



THE START UP GUIDE

Today, India is a thriving consumer driven market with a scope for exponential growth. Entrepreneurs are tapping this opportunity through sustainable and customer centric business models and redefining the dynamics of business through use of technology.

It is no surprise that India ranks third among global startup ecosystems just after the USA & UK.

*While India makes a mark on the VUCA map,
your startup is your personal opportunity
to create an impact in the world.*

LIFECYCLE OF A STARTUP

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PRE-INCORPORATION

It all starts with an IDEA!

The first step towards starting up is to validate your idea, through family, friends and most importantly, your target customers. Use smoke tests, conduct a survey, asses yourself.

Once your idea is validated, go to the next step of giving your business a formal identity.

HOW TO CHOOSE THE RIGHT TYPE OF ENTITY

The first question that arises is what type of entity is the best fit for your business.

Your choice of the type of legal structure for your business should be based on your short term and long term business goals.

It is one of the most important choices at the start of your business as it determines the personal liability you face, your ability to raise capital, the tax you will pay and the amount of paperwork coming your way.

TYPE OF ENTITY

WHAT WORKS WHEN

Sole Proprietorship

Advisable at the Idea Validation Stage where the business idea may be tested without incurring a significant expense and fewer formalities.

Partnership Firm

Advisable when the partners are closely associated and the business does not require external capital.

Limited Liability Partnership (LLP)

Advisable when the partners are professionally associated and the business does not require external capital

Private Limited Company

Advisable for a business that requires raising funds from external sources as it enables the investor to hold a stake in the business.

“Our only advice to all entrepreneurs is to *START!*”

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LAUNCH OF BUSINESS

Once incorporated, your business may immediately need contractual relationships, IPR protection and mandatory licenses to launch business operations.

These activities help the founders to focus on core business competencies and eliminate the possibility of regulatory or compliance related hassles.

CONTRACTUAL RELATIONSHIPS

Contractual relationships are very important from a business point of view to formalise on clear terms of a business transaction or an arrangement. Startups typically require the following contractual relationships:

1. Co-founders Agreement

A Co-founders Agreement is a formal arrangement with your Co-founders. It puts forward the equity distribution, IPR ownership, initial investments, roles & responsibilities and designation of each Co-founder.

2. Shareholders' Agreement

An agreement amongst shareholders of a company, segregating the ownership and management of the company. It also stipulates the rights and obligations of the shareholders and board of directors.

3. Term Sheet

A Term Sheet works as an initial offer of investment in a company. It describes the terms on which the Investor will invest in the company, however does not hold any binding value.

4. Non-Disclosure Agreement (NDA)

Non-Disclosure Agreement safeguards any confidential information that is shared with a third party.

5. Employment Agreement

An agreement to regulate the employer-employee relationship.

6. Vendor Agreement

A Vendor Agreement is typically used in circumstances where an outworker is hired or where services/ goods are purchased for business.

7. Service Agreement

A Service Agreement is a document between the service provider and a customer enumerating the nuances of how the service will be provided and the obligations of the service provider.

8. SAAS Agreement

SAAS Agreement stands for “Software-As-A-Service” Agreement. It is a type of Service Agreement used to determine software services to a customer.

9. Terms & Conditions

Terms & Conditions defines the relationship between the service provider and a user and is typically used on e-commerce platforms.

10. Privacy Policy

A privacy policy outlines how the user data collected by the business from a user shall be utilized by the service provider

INTELLECTUAL PROPERTY RIGHTS (IPR)

	TRADEMARK	COPYRIGHT	PATENT
<i>Nature of Right</i>	Protects symbolic expression	Protects creative expression	Protects functional expression
<i>Type of Protection</i>	A visual symbol which may be a word, signature, name, device, label, numerals or combination of colours used by one undertaking on goods or services or other articles of commerce undertaking distinguishing a business or brand from another.	Any type of tangible original literary, dramatic, musical and artistic works and cinematograph films and sound recordings from unauthorized uses.	Any type of invention which has industry application and commercial viability.
<i>Ideal time of Application for Protection</i>	Advisable before or as soon as business operations under the brand name have started.	Acquisition of copyright is automatic and it does not require any formality. However registration is recommended to prove valid ownership.	The application for patent should be filed before the publication of the invention and till then it should not be disclosed or published.
<i>Duration of Protection</i>	Trademark protection is valid for 10 years from the registration of the mark.	Literary or musical or artistic works are granted copyright protection for a period which extends through the lifetime of the author and up to 60 years after his/her death.	Patent protection is granted for a period of 20 years from registration of the patent. A renewal fee is payable from 3rd year onwards. However, after the lapse of 20 years, the subject matter of patent is not entitled for any protection.
<i>Examples</i>	Symbols, Logos, Names	Source Codes, Music compositions, Books, etc.	Innovative Technology, New Products.

LICENSES

When you start your business operations, you have to apply for certain licenses, depending upon the national and state laws and the nature and size of your business. Some of the basic licenses are listed below:

1. PAN

(Permanent Account Number): For Income Tax purposes

2. TAN

(Tax Account Number): For TDS purposes

3. Shops & Establishment License

A mandatory registration required irrespective of the place or kind of business carried out.

4. Professional Tax

A mandatory registration for all working professionals/ directors.

5. Service Tax Registration

Service Tax is required to be paid when the business is service oriented. Businesses can claim exemption from service tax till their turnover has not reached a limit of Rs. 10,00,000/-.

6. VAT Registration

VAT (also known as Sales Tax) is required to be paid when the business is for sale of goods. Businesses can claim exemption from VAT till their turnover has not reached a limit of Rs. 10,00,000/-. VAT is a state regulated tax and the percentage and/or turnover limit may vary in every state.

7. GST

Goods and Services Tax envisages bringing together all the indirect taxes in India under one umbrella tax. However, there has been not been much clarity on the implications and implementation of the same.

Apart from these generic licenses, various specific licenses may also be required in terms of your business model including, TRAI licensing, DoT licensing, IT/ITes Licensing etc.

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RUNNING THE BUSINESS

Running your business hinges on one word - Sustainability.

The strategy you employ to achieve short term goals accumulating into your long term goals requires a clear visibility of your business plan, important milestones and a systematic tracking of your progress.

When sustainability becomes a part of your organization's culture, you know your business is here to stay.

Before your business can grow and sustain its momentum, you must take action in support of the following mediums to assure your company builds a strong foundation for long term success:

Proper Accounting

To keep record of all the transactions of the business. This gives a thorough estimate of the financial standing of the business.

Adequate Budgeting

Budgeting is essential for allocation of funds for specific activities of your business and benchmarking your performance

Management Information System (MIS)

Is a tool for transforming the data collected into information of the business. This assists the management in charting the road map for the business, taking strategic decisions and enabling growth of the business.

Internal Audit

On the lines of MIS, internal audit helps to identify the operational inefficiencies of the business in a detailed manner. This paves the way for effective management and brings stability by overcoming the inefficiencies identified in the business.

Compliance

If compliance feels like an expense, non-compliance will end up in a loss for your business. Certain compliances ought to be done within specific time limits and are important with regards to keeping the regulators of the government at bay.

Primary compliances are as follows:

- Annual Filing of Income Tax returns within due dates.
- Annual Filings of Balance Sheet and Statement of Profit & Loss with the RoC
- Periodic filings for indirect taxes like VAT, Service Tax etc.

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RAISING CAPITAL

Raising capital funds indicates parting away with an equity stake in your business in return for capital. The idea behind raising capital is best explained through an analogy of a "Pie". At the beginning there are two to three people in the pie with a bigger bite size but less returns.

As you raise more capital, although the bite size of your portion reduces, the size of the overall pie increases.

TYPE OF FUNDING

Friends & Family Round

Reaching out to people close to you and asking them to put a portion of their life savings in your idea

Seed/ Angel Investment

Primary effort in raising external capital. Typically, this round is sourced from professionals, or semi-professional Angel Investors either individually, or in a consortium.

Series A/ Early Stage Investing

Typically, capital is raised through Venture Capital Funds.

Series B

Typically, capital is raised through Venture Capital Funds, mostly led by the Series A investors.

ESOPs:

Denotes Employee Stock Option Plans.

STAGE OF FUNDING

To kickstart the business. Initial stage after the company is incorporated.

One of the primary rounds of external capital raising. Often at the time when operational difficulties arise and an immediate requirement of money is an impediment.

At the time when the need for a larger amount for growing of the business.

At the time of Expansion Stage. A need for Series B is felt and sufficed at the time of expansion of the business.

At the time of Angel Round and/or Series A.

TYPICAL PERCENTAGE OF EQUITY TO BE DILUTED AND THE AMOUNT RAISED

15-20% for Rs. 5 Lakhs to Rs. 10 Lakhs

Upto 20% for upto Rs. 1 Crore

20-30% for Rs. 4 Crores to Rs. 12 Crores

May vary according to the needs of the business.

15% pool of the equity.

As you would have realised, starting up is not just about having a revolutionary idea, but also getting the execution right. It is the execution that is your differentiating factor. And the idea behind a strong execution is a strong business backend. This document gives you a perspective on how to strengthen this part of your business.

At the crux of it, this document is all about
Simplifying Your Business.

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