

3 Common Habits that Bite into Startup Profit



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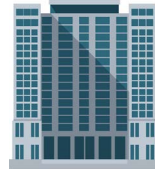
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Introduction

As an IT business owner, you're a master multitasker. You understand that writing code is just the beginning of what you have to do to succeed on your own. But what you may not realize is that, in some cases, the very things that make you lean, agile, and effective may also put your long-term profits in jeopardy.

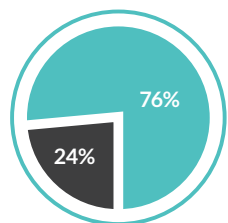
For this eBook, we talked with legal experts, business leaders, and others about the way our customers run their businesses (according to information we gather during the application process). Those conversations revealed three common business practices that have the potential to hurt profits. In the pages that follow, we identify what those practices are, why they put you at risk, and how you can make small changes in your business to keep your profits strong.



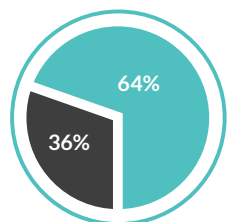
Work from home? Work alone? Depend on one major client? You might want to rethink some of those practices to keep your revenue strong.

3 COMMON SMALL BUSINESS HABITS THAT THREATEN YOUR PROFITS

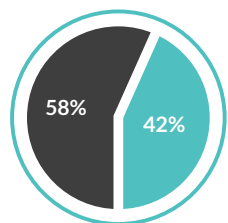
When we look at the profile of a typical tech startup or small IT business, this is what we see:



76% run their business from home.



64% are single-person businesses.



42% earn most of their revenue from a single client.

If these habits don't sound especially risky to you, you're not alone. But the fact is that they can threaten your business's profitability in ways you may not have considered. Read on for tips from experts to help ensure that you're building habits that maximize your profits and minimize your risks well into the future.



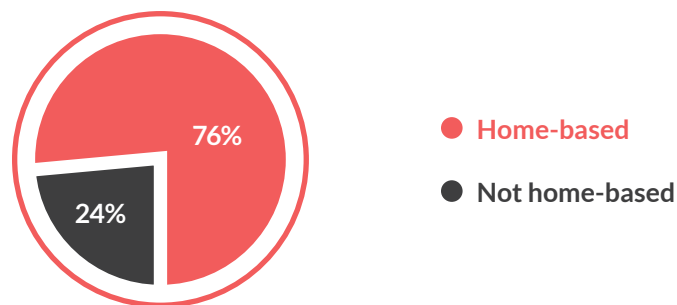
“No matter how brilliant your mind or strategy, if you’re playing a solo game, you’ll always lose out to a team.”

— Reid Hoffman, co-founder of LinkedIn

Habit 1: Doing Everything from Home



HOME-BASED IT BUSINESSES



THE BUSINESS BENEFITS OF WORKING AT HOME

You often hear about Uber as a disruptive technology – one that breaks the mold and revolutionizes its industry. The same could be said of the thousands of home-based tech businesses fueling the US economy.

When small-business owners decide to go out on their own, they're effectively saying they don't need a boss or a traditional office environment. They're ready to make their own way.

These micro-entrepreneurs are rewriting the way IT works – to everyone's benefit. The Harvard Business Review [reports](#) that working from home can raise productivity by **13.5 percent**. That means that for every five days you're working from home, you're putting in the equivalent of 5.7 in-office days.

Naturally, market disruptions like this aren't without risk. As a business owner, you're literally taking risk into your home. You need to take steps to protect your company and separate home life from work life.



A new home-based business starts every 12 seconds. By the time you finish reading this paragraph, a new entrepreneur will have decided to launch a company from home.

([Source](#))

HOME-BUSINESS RISK: BALANCING WORK, WORK, & MORE WORK

Wes Bos (@wesbos), a full-stack developer, has been working from home for years. He learned on the fly and figured out the best way to run a home-based business. He can summarize his learnings in one word: discipline.

No, he's not talking about the hazards of daydreaming and losing focus on your work. As a developer, Bos has to be focused. Running a business comes with numerous worries that can take your attention away from coding. When your attention drifts, mistakes happen. When mistakes happen, clients might bring a professional liability lawsuit.

Bos learned to divide his time between coding and clerical work. To make a sharp division between the two, he recommends a "timeboxing" technique:

- Allocate a fixed time period for each planned task.
- Improve productivity by reducing time dedicated to nonessential work.

"I block off time for things like taxes and receipts and all the work that comes along with being a freelancer, but I don't let that cut into my actual coding time," Bos says. "I have to remember, at the end of the day, I'm getting paid for coding. That's what my business is built upon. If you start making busywork your actual job, your business isn't going to succeed."

By scheduling separate time for clerical and business tasks, Bos ensures that he can work uninterrupted on development projects. That allows him to deliver the highest quality of work to his clients in the most efficient way.



If you make busywork your job,
your business won't succeed.

–Wes Bos, full-stack developer

TIMEBOXING:

Dedicate a fixed period of time to planned tasks. This prevents busywork from creeping into development and tech time.



INSURANCE-RELATED HOME-BASED BUSINESS RISKS

In addition to letting clerical work take up too much time, many home-based businesses don't insure themselves properly. That's because they often mistakenly believe that their homeowner's insurance will cover any work they do from home.

In fact, the opposite is true. Your homeowner's coverage typically excludes business property and won't offer coverage for lawsuits if someone is injured on your property while visiting for business purposes.

For this reason, home-based businesses may look for coverage through a small business insurance policy called a **Business Owners' Policy** (BOP), which includes...

- **General Liability Insurance** to help pay for third-party lawsuits over bodily injury and property damage.
- **Property Insurance** to cover office supplies, equipment, and technology that are essential to your business.

A BOP is an affordable insurance bundle designed for small, low-risk operations – like a home-based tech business.

THE BOTTOM LINE

Starting a business from home can offer big productivity gains that help you add value for your clients. At the same time, running a business means you'll have more secondary tasks and risks that can get you off track.

Successful freelance developers and IT consultants learn to compartmentalize client work and separate it from business development and bookkeeping. And be mindful that personal insurance policies like homeowner's insurance generally don't offer adequate financial protection for home business risks.

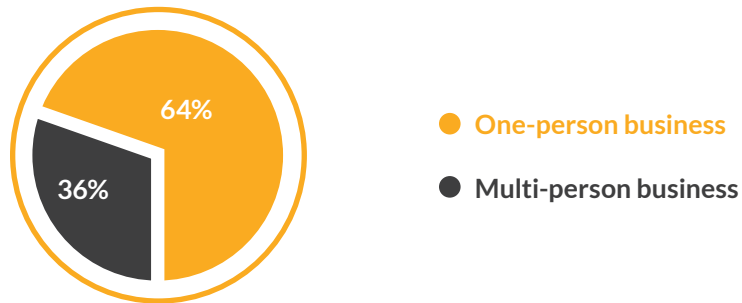


Homeowner's insurance policies don't offer protection for business-related equipment or activities.

Habit 2: Being a Lone Wolf



SINGLE-PERSON IT BUSINESSES



Sixty-four percent of tech entrepreneurs run a one-person business. It takes guts to strike out on your own. And it comes with risk. When you go solo, there's a chance you'll end up like Simon and a chance you'll end up like Garfunkel.

Of course, you don't do everything on your own. You might hire a contract designer or outsource your taxes. But from a legal perspective, most IT entrepreneurs choose a one-person business structure.

Why does that matter? For starters, working alone can be exhausting. The pressure is always on you, and you miss out on office small talk, coffee breaks with coworkers, and arguments about the tamales food truck. Beyond the lost social interaction, working alone can prevent you from making the important, on-the-fly connections that lead to paying gigs down the road.



Without a team, your network of professional connections is very small.

HOW TO MAKE BUSINESS CONNECTIONS WHEN WORKING ON YOUR OWN

If you're the only employee, your business's revenue may be threatened because you...

- Can quickly exhaust your business connections.
- Run out of new business opportunities.
- Have fewer resources at your disposal to seek outside professional development.

Good news: there are ways to combat these risks! Sole proprietors can form profitable business relationships and avoid being isolated from new opportunities by:



Getting involved in professional groups.



Connecting with the local tech community.



Joining an accelerator.

But don't take our word for it. Here's what some IT veterans have to say about these strategies:

ON JOINING PROFESSIONAL GROUPS...

Lonnie Emard (@LonnieEmard) held senior IT positions at BlueCross BlueShield before he decided to dedicate his career to the advancement of IT and began working with IT-oLogy (@IT_oLogy). IT-oLogy is a nonprofit that focuses on getting more students to study IT and offers professional development to current IT professionals.

Emard says solopreneurs can protect their business's revenue by getting involved in professional organizations. So how does it work?

Think about the common practice of contracting. Wouldn't it be great to get a contracting gig with a high-paying client? Emard points out that, yes, big companies outsource their work to contractors, but many are hesitant to hire someone they've never heard of.

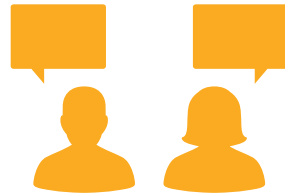
You can get your foot in the door by being active in professional organizations. Many of the IT professionals you meet through professional organizations may be looking to hire contractors for one-off projects. If not, they may know people who are. Befriending these folks is essential to ensuring long-term financial growth.

Big companies prefer to hire contractors with personal references.



ON CONNECTING WITH THE LOCAL TECH COMMUNITY...

Similarly, tech startups and sole proprietors can gain from attending local meetups. If you're rubbing shoulders with a technology architect and prove that you know your stuff, you're much more likely to get them as a client down the road when they need your services.



These meetups can also provide a more direct way to get clients.

Wes Bos [writes](#) on his blog that many tech agencies won't touch a project smaller than \$10,000 or \$20,000. For a freelance developer like Bos, though, these projects are a goldmine. By going to tweetups, Bos connects with employees at larger agencies who can pass "small potatoes" work to him.

Get started today: Visit [Meetup.com](https://www.meetup.com) to find local groups dedicated to software development, tech, and IT.

ON ACCELERAT(OR)ING YOUR WAY TO MEETING FUTURE CLIENTS...

Accelerators bring together local startups, and many offer coaching, business tips, and funding advice, while also serving as great ways to meet potential clients.

[Nirupama Mallavarupu](#) already had 20,000 parents using her startup [MobileArq \(@MobileArq9\)](#), a school directory, fundraising, and Parent-Teacher Association platform. But she didn't have a full-scale e-commerce platform. As part of the [TechLaunch](#) accelerator in New Jersey, Mallavarupu met a software architect who had expertise in the area.

After getting to know each other at the accelerator, they built mutual trust. Ultimately, Mallavarupu decided she wanted to hire the software architect to build her e-commerce platform.

As an entrepreneur, you can put yourself in a similar situation. Other startups may want to use your services. By making connections in the local community, you earn their trust and may turn a few connections into big clients.



Take on "small" projects that larger firms pass over.

Connect with other tech business owners to form mutually beneficial relationships.



HOW TO KEEP YOUR IT SKILLS SHARP WHEN YOU'RE FLYING SOLO

Running a one-person business may also result in missed professional development opportunities.

When you work in an IT department at a big company, you might have opportunities to go to conferences, take classes, or pick up new skills from a coworker. In an office, direct and indirect professional development like this happens all the time.

As a sole proprietor working from home, you'll still be exposed to new ideas and challenged to develop new skills. But you'll also face additional challenges:

- You'll be much busier.
- You'll have less time for professional development.
- You'll have to pay for professional development out of pocket.

Add those forces up, and you may not have the same opportunities to keep your skills sharp. As with all things entrepreneurial, you'll have to take matters into your own hands:



Seek out organizations that offer professional development classes at lower prices.



Pursue IT certifications to formalize your expertise and boost your résumé.



Attend meetups that let you learn new skills and meet people you can partner with when a project calls for work you don't know how to do.



Toot your own horn: let others know about your success, skills, and achievements.

Lastly, remember that it's not enough to do these things. Make sure people know you've done them. If you go to a tweetup, tweet about it. When you get an Oracle Business Intelligence certification, blog about your experiences.

NEW SKILLS COME WITH NEW RISKS

We wouldn't be much of a small-business insurance agency if we didn't remind you here that, any time you offer new services to your customers (whether thanks to a newly developed skill or a recently hired contractor), you expose your business to new liabilities.

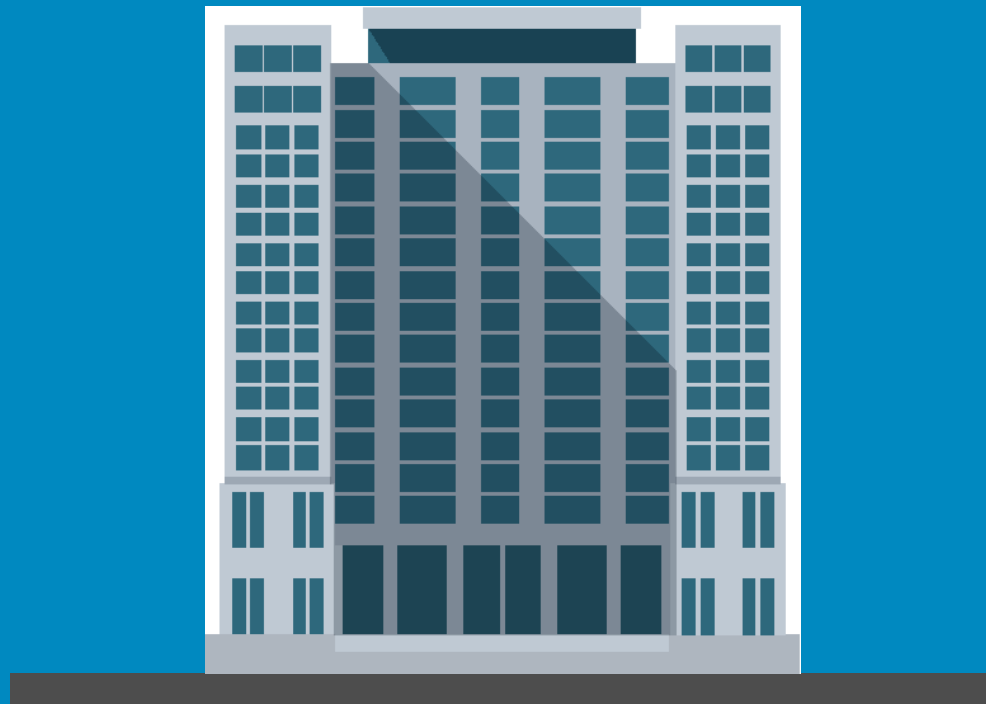
Once you've struck out on your own, clients can sue if they have a problem with your services, if you miss a deadline, or if technology you implement or recommend fails them. These are your professional liabilities.

To learn more about how you can protect your business from client lawsuits over the work you do, see our page on [Professional Liability Insurance](#).



If your business faces a lawsuit over your work, Professional Liability Insurance can help pay for attorneys' fees, courts costs, and settlements or judgments.

Habit 3: Relying too Much on Big Clients



SOURCES OF REVENUE



You've heard the idiom "Don't put all your eggs in one basket."

Our survey of tech entrepreneurs found that among small businesses, **42 percent** generated more than half of their revenue from one client. That's a lot of eggs in not very many baskets.

A client with deep pockets sounds great. You can keep going to the well and don't have to waste your time looking for new work. But there's a little more to the story.

Relying on one large client comes with serious risks, including these:

- The client could leave and take with them a major source of your revenue.
- The client could demand you change your product to fit its needs.
- You could spend so much time serving one client that you miss out on other opportunities that will pay out more in the long run.

We talked with one entrepreneur who learned this lesson the hard way. Here's his story.



Over-relying on one big client is a classic case of having all your eggs in one basket.

CASE STUDY: THE RISKS OF CLIENT CONCENTRATION

Paddy Padmanabhan (@PaddyPadmanabha) had two decades of business experience, holding senior positions at companies like GE Capital and Accenture, when he decided to start [Damo Consulting \(@damoconsult\)](#), which provides management consulting to healthcare and tech companies.

As an entrepreneur, Padmanabhan enjoys the bird’s-eye view of the tech industry that comes when you’ve worked at a major consulting firm. That means he’s not only seen other businesses threatened when they don’t diversify their client base, he’s also felt his own business threatened.

“Customer concentration is an issue even for large firms; however, it can be really acute for microbusinesses. I know – my largest client last year dropped to zero this year because the CEO with whom I had a strong relationship left the company,” Padmanabhan says. “The only solution for small-business owners is to consciously work on diversifying their client base.”

Padmanabhan reports that his business bounced back from that revenue shock, but many business owners are not so lucky. A sudden cash crunch has led many entrepreneurs to declare bankruptcy.

CLIENT DIVERSIFICATION: WHY IT MATTERS FOR TECH ENTREPRENEURS

You’re probably familiar with the term “diversification” as it applies to a stock portfolio or retirement account. If too many of your investments are tied to one company, you put your finances at risk. When that company takes a hit, your whole portfolio could go down the drain.

Ditto for your clients. As Paddy Padmanabhan’s story tells us, you can’t rely on one client to be there forever. Even if you’re chummy with the CEO, lots of things could go wrong:

- The company could fold.
- The company could be acquired.
- Your contact (even the CEO) could leave the company.
- Another contractor could lowball your offer.

If you’re one of the 42 percent of small tech businesses that get at least half their revenue from one client, the best way to protect your company is to diversify your client base.

STRATEGIES FOR BROADENING CLIENT CONCENTRATION

In the early stages of your business, you may have no choice but to rely on a few clients to be major sources of revenue for your business. That’s okay as a starting point, but it’s not where you want to end up.

Paddy Padmanabhan suggests you shouldn’t get more than **10 to 25 percent** of your revenue from your biggest clients. That’s a helpful rule of thumb.

Use the strategies outlined in [“How to Make Business Connections When Working on Your Own”](#) to find new connections that can turn into clients.



Diversify your client base or face the possibility of losing your main source of revenue.

Risk Management Checklist for IT Startups and Freelancers



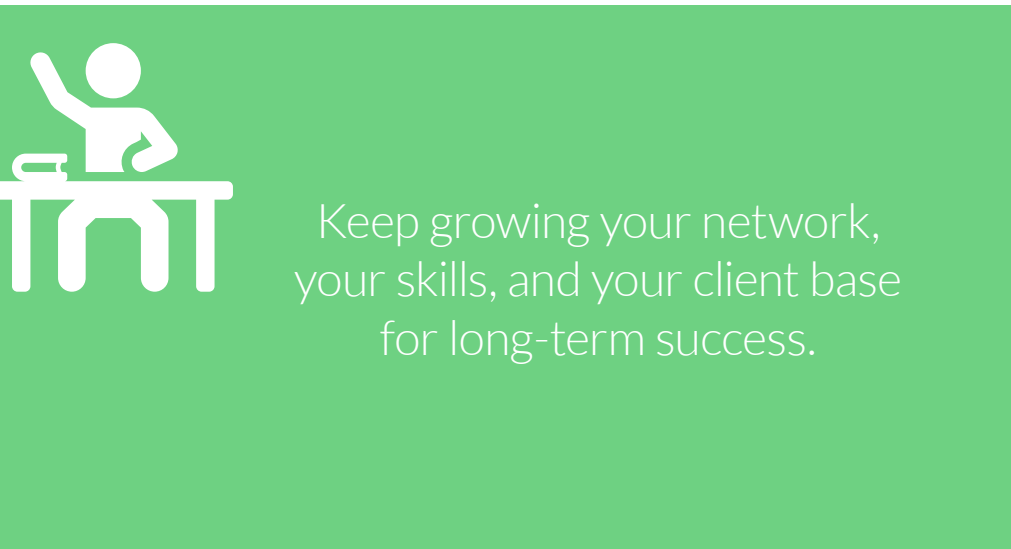
At the outset of this report, we looked at three statistics that show what the typical IT startup looks like:

- **76 percent** of small IT businesses operate from the owner's home.
- **64 percent** are single-person businesses.
- **42 percent** earn most of their revenue from one major client.

Each data point reveals a financial risk:

- Working from home means you have to **protect your time more carefully**.
- As a one-person business, your company will have to **be more proactive about new business opportunities**.
- If you get too much revenue from more than one client, **you'll need to diversify your client base**.

Going forward, refer to this checklist to make sure your business is protecting its revenue and staying profitable:



IF YOU WORK FROM HOME...

- Segment your time to ensure adequate focus on tech and business tasks.
- Create separate spaces for your work and living areas.
- Make time for the beneficial distractions that happen at work.

IF YOU RUN A ONE-PERSON BUSINESS...

- Seek out professional development opportunities.
- Find professional organizations that offer discounted classes.
- Engage with your local tech community online and in person (through tweetups, meetups, etc.).

IF YOU RELY ON ONE CLIENT FOR MOST OF YOUR REVENUE...

- Try to have no more than 10 to 25 percent of your revenue come from one client.
- Don't assume that your best clients will be there forever.
- Actively grow your business's client base.