KPING Privately Speaking

Insights on private company growth from private company insiders

Issue 4 | January 2017

9 drivers of startup success

It takes more than a good idea to build a thriving company. It also requires structure, partnerships, skills, and processes. KPMG LLP's (KPMG) Private Markets Group understands the challenges facing entrepreneurs and founders. That is why we put together our guide to startup success.

We believe there are 9 key business drivers that entrepreneurs, founders and start-up executives will need to consider if they hope to grow their company.

Develop your pitch: Your company's pitch will define your success in raising capital. It will help you build business alliances and partnerships. And it will set the vision for growing market share.

The executive summary and pitch deck will both play an important role in helping potential stakeholders understand your business proposition and attracting outside capital. In addition to the potential financial returns, investors will be interested in evaluating your team's ability to execute while creating and sustaining a viable product.

Attracting the attention of venture capitalists (VCs) and angel investors can be critical for start-ups. VCs offer valuable advice and experience to help entrepreneurs and founders avoid the common pitfalls and optimize the venture's approach to the market. They can also provide access to business partners and new markets that would be impossible for an entrepreneur to achieve on their own.

Choose a legal structure: An appropriate legal structure provides an important foundation to support your company's future growth and operational effectiveness.

In addition to limiting potential liability and helping you develop appropriate tax strategies, the right legal structure can help your company safeguard its intellectual property (IP), attract outside investors and reduce potential disputes as your venture moves through the later stages of its life cycle. Place particular focus on equity arrangements, IP ownership and employment terms. "Building a world-class company is not easy. It takes patience, tenacity, and great advice. Even so, entrepreneurs and founders will face significant challenges as they work to scale up their enterprise. Raising capital, finding talent, acquiring customers, complying with regulatory requirements and other management initiatives all require dedicated attention from leaders and entrepreneurs."

—Brian Hughes, National Private Markets Group Leader and Venture Capital CoLeader

By considering these issues at the earliest stages of your company's life cycle and developing an appropriate legal structure, you can help set the stage for your venture's future market growth and success and pave the way for an attractive exit strategy that helps you maximize your company's value.

Build your brand: Your brand is one of your company's most valuable assets. It connects your company to the hearts and minds of your customers, investors, and the marketplace.

Building a brand is all about shaping public perceptions. At the core of this are some simple best practices: Define a higher purpose and mission statement; pick a brand name; differentiate your brand; build a visual identity; maintain consistency; and always remember that a brand is an experience, not a product.

A good product coupled with a well-executed brand will position your company for long-term success, securing a special place in the minds of your consumers. But remember that your brand starts internally with your culture, values, and mindset long before it hits the market. The most successful start-ups craft a brand strategy early on.



Leverage the ecosystem: Tapping into a strong ecosystem that includes VCs, experienced entrepreneurs, talent; and business advisers is key for startup success.

Silicon Valley continues to be the epicenter for tremendous innovation for startups and global technology enterprises. But other cities in the U.S. (and around the world) are aiming to replicate Silicon Valley's successful ecosystem. New York is getting a bigger footprint in digital media. And from Seattle to Cambridge and Portland to Austin, new hubs and ecosystems are emerging.

The primary advantage of becoming embedded into a start up ecosystem is improved access to experience and resources that can help you bring your venture to market quickly and successfully. Depending on your particular business, that could mean trips to Silicon Valley or other centers around the country.

Raise capital: Access to capital is typically one of the first issues a start-up will need to address and the ability to attract investors will play a key role in the success of your company.

Raising capital will typically take place in several stages (known as rounds), each of which will likely carry different terms, conditions, and milestones. Equity is the most common approach to early-stage investment since most startups will not have enough revenue or history to attract debt financing at first.

Many startups find that by using equity to raise capital, they are also better positioned to attract and retain talent since many professionals and skilled employees are motivated by a company's growth potential and the possibility of achieving equity appreciation.

Be tax compliant: Tax compliance is a necessity for any business operating in the U.S. An effective tax planning strategy can add considerable value to your business.

Taxation is a critical factor in the success and financial health of your business and obtaining tax advice at the earliest stage of your start-up's development will help prevent mistakes that can have a lingering and detrimental impact on your profitability, legal standing, and brand reputation.

At the start, companies will need to apply for a Federal ID number and may need to register with State regulators to gain the appropriate licenses and permits. But depending on the nature of the business, other taxes may also apply and owners would be well advised to understand the implications early on.

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Think globally: International operations and customers can create revenue growth and increase operating efficiency for growing companies.

With mobile and cloud technologies, startups now have greater access than ever before to connect consumers in a global marketplace. Adding international operations can also dramatically improve your company's access to technical and engineering talent, as well as potential cost savings. But foreign trade can also introduce challenges such as tax implications, foreign exchange risks and other issues.

Although the potential challenges and implications need to be evaluated, international expansion can provide tremendous opportunities for growth-stage companies to reduce operating costs and expand their market dramatically.

Keep proper accounts: Maintaining accounts, implementing controls, and assessing audit requirements are key to maintaining control over your financial resources and meeting filing requirements.

Current and accurate financial information is critical for tax reporting purposes, raising capital from outside investors and updating investors about your company's progress. Generally, private companies are not required to prepare audited financial statements by U.S. governments, but these will be key in discussions with investors and if a decision is made to conduct an Initial public offering (IPO). Having a clear view of your accounts allows you to gain critical insights into your company's financial and operational performance that may influence your strategic decisions. They should also unlock insights into spending patterns and opportunities to improve the efficiency of your capital employment.

Develop corporate governance: Strong corporate governance is critical to adding organizational value and preparing the company for long-term opportunities.

Corporate governance is about more than just the board of directors. It encompasses policies, procedures, and principles that guide how the company sets strategy, manages risk, monitors its assets and resources, ensures management accountability and financial transparency, satisfies legal and regulatory obligations, and communicates with stakeholders.

A common misconception is that corporate governance starts and stops with the board when, actually, it's about setting the organization's overall tone and culture. Experienced entrepreneurs know the value and importance of good corporate governance and focus on it right from the start.



KPMG's Private Markets Group understands what it takes to drive private company growth. And in each edition of *Privately Speaking*, we share our insights—along with practical and actionable tips—to help Boards, executives and management grow, strengthen and transition their privately-held businesses.

For more information, click here to visit our Privately Speaking web page.

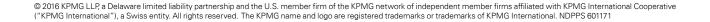


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Or contact your local KPMG office to discuss your unique challenges and situation.



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