

**The sample below illustrates the final product. If you wish to see the original Word document with edits in tracked changes, please email [alice@crealitygroup.org](mailto:alice@crealitygroup.org).**

## Preface

So, you are ready to start your own business. You see your future unfurl before you. You have a concept for a killer app. With some hard work and sweat, you'll create a product that you'll bring to market, and sales will take off. In a few short years, you'll ring the opening bell at the NYSE. All you need is to get that product to market. That's great – urgency and optimism are important for an entrepreneur. But first, please find a quiet place and spend a few hours reading this book. Too often, I see inexperienced entrepreneurs in such a hurry to get started that they skip that vital first step: *preparation*.

This is a book about preparation: why to prepare, what to prepare, and how to prepare. Preparation is your foundation, and a business built on a strong foundation is more likely to stand. Do not skip preparation; no race begins at the starting line!

When I look back on all of my entrepreneurial adventures, I realize that I have always loved starting businesses. I will never forget the excitement of my first start-up when I was six years old. It was a waste paper collection project with a simple business model: go door to door collecting old newspapers. Embarrassingly for a six-year-old boy, my family didn't have a car; my father didn't even have a driver's license. However, we did have a huge, empty garage that became that business' first asset: the recycling collection center. The second asset was a push trolley that could load several kilograms of newspapers. When the garage was packed full of old newspapers, my father would call the recycling company, who would buy the old papers and empty my stash, thus leaving my business ready for another round of collection. After about a year, I doubled the company's headcount by employing my first-grade classmate, who was seven years old and shared my first name, Peter. This was the first and only time that I was guilty of employing "child labor". But considering that I was only seven at the time, I think that I can be forgiven for that one.

I had several small businesses under my belt by the time I graduated from the University of South Denmark with a degree in Electrical Engineering. I left for China the day after I graduated.

Over the past 25 years, I have played quite an extensive role in helping over 300 foreign companies get started in China; six of them were my own. All throughout these adventures, I have had the privilege of working in numerous capacities and positions, including founder, co-founder, board member, board

supervisor, and CEO. More recently, I have acted as a mentor for first-time entrepreneurs. It has been an honor to watch these businesspeople grow and learn from the information and guidance that I have given them.

And so, by writing this book, I want to share with you some of the helpful things that I have painstakingly learned along the way.

## A fatal flaw: is failure an option?

Most start-ups fail; this is a hard truth. The worst part is that, in many cases, they didn't have to. They just got stuck.

Maybe they had a bad concept. Maybe they had a great concept, but it was too early. Maybe they were too late, and someone else got there first. Maybe they couldn't secure the funding. Maybe the founders lost their passion due to a lack of support. Or maybe they did everything right, and they still failed – that happens, too. You can't control everything; no matter what you do, you could still fail. However, there are things that smart and determined entrepreneurs can do to increase their chances of success.

It would be very unfair and untrue to tell you that just reading this book will be enough for you to succeed. Even well-prepared first-timers fail. If it weren't so, *Shark Tank* wouldn't be a show.

So, is it okay to fail? Some suggest that the more you fail, the better. Failing has become something that many people boast about, as if it makes them a start-up war hero, and failing proves what a high appetite for risk they have. Throw that kind of thinking out the window. Instead, consider that the less you fail, the faster you succeed.

That's not to say that failure in and of itself is a bad or unacceptable thing. But you must ask yourself, "What does failing accomplish when it could have been avoided?". If you fail because you're going through uncharted waters, then, by all means, do the very best that you can to learn from that experience. No one can fault you for encountering things that couldn't be predicted.

However, it's far better to avoid failure in the first place by following a systematic approach. When all is said and done, failure results in the loss of money, time, and energy, and this can lead to the worst loss of all: the

loss of ambition. It can also cost you the opportunity to have a really great start-up.

## Art or science?

Like most beautiful things in this world, starting a start-up is more of an art than a science. Sure, there is science in the systematics of it, but there is art in the adaptation and design. So, why not just wing it and make it up as you go along?

Have you ever seen an acrobat or a musician perform something truly extraordinary, perhaps even improvised? They have poured countless hours into their craft in order to perfect their techniques by creating headroom, or room for improvisation when the time comes to execute their skill. Think of systemizing the process as adding more science to the art. The more you can systematize the simple aspects, the more headroom you will have for the truly complex elements.

Understanding the basics and adopting a systematic approach to your start-up gives you the headroom that you need to face the many possibilities, good or bad, that might accost you along the way. Knowing what you need to know, being able to improvise, and understanding your options helps you shorten the start-up process and develop products that are better suited for the market that you plan to infiltrate. It also gives you a leg up to develop more competitive business models, promote your brand more efficiently, protect your technology more aggressively, and raise capital more effectively.

## There's a reason they're called unicorns

Outrageously successful start-ups with a valuation of over \$1 billion were originally called "unicorns" because they were so rare as to seem mythical. In 2013, the year Aileen Lee coined the term unicorn, there were only eight of them. However, in 2019, the number of start-ups reaching unicorn status has accelerated to over 100.

Creating a unicorn is almost impossible. That's why they're called unicorns! There is always an element of luck to finding success, and it is difficult to truly assess just how impactful that stroke of luck may have been in

developing a unicorn's success. Yet, most start-up experts seem to draw their learning from unicorns. If you're not careful, you may get the sense that achieving anything less than unicorn status counts as a failure.

Although there are good lessons to be learned from unicorns like Facebook, Google, Dropbox, and Uber, those lessons cannot stand alone. A lot of learning can also be drawn from start-ups of a more modest size. You don't have to be a unicorn to be successful, and failure to become a unicorn is not the same as failure to succeed.

The journey that I am taking you on throughout these pages isn't guided exclusively by what we can learn from the unicorns. It is more personal than that. From time to time, I will use examples from my own life and real start-ups that I have come across over the years.

## Starting a start-up – do you have the tools you need?

It has never been easier to start a new business. The information revolution has made most information open-source. A powerful tool kit of business software and apps is available to every entrepreneur. However, this leveling of access to information and business tools makes start-ups more competitive than ever before.

Affordable co-working spaces, incubators, and accelerators are popping up all over the place. Forward-thinking governments are in the game, too, with subsidies and incentives to support new ventures.

The pace of innovation is accelerating, which favors start-ups over incumbents. Advancements in power generation, transportation, information technologies, Internet of Things (IoT), artificial intelligence (AI), robotics, and 3D printing are major game-changers that are disrupting the way products and services are created and delivered. This is giving way to a new wave of global innovation, and this is where start-ups are really important. It's here that quality comes from creativity, and speed outweighs size.

We're living in a time when the breeding ground for new and innovative start-ups has never been better. Just remember that you're not the only one with access to this wonderful world of opportunity. The competition is stronger than ever, so smart preparation is more important than ever.

It has been proven time and again that adopting a systematic approach to starting a new business can help an entrepreneur

shorten the start-up process, develop products that are better suited to the market, and raise capital quickly and cheaply.

My personal system is a list of 20 critical steps to starting a business that any new entrepreneur should consider. I have developed and used these 20 steps as a skeleton-structure hundreds of times when mentoring entrepreneurs over the years.

I have yet to discover a single book that gives a simple introduction for preparing to start a new company. Instead, entrepreneurs must slog through ten to 15 books to get a decent overview of start-up preparation, and very few beginners make it through those books to piece together relevant knowledge to get the big picture. Therefore, in 2017, I decided to take the bull by the horns. I elaborated my 20 steps into a series of 20 workshops on starting a start-up in China. Now, I am converting those workshops into this book.

The point of this book is to provide a simple, beginner's guide to making a successful entry into the start-up world. The path to success doesn't have to be long and arduous. I want to make it easy for you to get where you need to go faster, cheaper, and safer. In the following pages, I will introduce the 20 steps to guide you from the beginning of discovering an idea to raising money from institutional investors.

I have tried to present the 20 steps in a logical order, but feel free to take them in your own order:

1. Assess whether or not you are suited for a life as an entrepreneur
2. Become aware of your unfair advantages and develop them
3. Assess your idea and generate new ideas
4. Develop your value proposition
5. Develop your business model
6. Develop your product in a lean iteration process that involves your customers
7. Research customer behavior and size up the addressable market opportunity
8. Market your start-up and tell your unique start-up story

1. Protect your intellectual property rights
2. Choose the legal structure of your start-up company
3. Take on co-founders and co-investors
4. Draft your first shareholders' contract
5. Get your first A+ team on board
6. Work with a mentor
7. Bootstrap your start-up and avoid external investors for as long as possible
8. Set up your accounting system
9. Make a budget for the launch into commercial operations
10. Draft a business plan
11. Pitch your start-up idea and plans
12. Raise capital

To support the tools presented in this book, I have also developed a series of explanatory videos. These videos are my gift to you as thanks for purchasing this book. Sign up for my mailing list at [www.peterrasmussen.com](http://www.peterrasmussen.com) to get access to the full video archive.



*A start-up is an experiment, not a company – not just yet.*

# What Is a Start-up?

## *Are you starting a start-up? Or is it just a new company?*

It may sound like a trivial distinction, but there's a great deal of discussion in entrepreneurial circles on the topic of differentiating a start-up from just a new company. Is there any difference? The answer is yes, and, at some point, someone is likely to challenge you with this question.

This is a book about creating a start-up, so let's start by defining what it is. Steve Blank, the author of "A Start-up Owner's Manual", offers the most commonly accepted definition of a start-up:

***"A start-up is not a smaller version of a larger company. It is a temporary organization used to search for a repeatable and scalable business model"***

To illustrate the difference, let's look at an example:

Consider a neighborhood street with two newly opened shops. One sells sandwiches, while the other sells burritos. To the casual observer, they look broadly similar – they are run by the founders, financed by friends and family, have similar revenue, have a similar product, and have a similar target customer. However, the sandwich shop is a mom-and-pop shop with no particular innovation and no plans for growth, while the burrito shop is a prototype used to test and refine a new concept chain with plans to revolutionize the industry and expand globally. The former is just a new company, but the latter is a start-up.

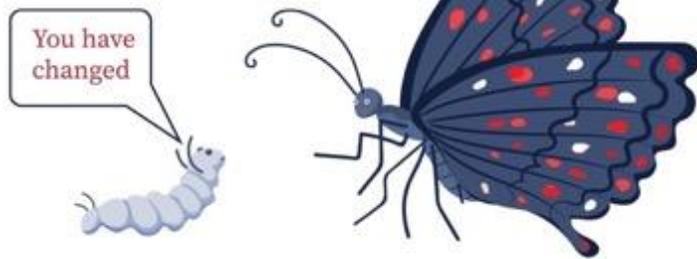
The question is, where do we draw the line between start-up and just a new company? To some extent, it doesn't matter. I have observed too much snobbery in the start-up world that venerates the start-up and scorns the new company. There are some important differences, and you will meet people who make a big deal out of those differences.

A start-up has not yet become what it dreams of being. It is a temporary organization in which you execute all of your development and preparation. Therefore, a start-up is more like an experiment than an actual company. Of course, early in the life of most start-ups, the company will begin

selling, but bringing a product to market does not mean that you are no longer a start-up. The start-up takes its early product to market to see how the market reacts, to get feedback for further development, and to improve the product and the strategy.

So, when is a start-up no longer a start-up? There is no universal definition. However, there seems to be a consensus amongst today's start-up gurus that a start-up evolves into a scale-up when it transitions away from the pure experimentation mode and transitions into a self-sustaining entity with positive cash-flow that no longer relies on venture capital for daily operations.

Great companies never stop experimenting, testing, and iterating on their business models, but they often reach a point at which they stop being start-ups...







*If you find that you are in love with the idea of a start-up but do not fit the profile of an entrepreneur, consider taking a job in a start-up!*

## Step #1: Test Yourself – Am I an Entrepreneur?

### Should you, or shouldn't you?

It might feel a bit strange to ask this question; the fact that you are reading this book right now should be enough proof that you have made it through the contemplation process. You're here, and your mind is made up! But everyone needs a devil's advocate – someone who knows you well enough to be able to judge when you are headed down the right path or the wrong path.

I've noticed a pattern with the entrepreneurs that I've met who gave up or never should have started in the first place. That is, they started for the wrong reasons. Perhaps they lost their job, and, in a desperate attempt to move on, they thought that starting their own company was the easiest option. They felt that they needed a name card with the word "founder" on it to impress people. Or perhaps they were lured by the "sexiness" of the start-up industry and wanted to be part of it at any price.

I'm not saying that these reasons are total disqualifiers, but they shouldn't stand alone. There is so much more to being an entrepreneur than just having a reason to do it. It's a vicious world, and a great deal of intrinsic power and stamina are needed to survive in a start-up.

Over the years, I've observed entrepreneurs, and I have pinpointed the characteristics that often lead to success and those that lead to failure. I have taken the liberty to condense this knowledge for you into the "six signs that you have what it takes".

1. You have drive.
2. You are resilient.
3. You are willing to work long hours for an extended time.
4. You can live with risk and uncertainty.
5. You are able to focus and execute.
6. You have the necessary resources and support.

I know that encouraging you to look within yourself and ask these six questions might not be helpful. Obviously, you have already committed yourself to this endeavor, and you're brimming with so many ideas that it may seem as though you are not the right person to ask these questions. You're too subjective, so the best thing you can do is to

pass these six questions on to a friend. Find someone who you can trust to be truthful with you, and ask them for honest feedback.

If asking someone else is too hard and impractical, there is a second way that you could go about this. You could do a little experiment with yourself. Put yourself in the position of your own devil's advocate and criticize yourself. Ask yourself why you should NOT do this. Sometimes, it can help to isolate yourself from the rest of the big, wide world for a bit. Maybe take a trip somewhere by yourself and bring these questions with you. Do some serious soul-searching, and tell yourself that the time has come for you to be more brutally honest with yourself than ever been before.

What follows is a deeper look into the "six signs that you have what it takes". If you finally conclude that you don't have what it takes, I urge you to reconsider your chosen path.

## Self-check: six signs you have what it takes

### 1. Do you have drive?

Test yourself by asking, "What is my entrepreneurial passion? What do I love to create and execute?". Love is the key word in that last question. Being an entrepreneur will take a level of passion and commitment that is far beyond what you would give to a normal job.

If starting a start-up is your singular dream, it will be easier to devote yourself to it when you struggle with that technical challenge, face rejection from the big customer, or struggle to pay the bills.

If you are not totally in love with the IDEA of becoming an entrepreneur, you may be in burning love with WHY you want to become an entrepreneur. That is, you may have a mission.

The keen desire to accomplish a mission is often all the motivation that you need to break down the barriers to your success. Being mission-driven and having passion go hand-in-hand. Being unable to identify your mission could lead you to succumb to setbacks or to shrink under criticism. Do you have a mission or a bigger purpose?

## 2. Are you resilient?

In other words, do you have a never-give-up attitude, or are you afraid to ruffle feathers? Can you stick with it when there is a challenge or an uncomfortable situation? That fact is, being a start-up founder is psychologically and emotionally one of the most challenging careers that you can choose. A 2015 study by Michael Freeman of UC San Francisco found that founders suffer from mental health problems significantly more than the general population, including:

- Double the risk of depression
- Double the risk of suicidal thoughts
- Six times the risk of ADHD
- ten times the risk of bipolar disorder

Resilience is vital to an entrepreneur. Most entrepreneurs, even the successful ones, will tell you that, sometimes, at the most critical junctures, things just go wrong. No matter how much you arm yourself with knowledge about the start-up world, nothing can prepare you for every obstacle that you will face. Therefore, from the very beginning, you must be determined that, no matter what, you are committed to your start-up cause and will see it through to completion.

Some years ago, I mentored a young Chinese woman named Lili, who had this fantastic idea for a start-up in the online education industry. It wasn't just a great idea but also a great business model that could grow internationally. She took a smart approach to learn the trade by working as a teacher in an existing online education business. She had the necessary start-up capital, she had a team lined up, and her enthusiasm was off the charts. I saw great promise in her, so I agreed to help mentor her and help her start her start-up.

The first year went great. Lili worked hard and became a celebrated female entrepreneur. She spoke at start-up boot camps and even at a TEDx event. But soon, like most start-ups, she began to experience challenges. Licenses and permissions were delayed, cash flow lagged, customers complained, growth stagnated, staff left, etc. Now was the time to fight for what she had created. However, where she had thrived on the easy, early success, she shrank from the challenges.

Lili ran out of steam; she hid her problems, and the passion that she once had died. She just didn't have the resilience to get back up when she was knocked down. Then, she started pointing fingers and looking for someone to blame. She stopped coming regularly into the office, and, without the support of the founder, her employees lost motivation, too. At this point, the start-up began to lose money.

Sadly, the last thing that I helped Lili do was sell her business at a fraction of what it could have been worth. During that sale process, I learned a lot from the people closest to Lili. Her whole life, she had lacked resilience. She never kept a job for more than a few months because she quickly became bored, or she would walk away as soon as it became challenging. No one was surprised when she sold the business; they were just surprised that she had lasted so long.

Lili is just one example of the many young entrepreneurs who lack resilience. She really could have benefited from an honest self-appraisal of her own stamina. Success as an entrepreneur takes resilience. You will get knocked down. The question is, will you get back up?

### 3. Are you able to work long hours for an extended time?

Being an entrepreneur means that the success or failure of your business is, for the most part, solely in your hands. The commitment to work hard and for long hours is vital. It is simply not an option to work eight hours a day, five days a week. Instead, you have to be prepared to do what it takes to get the job done.

Personally, I hold this to be the most critical success factor. If there is one single factor that all successful entrepreneurs in the world have in common, it is not education, location, or wealth. Instead, it is the simple ability to work hard for many hours – day after day, night after night, year after year.



The reality is that most entrepreneurs are always working. It's not uncommon to find them sleeping on the floor of their office. They'll tell you that they are never off duty. Even if they are with friends, at home, or asleep, they are constantly still thinking and working in their heads or on their phones.

#### 4. Can you live with risk and uncertainty?

Being a business owner makes you invested in its success, but there are many factors that are outside of your control that will affect its viability and profitability. Even when a start-up takes off, uncertainty comes by way of fluctuations in the market, changes in the regulatory environment, emergences of new technologies, etc. Can you flourish in a situation where everything you have worked for could be wiped out by events that are beyond your control?

Many people like the idea of leaving their stable jobs to join a start-up. It's not that they are reckless, but they just don't have the same need for security as the average person. They have the headroom needed, and they have confidence in themselves.

Others, however, need to see everything in writing and have everything planned and figured out before carefully taking their first step. They have clear goals in mind, a solid Plan B, and, sometimes, even a Plan C so that nothing is left to chance. If you are part of the latter group, now would be a good time to reconsider becoming an entrepreneur.

I have this great colleague, Lars. He's a fantastic leader and has managed, led, and supported me and my businesses for decades. He is much more structured and intelligent than I am, but he doesn't like risk. Lars needs everything to be clear and settled; he has contingencies for contingencies.

Back in the day, Lars and I started a start-up together. We each held 50% of the ownership, the market was booming, and Lars swept in like a falcon and managed the whole thing flawlessly. We developed great products and early traction, and, within a year, our new company was turning a profit. Then came the global financial crisis. It took a heavy toll on our company. We didn't know if we would have to scale down, put in more money, or both. We didn't know what to do, and the very real question arose: Could we lose it all?

If it weren't for Lars, we would have lost every penny. He performed his duties, but the situation made him uncomfortable. There were just too many unknowns for him. I was in a meeting in Austria when I received his call. He said, "I have to talk to you..." He went on to tell me that he hadn't slept for days and asked if I would take all of his shares in our company for a token.

I stood there, looking out over the Alps; I had no idea what to say. Deep down, I realized that I had not done him a favor when I had invited him to be a shareholder in the start-up. Lars said that he would love to stay on as an

employee on a bonus scheme instead of earning dividends. And so, we changed the ownership.

Lars is still with our company, and he's still the same, hardworking powerhouse in our business. He keeps me and everyone else on the right track. But he's not a big risk-taker. He's my perfect complement, a great manager, and great at helping me manage risks. He just doesn't like to deal with the stress of taking the big risks himself.

#### 5. Are you able to focus and execute?

There is a giant, ticking clock on every start-up, and the entrepreneur is constantly racing it. The clock might be your funding runway getting shorter every day. It might be the competition trying to beat you to market. Or it might be a big customer who has given you an immovable deadline. If you lose focus, you lose momentum; if you lose momentum, you lose the race.

Can you cut distractions from your daily life? Can you make realistic plans? Can you focus on those few, important tasks that you need to accomplish every day to get them done?

Focus is a key factor that determines your volume of work over time. So many of those unsuccessful start-ups that I have observed over the years failed when it came to execution because they just couldn't get the work done. If they had stayed focused for a longer time, they might have made it.



Entrepreneurs love Monday morning as much as Employees love Friday afternoon!

**Martin Thorborg**  
*Serial entrepreneur*

The opposite of focus in a start-up is not simply a lack of concentration. A common weakness that I have observed in the entrepreneurs who have failed is that they succumbed to distractions, ranging from spending too much time on their personal life to chasing non-core

business opportunities. Focus is about commitment to the start-up and prioritizing your work.

Are you able to stay focused for a long period of time? Can you execute your ideas and plans through to completion?

#### 6. Do you have the necessary resources and support?

Your start-up will take money from you long before it gives money back, and that period of negative cash flow always lasts longer than you think it will. And don't forget about opportunity costs; think about all the money that you could have been earning by working at Google.

How much money can you personally invest in starting your start-up? How long can you live without a salary? Do you have a mortgage, kids, or debt to pay off? How cheaply can you get by? Can you live on instant noodles, boiled eggs, and canned tuna?

If things go well, you will eventually raise outside capital. But until then, can you afford to be an entrepreneur?

### What if I fail my self-check?

The six questions above should help you find your personal strengths and weaknesses as an entrepreneur. You may ask yourself, "But what if I fail on one or more of these self-check questions?". Should you give up on becoming an entrepreneur?

To be brutally honest, you should consider it a serious wake-up call. You should do some soul-searching and think about whether or not this is the right path for you.

There are so many rewarding and exciting alternatives that you can do with your life. Why not work for some exciting, established company? There will be less stress, you will likely work fewer hours, you will get to spend more time with your family and friends, you'll get a steady salary, and you'll live with less risk.

If you find that you are in love with the idea of a start-up but do not fit the profile of an entrepreneur, consider taking a job in a start-up. Find an exciting new start-up and join the team. Enjoy the environment without