

"How Much Does It Cost To Do A Startup?"

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So here's a question that many would-be entrepreneurs wonder about. If I want to start a company, how much is it going to cost me? Is it going to be expensive? If so, how do I keep the costs down? But if I do that, will it prevent me from succeeding with my new company?

These are important questions to figure out. The problem is that for most professionals who provide advice on these issues, the answer they provide is to do an analysis and make you a spreadsheet. But it really is important to think about principles first and then figure out the spreadsheet later.

How It Was Then

I remember when I did my first startup many years ago in New York. I had to hire a financial controller because in those days all financial stuff was done using financial books which of course were manually prepared. So our financial statements, accounts payable and receivables were all prepared using a calculator (yes we had them even then) I also had a secretary who answered the phone and did things like photocopying, telex (later fax), did the filing of our paper documents and the like. We relied on outside professionals for a lot of things too.

I used a marketing firm to design and publish our marketing materials, and they also did mass mailings for us to look for leads and prospects. My secretary maintained these lists for us, which was a lot of work because they were all maintained in a word processor or in spreadsheets. But this was all very expensive because now we had outside people who charged us to do everything, but it was still cheaper than hiring someone, although not by much.

In those days no-one thought of writing a book because it was difficult to write it in the first place, you had to get it published, and then you had to market it which cost a lot of money. If you wanted to get something published you hired a personal writer who then gave it to a publicity/public relations person that you also hired and then they tried to get the article in magazines or newspapers. There was no guarantee they would succeed but you still had to pay them a lot of money.

Of course we did have a computer, but in those days it did not have the power we had now and you couldn't use it for communicating with other people. There was no email so you called by phone, or sent a message by telex, fax or printed out a letter and sent it by what we call these days "snail mail".

Dealing with governments and paying taxes is a major part of running a company. In those days that took up a lot of time and money. There was nothing online so you had to send everything to the government by mail and it might take months to get a reply. To register a new company took at least a couple of months and was expensive. You usually hired a lawyer to do all of this so that was another big expense.

Of course, you actually had a business to run and that often meant travelling to meet people. You did that because long-distance calls were expensive so there was really no choice except to go and meet them. That meant a lot of plane travel or at least hiring a car, and then you had to find your way using paper maps. So that was all very expensive and time-consuming, but you just had to do it.

Hiring people was another major expense. You had to type up a job description and then advertise it in one or more newspapers. You would get resumes sent by mail and when you interviewed someone they would come to your office and you would take time to speak to them for some time. Checking references would have to be done by phone and would also take a lot more time. So this was another major effort that would take up a lot of time and expense because for a start, running advertisements in newspapers and magazines was very expensive and took some time to arrange.

How it is now

Let's go through what I would do today if I was setting the very same company that I set up so many years ago but doing it the way I could do it today.

You remember that I said that the first two things I did were to hire a financial controller and a secretary? The financial controller did our monthly statements, looked after receivables and payables and did some analysis. Well for a start I wouldn't need her (it was a lady that did it at that time) because I can get financial software that does all of that a lot more as well. I can just do the financials myself without the need for a specialized person.

And I don't need a secretary either. I can have a phone system which uses software to answer and redirect my phone calls. I don't need copying because the computer can print and/or send it to someone for me.

What about the outside marketing firm that designed and published my sales and marketing brochures and documentation? I can do that all myself using software such as Dreamweaver, or better still, templates that are now on the Web that I can download and modify. As for the marketing lists that my secretary maintained, all that can be done automatically on the Web with mailing software and sales management systems so I don't need anyone to do that for me either.

How about writing and sending out publicity materials, articles and documents? I can do using software to prepare many of the materials and using mailing lists (which I can buy) and social media to identify the people I want to contact. I can also use lead identification websites like Jigsaw to help me identify new types of leads and prospects, no matter what their job function, level or location,. For any of these I can get their full name, phone number, title, job function, location and email address.

How about a website? Even not so long ago you needed a programmer to do that. Even recently you needed to know HTML and Dreamweaver at least. But now you can just do it yourself using templates from websites. Or you can use advanced software like Joomla and build a very sophisticated website yourself, absolutely no programmer needed. So I don't need a programmer or even a website maintenance person at all for my major marketing channel.

How about the never-ending job of completing government forms and paying taxes? Well, government will not go away so I still have to do all of that. But all of the forms are online and can be filed electrically as can my taxes. So I don't need a lawyer at all unless things get every complicated or I am in some sort of trouble. And how about starting up the company in the first place? These days I can everything online and it takes me just one day!

How about all that travel I had to do? Well even here things have changed enormously. For a start, all my clients are on chat services like MSN or Google Talk so I can chat with them several

times a day if it is needed. I can do free video calls on Skype, MSN or other chat services. Of course I can talk on a cell phone. I can do group conference calls over the Internet, and all for free.

What about recruiting new employees? These days I can use online recruiting forums, social media and job sites to advertise a job and get resumes back instantly. I can interview online using Skype or other messaging services. I can find out about them on LinkedIn, Facebook or Weibo. So I have some great ways of finding out the things about them that they might not want me to know.

So what can't I do today using all these new approaches? I still need one or more salespeople and I still need product development people.

But even for salespeople I need less help. That is because there are CRM (customer relationship management) systems that reduce a lot of the work involved so now I only need one salesperson for every two I needed before.

As for product development, if I am in the technology field (and these days most companies are because everything is dependent in some way on software or the Web), I can develop prototypes in a small fraction of the time it used to take me. Before it might take me several months or even years to build a pilot system. Now it might take me several weeks or even days. So need a lot less technical people than I used to need and it all happens a lot faster.

I don't even need a powerful computer. I just need enough of a machine to get me to the Cloud and then I can program and store to my heart's content. I can have access to an army of servers that would have used to have cost me a huge amount of money just for a hundred dollar a month.

All this means I don't need administrators, financial, legal or marketing people, computer and operations staff and lots of computer power and storage. I need less sales and product development people if I need them at all. Maybe if I am the right person I do the product development or sales myself. So that means I either need a product development person or a salesperson to get started. That means one person besides me, at least to get started.

Of course that means I am going to have to work very hard. The company will be a lot more reliant on one or two people that it was before. But this is going to cost me dramatically less than it ever would have before. Which is what we are going to talk about right now.

What it might cost.....

Well, before I tell you, I am going to give some principles of startups so that you can evaluate what I say about costs in the light of what most people experience. Here are those principles:

1. Most startups fail
2. On the product side, most startups fail either because their products are not as innovative as they thought they were or they are not innovative at all.
3. On the expense side most startups fail because the founders are pretty confident it's going to succeed and so spend more than they should
4. Most people – not just business people or people who are starting a company – spend more than they need to; it's hardwired for most people to spend too much
5. Most startups spend more than they should before they have a real product and before they have any customers
6. Most startups spend on things that are more important from the perspective of building an image rather than it is really important from a business viewpoint, such as having a nice office in a nice location, or having a nice car
7. Most startups don't need an office in the beginning and it would fine to work from home or from a place that won't cost as much as an office

8. Most teams at the beginning of a startup can be built using resources that will cost nothing or very little
9. Most times that a young company hires a CEO who is experienced, especially if he is from a big company will spend way too much which will lead the company to fail
10. Initially many people will work for nothing just for the experience, even if it is part-time.

The simple lesson is that on the cost side of a startup you should spend as little as possible until you have proved you can sell the product and get real customers who will pay for it.

In that case you might still fail before you get to that point but you will have spent the minimum on the company at that point and it won't hurt you much.

In other words, make it so you fail cheaply.

So what does it cost to do a startup?

Just for the purpose of comparison, the startup I did in New York many years ago cost well over \$1 million and those dollars were worth a lot more then than they are now. That's over RMB 7 million.

But these days a startup should cost you less than 10% of that because of the huge advances I have mentioned here.

In the US it shouldn't cost you more than \$25,000 if you follow the principles and ideas set out in this article. In China you can probably do it even more cheaply, say RMB 70,000. If you spend more than this, you need to look very closely at whether you are making the first mistake of startups, which is spending too much.

Of course, once you get going and get some success on the customer front you are going to have to spend a lot more.

But that's another story.

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