

The startup scene

Key considerations for new business owners in Columbus **Interviewed by Lisa Murton Beets**

Good news: It's an ideal time to start a business in Columbus, according to Steve Barsotti, a director with Kegler, Brown, Hill & Ritter.

"The downturn in the economy has sparked a lot of activity in the startup space over the last few years," Barsotti says. "Some people have started businesses by necessity as other career avenues have been cut off to them. Fortunately, the business community here is very open, with many resources available and a lot of formal and informal support."

Barsotti emphasizes the importance of having a good business plan along with good records, books and documentation right out of the gate. "It's critical to talk with good counsel and accountants when you first start out," he says. "For a relatively small investment, they will help you set up the business in a way that will maximize your opportunity for growth and avoid more expensive problems down the road."

Smart Business asked Barsotti about key considerations when starting up a business.

How does one determine the best legal structure for his or her startup?

The best legal structure depends on a number of factors, but it's particularly important for startup companies to structure in a way that allows for flexibility and growth. The limited liability company (LLC) format is typically a good choice for startups because it provides for pass-through tax treatment and also allows the company to bring in different types of investors and structure preferred returns that investors in a start-up will often expect. Again, basic up-front legal and accounting advice can be critical. Oftentimes, new clients come to us and have already set up a structure that is less than ideal.

How important is the business plan?

A good business plan is the key. Without a good plan, there's really no chance of getting any funding. It's easy to get stalled. And it's important to have a plan that is well researched and thought-out, but also builds in some flexibility. In the startup phase, you need the flexibility to improvise and adapt quickly.

Too often an entrepreneur might have a kernel of an idea, but they have not yet gone through the projections and numbers to determine if it would work as a business. The Small Business Administration (SBA) has good online resources for creating basic business plans.



Steve Barsotti
Director
Kegler, Brown, Hill & Ritter

How can an entrepreneur find funding in the present economic environment?

This is the toughest question for an entrepreneur to answer during the startup phase. The answer depends on the business's capital needs and what is realistic.

A lot of businesses, in particular internet-based businesses, can be boot-strapped because they are not necessarily capital intensive. The owner uses personal savings, home equity, credit cards and 'sweat equity' to get the business off the ground. Asking friends and family is another common avenue, but this raises issues of securities compliance and can get pretty hairy if the business fails.

Because traditional bank financing has been difficult to come by, we're seeing increased activity in private placement of equity investment with angels and accredited investors at an early stage, particularly for entrepreneurs who have a positive track record. Although bank financing is still tight, I always recommend talking with bankers to see what might be available. If nothing else, it can help develop a relationship and the banker can give helpful feedback on the business plan.

How can the owner protect his or her ideas and products right from the beginning?

At the startup phase, you're trying to set up your business for cost-effective growth.

Protecting your intellectual property is critical to that effort, and all startups should have an appropriate IP strategy, which will differ dramatically depending on the nature of the business. For some startups, strategic patent filings have to be made despite the cost in order for the business to have any real chance of success in the long-term. For others, patents may not be an issue, but speed to market or effective brand protection may be more critical. In all cases, you need to be smart and selective about whom you share your ideas with and you need to have basic contractual protections with those involved to protect confidentiality and to ensure that IP ownership is clearly vested in the company. Having template contracts drawn up is a small investment up front, but the consequences of not having them can be devastating and negatively impact the value of the business you're trying to grow.

This will also help set the expectations of the people you're dealing with.

What should the entrepreneur be aware of in terms of contracting labor or hiring employees?

Again, have good contracts. Ensure that confidentiality and non-compete agreements are in place and that intellectual property will be effectively transferred to the company. Be aware of regulatory guidelines that will help you determine whether someone is an independent contractor or an employee. If you need to hire employees, make sure you are in compliance with insurance requirements and tax filings. A good payroll service and a good accountant can certainly help avoid problems.

How can the business get additional help?

Columbus has really developed a solid network that supports startup activity. Technology companies (which include more than you may think) can find assistance with the TechColumbus TechStart Incubator, which has a high-profile presence and provides typical incubator support. In addition, the Columbus Chamber of Commerce is actively working to promote startup activity in the community and provides good networking, research and other support services. It can be a terrific resource for entrepreneurs. Many times, the key to success is simply connecting people with the right experience, vision and skill sets. <<

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