at least one full year's capital to support yourself and the costs of your business before beginning; have 6 months of capital liquid at all times. Nothing kills a business like lack of capital. Recovering from an under-capitalized business failure, particularly one fueled by debt, can take years. Beyond that, you are likely to make mistaken decisions based on the pressure of your debt. Capital allows you options and room and time to stumble.

Q: What kind of support system do you recommend?

A: Ensure your partner's support. No matter what kind of business you start, get your partner's support. Nothing will erode your joy or confidence at becoming an entrepreneur faster than negativity at home. What does your partner really feel? If you have chosen a business partner, ensure that partner's support by creating clear legal documents spelling out ownership, roles, and responsibilities, including a buy/sell agreement, should one of you change your mind.

Q: What do you mean by planning for the hidden year?

A: Understand that there is at least a full "hidden" year in beginning your own business. This includes the thinking, the planning, the testing, the preparation...before you actually get into play, begin to raise capital, or bring your service to a client or your product to a market. Plan for the time and cost of this hidden year.

Q: What about assessing the risk of capital?

A: Whether you risk your own money to begin your business, or your extended family's and friends', or outside investors', be careful to understand the impact of taking this money for your venture: what it will mean to succeed, and to fail with it; if and how it needs to be paid back or rewarded. If possible, build your first business simply, without needing outside investment, to go up that learning curve with less pressure. If possible, do not risk your mortgage or your pension to build this first business.

Q: What about starting a service vs. a product business?

A: Product businesses require more time and capital to build than service businesses. Certain back-bedroom businesses, particularly Internet-based ones, can reduce your capital outlay. Consider building a service business, like consulting or internet-based services, focused on your professional expertise, for your first business.

Q: You offer a great reminder that business is not revenue and revenue is not profit. Can you explain?

A: You may be fooled that you are working successfully because all of your time and thoughts are absorbed by the new business. Not true. Being busy does not necessarily create revenue. And revenue coming in does not necessarily create profit. Learn to work smart, not hard and to judge whether you are adding any profit to your pocket – what remains after the business costs and the taxes, including a reasonable salary to you. The IRS considers any business that does not show a profit within the first five years to be a hobby.

Q: You recommend getting needed expert help by creating a virtual team. How so?

A: There is much that you are expert in; there is much you do not know. Get the help you need from industry experts in start ups, technology, finance, marketing, law and so on. Network among your colleagues, friends and groups to find these experts, and pay the experts what they are worth. Get at least five references on each candidate and check every one. Be clear what you need, what the expert will provide, and what costs you will pay for that help. If your expert does not completely please you during the first couple of months, determine what needs to be done to get you satisfied. If that fails in the next 30 days, find another person to help. You can create your initial staff through virtual teams, avoiding the complexity and legal demands of employing folks.

Q: Finally, Joey, you advise staying flexible and create no blame. What do you mean?

A: Running your own business is not for everyone. If you don't like it, or you find it too overwhelming, or it is more trouble and cost than it is worth, close the business. Eight out of 10 businesses fail in the first two years; of those remaining, another eight out of 10 fail by year five. To fail at your first business is not to fail as a person. If you liked running your business but it failed due to unanticipated market changes, or unexpected product competition, or some other factor, learn from what happened, assess the risks, and build your second new business. Life is long, and filled with opportunity.

As a fellow member of Consultants West, a roundtable of consultants that meets regularly in Los Angeles, I'm proud to say I'm well-acquainted with her credentials. Joey also advises consultants on the growth and profitability of their service companies. Clients include J.P. Morgan Capital, Sony, IBM, Apple, Hearst, Blockbuster, Technicolor, Harper Collins, NEC, Time-Warner, Agfa and Scitex. Her Web site: www.joeytamer.com.

From the Coach's Corner, here's a tip on branding: Not to point fingers, but the State of Washington's failed branding tagline, "Say WA," serves as a good reminder about creating top-of-the-mind awareness.

It drew widespread criticism, including from me, when it was unveiled earlier this year. After market research, the Washington Department of Community, Trade and Economic Development is finally dropping the approach.

The slogan failed to answer the basic Marketing 101 question, "So what?" that every buyer subconsciously asks.

Another way of putting it, make it easy for your target audience to make a buying decision by using a consumer-oriented acronym, WIIFM, or what's in it for me? Remember every buying decision is based on emotion. Pique the emotional interest of your target customer. If the consumer can easily make a favorable decision after seeing the slogan, you've got a winner.

Terry Corbell has been a Seattle-area management consultant since 1992. His business-coaching column appears each Tuesday. [Click here](#) for more information on his background. E-mail your questions and comments to terry@corbellmanagement.com, or call him at (253) 952-3840. You can also visit his Web site at: www.corbellmanagement.com.