

## **Business Start-Up Bloopers**

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"You've got to kiss a lot of frogs before you meet a prince," says Dan T. Moore, founder of several Cleveland-based manufacturing companies including Soundwich Inc., a maker of specialty products for the auto industry.

In Moore's view, many entrepreneurs tend to focus too closely — and too early — on a single opportunity.

He explains: "If you look back at a failed deal, it probably failed because you didn't look far enough around you. It's critical to understand the 'DNA' of any startup opportunity, and that requires looking at a big universe. Unless you've looked at 10 deals intensively, don't bother to do anything."

Entrepreneurial ventures are too-often product-driven instead of market-driven: Founders of start-ups often fall in love with a product and its properties first — and then try to sell it. No stranger to this pitfall, Moore admits to being enamored with an energy-absorbing urethane material he's developing for helmets.

"It's dramatically better than anything on the market, but right now there is no need for this product," he says. "We've spent more \$5 million on this and still don't have a profitable business model."

In contrast, Moore once devised an innovative solution for Chevrolet to keep the floor pans on a specific truck model from rusting. Moore devised a patch that could be melted into the floor pan and made it impervious to water. Chevrolet bought two million patches a year, and Moore generated significant profits — even in the first year. That product was developed directly to serve a market need.

At a recent TEI Presidents' Forum, Moore shared other lessons from the School of Hard Knocks:

**Protect intellectual property.** If you think your idea is marginally good, file a provisional patent, urges Moore, who files at least one per month. "It's two sheets of paper, takes about three hours to fill out and costs \$300," he adds. "It's crazy not to do it. It protects the idea for up to one year when a utility patent must be filed. If it turns out to be a lousy idea, you didn't spend the money on the utility patent."

**Focus on high margins.** When evaluating startup opportunities, concentrate on high-margin ventures. Otherwise it's not worth the time and trouble to pursue.

**Shift risks.** Entrepreneurs typically absorb too much risk. If your idea is good, other people will accept the risks, says Moore. One ratio he likes to see is a tenfold profit opportunity for every dollar that founders are at risk for or invest.

**Understand investors' needs.** To get investors' attention in Cleveland, the return rate for risk capital has to be about 30%. "You see some people who think investors are going to put in capital for a 12% return," Moore says. "It just doesn't happen. There are a lot of deals out there with a 30% rate of return. That's what you have to have."

**Become an expert on foreign manufacturing.** If you don't understand what's happening in countries like India, Korea and China, you're going to be at a severe disadvantage. Today certain things either have to be made or tooled abroad.

**Focus on profits.** Startups should break even at the end of their first year or 18 months. If that hasn't happened, either get out of the business or restructure it to generate a profit.

**Share your business plans.** "It's amazing how many business plans have a fatal flaw that a sixth grader could find," Moore says. Yet the excitement of a deal clouds entrepreneurs' objectivity. And the closer you get to the end of the deal, the more attractive it gets. One simple fix: Share your business plan with trusted friends and advisers early in the process. With their input, your objectivity will bounce back quickly.

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