TE 250: Week 10 Business Formation

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Calendar

- Content Classes (5): 4/6, 4/13, 4/20, 4/27, 5/4
- Content:
  - Culture
  - Business Formation
  - Funding
  - Financial Projections/Statements
  - Pitching
- Final Presentations (2): 4/27 & 5/4
- Remaining Assignments (3): 4/5 (I), 5/4 (T), 5/4 (I)

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Agenda

- Remaining Assignments
- Building a Team (Part 2)
- Business Formation

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Individual Assignments – #6 Market Validation

Market Validation: Individual Assignment. Due 4/5

Are there enough people who will care about the problem your team is trying to solve? If it's a small number of people, are the volumes and/or dollar values large enough to justify putting your time into this project?

Perform a market analysis for your technology. Use the TAM/SAM/SOM approach that was discussed in the week 7 slides. Also try to use both top down and bottom-up approaches to make sure your numbers are congruent. If possible, validate with secondary market research data points (i.e., information found from reports). It's okay to use some assumptions but be explicit that it is an assumption and not a referenced data point. This is a "back of the napkin" exercise. I'm less concerned with precision and more concerned with understanding that you can validate the problem.

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Due MAY 4

Final Assignments Teams – Team Pitches

Team Rubric (Peer Scoring)

This is **the group portion of the final project**. Each team will be given ~20 minutes. 10 minutes Pitch and 5-minute Q&A. Students will then be given 2 minutes to complete judging form. That will leave a couple of minutes for transitions, but each team needs to be ready to present as soon as their slot starts.

Presentation schedule

Class 14 (3 teams):

Class 15 (6 teams):

Teams are free to decide who presents but a minimum of 3 team members are required to present and all teams members should actively participate in the Q&A.

All students will individually score the other teams, so attendance is mandatory on both dates as is prompt attendance.

Q&A and Scoring: ~5 minutes

Q&A will be led by the team presenting and questioning will primarily come from the class. I may or may not ask any questions at all. Your individual active participation will be considered as part of your overall final participation grade. I will review all recordings before assigning final grades to ensure you are actively engaged in the questioning of your peers.

EXTRA CREDIT

In additional, each *student will anonymously score the other teams' presentations.* This is evidence of your ability to critically evaluate your peers' using topics learned in class.

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Due MAY 5

Individual Assignments – Persuasion

Your final individual assignment is to **persuade someone to support your effort**. You pick the target: recruit, investor, customer, etc. (make sure your intended audience is clearly identified or is obvious by the nature of your response). Make an argument to convince your target. **Be sure to support your case with things you've learned from working on your team project**, for example, solving customer pain, equity to early hires, or return for investors. **The format or medium is up to you.** A few examples include a recorded sales pitch or commercial that you upload to YouTube, a sample Kickstarter video, a Prezi, a cartoon, or a 1–2-page typed paper... Here's an example of a creative submission from a previous semester: https://youtu.be/eNrq9-sk6Nk

Use your imagination and make it compelling. Be creative and captivate your audience. Holding their attention is half the battle. It doesn't need to be long or elaborate, just convincing. Do what you think best supports your case and choose a medium in which you're confident. Take some risks. You have license to be creative and have fun with this!

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Due MAY 4

Individual Assignments – Peer Review

As part of your engagement and participation score and as part of your peer's engagement and participation score, complete the assessment of your teammates using this Google Form. You will have 100 points to allocate in some proportion to each of your teammates with some required commentary on their contributions.

Peer Form

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Market Validation Example

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Market Validation Example

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Two Approaches Market Sizing

Top Down

- Secondary Research Anchored
- Most applicable to existing (similar), re-segmented, clone products/markets
- Similar or adjacent market data available
- Process – Guess/Assume
  - Smallest addressable segment matching product attributes
  - Market share and growth rate (how many?)
  - Pricing relative to available competition (how much?)
  - Market growth rate
  - Resource constraints

Often Misused

Bottom Up

- Primary Research Anchored
- Only option for new products/markets
- Limited or no specific market data available
- Process
  - Starts (and ends) w/ Customer Discovery
  - Defining your Archetypes Demographics, Psychographics, Behaviors & Reqts
  - Insights into how to define segments
  - Enables identification of beachhead market - “must have” reason to buy
  - Validates value pricing, full product offering, competitive differentiation
  - Allows for better assumptions on market sizing (how many) and financial model (how much)

Often ONLY and best option

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Team Name GarageVana

Date March 27, 2022

Business Thesis:
GarageVana helps upper middle class suburban homeowners overcome the pain and frustration of a messy, disorganized garage by giving them a tool to plan and complete their organization project so that they can find what they need when they need it and put it back in the right place when they are done.

Mark Leader
Expert in AI, Image R3ecognition and Machine Learning

Joe Engineer
10 yrs
backend dev
exp

Jane Developer
5 yrs UX dev experience

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Key Partners

Garage storage manufacturers

Storage system installers

Key Activities

Build backend video recognition/AI algorithm
Build user friendly app
Identify storage suppliers and installers

Key Resources

Image recognition/AI engineering
Backend developer
UX designer
App developer

Value Propositions

Assess of all the stuff in the garage and create a plan to organize and arrange it efficiently

Provide a plan for what and how many storage systems are needed.

Prove tool to keep garage organized.

Customer Relationships

Facebook presence

Home org bloggers

Channels

Sell through app stores

Sell through storage system installers

Customer Segments

Upper middle class suburban homeowners in high-cost urban areas where real estate is very expensive.

Cost Structure

AWS server costs
Developer/designer costs
Promotional costs for regional home shows
Facebook/Google placement/ad costs
App store fees

Revenue Streams

Paid app for tablet or phone.
Sell storage systems recommended in app.
Referral fee from installers who install storage.

Who Has The Problem?

For: the upper middle-class homeowner

[target customer]

Who has: a disorganized, cluttered garage

[significant problem/need]

My solution provides: a fast, effective tool to quickly plan and complete a garage organization project.

[key benefit]

Unlike: hiring a garage organization consultant which is expensive and time consuming.

[how customer solves today]

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Customer Archetype Profile

Instructions

Fill in the spaces in the worksheet to build out a sample customer archetype, based on the business you discussed earlier. Your archetype should be as complete and focused as you would hope your students' will be. As you work through this exercise, think about the questions that would help your students understand who makes the buying decision.

Describe the person: name, age, relevant personal info

John (42) and Joyce (40) Smith
College graduates
Both work full time
Combined annual earnings $200k

2 kids – Jim (10) and Sue (8)
Active family with a lot of "toys"

Jobs to be done

Organized garage
Find what they need when they need it and put it back in right place when they are done
Park cars in the garage

Existing solutions

Organize garage themselves
Hire a garage org consultant

How they buy

Shop online
Google
Facebook ads
Find specialists online

Pains

Overwhelmed by job of organizing garage
Not sure who to hire and what to buy

Gains

Park cars in garage
Feel good about garage
Find things they need when they need them

Influencers

Home organization bloggers
Friends/neighbors
Co-workers

Barriers

Mess overwhelming
Work a lot of hours
Less confident in DIY skills

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What data would you look for?

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How do we estimate the market?

- US homes with garages?
- How many homeowners are upper middle class?
- Upper middle class homeowners in suburban regions?
- Annual number of garage storage projects?
- Average value of a garage storage project?
- What revenue per customer?
- One-time or recurring?

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Conduct a Bottom-up Target Market Estimate

Complete the graphic to conduct a bottom-up estimate for the opportunity you are using in this course. Compute your total available market, served available market, and target market in dollars of annual revenue.

TAM

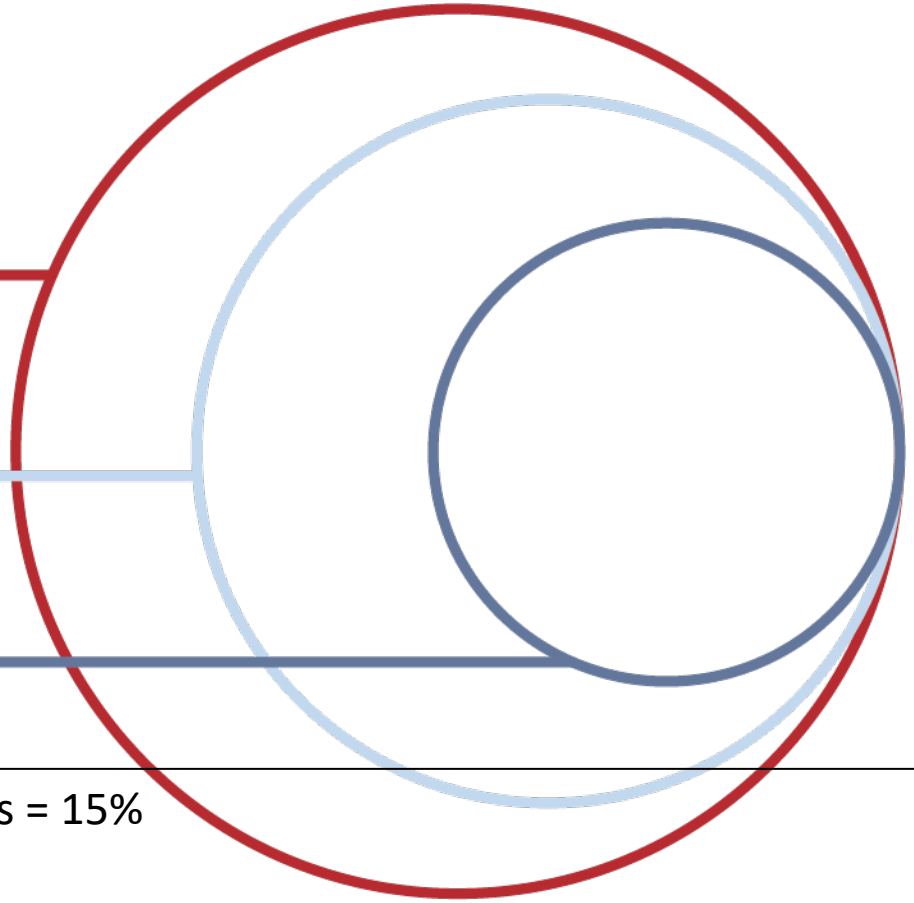
54M*($30+$30)= $6B+

SAM

54M*.15*($30+$30) = $486M

TM

1.6M*.15*$60=$14.4M



Notes and Comments

US homes with garages = 83M * .65 = 54M, Upper Middle Class = 15%
Annual number of garage storage projs = 1.6M
Ave garage storage and installation: $1,500 (2% referral fee), $30 app cost, annual subscription $19

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Agenda

- Remaining Assignments
- Building a Team (Part 2)
- Business Formation

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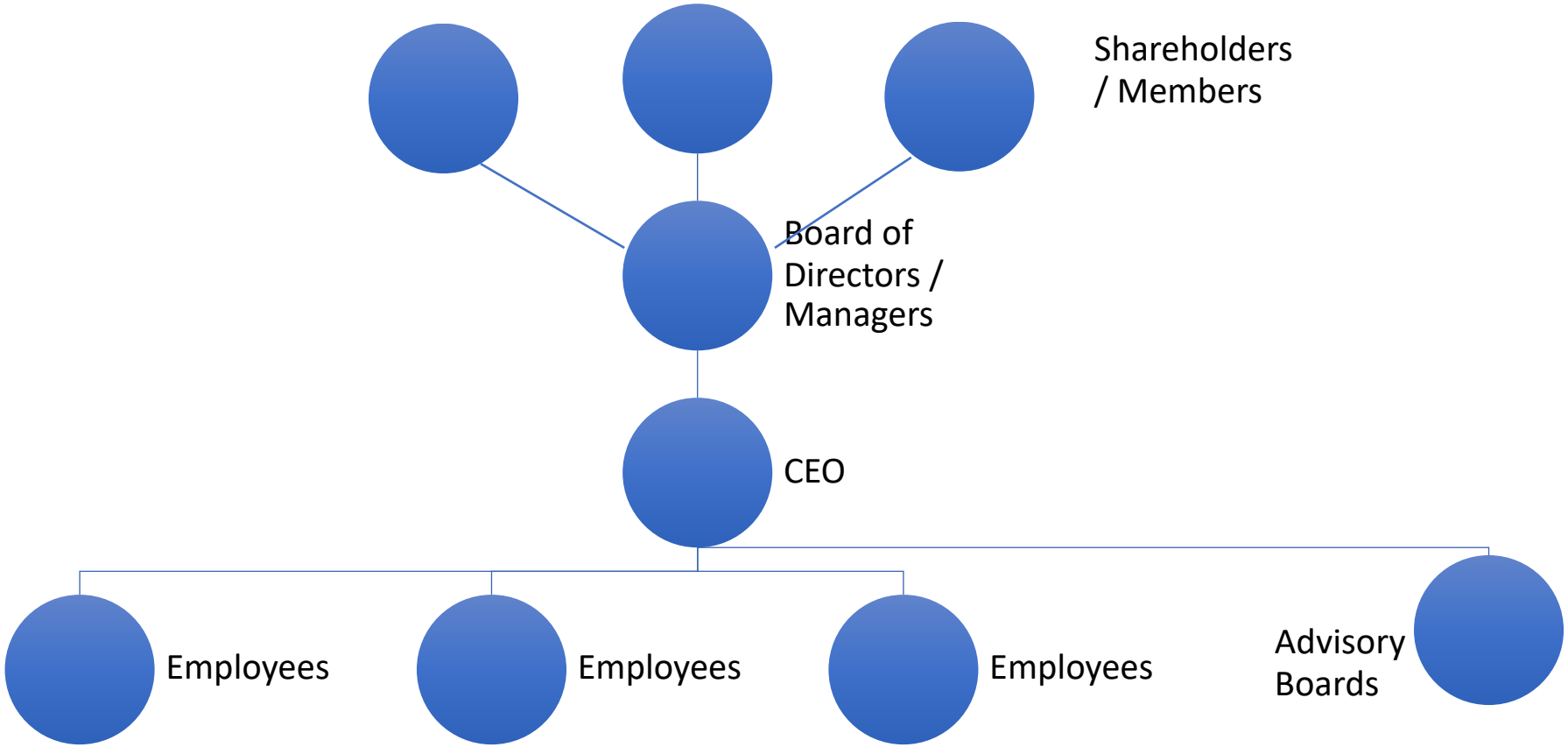
4. Board of Directors / Advisors



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4. Filling Boards

- Investors will often require a seat on the Board of Directors
- Each member should bring specific expertise to the table
- Boards are part of building your brand ID
- Look for the ability and willingness to devote time
- Your Boards are more than just a formality – use them!

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5. Mentors

- Mentors are the most loosely defined, but often most influential component of your team
- Finding the right mentor involves chance
- Mentors might be angel investors, successful entrepreneurs, faculty members…
  and not necessarily from your field
- Often motivated by passion or a sense of altruism, wanting to give back.

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5. Mentors – defining the role

- Mentors act as a sounding board for all likes of issues and challenges
- There's a fine line between advising and running the show
  - Remember: it's still *your* company!

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6. Investors

- Wide array of sources:
  - Friends, Family & Fools
  - Angels
  - Foundations, Specialty Funds
  - Government Initiatives (incl. non-dilutive)
  - Venture Capital
  - Strategics
  - Private Equity
- All money comes with strings attached
- Zero in on the "smart money."

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6. Investors – Smart Money

- Early round investors validate the concept and pave the way for later round investors
- Value can be found in the experience of early round investors
- Ability to support the company in future rounds
  - Syndicate
  - Contacts
- "Dumb" money that follows "smart" money is good

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5. Investors – Points to Remember

- The earlier the investment, the greater the risk, therefore greater returns are expected
- $$$ is the primary motivation
- Investors ***always*** look for the exit strategy.

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Termination

- You should know about personality, style, values, etc. within the early weeks
- Reduce liabilities early

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New Content: Culture

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Culture – six components

1. Vision

Articulated in mission statement

a. defines purpose
b. orients employee behavior

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Life is Good®

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Patagonia's Mission Statement

Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.

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Our Blue Box Values

At American Express®, we have a mission to be the world's most respected service brand. To do this, we have established a culture that supports our team members, so they can provide exceptional service to our customers.

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WARBY PARKER

eyewear

Warby Parker was founded with a rebellious spirit and a lofty objective: to offer designer eyewear at a revolutionary price, while leading the way for socially-conscious businesses.

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Honest® tea

Mission Statement

Honest Tea seeks to create and promote
great-tasting, healthier, organic beverages.
We strive to grow our business with the same honesty
and integrity we use to craft our products,
with sustainability and great taste for all.

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Our vision and business idea

At IKEA our vision is to create a better everyday life for the many people. Our business idea supports this vision by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.

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NORDSTROM

NORDSTROM'S COMMITMENT

In store or online, wherever new opportunities arise, Nordstrom works relentlessly to give customers the most compelling shopping experience possible. The one constant? John W. Nordstrom's founding philosophy: offer the customer the best possible service, selection, quality and value.

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Culture

2. Values

Offers guidelines on behaviors & mindset required to achieve vision

Authenticity > Originality

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Google Code of Conduct

Preface

"Don't be evil." Googlers generally apply those words to how we serve our users. But "Don't be evil" is much more than that. Yes, it's about providing our users unbiased access to information, focusing on their needs and giving them the best products and services that we can. But it's also about doing the right thing more generally – following the law, acting honorably and treating each other with respect.

##

Alphabet Code of Conduct

Preface

Employees of Alphabet and its subsidiaries and controlled affiliates ("Alphabet") should do the right thing – follow the law, act honorably, and treat each other with respect.

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Google

Ten things we know to be true

1. Focus on the user and all else will follow.
2. It's best to do one thing really, really well.
3. Fast is better than slow.
4. Democracy on the web works.
5. You don't need to be at your desk to need an answer.
6. You can make money without doing evil.
7. There's always more information out there.
8. The need for information crosses all borders.
9. You can be serious without a suit.
10. Great just isn't good enough.

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Culture

3. Practices

The enshrinement of values

If a company says, “people are our greatest asset,” it should be prepared to invest in employees in visible ways.

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Wegmans

2019 #3 Fortune 100 Best Places to Work

The booming family-owned grocery chain spends more than $50 million a year on training and development for its massive workforce, and is one of the few grocers to help defray school costs—this year it awarded $5 million in tuition assistance. “It’s nice to work for a company that keeps giving instead of taking away,” says one employee.

What employees are saying:

“I truly feel that Wegmans is a company where employees can follow the American Dream. We're given endless opportunities to learn and grow. It's a place where those who seek to build a career for themselves while following their passions can do so.”

15 applicants per job opening

94% employee satisfaction

Culture

4. People

Must share core values → stringent recruiting

Firms with cultural alignment have 30% less turnover

Fit > Talent

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Culture

5. Narrative

A company's story

…it's history

…it's heritage

…it's roots

Even more powerful as part of a firm's ongoing culture

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Company Museums

Culture

6. Place

Seek congruency

a. Geography – industry clusters, customs
b. Architecture – office layout
c. Aesthetic Design – décor

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4210 ½ GRA
4210 ½ GRA
COMPUTER FORMS
BOX 1
11-3-97

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- Remaining Assignments
- Building a Team (Part 2)
- Business Formation

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Why form a business?

1. Liability
2. Legacy

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Liability

- Businesses can be set up to be distinct from their owner(s)
- If set up correctly, actions taken on behalf of the biz do not expose owners to liability

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Legacy

- Businesses can evolve
- …change hands
- …live *forever!*

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NOKIA

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NOKIAN

???

NOKIA
09:00
Monday, 7 Jan | 20°C
Google
Duo
News
Photos
Say "OK Google"

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Kongo-Gumi Co.,Ltd.

Takamatsu Group

Company Profile

Name	Kongo-Gumi Co.,Ltd.
Head Office	1-14-29 Shitennoji, Tennoji-ku, Osaka
Founded	578 (Asuka Era, Year 6 under Bidatsu Emperor, 30th Emperor of Japan)
Business	Design and construction of shrines and temples, restoration and repair of cultural heritage buildings.

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Additional Benefits

- Legal tax shelter
- Operational structure
- Image / Perception
- Ability to raise capital

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When is the right time to form?

- No sooner than is necessary
  - Capital
  - Award
  - IP assignment
- Upon agreement for a larger group
  - To prevent renegotiation

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Considerations

- Legal liability
- Tax implications
- Formation & admin costs
- Flexibility
- Future needs

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Entity Types

1. Sole Proprietorship
2. Partnership
   - LP, LLP, LLLP
3. Corporation (Inc., Co. or Corp.)
   - Subchapter S Corp.
   - C-Corp.
     - Not For Profit
   - Benefit Corp
4. Limited Liability Company
   - Single Member LLC
   - L3C
   - LLP, LLLP

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Not-for-profits

An organization that uses surplus revenues to further achieve its purpose or mission, instead of distributing to stakeholders

- 501(c)3 of tax code
- Organizations:
  1. Charitable
  2. Religious
  3. Educational
  4. Recreational
- Contributions are tax deductible
- Not for profit ≠ Not Profitable

➢ *Not for profit is a tax designation, not a way of doing business*

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Business Entity Selection

At a Glance

Singleton Law Firm, P.C.
www.singletonlawfirm.com
Alan R. Singleton, Esq.
singleton@singletonlawfirm.com
Research Park at the University of Illinois, 2001 South First Street, Suite 209 Champaign, IL 61820-3654 217-352-3900

	Sole Proprietorship	General Partnership	S Corporation	C Corporation	Limited Liability Company	Single Member Limited Liability Company
Liability (Limited v. Personal)	An individual carrying on a business for profit.	Association of two or more co-owners carrying on a business for profit.	Limited liability for shareholders even if they participate in management.	Limited liability for shareholders even if they participate in management.	Combines limited liability provided by a corporation with pass through partnership tax treatment.	Limited liability for owners makes it a better choice than sole proprietorship unless cost of formation or maintenance is a controlling factor.
	Unlimited personal liability for the owner.	Partners have unlimited personal liability for partnership debts.				
Tax Implications	Single level of income tax.	Pass through tax treatment (partnership files form 1065 but all income and expenses pass through to individual partners on Schedule K-1).	Pass through tax treatment under most circumstances but not as complete as for the LLC.	Tax at both corporate and shareholder level - this double tax can be avoided to some extent by payment of reasonable salaries to shareholders in exchange for services actually rendered.	LLC files a partnership tax return (form 1065) with all income and expenses being passed through to individual owners of the LLC on a K-1.	Disregarded entity from an income tax perspective all income and expenses are reported on the sole member's tax return and no income tax return need be filed by the LLC.
	All income and expenses reported on Schedule C of the owner's 1040.					

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	Sole Proprietorship	General Partnership	S Corporation	C Corporation	Limited Liability Company	Single Member Limited Liability Company
Complexity of Formation and Management	Relatively simple to start.	Relatively easy to start - partnership agreement is typically entered into but is not legally required.	Formation steps include filing Articles of Incorporation with the Secretary of State, filing Sub S election with the IRS, adoption of Bylaws and, usually, adoption of a Shareholder (buy-sell) Agreement.	Formation similar to S corp except Sub S election not filed with IRS.	Formation steps include filing articles of organization with the Secretary of State, contributing an appropriate amount of capital, and adopting an operating agreement.	Formation process similar to multiple-member LLC except that the operating agreement will likely be less complex.
	If business conducted other than under the name of the sole proprietor, assumed name publication needed.	Managed by the partners or as described in the partnership agreement.		Typically required for publicly traded corporations, businesses that require venture capital, or if a broad based stock option program is utilized.	Can be managed by the members or, more often, by managers selected by the members. Can also elect officers.	In addition to circumstances where a sole proprietorship would be considered, a single-member LLC is often used by a corporation or LLC as a subsidiary to insulate the liability associated with a particular line of business.
	Managed by the sole proprietor.	Problem: Any partner can bind the partnership.			Self-employment tax treatment may be less favorable than for S corp.	

	Sole Proprietorship	General Partnership	S Corporation	C Corporation	Limited Liability Company	Single Member Limited Liability Company
Capital - Effect on Ability to Raise Capital through Angel Investment, VC or IPO	Any transfer of the business would be of the underlying assets as opposed to a transfer of shares in the business.	Ability to raise capital is limited since most investors would prefer to invest in an entity offering limited liability.	Limit of 100 shareholders, only one class of stock is allowed, difference in voting rights is allowed, partnerships and corporations cannot be shareholders, only U.S. citizens and residents may be shareholders.	No limits on type or number of shareholders, different classes of stock allowed (common and preferred) thus enabling different priority for return of capital.	No limitation on the number of members, no limitation on who may invest, treatment of gain on distribution of appreciated property more favorable, different classes of ownership are allowed so there is the flexibility to provide for a priority return of capital to investors.	Outside investment allowed only if converted to a multi-member LLC.
	Capital needs - addressed through loan to sole proprietor.	LLC is almost always the better choice if partnership tax treatment is the goal.	Is easier to convert S corp to C corp than it is LLC to C corp in event venture capital is sought.	If venture capital is being sought, incorporation should be in the state of Delaware.	Often used to own commercial real estate.	

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Questions?

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