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Startups & Side Hustles | What advisors need to know

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1. Introduction:

There are four parts to this paper:

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1.2 **The Journey**: A summative guide on the startup journey enabling you to provide tailored guidance and advice.

1.3 **The Advisor**: An outline on the Gold Star Approach taken by Bolter Make It Happen to enable you to help, guide and advise your startup clients.

1.4 **The Future**: Summarising and providing key takeaways.

At the end of this paper, there is a guide to assist you to navigate commonly used startup terminology.

2. The Fundamentals

2.1 Startups

A startup goes beyond your typical 'young techy' vibe and is more of a state of mind. Although frequently branded the same, startups are technically different from your new or emerging business. However, they all fall under the same banner of a 'startup'.

A traditional startup usually has a new or innovative product, service or solution with the funding required to take their business to market using a risky business model and an entrepreneurial business mentality.

New/emerging businesses differ where they are still new businesses starting up, but the key is that they utilise known solutions to solve existing problems. This doesn't discount the risk or value in what it means to start a new business. However, it is essential to identify the difference between the two because your client, in either scenario, may have varying elements of risk appetite and might require help and advice differently from an advisor.

2.2 Side Hustles

A side hustle is essentially a person who has a day job, a nine-to-five gig, and has a hobby that needs validating or commercialising or has an already established low key side-businesses.

Side hustles are generally:

(a) happy with the incremental growth of their business over time with no driven pursuit of it becoming a full-time gig; or

(b) ready to make the explicit decision of forgoing their day job to leap into their business with the aim of tremendous growth; or

(c) caught in-between the two options above, with itchy feet when it comes to risk & uncertainty, and the stability of regular income.

Unless a side hustler is pursuing growth, there are a couple of key characteristics to consider:

(a) they may not see immediate value in obtaining advice;

(b) they may be price sensitive and driven by cost; and

(c) they may sit on any decision for some time.

2.3 Startup Founders

A startup founder is essentially a person who comes up with an idea and then transforms it into a business or startup. Founders can set up a business on their own, or they can do it with others. You will find that the term founder is used quite regularly in private equity firm and accelerator programs.

2.4 Incubators & Accelerators

Incubator / Incubator Programs - *supporting startups to grow their ideas*

Incubators are businesses that help startups through their early development by providing business advice, resources, contacts and funding. Incubators can be government-funded, set up by universities, started by entrepreneurs as charitable/non-profits or for-profit ventures, such as River City Labs in Brisbane established by Steve Baxter from Shark Tank.

Accelerators / Accelerator Programs - *mentoring startups to high growth.*

These are organisations that offer startups mentorship, funding, capital and a network of connections, particularly to investors. They are sometimes a program that is based over a span of weeks and, depending on the outcome of the accelerator program; the organisation may look to offer funding which usually involves an equity stake.

Accelerators are typically only for startups that already have a product, service or solution that has been validated by the market in some way. It is common to see startup founders locked into their startup journey when investment comes from accelerator programs.

2.5 Commercialisation

Do you have a client that is thinking about selling off assets to boost their cash flow? Does your client have a valuable idea or asset that could be making money for them, but for whatever reason, they just can't make the most of it or the capital to do so themselves?

Intellectual Property (referred to as IP) is an essential intangible asset of any business. Commercialisation is a process of identifying an IP, that may be a new idea or invention, assessing commercially (or artistically) useful. Identifying critical IP in a business and developing a strategy around that asset to maximise its use goes to the core of the commercialisation of IP.

Commercialisation is a process of identifying an IP, that may be a new idea or invention, assessing commercially (or artistically) useful. The commercialisation of IP means extracting value from the IP by marketing a new product, production method, or service-based at least partly on the IP.

IP is an essential intangible asset that can complement the tangible assets of your business – e.g. money, machinery or real estate – and the uncreative (non-IP) intangible assets – e.g. a list of important potential customers or staff expertise. IP can help a business to do better than it otherwise would, or it can kick-start a new business.

Commercialisation may include licensing IP. For example the rights to sell a product; the rights to use a business asset (plant or equipment); the rights to the know-how to produce a particular product; the use of an area of land or within a building; or the rights to use or commercialise intellectual property (IP), including branding, get-up or trademark/s.

Example: Sticky notes - The manufacturer called 3M created a new variety of non-sticky glue. The glue was not intended to be used to create what is now known as the famous Post-it Note. It was the commercialisation of the IP and glue recipe in a new, alternate application which resulted in a significant commercial opportunity for 3M.

2.6 Venture Capitalists & Angel Investors

Venture Capitalists (referred to as VCs) are private equity investors. They provide capital to startups that exhibit a high growth potential and usually do so in exchange for an equity stake. VCs are traditionally larger investment organisations that target a significant portion of their investment portfolio in startup businesses.

Angel Investors (also known as private investors or seed investors) can be your family or friends or high net worth individuals who provide financial backing for startups or entrepreneurs. Angel Investors may also offer their capital in exchange for an equity stake.

Advisor Tip:

An advisor may wish to confirm how the startup is funded and whether there are any contractual requirements to consider ensuring the startup founder isn't in breach of any obligations to their investors.

2.7 Bootstrapping & Crowdfunding

Bootstrapping is when a business is built from personal savings and the revenue made from the company as it grows.

Crowdfunding is a process to raise money or finance a startup or an idea from many people. It is known in Australia as crowd-sourced funding. There are four main models:

(a) loans/debt-based crowdfunding;

(b) donation-based Crowdfunding;

(c) reward-based Crowdfunding; or

(d) equity-based Crowdfunding.

Crowdfunding is primarily conducted online and through a crowdfunding website and requires a campaign to pitch for and attract investment or support from the public to achieve the intended goal based on the four models chosen. The key for these campaigns is to come up with a compelling elevator pitch (usually a video, strong visuals and infographics) that will convince your target audience to buy into your idea and become a backer.

Crowdfunding is a relatively new investment option in Australia with dedicated legislation being introduced in 2017. The legislation refers to Crowdfunding as 'Crowd-sourced funding'. The Australia Securities & Investments Commission (known as ASIC) is the regulator of crowd-sourced funding in Australia.

Advisor Tip:

(a) there are many other ways to fund or finance a startup; and

(b) there are advantages and disadvantages for both the founders and their business (however structured) concerning tax and finance.

3. The Journey

3.1 Overview

Starting your own business can be on the one hand a daunting and arduous process and, on the other hand, an exciting and creative journey. So, it is important to step into the shoes of our startup clients and appreciate their current position and what the road ahead looks.

It is standard for Advisors to have some level of empathy to recognise and appreciate their client's perspective. When it comes to startup clients, it is no different. Arguably, a startup Advisor may need a higher level of empathy to truly understand that to most startup clients the road ahead, and the journey that they are embarking on is paved with uncertainty, risk and challenge.

Advisor Tip:

Advisors will benefit from knowing the general roadmap for a startup, even at a fundamental level. As an advisor, you are instrumental in the startup's journey by encouraging creativity, being supportive and honest, and through education.

3.2 The Startup Journey

The Startup Journey includes these steps[1]: *Idea, Explore & Plan, Validate, Demonstrate, Funding, Timing, Launch.*

The startup journey is generally the same process regardless of whether your client is a side hustle or a startup. Although, no one startup is the same or experiences the same journey, irrespective of the overarching process. There are many different variables along the way, such as:

(a) the client, their circumstances and experiences;

(b) the time it takes to plan and develop the product or service;

(c) the support sitting behind the client, be that financial support or advisory support; and

(d) the client's passion, drive and agility.

An ideal position for launch may look like the following:

(a) the client has spent around twelve months of exploring, validating and demonstrating their idea and their business model;

(b) the client has enough financial support or savings to weather the highs and lows - a general rule of thumb is for a startup to have financial aid or working capital for around twelve months; and

(c) the client has the passion, the drive and the resilience to run their own business.

3.3 Idea

This is the process of identifying the problem, conceptualising the solution and manifesting the idea. It is pre-business planning, very high-level and a blue-sky creative process.

Advisors may receive enquiries from startups aimed at gathering information about their idea, how your advisory role will interplay with that idea and what to do next. At this stage of the journey, startup clients would benefit from exploring and fleshing out their idea to ensure business viability.

3.4 Exploration & Planning

Dreams and ideas are significant in your head, but what do they look like when you take pen to paper? The exploration & planning stage digs a little deeper into the research, planning and development of the idea and concept.

As an extension from the initial brainstorming and blue-sky idea process, there are two more profound steps into the problem and solution identification process. These are:

(a) The Problem Expanded: who experiences the problem, how widespread is the problem and deep does the problem go past your intended audience.

[1] *This is an enhanced version of the Innovation Roadmap published by the Queensland Department of Industry, Innovation & Science.*

(b) The Solution Expanded: what does the end solution look like, how does it solve the problem, does it create more difficulty, and why is their solution is different to or better than other providers.

Advisors may receive enquiries from startups aimed at gathering further information more specific to the industry that their idea would fall into and how your advisory role an service offering can help with solving early problems that they have identified or gaps in their knowledge.

At this stage of the journey, startup clients would have formed an opinion on whether their idea and business could be profitable and may need to undertake more rigorous business planning.

Business Planning:

Business planning helps tackle the ‘ifs & buts’ to an idea and concept and will assist your client in getting their business off the ground and being prepared for the journey ahead.

A business plan is an exciting chance to flesh out and plan your idea, get to know the business environment and the market players, analyse your strengths and weakness and develop your strategy to capitalise on your opportunities.

It takes some time to create a business plan. However, once drafted, it is easy to update as the business pivots during its development phase. It is a document that will continue and adapt over time, and as the business grows.

3.5 Validate

Validating a business idea is the process of gathering evidence around ideas through testing the idea and assumptions and exposing them to the practicalities of the real world.

Some startup clients may choose to skip this step and continue onwards where validation happens after the launch. However, validation helps to understand the viability of the idea before spending money on its further development and creation. It helps reduce the risk and may even speed up the overall time that it takes to launch.

Validating an idea is not about creating a perfect solution but to ensure the concept has potential. Validation occurs in in two parts:

(a) validating the need for the product, service and solution; and

(b) creating and improving the product, service and solution.

Part One - Validating the need

An idea needs a real-life demand and needs solves a real problem.

Validating the need for the product or service offering is an opportunity or startups to ensure that they don’t build and then release under a false assumption that a consumer need is present. Validating the demand is about testing and experimenting with the idea with real customers to understand how they engage with your idea. Clients may pick apart the critical areas of the concept, such as the business model, features, pricing and experiment with adding value to the solution.

Example Assumptions:

(a) Airbnb: Guests are not afraid of sleeping in the house of strangers. Hosts won’t be afraid of damage to their homes.

(b) Zappos Shoes: The startup founder tested a hypothesis about the online purchase of shoes by attending the physical store, taking a photo and then posting online. People bought the shoes from Zappos, founder went and brought the shoes from the store and then mailed them to the customer.

Part Two - Creating a prototype:

During the validation stage, startups may look to build a low-quality prototype of the product or service offering to assess it against practicalities and desirability. By creating a prototype, startups can test core features against focus groups and tinker with improvement through iterations of the prototype. If the product or service is digital based, then you have a process of testing usability and digital wireframes.

Example**:** Tinder. Introducing the swipe left and right key feature into a heavily saturated online chat-based dating market.

Startup clients during the validation process should keep in mind:

(a) creating the solution, then validating it. Keep honest, critical and testing risky assumptions to ensure you are playing to win; and

(b) examine those who have gone before you to prevent the same mistakes.

Advisor Tip:

(a) add value to the validation process by providing clients with existing data and insights;

(b) being a key point of referral between the client and other service providers;

(c) understanding the importance of confidentiality and secrecy of the startup client's idea and concept. It is highly critical that a patent or design is kept secret and not divulged to the public or others. The novelty of the idea and notion is vital for a startups ability to register and protect their intellectual property.

3.6 Demonstrate:

While validating may confirm whether an idea has potential, it doesn't guarantee success. It is the execution of that validated idea that will demonstrate and prove the true potential.

This step may include creating a minimal viable product (**MVP**) or more sophisticated working model, demonstrating commercial and technical viability and traction and developing a design for the development and service, including its delivery or production process.

Startups will be needed to undertake a feasibility exercise is to determine how they will make a sustainable profit from the idea as a consumer are purchasing the product or service offering for the benefit or value that it provides to them.

3.7 Funding:

There is no hard and fast rule for financing a business. It is a complicated process with many options that all have their advantages and disadvantages, and that result in different outcomes. What remains is that adequate funding is critical to the success of a startup.

If the startup client has not done so already, it is an excellent time for them to develop (or update) their business plan containing their startup budget and financial plan. Any lender, investor or grant provider will likely require a detailed business plan to undertake due diligence and assess the commercial viability of your idea to enable any funding or provision of credit.

When it comes to funding, a startup client juggles a few issues:

(a) Working capital restraints: how much capital do I have, how much do I contribute and will there be enough to live on;

(b) Loans from family and friends: what happens if the business fails? Do I need a more formal loan agreement if it's just my parents giving me money? Do they have rights to demand payment from me?

(c) Eligibility for business lending: is business lending an option without any trading or cashflow history? What security do I need to provide as collateral? What happens if I can't meet my debt obligations? Do I have borrowing capacity?

(d) Suitability of alternate streams of funding: is crowdfunding a way I can raise money for my idea? What will an angel investor need to fund my business?

(e) Navigating additional equity partners: will I still control the business with other shareholders? What happens if I want to add more shareholders in the company?

(f) Overcoming fears around Australian grants, funding and support: what is even out there? Will I have to pay the money back if the business fails? The application process is too long? And I won't have any chance of winning? Won't they steal my idea?

Advisor Tip:

(a) A startup will likely underestimate its initial startup budgets. Advisors need to be wary of this and have clear and transparent conversations about when pricing their services, ensuring value is evident if a premium price.

(b) Startup clients will likely need support and upskilling in cashflow management and financial statements.

(c) A client's aim and vision for their business to help them figure out what a comfortable funding option might look like for them.

(d) Advisors can consider providing services for equity in a startup client's business - although, it is risky, and you should consider this option with appropriate financial and legal advice.

3.8 Timing:

It is difficult to know when to jump and launch a business. It depends entirely on the market and the economy, the company and its preparedness, and the client.

This step incorporates the 'validation' stage of the startup journey. As the ideas and assumptions are testing, a startup will become aware of whether their consumers are willing to pay for the offering. It may be the case that the timing is merely wrong.

As an Advisor, it is difficult to navigate this step with the startup client. Advisors should do all that they are engaged to do to assist the client to get to the point of jumping without making that decision. Nose in, fingers out. Timing is critical to success, and a business wouldn't want to be too early or too late to the market. No matter how invested an Advisor is on the startups journey, this can be an area of risk to acknowledge and step back from to let the client call the shots.

Example**:** Airbnb.

(a) In in the lead up to a large conference event in San Francisco, three founders identified that there was limited hotel accommodation available for the expected visitors. Two of the founders were roommates and were struggling to afford rent.

(b) So, in 2007 and the early days of the Global Financial Crisis (**GFC**), they turned their loft apartment into bed and breakfast with air mattresses. They played with a few ideas, before settling on Air Bed and Breakfast. They launched twice, and no one was noticing, and Angel Investors rejected and ignored their ideas.

(c) In 2009, Airbnb was created after taking part in an accelerator program and picked up $600,000 of seed funding. Airbnb launched during the GFC demonstrating an alternative and cheaper option for short term accommodation for the market but providing hosts with a way to make use of the extra space in their homes and apartments to supplement their income.

(d) Airbnb is an excellent example of what an ideal solution to a problem looks like, and how the solution can capitalise on external factors and timing.

4. The Advisor:

An advisor plays a vital role in a startup's journey through providing help, guidance and advice to clients to enable them to make informed decisions and understand concepts outside their knowledge and experience.

From a risk point of view, advisors may look to adopt a nose in, fingers out approach to their advice.

4.1 Gold Star Approach

This is a methodology which sits behind Bolter Make It Happen when working with any startup client. It contains five essential elements and centres around adopting a long-term client focussed approach and mindset.

As it sounds, to get a gold star, you, as advisors, should look to practice the provision of advice to startups in this way. To do so will enable you with the tools to provide them with 360-degree advice and the support they need to succeed in their journey.

(a) Support

(i) Starting a business is a big step, a risky move, and it may seem like a daunting process to some. Advisors must appreciate the significance of this step.

(ii) Advisors can also add value by showing empathy and listening and creating a space for the startup to air their creative mind and allow you to be a sounding board.

(iii) Startups may not feel comfortable in asking for help. Therefore, it is critical to creating a space that is supportive and non-judgemental.

(b) Network

(i) Know what you know and know what you don't. Identify gaps in your knowledge and reach out to those advisors who could help you.

(ii) Create a professional network of connections and learn from others. In turn, and when you are advising a startup client, you will be able to lean on your professional network to solve the problem. Your network is an important tool under your belt and will help you advise your clients by pointing them in the right direction.

(c) Guidance

(i) Startups require a lot of help, guidance and advice throughout their journey.

(ii) Advisors need to understand a client's position and business journey. The background information and the client's goals will guide how you, as the Advisor, advise your clients.

(iii) Our 360-degree mind mapping technique takes a helicopter view of the client's business, their current position and future goals. It is a technique that encourages clients to share more, enables advisors to listen more and for collaboration between advisors and clients to occur.

(iv) For startups, it is a useful exercise that helps the client take an inward look at their business and the journey ahead while displaying the value of you as their advisors.

(v) You can add significant value by tailoring advice or services to startup clients with their ‘future’ in mind.

(vi) When delivering advice to startups, it is crucial to be responsive, transparent with your costs as much as possible, and express written advice in plain English.

(d) Education

(i) A founder’s knowledge and their level of business acumen do vary. It can range from parents running a side business right through to a CEO starting as a consultant.

(ii) An essential part of your role as an advisor is educating your client on your area of expertise so that they can make informed decisions. The extent to which you inform the client is entirely dependent on the dynamic between the Advisor and client.

(iii) By engaging with clients and creating useful content, you are demonstrating the value that goes beyond advice. An advisor could look to provide additional information, documents, or links to more unsophisticated startup clients to add value and build rapport.

(iv) Education flows both ways, and an advisor can take away new learnings from their startup clients just as much as the client does. If you know more about a client and their startup business, the greater they are likely to feel that you understand them. This presents an excellent opportunity for client engagement and growth for an advisor’s own knowledge and experience.

(e) You

(i) You are the key to rounding out this Gold Start Approach when advising your startup clients. Your skills, your personality and your flare, are essential to carrying out this approach in practice.

(ii) If you are taking the four other elements and adding the ingredient that is you, and what makes you different than the rest, then your help, guidance and advice to your clients, provided it isn’t negligent or incorrect, deserves a gold star.

(iii) Be you, and the rest will follow.

5. The Future:

5.1 Key points for advisors

(a) Working with startups is energising. However, it is essential to consider pricing models and structures to ensure that you remain affordable and adding value wherever possible.

(b) Reach out to your peers and industry specialists. Get to know the startup ecosystem in your local area by finding out who is the investment and advisory bodies, who run incubator or accelerator programs and where are the innovation hubs.

(c) Consider your client and tailor your advice to suit. Keep in front of mind and present throughout their business journey. Create and distribute useful and handy information.

(d) Challenge traditional vibe. Startups are sometimes edgier and are looking to differentiate themselves formalities. Where appropriate, consider a more casual approach by reducing formalities.

6. Guide to Startup Terminology

Term	Meaning
Accelerator	are programs that support early-stage, growth-driven companies through education, mentorship, and financing. Startups businesses enter accelerator programs for a fixed period, and as part of a cohort of companies.
Bolter or Bolter Make It Happen	the law firm for startups. It is a division of Clifford Gouldson Lawyers headed by Simon Playford.
Bootstrapping	is building a company from the ground up with nothing but your savings.
Business Angel	are typically high-net-worth individuals who aim to help entrepreneurial individuals succeed with a business idea by investing their own money.
Copyright	is a form of intellectual property that protects the original expression of ideas. There is no registration system for copyright under Australian law and certain forms of expression, such as text, images and music, are automatically covered by copyright under the Copyright Act.
Crowdfunding or Crowd-Sourced Funding	is a financial service where startups and small businesses raise funds, generally from a large number of investors that invest small amounts of money
Employee Share Scheme or Employee Share Option Plan	give employees shares or rights (including options) to buy shares in the company they work for.
Innovation	a new method, product or idea that is novel or different.
Incubator	a place, especially with support staff and equipment, made available at a low rent to new small businesses.
Minimum Viable Product or MVP	is a version of a product with just enough features to satisfy early customers and provide feedback for future product development.
Patent	is a right that is granted for any device, substance, method or process that is new, inventive and useful. A patent is a legally enforceable right to commercially exploit the invention for the life of the patent.
Private Equity	are managed investment schemes that invest primarily in private companies and who are usually angel investors or business angel groups who believe that the startup business will succeed in.
Public Research Organisation	is a government-controlled or funded organisation that performs research and experimental development as a primary economic activity
Scaleup	are companies growing at around 20% per year over the past three years. Also known as high-growth companies.
Seed funding	an early investment where an investor invests capital in a startup company in exchange for an equity stake or convertible note stake in the company meant to support the business until it can generate cash of its own.
Side Hustle	a means of making money alongside one's primary form of employment or income.
Startup	a new business venture, or a new commercial or industrial project.
Trade mark or trademark	is a way of identifying a unique product or service through a letter, number, word, phrase, sound, smell, shape, logo, picture, movement, aspect of packaging, or a combination of these.
Validation	Is the process of gathering evidence and learnings around business ideas through experimentation and user testing, to make faster, informed, de-risked decisions.
Venture Capitalist or VC	is a private equity investor that provides capital to companies exhibiting high growth potential in exchange for an equity stake.

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