The TriStart™ Matrix

Mastering the three distinct phases of
successfully launching a business

Collaboratively authored by 27 expert startup consultants from the
U.S. Small Business Development Center (SBDC) network.

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INTRODUCTION TO THE TRISTART™ PROGRAM

Starting a business is a dream for many people. A vivid visual image comes to mind when we hear the word "entrepreneur." The word stirs in us the same fascination that we hold for rock stars, athletes, and actors. Few others hold such an esteemed status. Not surprisingly, then, statistics show the majority of adults say they want to own a business someday. Parents often rank "business ownership" as the desired career path for their children, even over medicine or law. Entrepreneurship is also generally regarded as a relevant pathway to wealth.

You want to start a business. We want to help you do it intelligently.

But wealth is not the primary driver for everyone. When you start a business, it gets to be on your terms, deeply intertwined with your personal goals. Whether those goals are modest or audacious, achieving them is all about you.

There are as many reasons to start a business as there are businesses. The authors of this book examine many of those reasons, but more importantly, they guide you through a process to challenge your reasons and to determine if your plan is feasible and strong enough to withstand the rigors of the business start. This process is designed to help you decide whether you should—or should not—take the leap.

The authors of this book have guided startups, innovators, and existing businesses nationwide. You are in good hands. Follow the process from beginning to end and be assured that you will be on the pathway to making the right decisions. So here we go… Ready? Set. Start!

Here are a few reasons to start a business:

- To serve customers
- To create and capitalize on opportunity
- To make room for creativity in and passion for your work
- To generate revenue
- To add value to your community by creating jobs
- To gain freedom (eventually)
- To create something of value
- To build personal wealth

For many of us, the dream becomes an incredibly romantic notion. It sucks us in. We want to run in its direction before anyone can talk us out of it. However, it is smart to take pause and approach the process intelligently. The foundation of the TriStart™ program is based on the three distinct phases a startup must go through to achieve lasting success. There are no "bonus points" for rushing through the process. And just like any good story, there's a beginning, a middle, and a conclusion. If we rush through to the end, we're going to miss some really important details.

The foundation of the TriStart™ program is based on the three distinct phases a startup must go through to achieve lasting success. There are no "bonus points" for rushing through the process.

Starting a business certainly has its challenges. Statistics on starts and failures are everywhere, and they vary, but there are some important insights about which all seem to agree.

First, a large percentage of business “ideas” do not materialize in an actual company. Statistics tell us that about 6% of the adult population in the United States is, at any point in time, considering starting a business. The term for this is “nascent entrepreneur,” and based on the estimates, there are about ten million people at any point in time considering this. Other statistics show there are about five hundred thousand to one million actual startups per year. This means approximately 18 to 19 out of 20 people who consider it do not actually start their business—at least not within that year.

So why not? There are many good reasons for not acting on that dream, including:

- You may decide there is not an opportunity.
- You may change your mind and decide the risk is too high.
- You may not want to work that hard.
- You may not be able to secure the capital necessary to launch.
- You may be more attracted to other opportunities.
- You may be stopped by fear of failure.
- You may decide starting a business just isn’t your “cup of tea.”

No matter what anyone says, failure to launch is not failure if the reasons are the right reasons for you. In reality, the “no-go” decision, while not really a victory, is much better than a premature “go” decision or a “go” decision that results in a failed business. Success happens when the “go” decision is made for all the right reasons and the entrepreneur successfully navigates the three phases we will discuss here.

The worst-case scenario, obviously, is a business start that results in a failed business. In the past, there were some fairly grim statistics (perhaps myths) which said that 80% to 90% of business starts fail. More recent data shows a little better survival rate: approximately 50% survive for 5 years, and approximately 30% see their 10th year. While this is better than prior statistics, it still warrants serious consideration.

A failed business is a devastating life event. Those of us who work with entrepreneurs have witnessed depression, divorce, and bankruptcy. We have seen money lost and dreams unfulfilled. That is why we want to share with you the benefit of our experiences and help guide you to the fulfillment of those dreams.

Here's another important reality check: If you survive, are you on the path to being a millionaire? Not exactly. Statistics show that only 3% of small businesses are owned by millionaires (by net worth) and only 1% of entrepreneurs earn more than a million dollars in income each year.

Keep in mind that there are many levels of success between "failure" and "millionaire" status. Also keep in mind that there is another form of (largely unreported) business failure: the business that survives, but which provides a very poor return on the investment of time, money, and risk invested.

Why is this important to know? If you are considering a business, we want you to take it seriously. Being caught up in the fascination of your product or idea or being hypnotized by the fantasy of the rock-star entrepreneur will not cut it. As you will see throughout this process, to us, being serious means working, being smart, and applying discipline in each of the phases to create a feasible plan for a strong, stable business.

That's a lot to think about, so let's recap:

- If you are thinking about or want to start a business, you are considered a "nascent entrepreneur." You must solidly conceptualize a business idea to move to the next step, and you are one of about ten million people or 6 percent of the adult population (in the United States) toying with the idea of the business start.
- If you launch your dream, you will be one of one million people (or one of less than 10 percent of nascent entrepreneurs in the United States) who actually start the business.
- If you reach stability, you will be one of five hundred thousand businesses (50 percent) who survive.

- If you begin building wealth from your business, you will be one of the top fifteen thousand or 3 percent of business owners in the United States who actually call themselves millionaires.
- If you move beyond that level to becoming an entrepreneur who earns over $1 million annually, you will be one of five thousand or 1 percent of businesses in the United States.

So using simple, "ballpark" math, this means that out of 10 million nascent entrepreneurs, only approximately 5 thousand ever achieve annual incomes in excess of $1 million. This is about 1/20th of one percent or about 1 in 2,000. Thinking about starting a business and even starting a business is certainly no guarantee of wealth.

Here are some other fun facts:

- The SBA defines small business as an enterprise having fewer than 500 employees.
- There are almost 28 million small businesses in the U.S. Over 22 million are self-employed with no additional payroll or employees.
- Over 50 percent of the working population (120 million) works in a small business.
- Small businesses have generated over 65 percent of the net new jobs since 1995.
- Approximately 543 thousand new businesses get started each month, but more employer businesses shut down each month than start.
- Seven out of ten new employer firms survive at least two years, half at least five years, and a third at least ten years—and a quarter stay in business 15 years or more.
- 52 percent of all small businesses are home based.
- Total revenues from non-employers hit over nine hundred billion dollars in 2011.
- Non-employers had average revenues of $44,000.

Here are some more encouraging statistics:

- Two-thirds of first-generation millionaires get there by owning a (successful) small business—more than any other way, including becoming a lawyer or a doctor. The same is true for the "super rich," with about 25% of them being entrepreneurs. To boot, business owners are often regarded very highly in their communities, even if they are modestly successful.
- Small business represents 99% of all businesses, creating more than half of the net new jobs and contributing more than half of the gross domestic product. Small businesses are awarded about 6 times more patents per employee than large companies. The global impact of small business is huge. Countries where entrepreneurial activity is highest also enjoy an overall higher quality of life. If you do, indeed, start a business, you are contributing to a very important process.
- Business owners take control of their own destiny and, overall, tend to be engaged in their work, optimistic, creative, and passionate.

YOUR OWN STARTUP MASTERMIND GROUP

An excellent insight into the thought process of successful people can be found in a motivational book for entrepreneurs titled *Think and Grow Rich*, by Napoleon Hill. This classic was written in 1937, long before its title would sound like a "get-rich-quick" red flag.

One of Hill's key suggestions is to form a "mastermind" group of people who can be involved in your process. While we suggest you form an "in-person" mastermind group of advisors, we have already adopted the mastermind group approach in the writing of this book.

There were 27 contributors to the TriStart™ concept. All are or have been consultants in or affiliated with the U.S. Small Business Development Center (SBDC) program. SBDC is a program sponsored by the U.S. Small Business Administration (SBA) and is a partnership with local universities, and state and local governments. There are approximately 1,000 centers with 4,000 consultants throughout the U.S.A who serve over 1 million entrepreneurs per year, making it one of the largest small business consulting organizations on the planet.

The goal of the SBDC program is to foster entrepreneurship at the local level by providing guidance to nascent entrepreneurs, to startups, and to existing businesses across the nation. Many of the services offered are provided at either low cost or no cost. Essentially, communities invest dollars to foster small business success, as this contributes to strong economic development and, ultimately, generates a positive return through increases in the tax base. (You can learn more about SBDCs, find your local center, and see their impressive economic impact statistics at www.asbdc-us.org.)

The average SBDC consultant works with several hundred clients per year, guiding entrepreneurs from the nascent stage to the "go or no-go decision," instructing many clients through the business planning process, and helping to create a "bank-ready" pro forma statement. Beyond the launch, SBDC consultants guide businesses as they navigate the roller coaster from startup to stable. It is safe to say that in most communities few people see more business ideas and help write more startup business plans than SBDC consultants. They are right there by the side of those entrepreneurs who see their businesses move from small to mid-sized and beyond.

So when we decided to write a collaborative book about startups, tapping into the startup expertise in the SBDC network was an easy decision. The concept was to bring together consultants from various states, with various backgrounds, who had extensive experience working in the business starts arena. The TriStart™ program was constructed with this input, and the "mastermind" effect of tapping into this team of startup experts has been extremely powerful.

Most collaborative books assign to each person a topic about which he or she writes a chapter. We took a very different approach. Our work started in February of 2014, when we had a succession of six group conference calls. During these calls, we discussed startup topics and, as a group, organized the content based around those discussions. The framework for the TriStart™ program was created as a result of those conferences calls.

Then we assigned teams of approximately three members for each of the nine Startup Zones (The TriStart™ Matrix). The chapters were written by each team using the TriStart™ Matrix as the format, with members of other teams contributing insight. Then the chapters were reviewed and commented upon by other people in the overall group. While a consistent format was suggested, each chapter is written by a different team about a different topic, so the chapters will vary (sometimes even greatly) in their writing style and approach. Our stated goal was to capture the wide range of skill sets and expertise on each topic. Each contributor wrote as if he or she was in a face-to face consulting session with a client.

All of the contributors are very pleased to share with you their vast collective wisdom. Trust us when we say that the mere fact that you are following the TriStart™ program will increase the probability of your success over others who are "going it alone."

AVOIDABLE STARTUP MISTAKES

As you might imagine, the TriStart™ experts know the startup pitfalls. One of the best things you will get from following the TriStart™ program is what steps to take to avoid those pitfalls. Address these in advance, and you'll greatly improve your prospects of success. Here is a list of some of the most expensive startup mistakes. Each will be addressed in the TriStart™ program:

1. Poor Cash Planning
2. Difficulty Ramping Up Revenues / Missing the Mark with the Market
3. Undercapitalization
4. Unearned Arrogance—Underestimating the Difficulty
5. Lack of Mental Preparedness / Insufficient Response to Adversity
6. Poor Pricing Strategies
7. Lack of Understanding of Product / Service Costs
8. Poor Expense Management—Overspending

9. Inability to Direct and Manage Early Employees
10. Lack of Self-Awareness of the Entrepreneur

THE TRISTART™ MATRIX: AN OVERVIEW

This book has a lot to say about starting a business. The TriStart™ program shows you how to master the three phases of the business startup. After you learn this process, you should find you have an ability to apply it to other endeavors. It's about developing relationships. It's about developing disciplines. It's about conserving your resources. From this perspective, it is as much about developing you as it is about a single business idea. To get there, however, you must first understand the three phases.

The TriStart™ process starts with your idea. It is the spark of creativity. In your brain, it sounds something like, "Well, maybe I should start a business." Or "What this community needs is …" or "Why can't anyone make that available here?" It could come from an idea for a product or service, a general desire to own a business, or even a response to another person or situation. This is the starting point of Phase 1, the "Concept."

The TriStart™ process starts with your idea. It is the spark of creativity. In your brain, it sounds something like, "Well, maybe I should start a business."

The end of the TriStart™ process, your graduation from the startup phase, is when you "Stabilize" the business, our term for Phase 3. At this level, the business is out of immediate danger of closing. You are experiencing consistent profitability, and cash flow is positive. The business can stand on its own. At this point, the business is well-poised for growth and development.

That whole process can take as little as one year or can be as long as four (or more) years. When you understand the process and the tools to gauging the strength of your business, you will know what we mean when we say that rushing the process can prove to be a very costly mistake. Our advice is to invest your time now to start out smart and end up getting to stable.

And speaking of investment, not only is there a time commitment, but there's a financial one as well—not just for the business, but very likely at the personal level as well. Your business will require capital to start (understanding just how much and for what is an important part of the process), and your personal income will likely decline—at least at a "dollars per hour" level during the startup.

Given this, here are some things you can do to safely expedite the startup process:

- Take it very seriously from the start—don't underestimate steps in the process, or skim by, thinking you'll revisit them later. You might think this speeds things up, but more commonly, it ends up resulting in costly delays.
- Start smaller and scale up from there—you may want to start out as a home-based business, avoiding the overheads of a physical location. Remember, cash is king. Regardless of type, there are always ways to start more conservatively and build wisely.
- Consider a franchise—build from an existing, successful model and brand.
- Consider buying an existing business—it is a fine entry strategy which can save time and money in the end.

GOING DEEPER INTO THE THREE PHASES

PHASE 1: CONCEPT

Phase 1, Concept, starts at the moment of the idea and goes through the "go/no-go" decision. In this phase, the term "nascent" entrepreneur is used. The phase is characterized by research and planning. At this phase, wise entrepreneurs will self-assess, reflect, and set goals. At this point, no money is spent on starting the business, outside of doing the research and planning for the concept.

Here are some action words and phrases that may be helpful to you in for Phase 1:

1. Refine/develop the idea
2. Self-assess/set personal goals
3. Dream/imagine/visualize
4. Organize/study specifics
5. Scrutinize/play "devil's advocate"
6. Prepare/plan/understand the model
7. Analyze/collect data
8. Study/confirm the market—evaluate similar businesses
9. Conduct reality checks
10. Make the go/no-go decision

You may be asking, "How long should the phase last?" The real answer, of course, is "It depends." It depends on how quickly you can access information. It depends on the time it takes to get a clear picture of the market and the competition. It depends on the availability of the location. It depends on how "bank ready" you are and how quickly you can access any capital needs. While we do provide some ranges and generalities, it is possible that any of the phases could be shorter or longer than described. The key is that the entrepreneur needs to invest the time necessary to complete the work with a level of clarity and confidence. However, on average, a reasonable estimate of time to move from Phase 1 to Phase 2 is three to twelve months.

In our experience, people tend to speed through Phase 1 and would be well served to slow down, be patient, and really put the time into these important steps. Once the work of Phase 2 and Phase 3 starts, we find the entrepreneur will struggle to "circle back" to items in Phase 1 because of being busy working in the business. Done well, the work in Phase 1 will make the other phases less unpredictable and volatile.

Should you decide to make a "no-go" decision, you may either stop the process or go back to the beginning to further revise the concept. You should not, however, proceed to Phase 2 until you have come to a solid "go" decision.

PHASE 2: OPEN

Phase 2, Open, starts with the well-informed "go" decision. This phase takes the business from the idea to the launch, when the business will be able to enter into transactions with customers. This phase ends after the "grand opening" revenues and the businesses enters a more normal mode of operation, typically about two to six weeks after the first sale.

Here are some action words and phrases that may be helpful to you in Phase 2:

1. Startup
2. Secure initial financing
3. Form the entity
4. Invest
5. Set up bank accounts/point of sale system/ get transaction ready
6. Conduct a soft launch
7. Launch
8. Generate first revenues
9. Become efficient
10. Preserve cash

During this phase it is important to be cautious financially. Until the very end of the phase, there are no revenues coming in but lots of cash going out the door.

Typically, Phase 2 is a 6-to-24-month process. Let Phase 2 move at a normal pace. Early parts of this phase (prior to open) can probably be extended, but when significant dollars start going out the door for the startup, and certainly after any employees are hired, it makes sense to move rapidly to generate revenues.

In our experience, most people think the startup process ends at Phase 2. It does not. The "doors are open" at end of Phase 2, but it is not yet a successful startup. Think of a newborn horse with wobbly, weak legs. Now it is time to focus on getting to stable in the third phase of the successful startup.

PHASE 3: STABILIZE

Phase 3, Stabilize, takes the business from those opening revenues to a level of stability. During the early parts of Phase 3, the business is likely still spending more money than it brings in. Cash gets tight. It can be a time of panic and fear. The "newness" starts to wear off, and it becomes hard work. Phase 3 is also the time when many businesses fail; they never quite achieve lift off. It is a time of risk.

In the early parts of Phase 3, the business will be "living" off the capital injected from the owner, the bank, investors, or from payables received from vendors extending credit. In this third phase, sales need to be growing so the cash coming in from customers starts to pay for the ongoing expenses of the business. Achieving profitability is the first goal, followed by moving into being cash-flow positive. We will discuss the distinction between those points in later chapters. Put simply, the business goes from being financially "immature" at the early parts of phase 3 to a level of financial maturity by the end.

Here are some action words and phrases that may be helpful to you in Phase 3:

1. Survives vulnerability/businesses fail here
2. Honeymoon's over/second guessing the assumptions
3. Adapt the concept
4. Rethink objectives
5. Ride the rollercoaster
6. Extremely busy/hard work
7. The business beings to come into its own
8. Plan for growth
9. Surpass viability/become sustainable
10. Objective measurables
11. Achieve profitability/positive cash flow
12. Be bank ready for new opportunities
13. Plan for a scalable future

Phase 3 (still considered a startup after opening) typically lasts about 24 months. However, we have certainly seen businesses achieve a level of stability within 6 months or less. The timing is largely dependent on how quickly customer revenues grow, how quickly revenue is turned into cash, and how much of that cash is reserved as profit margin. We also see businesses that linger in Phase 3 of the startup, never quite achieving stability and, as a result, ultimately failing.

You may remember we recommended you take your time in Phase 1 and move at a normal pace in Phase 2, but now in Phase 3, our recommendation is to move as quickly as possible. You may have debt to pay at this point. You may have payroll to make. You may see opportunities to grow. It all takes cash. Ramp up your revenues and margins now with a sense of urgency.

Phase 1—Concept	3 to 12 months Document idea/plans Study the market, assess team needed, and identify cash flow needs Think it through Ends with informed "go" decision
Phase 2—Open	6 to 24 months Starts with informed "go" decision Capitalize business, first revenues, opening team Ends with doors open and first revenues
Phase 3—Stabilize	6 to 24 months Starts with doors open and first revenues Scale revenues, build the team, become more financially mature Ends with profitable, cash positive, bankable, and poised for next level growth

The benefit of The TriStart™ process is it enables you to focus on the right things at the right time and keeps you from blurring the lines between the phases and basically working on everything at once. Having the ability to narrow the scope and look at specific things at different times in the startup process will make the process less overwhelming and more tangible. But this requires discipline.

Resist the temptation in Phase 1 to skip forward and start working on Phases 2 and 3. You may find it helpful to read the book in its entirety to get an understanding of all of the three phases and what is coming up after each phase. But then go back to the beginning, Phase 1. When you are in each phase, you can put your energies into doing the work of each phase.

To wrap up this discussion, we want to highlight a few analogies related to these three phases. The first is of the baby bird. To us, Phase 1 is like the egg, Phase 2 is the hatching and nurturing in the nest, and Phase 3 is where the baby bird learns to fly. Another is like marriage: Phase 1 is dating; Phase 2 is getting engaged, the wedding, and honeymoon; and Phase 3 is the ongoing marriage. Lastly, Phase 1 is like a baby learning to walk, Phase 2 is nursery school, and Phase 3 is grade school.

THREE FOCUS AREAS: BUILDING OUT THE TRISTART™ MATRIX

In each of the three phases, there are three major "focus areas." The focus areas are Customers, Team and Money.

Without customers, there is no business. The revenue customers provide the company in exchange for products and services is the lifeblood of the company. One of the most intelligent things a startup entrepreneur can do is to view the world (and the business) through the eyes of the customer. The behavior of customers, ultimately, determines the success or failure of the business.

The means understanding the many facets of the Customer:

- **Target Markets.** Who will buy our product or service?
- **Products and Service.** What do we offer that customers are willing to buy?
- **Service.** What makes our customers want to come back?

- **Pricing.** How much are our customers willing to pay?
- **Communications & Image.** How do we present ourselves, create awareness, and educate prospective customers?
- **Advertising.** How do we communicate with our customers?
- **Research.** How do we know what the customers want and expect?
- **Competitors.** What will earn customer trial and loyalty over existing options?
- **Market Size.** How much business can the market support?
- **Special Designations.** What niches such as women or minority-owned opportunities apply to your business?

As we know, businesses rise and fall with the strength of relationships; your Team is who you bring together to do the work of the business. Typically, this will be people who either directly work with the customers, or products/services—or people who work to support those revenue-generating activities. We define team rather broadly. There are many who may be involved in the process.

Understanding the Team means understanding yourself, understanding your own energies, and understanding how you communicate your vision to employees, negotiate your position with vendors and lenders, and enhance your strengths with mentors. Team topics include:

- **You** are the most important member of the team (the entrepreneur), the person who drives the effort. In the early phases of the business you infuse the energy needed to make anything happen.
- **Employees** are the people who work directly for the company, often the largest expense of the business.
- **Vendors** are those you purchase products and services from.
- **Consultants/Advisors/Mentors/Professional Network** are outsiders who help you with running the business.
- **Compensation Package** is what to pay to get the best results.
- **Policies—Recruiting/Hiring/Training/Coaching/Firing** are necessary for cultivating the best team.

- **Management Style, Leadership and Culture Development** are intangibles which have a huge impact on results.
- **Systems** create repeatable processes which produce consistent, improved results.
- **Team Support** includes elements like overheads, especially facilities, equipment, and computer systems.

All of these activities have cost and return ramifications and impact the final focus area, Money. Businesses rarely succeed without financial discipline, and this may or may not be your strong suit. For many, this is an area that causes a high level of anxiety. So if you feel that way, know you are the rule, not the exception.

The good news is financial discipline can be developed. Being smart with Money is not necessarily about being stingy, greedy, or overly focused on profits over people. It is about ensuring the funds are available to pay for the daily operations in your business and to grow your business and to impact more people, in a deeper way, than you would without those funds.

Understanding Money means understanding your Customer purchasing patterns and your vendor billing policies and how those members of your Team impact cash in and cash out. In a mature approach to managing the company's Money, you will monitor and analyze your business performance and profitability, and plan for cash needs. Specifically, you need to consider:

- **Accounting System**—processes and software to track the flows of money
- **Cash Management**—planning, daily management, and protection processes
- **Performance Monitoring**—understanding financial statements and other monitoring tools
- **Profitability**—understanding the concept and how to grow it in the business
- **Access to Capital**—how to get the funds necessary to start and operate the business before cash flow from operations can fully support it

Customer, Team, and Money management all continue on with the business past the startup phases, throughout the life of your business.

Building a mindset around these three focus areas—Customers, Team and Money—prepares you for a meaningful and rewarding career in business. Adopting these areas to your own vision and style will establish you in your market and your community as a business leader to be watched and followed. Most high-profile business leaders will tell you the best strategy in a complicated world is to stick to the basics. We suggest you master those fundamentals from the start!

If you consider the three phases of The TriStart™ process (Concept, Open, Stabilize) along with the three focus areas (Customers, Team, Money), you get a very powerful matrix, represented by the nine different "Startup Zones", which make up The TriStart™ Matrix. Each phase of each focus area will be covered in a separate chapter, giving you the full scope of the process, step by step.

	P1—Concept	P2—Open	P3—Stabilize
Customers	Chapter 3	Chapter 4	Chapter 5
Team	Chapter 7	Chapter 8	Chapter 9
Money	Chapter 11	Chapter 12	Chapter 13

ENTREPRENEURIAL LEARNING

Most successful business owners will tell you the learning process never stops.

Just as the local, regional and worldwide markets and economies are in constant flux, so will be your need for information. Disruptors and innovators are continually emerging. Ongoing learning is a hallmark of the best entrepreneurs. Arrogant business owners are usually broke. This does not mean you should not have confidence; you must. But it does mean you must be open to change, to learning, and to gaining and applying both your own experience and that of others to the success of your business.

Most successful business people have a library of books and audio programs; some they've read and studied, and others they intend to read in the future. Many use their drive time as an opportunity to listen to programs that teach, remind, feed their mind, and stimulate their creativity. Of course, what we learn from experience, however, is always the most valuable.

The TriStart™ process is based on hundreds of years of collective experience of the authors put into action by SBDCs nationwide. In your business, use what you have learned as a foundation, and then mix in ongoing, day-to-day, experiential learning. Applying this concept results in a learning template that we offer you throughout each chapter:

The Experiential Learning Template for Entrepreneurs

- Understand
- Plan
- Implement
- Monitor (Measure)
- Adapt

The template starts with growing your base understanding of a concept. Next, you build a plan around it. Then you implement that plan. This puts the idea in motion, in the real world. Once the idea is in motion, it needs to be monitored and measured, based on the objectives you want to achieve. Things are likely to be different than you planned. These observations lead to additional ideas and understanding. From there, you adapt and the whole process starts over again. View it as an ongoing cycle, and each time through, you will see your knowledge and competency rising to a higher level.

Continuous learning is an important part of business management excellence. No business is perfect. Most high-profile business leaders could give you a list of things they would like to have done better, faster, and smarter. Maintain the attitude of the "humble student," stick to excellent execution of the basics, and keep your mind open to the process of learning.

RECURRING THEMES

As you move through The TriStart™ process using The TriStart™ Matrix, you will notice a few recurring themes. These recurring themes represent important opportunities to develop skills, your awareness, your team, and the probability of your business success. These recurring themes are:

- Entrepreneur's Personal Assessment
- Entrepreneur's Vocabulary
- External Environment
- Business Development
- Common Mistakes
- Mini-Plan Templates
- Business Readiness Assessment

Both the **Entrepreneur's Personal Assessment** and **Entrepreneur's Vocabulary** are areas of personal development for the entrepreneur. While we want you to draw a line between the entrepreneur and the business (they are two separate things), we do strongly recognize the growth of the entrepreneur is often directly linked to the growth of the business. And the overall competency of the entrepreneur can be and often is the thing that drives or puts a cap on the business growth.

Please don't believe you are above this. You can have a genius IQ, have worked for some very large companies, have read every entrepreneurship book on the planet, and even have successfully started other companies, yet the business can still have a way of humbling you. We don't suggest this arrogantly, but rather with a great deal of care for you and your business. Approach running your business from the perspective of both "working on yourself" and running a business.

The Entrepreneur's Personal Assessments are posed in the form of questions you will need to ask yourself about your business, your goals—both business and personal—and your current level of understanding on key topics. In some chapters these questions are highlighted separately in their own section, and in others they are found throughout the chapter. Regardless, a large number of questions are posed for your consideration.

The Entrepreneur's Vocabulary highlights important words and concepts found at each level. Some of these words may seem very simple and are used in daily conversations. In those cases, we ask you look for the deeper, more specific, and more personal meanings they can have for you. For those words on the opposite side of the spectrum that might seem intimidating, we ask you approach the process with an open mind and a confidence that you can learn and apply the concept.

A few words on jargon: the goal of the vocabulary sections is not to turn you into one of those people who bats business jargon around to sound intelligent or intimidate other people. We want you to have an understanding of the concepts, and vocabulary can help you with each process.

The **External Environment** consists of the factors outside of the business. In most cases, these have a significant impact on the business; the business can influence its approach to these factors, but ultimately does not control them. These tend to be things like local, regional or worldwide market or economic forces. Understanding the world the business will function in is important.

Business Development outlines ways the business needs to evolve. It is important that you view your business as its own entity. Entrepreneurs starting a new venture should always organize a business as its own legal entity. Any business not organized as its own legal entity and owned by one individual is a sole proprietorship. In a sole proprietorship, the owner is responsible for all of the actions and liabilities of the business. Entities such as LLCs and corporations protect business owners by creating a corporate veil between the business and the owner. A partnership is a legal business entity in which the owners have joint liability and authority. (More information is provided on this topic later in an Appendix.)

When you create a business, you begin a process of continuous evolution from startup to growth to maturity. There are important competencies you will need to develop as your company moves through that evolution. The TriStart™ Matrix walks you through that evolution. The TriStart™ process helps you learn those competencies.

Common Mistakes are also highlighted to show the possible pitfalls and strategies to avoid them.

So where's the business plan? Your **Mini-Plan Templates** is where we deviate from the traditional startup guidance model. We break up the single, full-blown business plan into manageable mini-plans. This runs counter to some advice, but may be a relief for most nascent entrepreneurs. Your Mini-Plan Templates isolate key strategic issues and help you to complete a short (2-4 page plan) within each of the three phases for each of the three key focus areas. We think the concept of "mini-plans" makes the process less intimidating and more adaptable in the end.

Business Readiness Assessments provide you with parameters to rank your skills and preparedness. Because businesses operate on a continuum of ongoing development, these elements are designed to help you feel confident that you have done the work in a given startup zone and are then prepared to move to the next phase. Consider the score you give yourself as your "go/no-go" to move on to the next phases.

Because each of the chapters in this book were written by a completely different team, each will employ these various elements in different ways—some very directly, and others quite indirectly. Our major goal was to allow each group to write the chapter in a way in which the contributors felt their expertise would best be shared with the reader. While the chapters are not completely consistent in the way they treat these concepts, the themes are interwoven throughout.

THE ENTREPRENEUR'S TOOLBOX

As you'll see in the following chapters, a variety of strategic/productivity tools exist that are very useful for entrepreneurs. Here is an overview:

- S.M.A.R.T. Goal Setting
- SWOT Business Analysis
- MindMaps Visualization

- Business Journaling
- Working Smarter with Personal Productivity Tools

Top achievers use S.M.A.R.T. goals. In the November 1981 issue of *Management Review*, George T. Doran wrote, "There's a S.M.A.R.T. way to write…goals and objectives." He discussed the importance of those objectives and the difficulty of setting them.

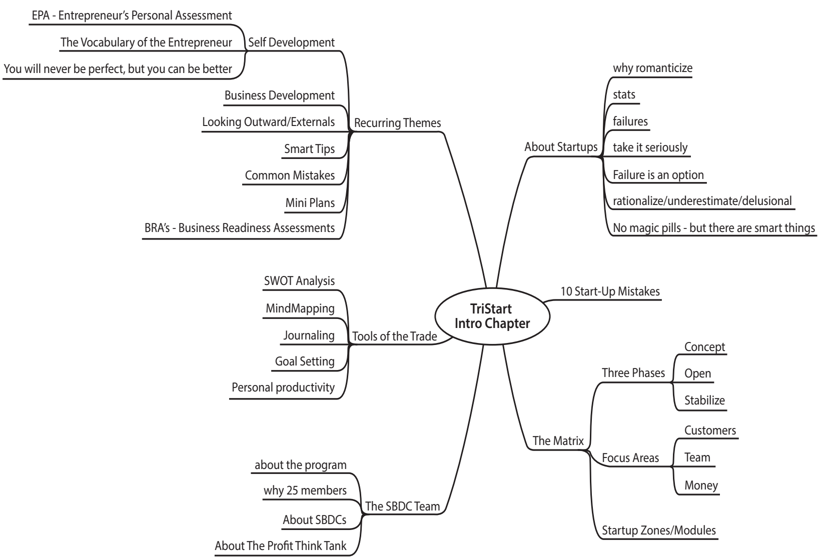
- **Specific.** Target a specific area for improvement.
- **Measurable.** Quantify some indication of progress.
- **Assignable.** Make someone accountable for meeting that goal.
- **Realistic.** State what results can realistically be achieved, given your available resources.
- **Time-based.** Set a deadline to achieve your goals.

The SWOT analysis is used to evaluate the Strengths, Weaknesses, Opportunities, and Threats of an idea, project or business venture. A SWOT analysis can be used for a product, a place, an industry, or a person. You specify the objective of the business venture and identify the internal and external factors that are favorable and unfavorable to achieve that objective. The technique is credited to Albert Humphrey's work at the Stanford Research Institute in the 1960s and 1970s using data from Fortune 500 companies.

When evaluating the business or any number of elements within it, you can look to these factors for a series of questions. The first two elements, Strengths and Weaknesses, are internal factors that force the analysis inside to you and the company. The last two elements, Opportunities and Threats, look outward to the external environment or the marketplace. You set your objectives after the SWOT analysis has been done. This is how you know your goals and objectives may be achievable.

MindMaps were first popularized by British author and television personality Tony Buzan, who used diagrams that visualized information using branching and radial maps in a BBC TV series he hosted called *Use Your Head*. In this show, Buzan diagrammed a concept using key words in a colorful, radiant, tree-like structure. Visual mapping has a long history with educators, engineers, psychologists, and business leaders. More simplified concept maps were developed by learning experts in the 1970s to focus around a single central key concept.

To start, take a central concept and place it in the center of the paper, typically with a circle around it. Next, place supporting concepts in "arms" around the inner circle. Finally, place supporting concepts around that. It's hard to describe these, so to illustrate, here's a basic, sample mind map of parts of this chapter.



This is a useful tool that can be applied to many different strategic and tactical elements within the business. While simple ones can be done with a pencil and paper, you can get quite elaborate with these (including not only words, but illustrations), and there are a variety of software programs and apps (both free and fee based) which make the process easy to implement.

Business journaling is also an effective concept. Organizing your thoughts is a big part of making a business work. As you begin the process of starting a business, you will be flooded with ideas. So many, in fact, that if you do not make some written record of them, you will forget most of them. There is also a process of evolution going on as you sort through a large number of business ideas. Recording thoughts, meetings, phone calls, appointments, layouts, equipment needs, cost estimates, cost estimates, revenue streams, and deadlines helps expedite the process of solidifying ideas into plans and actions. We all process our thoughts, remember things, and prioritize things differently. We all have a preferred method of note taking. Whether it is an app or a notebook, whatever works for you is great. The key is finding what does work for you and using it to make your life and the entrepreneurial process easier.

Working smarter with personal productivity tools can also help in the process. As you get to working on your business idea, you will find that you have many more things to plan and manage. Things like your email, your calendars, your to-do-lists, and your smartphone, therefore, play increasingly important roles. You can be super techy about this, or old school. (I still use a paper notebook in addition to my computer and smartphone.) Personal productivity software, smartphone apps, and other social-media-based tools are widely available, constantly changing, and becoming more readily available on a daily basis.

LAST THOUGHTS

Nice work in completing this first chapter! We are honored that you are trusting us to help you on this exciting and challenging journey. While we have pointed out that the process is a lot of work and that business ownership is far from a guarantee of riches, we also want to provide words of encouragement.

First, the fact you are reading this book (and have finished the first chapter) is an indication that you are looking for things important to your learning and evolution. We don't want you to think the process is easy (because it isn't), but we also don't want you to think it is impossible (because it's not that either)! Most people who start this process do not have all the immediate background to prepare them for the process. They are, however, confident in their ability and willingness to learn, adapt and grow. With that, some hard work, and lot of persistence, you can navigate and ultimately master the process.

Another suggestion is to use this introductory chapter in an interesting way: have your spouse, significant other, or trusted advisor read it. The support of these important people can be one of those "make or break" elements of the business, and frankly is often something of a "wild card." Your spouse or significant other deserves to have some input in the process and be aware of what he or she is indirectly going to be involved in. If this chapter freaks him or her out, then the process is likely to do so as well. If your significant other does not believe you have the skill set or conviction to carry out the plan, you may want to have discussion regarding those misgivings. This is both a brave and interesting step to consider.

We also want to point out that this program was developed by SBDC consultants nationwide with the intent that this book might be used as an educational tool before, during, and after SBDC consulting. The more prepared you are when you tap into their services, the more effective and efficient your time spent together will be. The TriStart™ process using The TriStart™ Matrix is the perfect adjunct to the work you will do with your SBDC consultant, but it is not a replacement for it or similar advisory services. Please refer to the Appendix at the end of the book for more on this subject.

So, congratulations on this first step toward starting your business and on the next steps you are about to take. Read carefully, ask for advice when you need it, and do lots of work based around The TriStart™ Matrix. Using these concepts, you will see your business make fantastic progress.

2

PHASE 1, CONCEPT
OVERVIEW

One of the challenges of leading a business is that it is a process full of paradoxes—an important concept in entrepreneurship. Wikipedia defines a paradox as…"a statement which apparently contradicts itself and yet might be true." This phase is well described by the paradox, "organizing the dream."

When we dream, we use the creative side of our brains. We purposefully throw away convention and limitations and look to what could be possible. Dreams are optimistic. There is a softness to dreams and an airiness or fuzziness. It is purposefully loose and open.

Organizing, however, is quite the opposite. It is about getting into specifics and details and then compartmentalizing everything—and making sure the numbers line up. Organizing seeks to eliminate things that don't make sense or don't fit in. It is more rigid and certainly more disciplined.

Are you a dreamer or an organizer?

As a business owner, you will be challenged to be both. Thus "organizing the dream" is also an introduction to the paradoxes of business ownership.

PHASE 1, CONCEPT

You will recall from the overview chapter that Phase 1, Concept, starts when the prospective entrepreneur has that lightning strike idea and begins to think, "Maybe I should start a business." Phase 1, Concept, develops the idea to the point where the details start to emerge. During this time, the idea moves from being "fuzzy" to being very concrete. Often, what we think is very well thought out and developed in our minds looks very disorganized and full of holes when we commit the ideas to paper. Phase 1 challenges the Concept.

Phase 1, Concept, develops the idea to the point where the details start to emerge. During this time, the idea moves from being "fuzzy" to being very concrete.

We have a tendency to rush through this. If you are a dreamer, your fever-pitch desire will be to implement…now! Getting into the details may be boring or may even seem like small thinking, so small that you may want to delegate—or worse yet, ignore—those details. You want to focus on making things happen. You want to hold on to that fascination, the rock star image we talked about in Chapter 1. It's admirable, but it is also one of the reasons businesses do not actually get off the ground or end up failing prematurely. Combining this enthusiasm with an intelligent approach to the details provides an important balance. It gives the business a higher probability of starting and succeeding, but it takes some time.

Take Phase 1, Concept, seriously. If you must delegate, commit to being active in every step of the research and planning, self-assessment, reflection, and goal setting.

The work here results in a more developed and bankable business concept. Your goal is to improve the possibility of attracting the right customers, investors, employees, vendors, and even partners. You also increase your confidence, not just outwardly, but deep inside.

At the end of Phase 1, Concept, you will have done the work around cultivating the concept. You and your team will believe not just in the concept, but also in the details which will make the concept feasible. You will have come to an educated, informed, rational "go" decision, which is necessary to do before moving on to Phase 2.

THE MOODY ENTREPRENEUR

You may have heard the phrase "This isn't personal, it's just business." But for most entrepreneurs, the process of starting and managing a business is an extremely personal, emotional process, and so the paradox applies here as well. Your emotional drivers should not be minimized, as they have an extreme influence on your process and ultimately on the success of your organization.

Phase 1, Concept, can be exhilarating. You have a new idea about a business, and you see potential not only in the business, but also in yourself. Some of your self-talk might sound like, "This is going to help me come into my own," or "I am going to crush this!"

Anyone who has ridden a rollercoaster knows every high is followed by a low. For entrepreneurs, the downside of elation is self-doubt, especially if you lack business experience. Too often, there will be a voice in the back of your mind warning you about "being in over your head." It might even be as deeply seated as childhood memories of critical parents or grandparents: "You'll never amount to much." The negative self-talk can cause you to feel overwhelmed.

Those who have successfully been through this process have also heard the opposing voices, but they consider the different logic, research the realities, and bring some balance/perspective to the process. No, it won't be easy, but through this process, you will discover you are capable of growing, learning, working hard, and succeeding.

This mental wrestling also transfers to the concept of money, one of the most emotional things we deal with as people. Here the paradox sounds something like this: "I could become rich," or "This is just what I have been looking for financially" on one side of the coin. The other side of the coin screams the opposite: "You could lose everything," or "You don't have enough money to start this business," or "You stink at managing money. Who are you trying to fool?"

The internal dialogue of owning a business is critical, and it will evolve past Phase 1, Concept, throughout each next phase. When it comes to starting a business, we challenge you to take a mature approach, hear those opposing voices, and acknowledge the different emotional pulls, yet sort this through in a rational way that leads to a superior outcome. When you "hear voices," we want you to gain benefit from them!

FOCUS AREAS IN PHASE 1 CONCEPT

Phase 1, Concept, is where you will learn to incorporate three very important focus areas into your plan: Customer, Team, and Money. Customers provide revenues. Without them you have no business. Your Team initially gives you the help you need when you need it. As your business evolves, your Team will be the force that helps you grow beyond what you can do individually. Money is your business's life force and will flow into and out of the organization; without a positive net cash flow, the business starves.

These three focus areas of business are as vital in a single person startup as they are in well-established company with thousands of employees.

Chapters 3, 4 and 5 look at the Phase 1, Concept, from each of these three focus areas:

- Chapter 3 looks at Phase 1, Concept: Customer.
- Chapter 4 looks at Phase 1, Concept: Team.
- Chapter 5 looks at Phase 1, Concept: Money.

There are more details to come, but let's look now at some high-level concepts in each focus area of Phase 1, Concept.

Key questions considered in Phase 1, Concept: Customer include:

- How will your business generate revenue streams from customers?

- Who will your customers be? Are there enough of them? Can you reach them?
- What will you sell them? And how much will you charge?
- Who else is selling to those customers today, and how are they meeting similar needs?

Most businesses are surprised to find that realistically projecting sales is harder than it sounds. There are many other businesses seeking to serve the same customers, and the world rarely "beats a path to your door." The argument you present in the marketplace must be very compelling. Phase 1, Concept: Customer in Chapter 3 will give you specific tools to address this topic.

Key questions considered in Phase 1, Concept: Team include:

- What assistance will you need to start the business?
- Will you have employees at launch? If yes, what are the specifics around this?
- What consultants, vendors, advisors, and non-employee contractors will be necessary to help you launch the business? And what will this cost?

Don't plan on doing everything yourself. Many business owners have found themselves in a jam because they tried to do it all. To succeed, your business likely needs input—and time—from others. Phase 1, Concept: Team in Chapter 4 helps identify these needs.

Key questions considered in Phase 1, Concept: Money include:

- What are your financial goals—and means to attain them?
- What are the startup costs necessary to launch your business?
- What are the business's projected ongoing monthly costs?
- Do you need the business to replace your current salary?
- What does the projected revenue ramp up look like?
- Is it enough to meet your cash flow needs?
- How much capital will the business need to launch and how much more to get the business to stable?

Money may or may not be your primary motivation for starting the business. However, lack of startup capital could be the thing that prevents you from successfully starting the business. For many, this ends up being the least intuitive part of Phase 1, Concept: Money in Chapter 5.

You may need to venture out of your comfort zone and learn the language of business planning, pitching, monitoring, and managing. Compare this to driving across the country in your car. Not many of us would start out without the resources (food, shelter, fuel) to sustain us the entire trip. Most of us understand the peril of running out of resources in uncharted territory.

These chapters will likely challenge you; they are designed to do that. They are only an indication of the real challenges you will face when your business is open. They also contain the tools to help you face those challenges. You might also compare these chapters to a flight simulator, where you get to learn about things and think through situations before lifting off. There is a wise saying, one you may have heard before: "It is much easier to fail on paper."

SO WHAT ABOUT THE PLAN?

The issues addressed in Phase 1 are the items that would typically go into a full-blown startup business plan, a document that can easily exceed 100 pages.

So should you write one? To business plan or not to business plan? That is the question.

There are two specific instances when a business plan is a must. The first is when pitching the business to banks or investors. Any time you are asking someone for money to put into the business, you owe it to that person or business (and to yourself) to complete the full plan. A plan will be an important basis for their decision.

The second instance is when you want to write a plan to create a consolidated beginning benchmark for future comparison and reference. People have different propensities for writing and organizing. If you are a writer, then by all means, you should complete a full-blown plan.

Working through The TriStart™ process, using The TriStart™ Matrix and the Mini-Plan Templates, will give you all you need for a comprehensive business plan. You will find, however, that working with multiple Mini-Plan Templates is less intimidating and requires less writing than a full business plan. Combining the mini-plans together will create a roadmap for your business and easier access to specific areas that you may want to revisit, edit, and modify as your market and your business changes.

Just know the goal of the business planning process is not just to produce a document. The goal is to be thorough in considering all the factors necessary to run a successful business. Working through each Mini-plan Template challenges you to brainstorm, organize, and answer hard questions prior to launch.

Using a car-driving-across-the-country analogy, not many of us would start out without knowing our destination. By working through the Mini-plan Templates, you will consider alternate routes, possible construction, detours, and danger zones, and will manage sufficient resources (food, shelter, fuel) to make for a successful trip. But just thinking about that trip isn't enough. You have to commit to action, taking into consideration friends, family, finances, the condition of your equipment, and your ability to maintain when you've arrived. Similarly, in business, there comes a time to document your commitment by pen to paper or by computer to the cloud. There's only one way to know if the ideas in your head are developed and ready for action: ideas must be committed to written word. This step is critical.

MOST ENTREPRENEURS' COMMON MISTAKES: PHASE 1, CONCEPT FLUBS

We promised in Chapter 1 to share with you some common mistakes made most often by entrepreneurs. Here are some common errors we see people making in Phase 1, Concept. We hope this book will help you avoid them.

- Failing to commit business ideas to written form
- Underestimating the challenge of generating revenue streams
- Not getting the right advice or assistance early on
- Not understanding the real cash requirements to launch and bring the business to a point of stability
- Rushing through the process of conceptualizing…going right into start without enough planning
- Acting on half-baked ideas
- Being overly enamored with the product or the business and seeing the world through rose-colored glasses
- Being overconfident, and therefore too aggressive
- Being under-confident, and therefore too timid. (Yes, the last two points are another paradox!)

GRADUATION TIME: GOING TO PHASE 2, OPEN

This book progresses through a series of three sequential startup phases. By the way, this does not mean that once you "graduate," you never look back; business is a continual process of evaluation and modification, improvement, reinvention, and growth.

There will be a time to move to the next phase. After Phase 1, Concept, we will be ready to move into Phase 2, Open.

You will know it is time when:

- Your business idea has been researched and thoroughly developed (whether it is a single plan or a series of mini plans).
- You have articulated a very clear roadmap for where the business is going, and how it will get there.
- You have articulated an understanding of the following:
  - Who are your customers, what will you sell them, and why will they buy from you?
  - Who will make up your team, what will they do for you, and what resources will you need to effectively launch your business?

  - › What cash will you need to start, and how will that impact the startup and the early stages of your business?
- After surveying the work done in Phase 1, Concept, you have confidently reached an intelligent, well-informed "go" decision.

When you can put a solid mental check mark by each of those items, proceed to Phase 2, Open. But for now, let's look at each of the three focus areas for Phase 1.

3

PHASE 1, CONCEPT CUSTOMERS

A customer-centric approach is critical to building a sustainable business. It is not enough to have a great product or service. You must understand and identify with your customer in such a way that customers will be willing and able to purchase your product or service and will become your best source of advertising and promotion through word-of-mouth and social media.

Entrepreneurs are passionate, driven by their dream, and often too confident. How could the market not embrace what we are offering?

The evidence is clear: it's never that easy. Even the most successful business owners will point to incorrect, early customer assumptions that nearly caused their business to fail. Not only that, but those same successful business owners often say that success came about by an unexpected twist of circumstances that made them aware of what their customers really wanted. It was by listening to the customer that those business owners finally understood how to adapt and to grow. Achieving this could be the difference between success and failure.

ENTREPRENEUR'S VOCABULARY—MARKETING

Market: A generic term used to describe where a business operates, often imprecisely. A market consists of five separate components. These are:

- The industry or type of business
- The geographic area from which the entrepreneur will obtain the majority of his or her customers
- Demographics—what is contained within the market area
- Conditions—those factors the entrepreneur cannot control but will have an impact on how he or she conducts business
- Competitors—defined below
- Customers—defined below

Marketing: The comprehensive relationship between the customer and the business dedicated to identifying the wants and needs of the customer, satisfying those wants and needs better than your competitors, and communicating this fact to the customer.

Customer/Client: The entity with a problem that the entrepreneur will solve, for which the entrepreneur will be compensated by the customer/client.

Target Market: The defined market in which the entrepreneur will operate. Most often, this term is used to describe the specific customers and/or customer segments the entrepreneur is seeking.

Segmentation: Grouping customers by a set of common characteristics. Segmentation allows the entrepreneur to better understand and respond to the requirements of various customers. Segmentation is not limited to just demographic factors, such as age, gender, or income; segments can also include psychographic factors, industry (in business to business), or even segments related to specific products or services the company may offer.

Competitors: Those entities seeking the same customers as the entrepreneur. They are most often divided into three segments:

- Direct competitors
- Indirect competitors
- Do-Nothing competitors

Competitive Advantage: Also called value proposition or unique selling proposition, it is whatever the entrepreneur's business does that makes it the best solution to the customers' problem; it is how the entrepreneur successfully competes in the market. The competitive advantage is most often based on the total value of the product compared to the price.

Value: What the customer considers when making the selection between problem solving options. Value is the sum of the product's quality and the customers' belief that they will get what has been promised minus the price.

Quality: The sum of three elements, which are:

- Solves the customers' problem
- Is free from defects
- Meets all other customer expectations

Price: What the customer pays to obtain a product. The actual monetary cost is the major component; however, many customers also factor time and effort into the price.

Pricing: How the entrepreneur determines the price for his or her product. In simplest terms price = cost + profit.

Product Development: Product also encompasses "services." Product is the entrepreneur's solution to the customer's problem and is what is ultimately sold to the customer. Development refers to the creation of the product and considers not only the problem to be solved, but also how the product meets all of the customer's expectations.

Target Customers: The specific group of potential customers the entrepreneur is seeking. Target customers may consist of multiple segments. All businesses exist to solve a problem. A customer is someone, a thing, or an organization seeking a solution to a particular problem. Entrepreneurs, through their understanding of their targeted customers, are striving to provide the best solution to the customer's problem.

To understand and effectively target customers, the entrepreneur needs to answer seven basic questions about his or her customers.

1. Who?
2. How many?
3. How much?
4. How often?
5. What do they value?
6. How do they make decisions?
7. Who/what are influencers?

Before exploring these questions, more explanation of the market is needed. To arrive at the best solution for their target customer, the entrepreneur must understand all the components of a market.

Industry: The first market component is the industry or business you want to pursue. Every industry has unique trends, conditions, requirements, etc. You must understand these to be successful. Some examples include: trends, e.g., environmental concerns; conditions, e.g., seasonality; and requirements, e.g., governmental licensing. Industries may also have life cycles; some are growing and some are dying. For example, if an entrepreneur told me he wanted to sell and service typewriters, I would suggest he didn't understand the industry. Financial projections, sales, and expenses which do not show a seasonal variation are a giveaway that the entrepreneur might not understand an industry.

Market Area: An industry may also have an impact on the market area. As explained in the vocabulary, the market area is the geographic area from which the entrepreneur expects to draw the majority of his or her targeted customers. Depending on the business, this could be a local geography or even a national or international scope. Understanding the market area is critical in understanding the remaining components of the market, which include the customer.

A convenience store is a good example. Its name tells you the business's focus is "convenience," which by default makes its market area very small, such as the intersection where it is located, the exit of the interstate and maybe a few blocks surrounding it in a city. Most customers don't drive across town or go out of their way to go to a specific store. This same convenience store located in a more rural area may find its market area larger due to fewer competitors, but compared to other industry types, its area is still relatively small. In contrast, building supply stores have a much larger market area and can pull customers from much farther away.

In defining a market area, subdivisions such as a city or county are often used due to the availability of census data. These may or may not the best choice. Customers seldom limit their search for a solution to a problem based on the city limits or a county line. Determining a market area using distance or drive time from a business's location tends to be more accurate. Many SBDCs have databases that can create a market area using these criteria.

Demographics: Having defined the market area, you can begin to research what exists in the market; the first of these are the demographics. Using distance or drive time to determine the demographics of your market area will provide a more accurate picture. The demographics of your market area allow you to determine the number of the potential customers.

Demographics can address age, income, gender, etc. However, demographics for a business-to-business company would count and segment the businesses in the area appropriately. Returning to the convenience store, the demographics of interest to that business are related to the traffic count. For a hotel or bed & breakfast, the demographics needed pertain to traffic transiting through their market area, not necessarily the number of people living in the community. If you want to establish a childcare business, you will want to know how many children within certain age ranges are in your market area.

To demonstrate the difference between a market area defined by subdivision and by drive time, I will use a real-world example of childcare business in my city. The potential number of customers (not targeted customer) is defined by the number of preschool children.

- City—3,958
- County—6,152
- 20-minute drive time—6,714
- 20 miles—9,096

Conditions: The market area also helps you understand the conditions that exist. Remember, conditions are those factors in a market area over which you have no control but do have an impact on your business. It is possible some market areas will have sectors where different conditions exist. For example, a market area where state or local government is a major employer will have economic conditions that differ from those in a community where there is a large university. Typically, a city with a large university could have a much more liberal outlook. In the city with the university, businesses targeting students will experience seasonal selling patterns based on when school is in session and when the students are on break or vacation, but that same seasonal pattern would not be replicated in locations where government is a large employer. The cultural or ethnic makeup of the population can also have an impact on your business.

Legal requirements are another example of conditions you will have to consider. Some communities may have restrictions on what can be sold or how it can be sold and where it can be sold. If you are located in a city that imposes a bottle and can tax on beverages, you will most likely need to raise prices to cover the costs, while your competitor just across the street, but located in a county which does not impose that tax, could have a pricing advantage.

Competitors: The fourth component of the market is the competition. Three types of competitors were identified in the entrepreneur's vocabulary. Understanding each type of competitor is critical to being able to successfully create your competitive advantage.

The direct competitor solves the same problem with the same solution you do. The direct competitor to a grocery store is another grocery store. This is a pretty easy concept to understand.

The indirect competitor either solves the same problem with a different solution or offers the same solution, but that solution is not core to that competitor's business. If you open a bowling alley, any other recreational business such as a movie theater could be viewed as an indirect competitor since it also solves a customer's recreational problem. Just about every large grocery sells flowers, greeting cards, books, and magazines, but none of these are core to that store's business. However, the grocery store is in competition with every florist, greeting card store, and bookstore in the market area.

The key in evaluating direct and indirect competitors is not to get hung up on which they are, but to understand that they exist—and understand what they offer the customers in terms of solving their problem and meeting all the customers' expectations and price—and to create a business that provides a better mix of these.

The last type of competitor is the "do-nothing" competitor. This competitor is really the customer's perception that the problem you want to solve either does not exist or is not important enough to solve. Why do we need a mobile phone? Many of us lived perfectly contented lives without one. However, mobile phone manufacturers and service providers convinced us that not having a cellular phone was a real problem, and they were so successful it is doubtful anyone reading this book does not have one. The same is true with personal computers. A gym is another example. To join the gym, we first have to be convinced our fitness is a problem which must be solved.

To review each type of competitor, let's use a gym as an example. If you want open a gym, here is a sampling of each type of competitor:

- Direct: every other gym in your market area

- Indirect: the infomercial for physical fitness programs for use at home, just walking around the block, or a personal trainer coming to your home or workplace
- Do-nothing: people thinking, "I'm in shape," "All that work is not worth the results," or "Fitness is not important to me"

UNDERSTANDING YOUR TARGET MARKET

Intuitively, you probably already know the market for your product or service must become the life source your business. Customer revenues are what fund the long-term success of the business. Initially, the entrepreneur typically relies on what he or she thinks the market may be. But you dare not guess. It's that important. And it's a moving target. Your individual understanding of the market should be considered a starting a point only. Every effort must be made to gain a greater understanding. Your business depends on it.

These assessment questions may help you gain a clearer understanding of the market:

- What problem or situation does your product or service solve?
- What market segment needs this problem solved, and will the proposed solution satisfy those customers?
- How do you know? Does your research tell you enough to be sure? What have you done to prove or disprove your hypothesis?
- Do you believe the solution will be profitable to both the company and the customer? What evidence do you have to support that customers will be willing to pay what you will charge?
- What alternative solutions could solve the problem just as well? What are the pros and cons of each alternative?
- What is your competition doing? Does that change the picture?
- How does your solution compare to the competition?
- Will the customer use your product or service repeatedly? How often?
- What do you know about the spending patterns of your market segment?

- What are the demographics of the target market (e.g., gender, age, ethnic background, education, household income, marital status, etc.).
- How big is your market? What is the geographic reach? How much does this market usually spend on this type of product or service?
- Based on this information, can you realistically project enough revenue to cover your costs?
- What has been done to test (or survey) the target market?
- Do the results (from testing/surveying) support the assumptions made concerning the target market?
- Are there other market segments you might be overlooking?
- How much of this market can you realistically reach? How much of this market is your competition reaching? How will you know when you have reached your goals with the target market?
- What if your assumptions miss the mark? What is your Plan B?
- Could your product or service be adapted to create a better solution for the customer and better sales for your company?
- What resources will you use to test your target market?
- What steps should be taken that will help confirm that the target market will support the product or service before significant funds are expended?

A customer-focused marketing strategy provides the direction a business needs to successfully develop and grow. Too often, an entrepreneur becomes focused on the product or service without listening to or understanding what the customer will want. In many instances, products and services can be adapted to meet the customer's needs without incurring significant expense. This customer-centric knowledge better positions your business with a well-defined product or service to meet the needs of an appropriate target market segment, enabling you to be more effective in reaching and building loyalty with your customers.

This customer-centered approach allows you to disregard business concepts that may be creative and interesting, but will fail to generate the sales necessary for the business to be successful. Instead, an environment is created where you can more effectively focus on an adapted or new business idea more likely to be successful, while reducing the chances of having to endure the costs (in terms of time, money, and expenditure of other resources) for a failed product or service.

UNDERSTANDING YOUR TARGET CUSTOMER

Market research is essential to understanding the wants and needs of the customer, the size of the market you will be serving, and how much of the market is controlled by your competition. In the vocabulary definitions section at the end of this chapter, you will find a list of terms important to understanding the customer. To understand and effectively target customers, the entrepreneur needs to answer seven basic questions. The first four are demographic; the last three are psychographic. Answering these questions will enable you to effectively select the customers to target and understand what you must do to be the business they select.

1. Who are your customers?
2. How many customers will you serve daily? Weekly? Monthly? Annually?
3. How much revenue will that generate daily? Weekly? Monthly? Annually?
4. What do your customers value?
5. How are spending decisions made by your target customers?
6. How can price, economic factors, or the competition influence the spending decisions made by your target customers?
7. Who or what else might influence the customer's purchase decision?
8. Who are your customers? Describe your perfect customer. That is to say, on a scale of 1 to 10, this customer would be a 10. Then describe a customer who would rank maybe a 9 on that same scale. How about a customer who would rank an 8? What are the common characteristics these customers share? What are the differences? Are the differences important enough to market differently to them? If this is the case, you have just created separate market

segments, and you will need to answer the remaining six questions for each segment. If the individual customer segments can be uniquely defined, those segments should most likely be counted, measured, and monitored separately.

A bridal shop makes a good example. If this were your business, in order for you to be successful, you need brides. So what are the characteristics of a typical bride?

- Female
- Ages 18 - 40
- Most likely the first marriage
- Excited and nervous at the same time

9. How many customers will you serve daily? Weekly? Monthly? Annually? Having defined your market area and knowing what customers you are targeting within that market area, it is now possible to estimate how many potential customers there are. Looking at groups of customers in terms of the revenue they generate is a critical step. If there are not enough potential customers in the market area, the business cannot survive.

Bridal Shop Example

Returning to our bridal store example, you can check various databases to determine how many single females between the ages of 18 and 40 are in your market area.

The next step is to determine how many single females will there be next year, and the year after, and the year after. Just because a market area has enough potential customers in the first year doesn't mean the potential will always exist

And don't forget to ask what other markets the bride may bring, such as bridesmaids, mothers, and grandmothers.

10. How much revenue will that generate daily? Weekly? Monthly? Annually? On average, what is the amount of the typical transaction? Many industries have data on average purchases. Another source of this information could be from mentors in the industry or interviews with similar businesses who are willing to share. Primary

research can be done in the form of short surveys. Personal observation can also be used to gather this information, although it will not be as accurate as other means. You can base your assumptions on very general information, or you can be extremely detailed.

Restaurant Example

Future restaurant owners may calculate only the average ticket sale for the day. However, the informed entrepreneur will have looked at the US Economic Census for Accommodation and Foodservice to determine the total revenue, the number of establishments by type, and the total number of seats by establishments by type to better project the revenue of the new venture. The informed entrepreneur will have developed menus for breakfast, lunch, and dinner and calculated both an average ticket price and a cost of goods for those different menus.

Grocery Store Example

Potential grocery store owners may base their assumptions on the average sale per grocery basket as a minimum, or they may have sales data segmented into the weekly shopping "grocery-basket"- type customers versus the "errand runners" who go through the "12 items or less line."

Car Dealership Example

The potential car dealership may know the average new car sale by type and the mix of cars types sold. But being able to determine how much of that market is luxury, family, or young and single is the first step to being able to project sales based on data and facts rather than wishing and hoping.

Knowing how often the customer routinely purchases is equally as important in projecting how much revenue will be generated daily, weekly, monthly and annually. Purchase patterns differ between industries, due in part to changes in demand by market areas and seasonality. Some of the previous industry examples will clearly demonstrate this.

Bridal Shop Example

What bride goes into a bridal shop thinking, "I'll be back for my next wedding gown in 5 or 6 years"? The bridal shop entrepreneur has to realize that each year he or she will need another group of new brides. If the entrepreneur needs to sell 500 gowns a year, he or she will need 500 brides. Will the demographics of this market area provide those brides for the foreseeable future? If not, then the entrepreneur must find a way to successful increase his or her market area, find other customers, increase pricing, or all of these. Additionally, weddings tend to be a fair-weather activity, meaning sales will have a seasonal variability.

Grocery Store Example

People tend to shop for groceries once a week. Of course, they may also make small purchases throughout the week. Therefore, if a grocery store needs to sell the equivalent of 1,000 baskets of groceries a month, it needs to have 250 to 300 customers. The weekly purchase pattern also impacts the store's promotional activities; it usually runs specials on a weekly basis.

Car Dealership Example

If the car dealership knows a family or individual buys a new car every 5 – 8 years and it needs to sell 10,000 cars a year, the entrepreneur knows that he or she will need 10,000 new customers per year over a four-year period before he or she can expect a substantial number of repeat customers. Knowing this also impacts his or her market area determination—does their defined market area actually have the 40,000 – 50,000 new car purchasers? If he or she estimates that the business can capture 10% of all new car sales, the number of potential customers now grows to 400,000 – 500,000. If there are not enough customers or purchase patterns are longer, something will have to change. The reality of purchase patterns has an impact on the dealership's marketing activities, such as finding ways to get customers into the dealership between purchases and continuing to communicate with its past customers.

The next three questions are about customer psychographics.

11. What do your customers value? Purchasing decisions are based on value. The customer is comparing a variety of factors against price. The solution with the greatest value is the one most often selected. If this were expressed as a mathematical equation it would be:

Value = (Quality + the belief that I will get what is promised) – price

Or inserting the definitions of quality and price the equation becomes:

Value = (solves my problem + is free from defects + meets all of my other expectations + I believe that I will get what has been promised) – (cost + time + trouble)

How often have you purchased something that ended up being more expensive than you originally planned? Why? Most probably it was because you saw a better return on your investment, even if what you selected was not the lowest price. Price is often used to set boundaries on the solution we will consider to narrow the field, and the final decision is made on the quality and belief in the promise. Sometimes the boundaries are set by quality and belief in the promise, and the decision is made on considering price and how it impacts the actual or perceived value.

Trying to create value by being the lowest-priced solution rarely leads to success for smaller businesses. Understanding what the customer values is fundamental to success. First, if your solution does not solve a problem for the customer, it has no value. A bridal shop only has value to those who are or will have brides. If the customer's problem is getting the car to pass inspection, the bridal shop has no value.

There is little or no value to something that will not work as planned or promised. Solving the customer's problem with a defect-free solution is a foundation to your business success. Without this, your business cannot get in the game, let alone compete.

What your customer believes about you is your brand. Belief that the customer will get what the company promised is a reputation that is typically gained (or lost) over time. As a startup, that brand may rely on your personal reputation, but ultimately it will be the result of how you do business—how well you do what you say you will.

Customer expectations ultimately drive value. This is where the entrepreneur can create a competitive advantage and become something other than a "me too" business. Customer expectations (of what they will get out of the purchase) will vary based on customer segments. Warranty, hours of operation, return policy, knowledge and friendliness of staff, selection, location, number of cup holders, and being "green" are all examples of expectations that customer could use to ultimately select what they think is the best solution to their problem and could justify a higher price than something offered by the competitor.

12. How are purchasing decisions made by your target customers?

How customers make a decision to buy is closely linked to what they value, but it also goes deeper. Other factors involved include the relative importance of the features of one product over another or who is involved in the decision-making process. The purchaser or end user may not be ultimate decision maker; others could be involved in the process. If they are, then you must also address the value of that product or service to others involved in the decision-making process. As parent, how often have our purchasing decisions been influenced by the preferences of our children? And in the bridal shop, what role does the bride's mother have in the decision-making process? Does the father have any part in the decision making? You need to understand these dynamics to structure the products and business operations to respond to the needs of everyone involved making the purchasing decision, including how price, economic factors, or the competition influence the spending decisions made by your target customers.

This psychographic question is "Who are the influencers?" This does not refer to those involved in the decision-making process, but rather to influencers outside of that process. Influencers include activists, who tend to get involved; connectors, who have large social networks; impacters, who are looked up to and trusted by others; pot stirrers, who have multiple and diverse interests; and trendsetters, who tend to be early adopters in the marketplace.

These influencers tend to be of two types: events and individuals. You should identify those influencers and make them a priority. Ask yourself:

a. Who in your market, if you were successful in turning him or her into a customer, would bring in others? Who, if others knew this person was using your product, would also want to use your product? Need an example? What impact did Michael Jordan have on Nike's shoe sales?
b. Who in your market area could you approach to start building a solid referral network that would bring in customers you may not be able to reach as easily otherwise? If a veterinarian recommended your boarding kennel to his or her customers, how much more likely would those customers be to select your facility?
c. What event/activities do you need to participate in that would expose your businesses to groups of people you may not be able to reach?

Answering each of these questions about your customers will tell you:

- if there are enough customers in your market area
- what market share you will need to achieve
- what reasonable sales projections would be
- what sales projections need to be generated to create and sustain a competitive advantage
- where you should invest some of your initial marketing activities and resources

UNDERSTANDING YOUR COMPETITIVE POSITION

Identifying your competitors and understanding what type of competitor they are is only the starting point. You should understand how each competitor operates, the market areas each serves, what they think their competitive advantage is, what they are doing to deliver on that advantage, and how well it is working. Also try to determine what percent of the potential customers your competitors are serving.

Comparing this information to your assessment of customer needs and expectations will help determine how you can best compete and what you will do different or better than your competitors. Remember, a competitive advantage is based on your ability to deliver what is important to the customer, not what you think is important. Few startups survive when their advantage (unique selling proposition, or value proposition) is "me too."

When evaluating your competition, don't forget to think about the future: What could happen to change the competitive landscape, and how would you respond? Throughout this book, you have been referred to as an entrepreneur, a business owner, and a startup. In reality, what you are is a leader. A key, if not primary, responsibility of leadership is to prepare for the future—conducting research and analysis and planning to address all segments of your business. We organize these concepts as Customer, Team, and Money. Understanding, implementing, monitoring, measuring, and adapting around these concepts never ends. It is a continuous cycle.

Value-based segmentation looks at groups of customers in terms of the revenue they generate and the costs of establishing and maintaining relationships with them. You attract and keep customers by knowing your market, including how your business fits into a competitive landscape.

RESEARCHING THE TARGET MARKET

So what sources of information are available to you to research and ultimately understand your market, including the most important component, the customers you will target? There are a lot more sources than you may realize. We wouldn't expect you to be one of those entrepreneurs who make the mistake of thinking they already know everything and that market study and research isn't needed.

We might expect you to be like many entrepreneurs who are drawn to your product or service based on some past experience. You may already have a working knowledge or skill set associated with the product you will be offering and, as a result, you have faith you can succeed. Faith is important. Experience and background are important. But assumptions must be based on more than faith, experience, and background. This is true for existing businesses as well as startups. Understanding your market means staying informed and always seeking additional sources of information.

Here is a list of resources to help you find information to direct your efforts:

Internet: The Internet, with its numerous search engines along with ever-expanding social media sites, is where most individuals turn to first. This is a valuable resource; however, as we all have experienced, not everything on the Internet or in social media is factual. When using the web, exercise caution and consider the source of the information. Government websites, such as American Fact Finder, are trustworthy. Finding the specific information you are looking for on the Internet can be a challenge as well. How often have you gotten the results of a search that had 20 – 30 pages? In addition, the best information on the Internet is often not free. There are exceptional databases that can be accessed on the Internet, but the cost of subscribing to them can be prohibitive for most entrepreneurs. Accessing these through libraries or entrepreneurial support organizations, however, are possible alternatives.

Agencies: Information provided by all the various government entities can be very valuable. It most often is the basis for the analysis provided by many fee-based sources. It can be accessed for free, but finding exactly what you need and interpreting the data can be a challenge. State and local sources should also be checked, as well as chambers of commerce or other organizations focused on economic development.

Libraries: One of the advantages of libraries is they may subscribe to those expensive, fee-based databases. For the effort of obtaining a library card, you can have access to that information. Another advantage of libraries is the presence of reference librarians, individuals trained to find information. These individuals can save you lots of time and effort.

Small Business Resources: Small Business Development Centers (SBDCs) are key resources for research. Many also subscribe to databases that can provide a wealth of information. Additionally the business specialists and counselors have probably helped others find the same information you are seeking. Their services are available for little to no cost. There are a variety of community resources for entrepreneurs in most cities.

Industry Associations: Industry associations can be great sources for understanding industry trends, requirements, standards, etc. You may be able to access the industry association information through a library, or you may have to join the association. Some associations are outstanding and provide a wealth of information; others just want your membership fee, for which you will get a member listing. Consider your return on investment before joining.

Mentors: A mentor is someone who has "been there, done that" and is willing to share. A mentor can be someone with experience in the industry you are going into or someone who has business experience you trust. The information from mentors can be incredibly valuable. When looking for an industry mentor, be prepared to go outside of your market area. A mentor in your market area might consider you a competitor. Can you reasonably expect him or her to help you take away business? Senior Corps of Retired Executives (SCORE) is an organization sponsored by the Small Business Administration composed of active and retired executives who provide mentoring services. Community business resource centers are also a potential source.

Observation: You will also need to do your own research. Shop your competitors, and observe what they do. Visit similar businesses in other locations. Arrange interviews with those business owners. They may not become mentors but they could be very willing to discuss their experiences. Experience surveys are discussed more fully below.

Often entrepreneurs will focus their individual effort by asking friends and family. Unfortunately, friends and family are not the best sources of information. Too often they will tell you what you want to hear. Additionally, they may not have a lot of actual facts to drawn on when providing advice.

A final thought: research is done to prove whether what you want to do is possible. Be open to accept that what you want to do may not be realistic or carries an unacceptable level of risk.

Experience Survey: There are many ways to can gain powerful information about and to become better positioned in your market. One effective way can be to talk with others who already know how your type of business operates. It can be very helpful to contact them to discuss what they have done to attract and retain customers, asking what works and what doesn't. Finding businesses that have taken a product or service into another market will help you better understand what must be done to be successful.

Great sources of information here include talking to owners of similar businesses in other market areas (who do not view you as a competitor) and industry suppliers. Often sales reps for your suppliers can give you a great deal of information about the market. (Just remember, they will likely tell others about what they learn from you, too!)

RESEARCHING YOUR TARGET CUSTOMERS

To better understand your customers, you might conduct a customer survey. Customer surveys can take many forms, but they typically involve surveys, customer interviews, or focus groups.

Each has its pros and cons. For example, a survey often enables a business to obtain information from a larger number of prospective customers and ensures more consistent information will be gathered. However, surveys cannot replace the information that may be gathered in customer interviews, as they typically are more in-depth and offer the opportunity for more open-ended questions. Focus groups provide the potential for interaction among prospective customers, which may enhance the discussion and feedback received. Given the differences between these approaches, an entrepreneur may use more than one approach, e.g., start with a survey to gain preliminary information and then use customer interviews or focus groups to gain additional insight.

You might conduct a customer survey yourself or have others assist in the process. Entrepreneurs who actively participate in the process typically gain more from the effort and have a better understanding of the target market. Active participation in your market survey is recommended; however, always maintain an objective approach and seek to learn rather than to prove a predetermined point.

Most entrepreneurs benefit from outside support. Consider contacting a local university or college to see if it has resources to help in conducting your market survey. Both faculty and students are frequently engaged in such activities and appreciate the opportunity to share their marketing expertise and learn from the experience.

DEFINING THE SURVEY

In developing your survey, the following should be considered:

- Who are your customers?
- How many are there in your target market area?
- How often does your target customers purchase?
- What is the average purchase?
- What do they value?
- What are the influencers?
- How do they ultimately make a decision?
- What will be your competitive advantage—do customers agree?
- What will be your value proposition—do customers agree?
- Demographics—how will these affect your target market?
- Psychographics—consider how these may help you understand and reach customers.

RESEARCHING YOUR COMPETITIVE POSITION

Identifying and learning about competitors can provide information that will help you gain insight. Here are some questions you might consider when researching the competition:

- What type(s) of business offers the type of product or service you will be offering?
- Which competitors are serving your target markets?
- Are there other geographical regions that are comparable to your target market that might serve as a good basis for your assumptions?
- What local, state, industry, or association information can help identify potential competitors?
- What websites offer reliable information to help identify your potential competitors? Websites often contain other information that will help you determine how to approach the market as well as examples of how the competition prices its products or services and takes orders, and what it includes for sales terms.
- What specific information do you need to better understand your competition?
- What specific information is offered by your trade association to help you better understand the industry?
- Are there competitors you can contact directly? What specific information would be helpful to you that is not proprietary to your competitor?
- Is there an opportunity to build relationships by sharing non-proprietary information about your business plans with your competitors?

PRODUCT LINE ISSUES

It is very important to identify early the products and services your business will offer and how you will position them in the marketplace to derive a revenue stream to provide the necessary cash flow to support your business model. You need to determine where your products and services fit into the marketplace based on a number of factors.

One of the first decisions will be the quantity of lines or offerings to be provided to customers. This will enable you to establish potentially multiple levels of value streams for the business and end user. One common method is the "good, better, best" line structure, which offers varying levels of profitability based on the features and benefits relationship presented and the price charged.

Appliances are a good example for how this could work for your business model. The number of bells and whistles (features) available meet varying levels of the customers' perceived need (benefits) for performance in relation to the cost.

Key factors to consider in product and service offerings include the necessary inventory or equipment and tools required to offer the perceived value you want to deliver to your customer. This portion of the startup phase should be reviewed based on the available resources, your research, and a realistic understanding of the scope of the business to be accomplished. Based upon the funding available, what scope of business can be accomplished? This could be related to the geography of the market size you would serve, with the products and services scaled accordingly.

The choices made in this section of the planning process will have a large impact on determining profit margins and income levels generated from product and service offerings. The net result is the overall success and viability of the business. An easy rule of thumb is the 80/20 rule. In business related to inventory, eighty percent of your sales commonly come from twenty percent of the stock on hand. This rule of thumb can have many additional applications for marketing, geography, route planning, and equipment needed to do business in the chosen field.

Trade associations and vendors provide a great starting point for determining needed levels of inventory, information on what works in your market geography, and what to carry during seasonal business variations. Statistics can also be obtained by contacting vendors and suppliers to provide recommendations on top-selling products, percentage of overall volume, and service delivery for support in your market. This could also include statistics on seasonality and market trends.

Industry-specific trade associations provide valuable details on critical data pointing to what to expect in your market for necessary inventory cost planning. Be sure to talk to someone with experience in your market and line of business.

It will also be necessary to have an idea of how to monitor the flow of goods and track sales and services based on pricing sensitivity through customer feedback and data reporting. This can be as simple as follow-up calls about customer satisfaction or survey tools sent after the sale. A personal phone call from a business owner or representative is still very effective, and there are a variety of simple online survey tools available.

Have an action plan on how to react to complaints and what it will cost you to provide the desired level of service. The goal will be to have a system in place to create a feedback loop to determine the "sweet spot" for pricing and profitability based on value creation. The other objective is to have benchmarks available to lead to future price decisions and future customer relation criteria. Remember, doing business with existing customers is much easier than attracting new customers. Once you have customers, you want a strategy for keeping them.

VALUE & PRICING

Pricing will be another critical component in the value relationship for the customer. It is important to research and determine the price relationship of at least three competitors in your market (both brick and mortar and ecommerce). Review their line offerings, understand their price-to-value relationship, and determine how you want to position your products and services to compete. This will be based on what your business will do to create a unique value proposition of your own that differentiates you from the competition.

How do you create customer value? This is a very important component of the product/service and pricing equation. Customer value can be looked at early on simply as the perceived benefit your customer receives from doing business with you or purchasing the products you sell. Use this concept as the base point for establishing where you will position your business in the market. This will be founded on what you have determined through identification of the target customer, or best customer, and what level of engagement you will strive to reach, market to, and do business with.

After putting the above suggestions into value creation, it is time to think about how you translate this into messages for customers to prompt them to be loyal for a lifetime, and how to make them advocates for your business. Make a list of reasons to purchase from you versus the competition. Then review the list for what makes you unique in the market. Determine a strategy for how you will continuously develop ways to broaden and expand your businesses through continued differentiation in the market. This could take many forms based on principals for quality in the product or service.

These should include measuring levels of satisfaction for product usage or the customer experience on a service call. Again, this can be accomplished by surveys and phone interactions. You will also want to have a plan for measuring web interface experience through metric performance and monitoring. The goal here is to determine a method for creating levels of customer satisfaction which put you first in people's minds when it comes to purchasing your products or services and to create mavens for your business. Reviewers' opinions are powerful, and you want your business to shine from their accolades.

Now, tie all the ends together to see if you have created a message and value proposition that rings true in your intended audience's mind. This is an important phase because many times a small change can make a big difference in the end result for your business's perceived offerings, especially in the startup phase.

For this phase of the Concept review, you want unbiased opinions and feedback. So leave out family and friends as much as possible, and go for the hard-knock facts of reality that can only come from due diligence based on cold calling and putting your business concept out there. This could, and should, involve conversations with non-competitive small business operators, owners, and managers. In general, you want to reach out to people who are in a position to give you unbiased feedback on your proposed ideas, and what they perceive in relation to your intended outcomes.

For example, you have plans to offer a service of doing bicycle repair at a customer's home or on the road (bicycle road service). Your message is "Cycle away with a mechanic in your jersey pocket." Does this message convey how the customer can hit the road for long bicycle rides with no fear of breakdown and of being stranded? Is there any value in road service, and how much would you be willing to pay for this security? Bike shops and riding clubs would be a good place to start testing your message and concept.

This same concept can translate across many services and industries and should provide a base understanding of being on the right track. It will also provide feedback for tweaking the message and fine-tuning the model, message, and value creation concept.

You might consider creating customer value through alternative methods of customer payment. You want to have a system or method of purchasing in place that is customary for the market you are serving and your client base; this requires a review of what the competition is doing. You might create a competitive advantage through alternative methods of payment or financing to make your products more attractive to the customer while still maintaining the necessary levels of profitability.

An example of creative financing would be the zero-percent offerings seen so often now in the pet industry for purchasing large-ticket registered dogs from a local pet stores or chains. Ask yourself if there is a way for your business to achieve a competitive advantage in your industry through alternate payment methods or financing to make it easier for customers to buy from you.

COMMUNICATIONS AND MESSAGING

Create a mantra for your business to define what you do and what you represent to your customers. This should be a short statement or slogan that is easily understood and defines what your business and brand represents. Think of this as a strong message to be used by you, your employees, and your customers that leaves no question as to what your business stands for or embodies. Spend some time on this statement, and review other business mantras though some simple Google searching to make sure you create a statement that is a good fit from the very start. You are building a brand for the long haul, so start out thinking long term.

To help with delivering your message, determine who your customer is. Ask yourself the question: Who is my absolute best customer, and does this person have money in his or her pockets to spend on what I am planning to offer? Draw up a customer profile that defines, in list format, who you want to target, and estimate how your business will be perceived through this person's mind's eye. You cannot be all things to all people, so make a determination of who is the best customer, how you reach this person, and what message speaks to this person that he or she will listen to.

This will involve a determination of what makes your products or services desirable and meaningfully unique to the target group above the competition. In other words, why should they buy from your business? This can be accomplished by creating a unique value proposition that your customer can relate to, based on your distinctive product and service offerings.

The creation of this involves several steps as they relate to the end user. First, you want to answer the question: "How does my product or service help stop what keeps people up at night?" This means: How do I solve their problem or improve a negative situation for them? Second, ask yourself, "Can this be consistently delivered and repeated through the business model I have chosen?" Third, ask yourself, "Do I have the right plan for creating a business model that keeps customers coming back to me or feeling that what they received from me is so valuable that they want to tell their friends, family, and people they work with?

REVENUE PROJECTIONS

Projecting enough customers to buy your products or services is a critical and very important component of the overall process in determining the "go or no-go" decision for starting a new venture. Quantifying—determining the number of customers in a market—is a task that will require some research and homework. Sales forecasting is a key element in any business planning, and having an idea of potential purchases by customers is a great step in obtaining an accurate sales projection and revenue forecast. Since you do not have any historical numbers with a startup, this step will require estimating based on the best available information you can obtain. This starts with the customer profile you have already created and getting a sense of what the competition is doing.

BOTTOM UP SALES FORECASTING

A bottom up approach to sales forecasting is a good method to obtain some base level sales projections from a determined base of buyers. Determining the number of customers in the market starts with obtaining information from all available sources you have at your disposal. This should include, but not be limited to, industry trade associations, governmental census data, primary research data, and secondary research data. (There may be costs involved with securing primary and secondary research data.)

Local resources such as chambers of commerce, the Small Business Administration, Small Business Development Centers, university facilities, and local libraries can be good starting points for accumulating data and understanding the market, market potential, and historical trends.

The bottom up forecasting model involves a method of determining sales by estimating the number of potential customers in the market or geographical area, establishing a qualification process, and then figuring out a conversion number. This is preferred over a sales calculation based on market size percentage alone.

A simple model would involve something like this: I have three employees making twenty sales calls a week, resulting in sixty contacts. The industry average for conversion is fifteen percent, but with our unique value proposition and different business model (be ready to explain in detail how you differ from the standard), we estimate we can convert twenty percent of our leads into sales. This would involve closing twelve sales each week (20% of 60 = 12) or six hundred twenty four annually. Then it becomes a matter of applying the outcomes to units sold based on your product or service mix, pricing, and the balance of sale each category provides. This may be a place you want to run three scenarios—best case, worst case, and real expectation. In addition, you should know that sales forecasts tend to be overly optimistic, so err—at least with some scenarios—on the side of caution.

Revenue projections should be scaled to market size based on business reach and modified for growth projections and ramp up. This could involve several different scenarios with the scope and projected growth patterns of the business model. Geography, web-based business, brick and mortar, and a combination of Internet sales and brick and mortar would all provide variables to be included when understanding how the scope of business should be used for determining projections. Plan as carefully as you can and then do everything in your power to make the numbers a reality.

As your business concept evolves, so will your concept of the approach to the customer. Create solid ideas and plans, but try not to get too attached to them, for, as you will see in future phases, monitoring the market's actual response and making modifications is an important part of winning with customers. No matter how much work you do, the market has a way of throwing you curveballs. The more you understand your intentions and goals, the faster you will identify when the market is not behaving as you had anticipated. Part of marketing success is adapting to the market.

THE MINI-PLANS

Writing a complete business plan is intimidating, so we suggesting taking on the task in the form of a series of mini-plans. We suggest seven mini-plans for Phase 1—Customer. Each mini-plan consists of a series of questions that address a single topic. The mini-plans build on each other, the answers in one mini-plan contributing to another. As you embark on this new adventure, here they are:

1. Target Market Mini-Plan
2. Target Customers Mini-Plan
3. Products Mini-Plan
4. Competitive Positioning Mini-Plan
5. Pricing Mini-Plan
6. Primary Messages Mini-Plan
7. Revenue Projections Mini-Plan

TARGET MARKET MINI-PLAN:

- What is the industry or business sector in which you will compete?
- What are the trends for this sector? Consider national, regional, and local trends.
- What are the laws, requirements and regulations that must be followed in this sector?
- Are there seasonal purchasing patterns for this sector? If so, what are they?
- Does this sector have an impact on the market area you will be able to serve?
- What is the size of the market area you intend to serve? Describe the area in terms of miles from the business's location, drive time from the business's location, political subdivision such as cities or counties (not necessarily the best descriptor), etc.
- What are the general demographics of your market area? Some examples of demographics are:
  - › Population
  - › Age
  - › Income
  - › Education
  - › Businesses in the area
- Within your market area, what are the conditions that will impact how you do business? Such conditions include:
  - › Political
  - › Economic
  - › Societal
  - › Technological

- › Environmental (to include weather)
- › Legal

- Do the conditions vary within your market area? If so, how do the conditions vary?
- Who are the competitors in or who serve your market area?

TARGET CUSTOMERS MINI-PLAN:

- If one type of customer you want to attract walked into your business, how would you describe this customer? Some descriptors could include:
  - › Age
  - › Gender
  - › Race or ethnicity
  - › Income
  - › Education
  - › Employment
  - › Recreational activities
  - › Marital or family status

If you sell to businesses, you would have a different list. Here are some ways you might describe that target customer:

- › Industries
- › Size—range of revenue levels
- › Size—employee size
- › Geographic location
- › Titles/departments to sell to
- › Ownership structure
- › Regulatory issues/status
- › Specific business challenges/opportunities facing the customer
- › Type of buyer the customer is (i.e., economy, luxury, etc.)
- › How the business will generate a return on investment from the purchase

- Is there another type of customer you want to attract? If so, describe that customer.

- Repeat step 2 for each type of customer you are seeking. These are your customer segments. For each segment, answer the following questions:
  - › What have you done to research each segment to truly understand your customers? (Refer to the previous Experience Survey.)
  - › What is the problem each segment has that you are planning to solve?
  - › Other than having the problem solved, what are the expectations each segment has about the relationship the customer will have with your business? (Refer to the prior Customer Value discussion.)
  - › What is the relative importance of each of the customers' expectations?
  - › Who is involved in the decision-making process? How will you address their needs and expectations?
  - › Who or what will influence the each segment?

PRODUCTS MINI-PLAN:

- What problem(s) is your business solving?
- How does that problem vary among your customer segments?
- For each problem and for each segment, what are you doing to solve that problem? How does this translate into the products/services you plan to offer?
- Are you offering multiple solutions, with different value propositions, for the same problem?
- Beyond solving the problem, what are you doing, offering, or providing to meet the expectations of each of your customer segments?
- What is different from, unique to, and/or better about your solution compared to what is already available in your market area and through the Internet?
- How will you get your product into the hands of your customer? How does that meet or exceed the expectations of each customer segment?

- What are the operational requirements associated with each of your products? How will you produce/offer the products and services? What factors will be related to your production capacity as you ramp up sales?

COMPETITIVE POSITIONING MINI-PLAN:

- Who are your direct and indirect competitors?
- Do you have any "do-nothing" competitors?
- How do your competitors solve the customers' problem(s)?
- What is the range of pricing offered by competitors? How does your business fit into this mix?
- What are the strengths of your competitors? What are the weaknesses?
- What do your competitors do to meet the customers' expectations? How do you know this?
- What is your competitive advantage (also referred to as your value proposition or unique selling proposition)?
- Describe the value you provide. How is that better or unique compared to the value provided by your competitors?
- What is the value offered to those responding or accepting the "do-nothing" competitors?

PRICING MINI-PLAN:

- How much does the average customer spend on products similar to yours?
- How often does the average customer purchase products similar to yours?
- What do your competitors sell their products for?
- What is your profitability goal? Have you looked at this at the "per product" or "unit of sale" level?
- How does that compare to the average profitability in your industry?
- Given all of the above, what will you charge for your product?
- If you are offering multiple products, what will you charge for each product?

- How will you position your pricing strategy if customers ask about it?

PRIMARY MESSAGES MINI-PLAN:

- What is the over-arching theme that would apply to all your customer segments?
- What benefits and features are unique to each customer segment?
- What message will express the following ideas for each all customers:
  - "You have a problem or a need."
  - "I offer the best solution."
  - "Here is why my product or service is the best."
  - What else will you say that is important to your targeted customers?
- What message will you develop to target specific customer segments within your target market?
- What are the emotional "hot buttons" that you need to push to prompt a customer reaction?
- Does your messaging strategy address your competitive advantage?
- Where do your customers, overall and by segment, go to for information?
- What mediums will you use to distribute your message(s)? Will you address customers overall and by segment?
- Who or what influences your customers? How will you use those influencers to communicate and/or strengthen your message(s)?
- How will you test both the message and its distribution?

REVENUE PROJECTION MINI-PLAN:

- Using the information gained from the previous mini plans, multiply the average price by the average times a customer will purchase your product.
- The calculation should be done by month.
- The calculation should be done by product line.
- Repeat for the worst-case scenario.

- Based on your revenue projects calculations, how many customers will you need to serve to meet your financial requirements? Can you reasonably obtain that many customers at that pricing, given what you have learned from your research and previous mini-plans?
- Do your projections take into account seasonality factors?
- Do your projections take into account a "ramp up" factor? (Sales are typically much lower at the start and grow with time.)

To wrap up this chapter, here is a readiness checklist.

BRA – Business Readiness Assessment *(Rank on a scale of 1 to 10.)*

- The business has a narrowly defined target market.
- The business has identified 3 to 6 focused segments in the target market.
- We understand the problem our product or service solves.
- The point of pain with the customer is significant enough for the customer to want to purchase a solution.
- The hypothesis (of the defined problem or situation) has been tested and is correct.
- A market survey or other process has been used to test the potential market.
- Products or services competitive to the solution have been identified.
- The demographics of the target market (e.g., gender, age, ethnic background, education, household income, marital status, etc.) have been identified.
- The target market is large enough to sustain the business.
- Other markets/customers that would benefit from the product or service have been considered.
- Criteria have been developed to determine if the business has been successful in reaching the target market.
- Adapting the product or service has been considered to create a better solution for the customer.
- Resources that can help understand and test the target market have been located/used.
- A unique value proposition for the customer is known.

- The business opportunity has been defined, and a short statement has been created to describe it.
- Revenue projections have been compiled.
- A business plan, or series of mini-plans, have been completed to enable the business to implement and evaluate its activities.

4

PHASE 1, CONCEPT
TEAM

It is very rare for the entrepreneur to "do everything," and successful business people will typically state that the most important asset in their business is their people. So it is never too early to start thinking about what your team will look like. In Phase 1, give careful consideration to the people resources, employees, and others who will be needed to execute the company's plans, particularly to achieve the "customer" goals discussed in the last chapter.

It is very rare for the entrepreneur to "do everything," and successful business people will typically state that the most important asset in their business is their people.

The prep work you do early on sets the tone for your team and for the culture that will develop over time. This chapter will address the beginning stages of building your team and introduce concepts that will enable you to begin thinking about the foundation for your venture and the person power needed for each stage in the startup phase.

Before we get started…

- Who is the team? Those who will work directly with customers, or products/services—or people who work to support those revenue-generating activities. This would typically consist of: the Entrepreneur (you), employees, vendors, consultants, advisors, mentors, and professionals.
- Take off your gloves and be ready to get a little dirty! If it were easy, everyone would be doing it. This means taking the time to find the right people and train them the right way.
- Speak loudly and carry a big eraser! You're in the beginning stages of developing your team. Start your plan and don't be afraid to make mistakes and to change it as you learn more about yourself, your new venture, and what you will need to make a great team.
- Don't skip steps and don't rush—this will land you nowhere fast.
- Ask for what you expect, and expect what you ask for! Being specific will serve you well.
- The buck stops here! You're likely going to both make and spend money, but whether you make more than you spend depends entirely on you and the team you build.

You and your team ultimately determine the level of success that can be achieved. Some members will play a key role and participate as the business grows, and others may play a small part as the infrastructure develops. Do not underestimate the power of your team and the time you need to take in constructing its makeup. Human capital is our greatest asset, and this investment continues to pay dividends for years to come.

Every year, thousands of entrepreneurs feel they are ready to launch their idea. Those who understand they cannot do everything alone and commit to taking the time to find out exactly what they need to hire for or tap in to are far more successful than those who strive to do everything alone. An early advisor can partner with you to help determine what these needs are and how to recruit the best team members. He or she can also help you learn how to grow and do things you never thought of doing.

THE ENTREPRENEUR

The Entrepreneur is the first—and initially the most important—member of the team. The business will start and stop with you!

The good news is no one is going to make you do any of the work. The bad news is no one is going to make you do any of the work. The reality is that you have to do what it takes to make things happen and if you don't…the business will not go anywhere. Early on, the entrepreneur is truly the life force of the business.

You don't get to "dip your toe in" when you are the owner! You are either "all in" or "all out." And since every day will present challenges, surround yourself with great people who can help you accomplish more.

You don't get to "dip your toe in" when you are the owner! You are either "all in" or "all out." And since every day will present challenges, surround yourself with great people who can help you accomplish more. Learn what you don't know and hire what you can't do. In addition, know your limitations and know where your time is best spent in terms of value.

TRAITS OF THE SUCCESSFUL ENTREPRENEUR: DO I HAVE WHAT IT TAKES?

The deep end isn't for everyone, and small business isn't by any means the shallow end of the pool. Every minute of the day will require you to wear a different hat while spinning several plates at once. You may drop things and you may pick up others, but you are always moving. You don't answer to a boss; you now answer to your customers and your bottom line.

Can you handle this? Asking now is vital. The further you travel down the road to entrepreneurial development, the more you will invest—whether it is time, money, emotion, or even sanity. Either way…

it gets more expensive to ask pivotal questions as time progresses. Don't skip steps, and don't ignore the most important part of your team—you! "Can or should you be in business?" must be at the top of the list when thinking about your team and asking tough questions.

Key words you might consider at this point include:

- Teamwork
- Leadership
- Passion
- Commitment
- Sacrifice
- Persistence

An experienced business trainer shared a related exercise: "In each class, I play a game I learned years ago. I ask the group to stand and raise their hands as high as they can. Everyone always does this. I then ask the class to raise their hands a little higher. In every class, I am astonished as I watch each individual raise his or her hand even higher. In the beginning, I gave a request for each person to raise his or her hand as high as possible, yet when asked to go even higher, all of them had room to do so. If you truly raise your hand as high as you can in the beginning, leaving no room to reach higher in every facet of the planning and developing stage, this will translate into inches—ones that add up to feet, which will add up to miles in terms of your ability to be successful."

Imagine this scenario: an entrepreneur says he wants to double his revenue in the next two years. He also talks about the possibility of obtaining government contracts. Then he states he has no time. A quick assessment of his time uncovers he is spending about 20 hours a week doing bookkeeping. When asked about the possibility of hiring a bookkeeper, he responds that he refuses to hire someone to do something he knows how to do. While this may sound noble, it is actually a weakness. This is being too controlling (or cheap) to know when to hand something off. He could hire a bookkeeper at an hourly rate, and that would cost him far less than what he would make from the government contract he could obtain if he spent some time bidding. We determined one contract would generate about $200,000 in additional revenue, and the cost of the part time bookkeeper is under $20,000.

Think about it. What should you hire for? Who needs to be part of the daily team? What can be outsourced so that you can be the key player you need to be? Be thinking about this now as you develop your plan. Time is valuable and must be considered as projections are made and the team is developed.

Self-analysis is hard. So, where do you begin?

Earlier, we mentioned a SWOT analysis: Strengths, Weaknesses, (internal) Opportunities, and Threats (external) analysis. Even if you are a one-person firm, start thinking about your team and the work you need to be successful. This assessment is about the individual and the business. You first look internally and then externally.

STRENGTHS: LET'S SEE THOSE MUSCLES!

What characteristics do you possess to give you an advantage over others?

- Are you highly skilled in a trade?
- Do you have years of experience in an industry and now you want to branch out on your own?
- Are you detail oriented?
- Are you creative?
- Do you have project management skills?

Your strengths are directly related to your capabilities and the extent to which you will be successful. How do you measure your strengths? There are a number of tests on the market that can be utilized to examine one's strengths and assess your personality. Another method is to simply sit down and be honest about who you are and what you bring to the table. There are multiple methods for determining your strengths, including:

1. Ask yourself: What are my strengths?
   a. I rock at that! (Maybe you are an amazing artist.)

   b. I am good at that! (Maybe you are good at coming up with ideas and are very creative.)
   c. I am "okay" at that! (Maybe you are just "okay" at organizing small details and are actually more of a "big picture" type of person.)
   d. I am borderline competent at that! (Maybe you know enough to be dangerous when it comes to sales.)
2. Ask those who know you best (mentors, family, friends, colleagues, business partners). Do not be offended at what you learn. Use this to help you grow. Feedback is free, but it's worth so much more if used constructively.
3. Take an assessment to help you determine your strengths. There are a variety of commercially available personality assessment tools that can help you learn more about how you think, work, and communicate—all important things.
4. Rank your strengths. This will help you know which muscles are the strongest and which ones will need to be conditioned regularly.

WEAKNESSES: PUMP IT UP?

What are the characteristics that place you or the business at a disadvantage?

   a. Let's face it…I will never be good at that!
   b. I might be able to do that…but I hate it!
   c. I could learn…but not anytime soon!
   d. I don't have time for that!

Weaknesses can be easier to identify than strengths. These are the areas you may want to hire or outsource for, or put a conscious effort into developing in yourself. If you hire someone exactly like you, then you have done nothing to enhance your team. The goal of finding areas of weakness is to enable you to know what areas are needed to complete or enhance your team.

For example, an entrepreneur states she needs help with marketing, but she has no idea what her marketing expenses were last year or what a marketing budget is. She also does not feel she is a "sales" person. When asked about her team, she has plenty of operations people but not one creative person in the group. Will some marketing ideas be what she needs, or should she re-evaluate her team and consider hiring/outsourcing the marketing needs?

Opportunities: What areas could be exploited to an advantage? Topics, ideas, or environmental factors that you can push or take advantage of are opportunities. For example, if you are opening a food truck business and summertime is fast approaching with several huge events looking for food vendors, this is an opportunity.

Threats: knock em' down! What are some elements that could cause you or the business to experience trouble or even failure? These could be industry changes or changes in buyers' needs or many other potential threats. Always know your current and potential threats and have a plan to address the risk associated with each one.

ARE YOU READY?

Consider these points in our Business Readiness Assessment. Before you make a commitment to invest time, money, and manpower into a small business, you need to have an honest conversation with yourself. Do you honestly believe you have what it takes to start, run, and succeed in your own business? At a minimum, you should have the following:

Business Readiness Assessment *(Rank on a scale of 1 to 10.)*

1. Passion for owing your own business
2. Persistence to see things from start to finish
3. Patience to work through planned strategy
4. Knowledge & experience in type of business
5. Good intuition
6. Business skills
7. Market awareness
8. Independence, self-reliance, self-confidence
9. Ability to lead & make decisions

10. Creativity & innovation
11. Curiosity & ability to Learn
12. Willingness to take risks
13. Good health & energy
14. Ability to work hard and smart
15. Good access to capital
16. Sufficient time to plan, start and operate business
17. Good access to required labor resources

EMPLOYEES AT OPEN

Now that we have evaluated the entrepreneur (you), it's time to consider who needs to be added, and when, to help you open the business. How you will look for a prospective recruit may be critical to your success. Here are some elements to consider.

1. **Develop a list of core competencies needed.**
   a. What help will you need?
   b. What work will they do?
   c. What background must they have to do this work?
2. **Consider sources for recruiting.** Who's got talent? How do you find it? Work with local work force development offices and job services. Make a list of multiple places you might find the best employees.
3. **Decide what you can afford.** Can your revenue projections support the salary or fees required to pay for what you need? You may have to get creative if you are bootstrapping your business. For example, if you need a website and have no idea where to start, you might consider working with local students or interns at a much lower cost.
4. **When outsourcing, *shop around!*** Don't hire the first CPA you talk to. Find out what he or she offers and how much support he or she can provide. Does this CPA understand *Quickbooks*® and can he or she help teach you?

5. **Develop a personnel plan and job descriptions.** You can't get to a hiring level until you know exactly what you need and can communicate it to a potential candidate. Many skip this step…don't!
6. **Develop a training plan.** This is the team to lead your business! Develop a training plan that will build them up! Consistency is key.

ORGANIZATIONAL THINGS TO DO LIST

Timelines/Milestones. Complete a timeline with key tasks and milestones to mitigate risks, and provide a framework of important dates and tasks to be completed that are important to the project. Have a beginning date for the start of the project, set important milestones to accomplish throughout the project, and include a target date for conclusion. Even if it is just you, these kinds of lists help build accountability into the process and identify elements where you might need help.

Organizational Chart. Organizations typically have three key areas: marketing, operations and finance. Include names of the individuals responsible for each key area of the organization, specifying who reports to whom. Show the flow of the organization and who is responsible for what. (Include résumés of key employees.) Determine the number of employees, independent contractors, and professional assistance you will require. Examples include:

- web designers
- social media experts
- lawyers
- bookkeepers, payroll, or CPA
- insurance agents
- human resource specialists
- construction assistance
- banker

Written Job Description For Each Employee. Job descriptions are established to make it as clear as possible to the employee what is required in his or her performance. It is the document by which the employee will be evaluated as to how well he or she performed his or her job. It is also the basis for which you compensate your employees. A job description contains the position title, division, and who the person reports to. It lists what is expected of the employee in his or her duties and the type of skills he or she will need. It establishes how and when employees will be reviewed and evaluated.

Employee Wages and Benefits For Each Employee. Each employee has an economic benefit to the company as well as a cost associated to his or her employment. Calculate the entire cost of each employee by creating an employee wage and benefit sheet. Include the position title and compensation level. A payroll service provider can provide details on employee benefits such as social security, federal unemployment, state unemployment and workers' compensation. For planning purposes, you may want to include all costs for employee benefits such as health and medical insurance; dental, vision, life and disability insurance; and any pension, retirement or profit-sharing plans. Information on benefits offered should be included in the employee handbook.

Statement of Values. Every organization should have a written statement of values. These statements help determine what beliefs and actions guide the direction of how the company does business and can be used as a guide for issues confronting the organization. These statements should be internally and externally communicated. A statement of values is vital for a team to be tightly woven and intricately designed for success.

Salary Requirements. You will want to analyze your need for part-time and full-time employees who will perform recurring tasks needed to operate your business. The best place to start is by constructing an organizational chart, not by person but by task. On a blank sheet of paper, write down all of the tasks your employees should do on a daily basis in fulfilling whatever it is your business does for its customers. Now see if you can group them into a list of what one person can do in a given 8-hour day or 40-hour period. Part-time employees can be used to fill the gap. They may work as little as 10 hours a week.

In determining hours of operation, you will use your sales forecast and jobs to be done. Plotting timelines or creating schedules for the workforce to cover peak activities, breaks, lunch time and days off will enable you to determine how many people you need and what your costs will be. Depending on the nature of your business, you might experience a higher volume of traffic than normal from people checking you out in the beginning. Although you do not want to overhire and have to let people go, consider the higher than normal traffic during the grand opening and develop a strategy for this short period of time.

Connecting with workforce development agencies, One-Stop Centers, and other employment agencies allows a new business to team up with an expert and market employment opportunities, screen applicants, have a location to interview, develop lists of questions to ask, and receive training to have an understanding of what one can and cannot ask to be legally compliant with labor laws.

Careful consideration needs to take place to determine how many people you will hire, how many hours need to be covered, what payroll costs need to be considered, and what competitive salaries or hourly rates you will pay them. In addition, you will need to understand the interview and hiring process, know benefits you will offer, and develop employee handbooks of rules and regulations to follow.

CONSULTANTS/ADVISORS/VENDORS

In addition to your "inside" team, you will also want to construct a team of outsiders—contractors who work for you on an "as needed" basis—to round out your team. Some potential team members include:

- **Vendors**. Your suppliers of goods and services, vendors are members of your team that have their own businesses in one of the specialty areas you have a need for. Vendors don't work for you—they do work for you. As private contractors, they have expertise that you do not have, and you hire them for a specific task for a specific time frame.
- **SBDC Consultant.** One of the first vendors you should add to your team is a Business Consultant from your local Small Business Development Center, preferably a startup specialist.

- **Accountant & CPA.** Accountants and CPAs advise you on setting up your accounting system (informally called your "books") and payroll service and help you with your taxes. Once your accounting system is installed, you may want to hire a bookkeeper to perform daily financial input, such as money received into the business and money spent. The more specialized your accounting specialist is, the more that person is going to charge you.
- **Attorney.** Hiring an attorney for assistance with your business structure decision and government filing is a routine matter. Attorneys are also used in negotiating leases, employment and general business contracts, intellectual propriety issues, human resources conflicts, and product liability issues.
- **Banker.** Although bankers don't normally charge for their services (directly), establishing a working relationship with a local banker is critical. Bankers can help you set up checking and savings accounts, business accounts and services, loans and lines of credit, credit card merchant services, and local safe deposit boxes. They will work with you to establish the best methods to make deposits and make payroll. Their greatest compensation from you comes from the interest on any loans you might need.
- **Graphic Artist/Printer.** You want to establish your business image clearly and communicate it to your employees, vendors, competitors, and customers as soon as possible. A good graphic artist can be a valuable asset to your marketing department and product manager.
- **Web/IT Professional.** A website is a very important tool for your business, as are your marketing vehicles connected to it. Depending on your business type, different options may be designed into your site, such as video or a catalog/shopping cart.
- **Communications Company.** For both incoming and outgoing communications, consider having a good communications company. Establishing excellent two-way communications with your vendors, employees, and customers requires state-of-the-art phone, fax, and Internet services.
- **Delivery Services.** Consider how merchandise and supplies will be shipped to you or shipped from you using delivery services

such as USPS, UPS, FedEx or DHL. Companies with larger material shipping or receiving requirements consider their access to air, ship, rail, and truck deliveries, and shipment.

- **Product/Service Suppliers.** How close to your vendors are you? Shipping and receiving inventory or supplies to and from your business is a costly activity. How much does shipping and handling affect your bottom line?

At this phase in the business development, an important task of the entrepreneur is to work with his or her advisors to research the various types of business entities. While we will discuss actual entity creation in Phase 2, we suggest you begin to research the different types of entities and discuss this with your advisors.

COMMON MISTAKES IN THIS ZONE

Regardless of the type of business you are trying to start, there are many common mistakes that many first time entrepreneurs make.

- Trying to do everything yourself (Chief Everything Officer). The greatest strength an entrepreneur has is his or her willingness to do everything himself or herself. The biggest weakness an entrepreneur has is that he or she tries to do everything himself or herself. It is a good idea to do the things in business you know how to do or like to do. It's important to have people on your team to do the things you don't know how to do or don't like to do.
- Not Getting into the Details. It's the mastery of details that will help you excel in your own business. Start off your assessment with a general outline and a large-scale overview. Learn to incorporate the details into your plan as they become available to you.
- Being overly optimistic concerning own abilities. Optimism is a necessary trait as an entrepreneur, but wise business decisions are based on good information. Being overly optimistic can lead you to making irrational decisions.

- Not getting advice from an attorney and/or accountant. Good attorneys and good accountants can save you a lot of time and money by doing the things in their areas of expertise. Business owners use attorneys and accountants for advice and legal tasks. An attorney can be a valuable asset in choosing the proper business entity and in legal contracts, leases, and employment matters. You should obtain the assistance of an accountant for the financial and tax ramifications of your business entity and the development of your accounting system and point of sale. Both professionals are necessary in dealing with government compliance issues.
- Paying too much for website developer. Prices for websites vary from very cheap to too expensive. There is no such thing as a standard price for a standard website. You will need to get a number of competitive quotes to ensure you are getting the correct website for your type of business. Interview a number of web developers, review their portfolios, and get referrals from your fellow business colleagues.
- Paying too little for graphics and good stationary. You only have one opportunity to make a first impression. Successful branding starts with professional logos and graphics.
- Not figuring in total employee costs (wages, taxes, social security, and all withholding). By far, one of your largest expenses will be payroll. Once you decide how many employees you will need in your business, the next logical step would be to have your accountant set up payroll for you to ensure you are calculating your entire employee costs and are being compliant with all city, county, state, and federal employee labor requirements.
- Not putting owner on payroll from day 1. (Your first employee is YOU.) In order to keep their costs down, many entrepreneurs do not put themselves on their own payroll at the start of the business. Not only does this deprive the owner of a salary, but it gives you an unrealistic cost of doing business. Your time is a most valued asset in business. You should never work for free, from the beginning of your business to its end. Businesses are run by employees, whether the owner or a hired employee. Having

someone in that position drawing a paycheck gives the business a realistic idea of how much in sales is required to make the company profitable. To make your pre-startup plan more accurate, it is best to calculate all of the costs of doing business, including the owner's compensation. This may force you to increase your sales forecast in order to meet or exceed your break-even point. (Note: this is not a license to go hog wild on personal expenses, which is another common mistake business owners make. Don't rob from the business to pay for personal extravagances or "status symbols" at the cost of the company's health. Think cautiously and with healthy balance!)

- Not hiring a payroll service. Employee payroll is a very important part of your business. There are many types of companies and financial professionals that perform payroll services at very competitive rates. In order to stay compliant with the ever-changing city, county, state, and federal employee withholding and tax laws, we feel hiring a payroll service is the most cost efficient thing to do. Doing your own payroll and doing it wrong is the quickest way to be subject to various government fines and penalties.
- Not having a written job description for each employee. Employees are hired to facilitate the workflow in a business. Each employee has a specific job description he or she is responsible for. Properly constructed job descriptions give employees a legal understanding of what is required of them in the nature of their duties and responsibilities. Employees' compensation and promotion are often based on their job description.

MINI-PLANS

1. THE ENTREPRENEUR

Premise: It might sound odd, but you need a plan for your level of interaction and involvement with the business. As stated above, the entrepreneur is a key team member in the business. However, it is important to distinguish the business and the person as two separate things. This mini-plan can help define the relationship between the entrepreneur and the business right from the start.

Key questions/points:

- What are your most important goals around starting this business?
- What are your greatest personal strengths you are bringing to the business?
- What are the greatest weaknesses/limitations you have that will impact the business?
- What are the most important ways you will need to develop/learn to succeed in leading the business?
- What personal sacrifices are you willing to make to make the business a success?
- What boundaries do you need to put around your personal life that the business should not encroach into?
- What are your greatest fears about starting the business?
- What are you most excited about?
- What other conflicts in your life will have an impact on your ability to be successful in the business?

2. EMPLOYEES AT OPEN

Premise: The employees you have at open can be a significant contributor, or obstacle, to your success. Thus, an important part of planning your business is understanding what the team will look like at open. Not only is this an important consideration of the "Team" concepts, but it also has a big impact on the "Customer" and "Money" aspects of the business.

Key questions/concepts:

- What employees will need to be in place to at open?
- What will these different employees do?
- What is the cost of these employees?

- How many employees will you need? How many hours will need to be covered?
- How far in advance of the open will you need to hire them?
- How will you find these employees?
- What background/experience/skills will they need to have at hiring?
- What training will be necessary?

3. STARTUP CONSULTANTS/ADVISORS/VENDORS

Premise: You and your employees are important parts of the team, but so are outside individuals and companies. The relationships you form with consultants, advisors, and vendors can be a huge part of your success.

Key questions/concepts

- Which advisors/consultants will be necessary to assist you with creating the business entity, i.e., LLC or Sub S.
- In what areas of the business do you expect you will need assistance, such as:
  - › Bookkeeping/Accounting—setting up the books right from the start
  - › Marketing—logos, business cards, signage, website, etc.
  - › Human Resources—help with job descriptions and employee manuals
  - › Information Technology—help setting up and installing your computer system
- Where will you find these resources?
- How much will they cost?
- What inventories will you need at launch? Do you have the vendors identified to assist with this?
- What ways can vendors be an important knowledge resource for you in this "Concept" stage of your business?

Remember, you are building a team and like in any building, a strong foundation is key. Make sure to pay attention to the details and ask questions, and if you need some extra nails here and there…don't be afraid. No matter what your background or experience, starting a business can be intimidating and time consuming, and if you skip steps, it will only cost you in long run. Do not be bashful about asking questions and seeking counsel and advice from those experienced in this process.

5

PHASE 1, CONCEPT
MONEY

Theoretically, money should be one of the easiest topics to talk about in this whole startup phase. There's nothing new about it. Everyone is familiar with money; we all use it in some form or another just about every day. And I suspect you already know you will need money to start and operate a business. So, bingo! Job done, right? What more is there to say?

Quite a lot, as it turns out! Many important money concepts need to be understood and noted from the first day of planning your business. Why? Because every decision you make regarding your business from here on will have a financial consequence. Even buying a nice new notebook and pen with which to write your business plan and keep your notes costs something. And the money has to come from somewhere.

But "it costs less than $10," right? Wrong. You will have to lose the mindset that you don't need to worry about the little things. In business, as in life, $10 transactions add up quickly to big numbers. The difference now is there will not be another paycheck coming in to replace the thoughtless, "mere" $10 transactions. In business, you will have to earn that $10 yourself. And it will only be available to you after you have met all of the other (many) obligations you incur in operating your business. There is a saying in business, "Take care of the pennies, and the dollars will take care of themselves!"

The hard reality is if you do not have money, you will fail. Please note, we did not say "maybe" you will fail, or "perhaps" you will fail. It is definitive—YOU WILL FAIL.

Over the years, we have seen many profitable businesses close for no reason other than they ran out of cash. It really does happen. We will look at how in some detail later in the chapter. For now, write one big note to yourself in that new notebook you just bought: CASH IS KING!

Just one last thing before we delve deeper into this topic. Once you are in business, it is essential for you to separate business and personal cash transactions. We suggest you start this discipline immediately and separate all personal expenses from the business. It may be nothing more than simply keeping a record of what you spend on the business along with backup documentation. Some of those expenses may turn out to be tax deductible, but only if they are provable.

In this chapter we will examine:

- Determining how much money you will need to open the doors (or prepare to generate your first sales)
- Knowing how much money you will need to operate the business each month
- Creating a preliminary sales forecast—revenues from customers are like oxygen!
- Developing a detailed financial plan for the first year of operation, including capital requirements
- Reviewing other things you will need to have in place before you open
- Understanding how these all combine to help you better grasp how money works in the business

FINANCIAL PLANNING—ASSESSING YOUR PERSONAL BUDGET

Before you develop a financial plan for your business, you really should have a financial plan for yourself. If you're one of those amazing people who already has a plan and a budget for your personal finances, we applaud you and send you immediately to the next section of this chapter. Those of you whose personal financial planning runs something like, "I think I spend about 10 cents less than I earn each year," and "Yes, those shoes are really cute and I need them for…" should read on.

Let's start by developing a personal budget. This means taking a detailed look at where your money comes from and how you use it. There are a few basic answers you are looking for here:

- How much money do you need to cover your fixed expenses?
- How much do you need to cover life's necessities?
- What expenses will you add or eliminate with the lifestyle change to entrepreneur?
- How much "discretionary" spending is lurking in your spending?

BUDGET VOCABULARY

Fixed Expenses are the expenses that are a fixed amount each and every month and cannot be avoided without dire consequences. Fixed expenses include mortgage/rent, car payment, insurance, child care, school loans, etc.

Necessary Expenses are the expenses you incur each month, but they are not quite as "fixed" as the others, and they may vary considerably from month to month. Utilities, phone, gas, food, clothing, entertainment, cable, and Internet service are examples of necessary expenses.

New Expenses are the expenses currently picked up by your current employer that will soon become your responsibility, such health insurance, retirement, and workers' compensation.

Discretionary Spending is the money you spend because you want to, not because you have to. Things like paid music downloads, fancy coffees, or new fashionable clothes constitute discretionary spending.

You can probably calculate your fixed, necessary, and new expenses with reasonable ease by examining your checkbook ledger and your paycheck stub. Discretionary expenses are a bit tougher, as they are more frequent, generally smaller in nature, and often paid by cash. If you are having trouble getting a handle on your discretionary spending, it may help to keep track of your spending over a period of a few months to get a handle on where your money actually goes.

At the end of this exercise, you should have a clear picture of:

- How much money is coming into your household and where it is coming from
- How much money you spend and what you spend it on
- How much money you need to maintain your base, necessary expenses
- What new expenses you are going to incur
- What expenses you could eliminate—a prioritized list in case you have to eliminate some
- A personal budget for your household that will indicate a salary amount you will need to include in your business cost calculations

DEVELOPING THE BUSINESS BUDGET

Knowing how money works in a business will help to simplify the development of financial plans for the business. And it really can be quite simple.

Think of it like this: your business is like a car with a gas tank. The fuel is like the reserve of money available to go out, which is used to purchase things to ensure that customer revenues can be generated, which is similar to refilling the tank. The trick is to keep more gas coming in (customer revenues) to the business than goes out (expenditures). You don't want to run out of gas!

On a very basic level:

- Money comes into the business via sales, loans or equity cash infusion.
- Money goes out of the business via expenses, cost of goods sold, and purchase of assets.
- Money going out is used to buy things that enable money to come back into the business.

In another analogy, money is to your business what blood is to your body. It has to be there, and it has to keep circulating. The money going out has to work to generate additional money coming in—over and over and over again. If the cycle stops, or if sales slow down so that money doesn't come in as fast, then there is nothing available to pay expenses. If expenses run amok and money siphons out faster than sales bring it back in, there is no money to cover your costs. Either way, you would be in trouble.

As a business owner if you can control price, sales volume and expenses, then you can manage the business cash flow and profitability.

If you can manage borrowing and asset purchases, you can manage the business operations.

So that's not too terrible, is it? Let's get started and work out how much you are going to need to start your business.

CALCULATING THE STARTUP COSTS

Startup costs are what it takes to actually start the business. How much money you will need to start your business will vary enormously depending on what type of business you are planning to start. The primary startup costs for a home-based business will be licensing and registration fees and marketing. For businesses leasing commercial space, the largest startup costs will be deposits for the lease and utilities, build-out costs, and furnishing and equipment. Inventory is typically a major startup expense for a retail business.

COMMON MISTAKES IN ESTIMATING STARTUP COSTS

In the more than 20 years we have worked with small businesses, the most common problems we have come across in working with pre-start businesses developing startup costs and doing the financial projections are underestimation of cash needs and lack of valid assumptions.

In the more than 20 years we have worked with small businesses, the most common problems we have come across in working with pre-start businesses developing startup costs and doing the financial projections are underestimation of cash needs and lack of valid assumptions.

- **Underestimation.** While it is relatively simple to identify and account for the costs of major items such as equipment, computers, software, tools, fixtures and fittings, it is the little things which get lost in the calculation. The cost of wiring the computer, installing the fixtures, runs to the hardware store for nails, paint, glue, etc., are the things that will nickel and dime you to death. We are not suggesting you can account for every little item. What you must do, however, is recognize that these expenses will occur and include a "miscellaneous" expense item in your calculations.
- **Assumptions.** Regardless of prior experience, as you go into this, you are a startup business and projections are estimates. This is true even if you have 20 years of experience at a managerial level in a similar industry or if you are a great doctor looking to open your own practice. (And when we say estimates, know that that is a polite way of saying "guesses"!) To an interested party, such as lenders or investors, knowing how you came to the numbers in the projections is as important as the numbers themselves. Are they based on previous experience? Discussions with vendors? Information from trade associations? Without an explanation of your assumptions, they look like pure guesswork, and guesses are meaningless.

STARTUP COST WORKSHEET

Get a clean page in that nice new notebook you bought, or open a new document on that shiny laptop, and divide it into 4 columns to create a Startup Cost Worksheet.

Item	Expected Cost Per Item	Total Expected Cost	Source of Information
Laptop x 2	$1,200	$2,400	A2Z Computers
Software – Office 2013			
Network set up	$1,000 - $1,500		TJ Boys
Internet connection installation monthly cost	 $300 $100	$300	XZY Internet provider

STEP 1—Perhaps the easiest place to start is with the assets you will need to operate the business. Starting in column 1 list the assets, things like machinery, equipment and tools that you will need to purchase for the business so that you can open.
STEP 2—Add on to the list any related items that are necessary to make sure the assets will be operational, such as wiring and the cost of a technician to install things.
STEP 3—Add to the list the items you will need to make the business operational at its location, including phone lines, painting, remodeling, and rent deposits.
STEP 4—Add all the expenses you will have to pay before you start, such as business license, organizational costs, legal fees, and accounting set-up fees.

DO NOT FORGET

- If you are planning to start a business which will carry inventory—for instance a retail store, a manufacturer or product assembly line, restaurant or bar—you have to include a starting inventory investment in your startup cost.
- You may have to hire and train staff prior to start up. These expenses should be part of this calculation, as should any pre-opening advertising and promotional expenses, setting up your website, and any "grand opening" expenses.

STEP 5—Add in all the costs and calculate the grand total.

Remember what we said about underestimating. Pre-start expenses are one area where underestimating is common.

We have seen people panic as they see the list growing longer and longer. The natural reaction is to freak out! In response, they avoid adding certain items on the basis of "I can make do; I have some of those in the garage." They usually regret it when it comes to move to the actual start up. This is no time for the faint of heart. Be bold. And most importantly, be very honest with yourself.

It is much better to face this now than when you are beyond the point of no return.

Adding the details of where your estimate came from helps to track important information. You may be doing this over a long period of time, so having the information in one place will really pay off. And this is not written in stone. Expect this list to change as your plans develop. (Maybe that document on the laptop is a much better idea than a page in a notebook.)

FINDING PRICES

There are many options for searching prices, from retail stores to specialized outlets. Try to be thorough in your search and check through as wide a range of options as possible—everything from trade associations, trade magazines, EBay and Craigslist.

Often companies that specialize in certain types of equipment will offer free consultation and planning for your new business. We have found this most frequently in businesses like salon and spas, car washes, and laundromats. While they are valuable resources, remember their real interest is selling equipment, not helping you start your business.

If all else fails, a great suggestion is to talk to owners of a similar business and find out where they got their equipment.

A CAUTIONARY TALE

When you are starting your business, it is natural to want to have brand new furnishings and equipment. For some things, it only makes sense to buy new; it would not likely be a good idea to buy a secondhand computer, for instance. But for many things, it is smart to search for secondhand equipment. Restaurant equipment especially comes to mind here. There is a good reason banks are not racing to loan money for your great restaurant idea: a vast number of restaurants fail. Evidence can be found in the cost of gently used restaurant equipment available for 10 cents on the dollar in trade magazines. Despite your desire for new things, temper this against the potential for huge savings of purchasing used equipment. Consider it recycling and your contribution to saving the planet!

Remember, at this point, you are only trying to work out how much it will cost to open the doors. You are NOT trying to work out where the money will come from. Once you let your mind start to ponder this, your thinking will start to be influenced by considerations of "What can I afford?"

REVIEW

- Check your list for completeness. A thorough list of all startup costs is a critical tool in determining just how much money you will need to open the doors.
- Evaluate your list and the costs. Decide if you really need all those things on day one or if some purchases can be delayed until the

business grows. Did you get the best costs when you did your initial list? Are there better purchasing options out there? Secondhand perhaps? Are any of the expenses negotiable, and if so do you have comparisons to help your negotiations? There are many options available if you are open and willing to do the legwork to unearth them.

Once this is completed, you will have a solid number of how much you are going to need to start your business.

Or do you?

You will still need money to operate the business—the working capital—the cash available to support the day-to-day operations of the business.

It is unlikely you will be receiving cash into the business from day one. Remember the gas tank that carries a reservoir to provide fuel until new fuel (customer revenues) comes in. Working capital is your business reservoir. It is there to provide money to cover expenses until the business generates enough money to fill up the reserves again.

Every business is different, so we caution you to be somewhat skeptical of all those "rule of thumb" approaches suggesting that you need 3 or 6 or 2 ½ months of operating expenses in working capital.

But how can we get to a reasonable number for working capital? We can make a start by calculating the potential operating expenses.

CALCULATING THE OPERATING COSTS

What are operating costs? They are the selling and general administrative expenses you will incur running the business on a day-to-day basis. Some are direct costs of operating, such as rents, phone and utilities, while other are not directly associated with the business operation, such as the interest on a loan.

Operating costs include both fixed and variable costs. No matter the name given to them, they all have to be accounted for and paid. But at this point in our planning, we need to estimate what they are going to be so that we can include them in our financial projections and to help determine how much working capital we will need to open the business.

THE VOCABULARY OF FINANCIAL STATEMENTS

Before estimating the ongoing business expense, it is useful to define the terms used to in creating balance sheets and income statements. You should become familiar with these terms so that you can understand your business's financial statements.

Assets are property owned by a person or a company that have value. Business assets typically include equipment, furnishings, and inventory.

Expenses are costs incurred in an organization's efforts to generate revenue. Typical business expenses include rent, payroll, utilities, advertising, and cost of goods sold.

Working Capital is the money available to a business to support day-to-day operation of the business.

Cost of Goods Sold accounts for the direct costs attributable to the production of goods and services sold by the company. Often this is the price a company paid its supplier for its inventory.

Operating Costs are the selling and general and administrative expenses incurred in running a business. Most expenses other than costs of goods sold and loan repayment are operating costs.

Fixed Costs are those costs incurred in the business whether or not you make a single sale; these costs do not change with increases or decreases in the amount of goods, or services produced or delivered. Costs such as rent, insurance and webhosting can be considered fixed costs.

Variable Costs are those costs that vary with the level of business you do; they rise as you do more business and fall as you do less. Variable costs include inventory, direct labor, and packaging.

Profit and Loss Statement—also called an Income Statement—is a financial statement which summarizes the revenues, costs, and expenses incurred by a business during a specific period of time.

So back to the $10 notebook and another set of columns. Three will be enough this time.

OPERATING COST WORKSHEET

Expense	Amount	Assumptions
Rent	$1,250 (month)	Based on $X/sq. ft. (average for Mytown), Y sq. ft. office.
Phone (office)	$150 (month)	Quote from ABC phone company
Phone (mobile)	$103 (month)	Quote from HBH phone company

STEP 1—Brainstorm all the possible costs, monthly and less frequent, and make sure you know when they have to be paid.
STEP 2—Assume nothing. Try to get reasonable estimates of the costs from the source.
STEP 3—Record all the assumptions that you make.
STEP 4—Calculate the monthly grant total.

DO NOT FORGET

- Make sure to include the cost of replacing any inventory or raw materials applicable to your ongoing business. This may not be very accurate at this point, but use your best judgment. We will be getting a clearer picture of that later.

- Costs occurring just once a year should appear in this worksheet as 1/12th of the total annual cost, unless you are certain of the exact timing of the expense. In this case, add it in the month you expect it will occur.
- Be sure to include a salary for yourself from your personal budget worksheet. This salary should be based on the amount of money you determined earlier that you will need to cover your personal expenses. While we do suggest you include a basic salary, we also encourage you not to overburden your business with big salary increases; you haven't "made it" yet, and being cautious is still warranted.

At this point you are brainstorming all the potential expenses you will incur every month to run the business and getting estimates of how much you will be spending on each. You should record the assumptions you made to arrive at that amount.

Assumptions are very important in this process because at some point you will have to explain why you decided, for instance, that utilities would cost about $100 a month. Is it because you took your house electric bill, divided it by 4 (because your planned office is a quarter the size of your house), and averaged it out to an even amount each month? Or did you come to the total because you talked to someone else renting a similar space in the location you want for your business?

We will leave you to guess which one would provide the most viable data.

Again, underestimation and panic about the mounting expenses often undermines good planning. Your purpose is to make sure this business will be viable based on reality. You should not to try to pull together a plan to look good on paper and hope the "other" reality never happens. Reality has an ugly way of appearing when you least expect it, so better to overestimate on expenses than underestimate at this stage.

How do you estimate expenses? Research, research and research. Ask people and talk to companies to get accurate costs. Often you will find the major phone providers will charge more for business phone lines than personal ones. Ask, don't assume.

REVIEW

Review the list of expenses to make sure none have been missed. Review the costs and assumptions and make sure you are comfortable with their relative accuracy. Are you comfortable this represents what it will really cost to run the business each month?

Armed with this knowledge, we can now go ahead and estimate your startup working capital needs in terms of those rule-of-thumb guidelines about how many months of operating costs we want to have available as we start the business.

We can refine the working capital amount as we move forward and refine our financial projections. But for now, combining the Grand Total from your Startup Cost Worksheet and the Grand Total x 3/6/? from your Operating Costs Worksheet will give you your Total Startup Cost.

THE SALES PROJECTION

You have come a long way in developing your financial plan. By now, you should have a good idea of how much money you will need to "open the doors" and how much you will need on a month-by-month basis to keep them open.

Time to add the exciting piece: how much money will be coming into the business from customers? This is necessary to keep the business's money "tank" full enough to pay all those expenses when they are due.

Remember, in the beginning we said calculating sales revenue was simple. It is simply the number of units sold multiplied by price the customer pays.

The first real step in this process has little to do with numbers. It is about the sales units and deciding exactly what you are going to be offering to your customers. Yes, we know this sounds just a little counterintuitive. You are planning a business to sell something or make something or offer some sort of service, or a combination of the above. Of course, you must know what you are going to sell. But we encourage you to get very specific here.

- What menu and drinks options are you going to offer in your restaurant?
- What range(s) of products will you manufacture?
- Will your consultancy offer training and published materials as well as consulting services?
- Will your clothing store cover men's and women's clothes? What sizes, what color ranges, and what brands will be sold? How many will you stock?

These are critical questions for your financial planning. These decisions are going to impact starting inventory and replenishment rates in some cases. In service industries, the projects you undertake will be limited by the hours available to perform them.

A CAUTIONARY TALE—INVENTORY DECISIONS

A client starting a health food store wanted to focus on vitamins and supplements. A section of the store was to be a juice bar, with seating and an opportunity to research new products on sale in the store. The owner was sure the concept was bound to succeed. Large retail spaces require large inventories to look healthy, so starting inventory costs were high; the inventory was based on the assumption that potential customers would want products similar to those the owner preferred and there would not be much demand for bodybuilding products. Fully 40% of startup funds went to funding the inventory and fitting the juice bar.

The reality: the locale included two gyms focused on bodybuilding. It was a bedroom community with dual-income households, and many residents worked downtown rather than locally. This left few people to mull over vitamin options over a glass of juice.

Sales stalled rapidly as new customers were unable to get the products they actually wanted. Most came knowing exactly what they wished for and had no desire to research new options. With no opportunity to return unsold inventory, and much of it date stamped, the store very quickly floundered. Money was not coming in as fast as the projections assumed, and fixed expenses being, well, FIXED, they had to be paid.

There was no money to replenish the inventory, and certainly none to replace it with the type of products being asked for. People stopped coming to ask. The juice bar closed. Product reference guides sat unopened on empty chairs, surrounded by sparsely filled shelves. You did not need to enter the store to know the business was dying quickly. Now people were just waiting to grab the "going out of business" bargains.

They did not have to wait long.

Price is the second step in getting a handle on the revenues you hope to generate. Pricing is often one of the hardest things for a new business owner to master. Here are some thoughts:

- Consider your business model carefully. Are you going to be the "low cost/high volume" provider, the "high priced/low volume" provider, the "one at a time" custom-made business, or the "in line with the market" price provider that competes on other aspects of the market or product?
- Know what the "going rate/price range" is for:
  - › The market you plan to service
  - › The industry you are planning to enter
  - › The industry in the location you are planning to open your business
- Know your base product costs, who your suppliers are, and what their terms of business are.
- Know how to calculate your mark up.

There are so many cautionary tales here that we could write another book! Most center on owners who believe going in with a price to "undercut the competition" will bring them sales at the expense of those other companies. We hear this often and usually not in appropriate places. Unless you truly believe you can solidly be the low-cost provider (now and in the future), and you can generate the sales volume necessary to make this pricing policy work, think carefully about this idea; it is not always the best strategy for a smaller or medium-sized business. In many instances "cheap" does not equal a better bargain than the competitor in the mind of the customer. It may equal lower quality. Also, customers who buy on price tend to be the least loyal.

One final word before we start on the worksheet. Consider the possible limitations on your ability to make sales.

- Restaurant sales will be limited by the facility's capacity and the number of covers possible. Other businesses will have similar capacity constraints.
- Seasonal businesses should not calculate equal sales each and every month.
- A service provider's ability to provide service is limited by the hours available; and those who are solo operators will have other tasks related to operating the business that will further limit potential billable hours.

One final thought before you start this worksheet. You MUST allow for a buildup of sales at the start of the business. It takes time for people to get to know the business exists and time for your marketing to gain traction in the market. (Often longer than you think!) It also gives a potential lender/investor confidence in your ability to present a realistic picture of what starting the business is really like.

THE SALES PROJECTION WORKSHEET

Now we are going to take a broader view and plan for your first year. Planning over a year allows you to account for seasonal variations and the ramp up in sales. Eventually we will be adding this information to the profit and loss spreadsheet. But for now, let's just plan our sales.

Remember, this is an estimate, but an estimate that you will have to justify, so always keep a record of the assumptions you make.

STEP 1—Break down your proposed product line into useful groupings (or revenue streams) for planning purposes, unless you only plan to offer one product or service. A restaurant, for instance, may have Food as Product 1 and Liquor as Product 2. A company doing

THE SALES PROJECTION WORKSHEET

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Product 1													
Units													
Price													
Total													
Product 2													
Units													
Price													
Total													
Service 1													
Units													
Price													
Total													
GRAND TOTAL													

individual installations and service contracts will have two obvious categories there. Whatever you decide, it needs to make sense and help your overall planning, without being too cumbersome.

STEP 2—Estimate the number of units you will be able to sell/make/deliver each month and enter it into the table. Record the assumptions you made to come up with this number.

STEP 3—Estimate a price or calculate an estimated average price for each product or service and enter it into the price row. Record the assumption that you used to come up with this number.

STEP 4—Do the math (or enter the formula into an electronic version of this table). Units x Price = Total

STEP 5—Calculate the annual totals across each category.

Congratulations, you now have started the process of creating a reasonable estimate of the sales you will be able to make each year. This will become an important process in the future of managing your business as well, and for most, people get better at it with experience!

THE COST OF GOODS SOLD PROJECTION WORKSHEET

So, we have done the fun stuff and worked out how much we are going to sell. You can start to see all those dollar bills flowing into the bank account, filling your business with cash just waiting for you to spend it. And spend it you will. Time to finish working out how you are going to spend it. And again we suggest you should look at the whole first year projected month by month.

For those planning a product-based business, you will now need to work out how much you are going to have to pay for the products you are going to sell. Your accountant will call this the Cost of Goods Sold. Services businesses, unless they recognize certain labor as cost of goods sold, will likely skip this calculation, but as your business "scales up," you will want to apply similar logic.

When you estimated your monthly operating costs worksheet, you should have done some research to find suppliers, their costs, and terms of sale. We are going to use that information to complete this

THE COST OF GOODS SOLD PROJECTION WORKSHEET

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Product 1													
Units													
Cost													
Total													
Product 2													
Units													
Cost													
Total													
GRAND TOTAL													

worksheet. This worksheet mirrors the sales projections worksheet, so it is really straightforward.

Your products and the number of units will be the same as in the previous table; the only thing that will change is that we will now be looking at the cost, not the price.

You may have to be a little creative in determining the cost. You may perhaps be using an industry standard. If in your research you found that the cost of goods sold for the product area in your industry is 37% of sales, then that would be a good calculation to use for this table and you could change the "Units" row in the table to Sales and use the number from the total column in the previous table. You may be lucky and have a unique supplier and a concrete price, in which case this is what you would use in your calculations in this table.

Once again, remember to record the assumptions you are using to make the calculations.

STEP 1—Insert Units x month from the previous worksheet, or the total cost x month if you are going to calculate based on a percentage of sales.
STEP 2—Insert Costs x month.
STEP 3—Do the math: Units x Cost = Total Cost of Goods Sold or Sales x %age = Total Cost of Goods Sold
STEP 4—Calculate the monthly and annual totals.

With this, you will now have an estimate of how much it is going to cost to produce/purchase the goods you are going to be selling. You are almost there. So let's start pulling all this information together and get ready to decide whether we are going to open this business.

PULLING IT ALL TOGETHER—THE PROFIT AND LOSS STATEMENT

All that has to be added in now are the other expenses. We already have those on a monthly basis, so now we can extend them out over the year and calculate our profits for each month and each year. Here's yet another worksheet, but this is a little more fun. Now we will

THE PROFIT AND LOSS STATEMENT

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Sales													
COGS													
Gross Profit													
Expenses													
Payroll													
Payroll Expenses													
Rent													
Marketing													
Phones													
Internet													
Utilities													
Insurance													
Office													
Other													
Total Expenses													
Net Profit													

really get an idea of how much money our business is going to create (or require). So here we go again. As you can see, the chart is a little different here. But you have all the information, so the steps are easy this time.

STEP 1—Insert the monthly sales from the Sales Projection Worksheet.
STEP 2—Insert the monthly Cost of Goods Sold (if your business has them) from the Cost of Goods Sold Projection worksheet.
STEP 3—Sales – COGS= Gross Profit; do the calculation and put it in the Gross Profit Line.
STEP 4—Insert the monthly expenses from your Monthly Expenses Worksheet. Don't forget that some may need to be changed to account for seasonal variations. For instance, your initial calculation of utilities may have been an average monthly rate for the year. At this point, you really need to make those adjustments to cover increases in air conditioning costs or heating costs that will occur throughout the year. And those annual expenses can go in as the full amount in the month they come due rather than be divided by 12 and put in as 12 equal amounts throughout the year.
STEP 5—Total the expenses per month and enter the amount.
STEP 6—Gross Profit - Total expenses = Net Profit; do the calculation and put it in the Net Profit line.
STEP 7—Calculate the annual totals across the categories.

Congratulations! You now have a clearer picture of the profit your business should generate each month. If you are not seeing profit every month, and this is normal for those businesses that have strong seasonal cycles, then at least the total column on the far right should indicate that at the end of the year you will have had enough sales to cover all of the costs and expenses you are going to incur and you have a profit on the year.

You have, in fact, just created a monthly and an annual projected Profit And Loss Statement. And it wasn't too painful, was it?

Let's summarize…

You now have a lot of information to help you with making your startup decision.

- You know how much money you will need to start the business and what you will be spending it on.
- You know how much it will cost you to operate the business each month and what those expenses are; therefore, you have a good idea of how much working capital you will need to start the business.
- You know how much and what you are planning to sell each month.
- You know how much it will cost you to produce/purchase the products you will be selling each month (for those who are selling products).
- You have created a monthly and an annual Profit and Loss Statement, which along with all the assumptions you have to include, will give you a good basis for making a go or no-go decision.

But before we get to the final "go/no-go" decision, there are a couple more things to consider.

CASH CONVERSION CYCLE

Recall, we said at the beginning of this chapter that "Cash is King." And that businesses, even profitable ones, can and do run out of cash and fail. Profits are not cash!

However we choose to say it, you must really appreciate it. One critical thing to understand around this business concept is the cash conversion cycle. For instance, a business owner purchases inventory for his business on March 1st. It is a landscape business, so he is getting ready for the start of his season on April 1st. He has negotiated reasonable terms from his suppliers but still has to pay for the inventory on March 10th.

He makes his first sale on March 30th. It is a commercial contract and he has to give 30-day terms to his customer. He is one of the lucky landscapers, and his customer pays in full on the agreed date, April 30th. 60 days have passed since he made his initial inventory order and 45 days since he paid for it.

For 45 days, the business had to operate with money previously in the business, with no revenues coming back in to cover the cost of the purchase he made. From this, he knows that he needs at least 45 days in working capital/operating costs to cover his cash cycle. The time lags must be accounted for.

Seasonality also eats up cash. Think of the stores stocking up inventory in October, ready for the holiday season. Inventory is paid for long before Black Friday. The store must have money to buy inventory long before it sells anything. Every day an item sits on the shelf, it costs you money. Your plan must include measures for managing inventory and eliminating what does not sell.

And it is not just inventory that eats up cash in this way. If you have to give your customers credit to make sales, you will have accounts receivable. Accounts receivable can also hurt your cash balances. It represents the money you are waiting to collect from the customers whose jobs you have already completed. If you are planning this type of business, develop ways to make it easy for customers to pay you and systems to ensure they pay on time.

Accounts payable can also contribute to a cash shortage. If you are paying your bills (Accounts Payable) faster than customers are paying you (Accounts Receivable), then cash will get tight. Make sure you know your suppliers and their terms. See what terms you can negotiate with them. And if you can't get credit immediately as a new business, know what it will take and how long it will take to get good terms from them.

So how do you plan for this? One of the easier ways is to turn the Profit and Loss Worksheet into a Cash Flow Projection Worksheet.

THE CASH FLOW PROJECTION WORKSHEET

We are going to reconsider the profit and loss worksheet that we completed and see how it looks when we incorporate some of the cash cycle concepts. We are going to call this a cash flow projection. Once again we are going to look at in on an annual basis. So let's take that Profit and Loss worksheet and transfer it to the cash flow work sheet.

THE CASH FLOW PROJECTION WORKSHEET

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Starting Cash													
Cash Sales													
AR Collections													
Total Cash Available													
Inventory Purchase													
Payroll													
Payroll Expenses													
Rent													
Marketing													
Phones													
Internet													
Utilities													
Insurance													
Office													
Other													
Total Payments													
Cash Left Over													

STEP 1—Enter starting cash. This is the amount you have allotted for Working Capital on your Startup Worksheet.
STEP 2—From your Sales Projection worksheet, estimate the value of cash sales (paid for as soon as they are sold) and enter that amount into the cash sales column; then estimate the value of the sales that will be made on a credit basis and estimate how many days it will take for you to get paid. Enter that amount into the Accounts Receivable Collections row for the month the money will actually arrive in the business.
STEP 3—Starting Cash + Cash Sales + AR Collections = Total Cash Available
STEP 4—From your Cost of Goods Worksheet, enter your inventory purchases into the inventory purchase row IN THE MONTH YOU EXPECT TO PAY FOR THEM.
STEP 5—From your Expenses Worksheet, add your monthly expenses in the month they will actually occur. It is important that annual expenses are added as one expense in the month you expect to purchase them.
STEP 6—Add up the total expenses for the month and enter the total into the Total Payments row.
STEP 7—Total Cash Available – Total Payments = Cash Left Over
STEP 8—Enter the amount from Cash Left Over at the end on one month into the Starting Cash for the following month.
STEP 9—Begin again for the next month.
When you have completed this, you will have a very clear picture of how cash is going to operate in your business.

REVIEW

You may want to go back one more time and test the assumptions you have used to build all these worksheets. An additional way to test them is to use the cash flow projection and try some "What if…?" questions.

- What if clients took 45 days on average to pay instead of 30?
- What if sales in the early months were 10/20/30% less than I am planning?

- What if it takes longer to build the repeat customer base and I have to spend more on marketing in the first 6 months?
- What if I have to pay the insurance annually instead of monthly?

There are any number of "What if…?" scenarios to choose from, and obviously you are not going to cover them all, but remember when earlier we said it is likely you have overestimated sales and underestimated expenses? With that in mind, it may help to do a couple of "What ifs?" to double-check those areas.

If you create the worksheets electronically, it will be very easy to do several versions and save them for future reference. We strongly advocate this kind of "scenario" planning. (Hit "save as" and save under a different name with modified assumptions.)

Once you start the business, you can use them to monitor actual performance against projections, which will allow you to be very responsive and on top of your money needs.

Some final thoughts on the Cash Flow Worksheet:

If you carry a positive cash balance throughout, you have planned your business with adequate working capital to start.

If you are seeing negative cash balances in this projection, you may have to reconsider your starting working capital and decide if you really should have more money to start the business than you first thought. For practical purposes, it is intelligent to build in a buffer of cash to protect the business; the extent to which you have done this will show up in the cash balance line.

If, on the other hand, negative balances come and go because of seasonal fluctuations in your business and the negatives get paid down when the sales come into season, you likely will need to look into a Line of Credit as part of your financing package.

If you are carrying a consistently high cash balance, you may need to question the assumptions underlying your projections or if they are realistic. If you find the assumptions are in line, then you might ask yourself if you need less working capital, especially if you are borrowing the money. A large cash balance is money not working for your business growth.

Here are some final questions to make the "go/no-go" decision:

- Do I have enough money to support my personal life until the business generates enough money to pay me a salary?
- Do I have enough money to cover the startup costs I have calculated?
- If I don't have enough money to cover the startup and ongoing operations, where am I going to get it from?
- Can I make those sales each month, and are my assumptions realistic?
- Are my operating cost projections realistic, and will the business generate the revenues necessary to cover them?
- Is my cash position positive overall?
- Does the business show it can get to where it is consistently cash positive?

If you are coming up with a lot of "Yes" answers, then you are much closer to being able to start planning your grand opening.

If you are coming up with a lot of "No" answers, this is the time to decide whether you are going to go back to the drawing board on this idea and rework it, put it away for good and move on to something else, or need to revisit your basic assumptions about the business idea. None of these options are bad! Part of this planning process is to challenge you to develop the business concept.

For those of you planning to move forward, your next stages of money planning will be about:

- How you are going to finance the business? This is especially important if you are going to have to obtain money beyond your own personal resources.
- What systems are you going to use to maintain accurate and accessible financial records for your business? This is where you will be starting to work with one of your valuable team members, your CPA, to decide which system is best for you. You may use a popular general accounting system such as Quickbooks® or Peachtree®, or you may need to consider a system created especially to manage your type of business.

- How are you going to make it easy for your customers to pay? Do you need credit card processing? What tools will you be using to accept payments? Will you use a cash register? Will you use swipe system attached to your iPad?
- What about that other partner, your bank? What bank will you use, and what accounts will you need? What information will you need to provide to open the account?

The "mini-plan" concepts from this chapter are found in completing the multiple worksheets and completing the suggested financial analyses.

6

PHASE TWO, OPEN
OVERVIEW

In Phase 1, we suggested you fully develop the business idea. Phase 2 puts the idea in motion and turns it into reality. The culmination of this phase for the business is being "transaction ready." Here you will have generated actual revenues from real, live actual customers. In Chapter 2, we compared Phase 1 to a flight simulator, where you get to learn about things and think through situations before actually getting into the cockpit of a plane, giving you the chance to experiment and *fail on paper* in order to rethink and rework your plan.

Furthering that analogy, Phase 2, called "Open," is when your business actually takes flight in a real airplane. You start when there is a well-informed "Go" decision after a thorough planning step, then move into opening the business. In this phase, you will start to deploy resources (i.e., spending money) focused on the launch. Your flight path and direction are now completely in your hands.

Using the TriStart™ Matrix as the format, you will rely now on your Customers, Team, and Money mini-plans developed previously. These three focus areas will continue and evolve throughout the life of your business.

Chapters 7, 8, and 9 discuss these elements respectively, but we will give a quick overview of the questions addressed here.

PHASE 2, OPEN—ITEMS RELATED TO CUSTOMERS

- Have you created sellable products and services with customers and competition in mind?
- Have you developed a winning pricing strategy that factors in the customer, the competition, and the economy?
- Have you developed low-cost grand opening/launch strategies to engage customers and drive first revenues?
- Will it be easy to do business with you? (Is your location easy to find? Is your website user friendly? Can your team properly handle the first orders? etc.)

PHASE 2, OPEN—ITEMS RELATED TO TEAM

- Have you worked with the right advisors to create the entity appropriately? Do you need the help of a consultant, tax advisor, or lawyer to help get started?
- What employee "team" members will be involved in the launch, and what do you do to get them started on the right foot? Does your team know how to do the work, and what you expect from them?
- Have you started with the right cultural elements, such as job descriptions and policies and procedures manuals, to get a solid start?
- Have you prepared your team adequately to succeed with the first revenues?

PHASE 2, OPEN—ITEMS RELATED TO MONEY

- Have you organized the appropriate capital to start? The business will likely need subsidy funding before being able to stand on its own two feet.
- Do you know the costs which will occur during the startup phase such as facility improvements, or equipment and inventory, as well as brochures, business cards, and website development costs or any security deposits?
- Have you established a budget for launch in order to set your spending priorities? Are you spending conservatively? The new business will be in a financial danger zone, as revenues are typically less than expenditures at this point.
- Have you estimated the timing of paying for the inventory you are buying (cash out) and selling that inventory (cash in) to buy more? Do you solidly understand the impact markup has on your cost of goods and your profit margin?

MOST ENTREPRENEURS' COMMON MISTAKES: PHASE 2, OPEN, FLUBS

Each phase has its predictable mistakes or pitfalls. Phase 2, Open, is no exception. Here are some common errors we see people making in Phase 2, Open. We hope this will help you avoid them.

- Launching despite being undercapitalized
- Releasing a product or service that is not ready or not quite the quality you envisioned
- No soft opening—leading with a customer experience not as positive as intended
- A slow start tripped up by marketing communications that are more expensive, less effective, or less frequent than planned
- Runaway expenses that spiral out of control
- Not enough or too much inventory (and sometimes both!)

GRADUATION TIME—PHASE 2, OPEN

The good news at the end of Phase 2, Open, is that the business is, indeed, open!

Here are other key markers to indicate the business has "graduated" from Phase 2, Open, and is moving into Phase 3, Getting to Stable:

- Your business is operational.
- Your business has generated first revenues.
- You are past the "ribbon cutting" phase of the business.
- Your business is ready (and needs) to grow to stability.

It's graduation time. No one ever told you this was going to be easy. And, looking back, you know it wasn't. Looking forward, you will need to have a good team, a good understanding of your customer needs, and a good financial base to support you. So keep going!

7

PHASE 2, OPEN
CUSTOMER

So you are about to open your business. Congratulations!

It has taken a lot just to get to this point: research, paperwork, licenses, money, and time—not to mention, your sanity. And the party is just beginning.

On your way through this grand adventure, hopefully you did some research on who you thought your customer would be and made data-supported projections in order to validate your sales projections. This is what the bank will want to see, and it is important to the success of your business.

Your brick-and-mortar store will soon be open, or your new website is soon to be published. We—and you, most probably—have heard the expression "Build it and they will come" applied to any venture from starting a services business to selling items on the street corner. But just who are "they"?

An important part of your launch will be finalizing a product or service someone will actually purchase. Who are these people who will buy your product or service? How do you intend to make sure they are pleased with your company? This is where to start to track and monitor the first customers who come to buy from your company.

How do you build financial projections to identify what your potential sales might be? You likely started with demographics within a realistic physical radius indicating your best guess of how far people will drive to purchase your product. Demographics include physical characteristics, income levels, and geographic location of your customers. The work you did in Phase 1 to identify these demographics is vital to developing a marketing strategy for the launch you are considering in this phase.

To walk you through the process, let's use an example that may help you define your marketing approach. If you have not done this type of exercise before you opened the business, this should help. If you have, it may be a good idea to revisit doing so in our example below:

Our hypothetical case study focuses on an aspiring entrepreneur named Joe. Joe dreamed of greeting customers as they walked in the door to his new business. He imagined repeat customers who would come in on a regular basis, exchange a few words of pleasantries, and purchase Joe's products and services. This idea was very appealing to Joe as he contemplated his future. He worked for a local lawn care company and took small engine mechanics courses while in school. Joe was a talented technician, confident in his knowledge of the equipment he worked on as well as his mechanical ability.

GETTING THE DOORS OPEN

Joe did all the right things to start his company named Joe's Small Engine Repair and Sales. He worked with a local SBDC business consultant and developed his business plan. He even managed to save some cash to start the business.

As it was nearing its open, Joe wondered if he had done enough preparation. He had "starting the business" jitters, so one night he sat down at his kitchen table and thought about the business plan and those projections one more time. Had he made a good decision? What more could he do to bring in the customers he needed to survive and to thrive?

Joe thought he should go through the process again in his mind to confirm he would be able to pay his bills, his employees, and himself. Was he making a good decision based on factual data, or was he foolishly spending his life savings on a boondoggle, "pie-in-the-sky" fantasy? Would the customers come in to the brick and mortar store to purchase lawnmowers, snow blowers, and small engine equipment? Could he build a strong repair business and a solid reputation to bring in repeat business?

First Joe looked at the demographics he thought would define his customer base or target audience. This would help drive the marketing and become the basis for his potential sales. He assumed his customer would be a lot like him: mostly male, 30-70 years old, middle to upper income level, and some with some post-high-school education.

Joe defined a radius around his store location by determining that customers would drive approximately 10 miles to get to his store. This was also based on assessing the competition in the area.

In order to determine how many of Joe's ideal customers would live within a ten mile radius of his store, he and his consultant looked at a couple of different data bases. One used as a reference was city-data.com. It was free and gave him a lot of good information on the number of potential customer based on the defined target market demographics. He also looked at the website www.census.gov, which offered a wealth of information. They also looked at factfinder.com and multiple other sites.

Joe came up with a number of 50,000 potential customers. The reference websites indicated that these potential customers were also mostly homeowners.

Joe became a member of a small engine repair and sales association. This association had conducted studies and provided him more information about the number of people who purchase and repair small engines.

Through this process of distillation, Joe refined his potential customer base or target audience of 10,000 persons who he felt met his customer model and lived within the defined radius of his place of business.

This kind of self reflection continued as Joe got the business open. When his first customers came, some just came to "look around, and just about every acquaintance and friend he stopped by to wish him luck. Joe had budgeted for those launch expenses.

Before Joe went into business for himself he wondered why new stores would open with no advertising and then, after several weeks, hold a grand opening. He now knew why and even knew it was called a "soft launch." On the first day open, his point of sale system went down and it took a day to get it fixed. He also felt the store layout did not work and decided to rearrange the merchandise overnight.

But now that a few of the kinks had been worked out, it was time for the Grand Opening Celebration! Most, and hopefully all, of the mistakes and miscues had been overcome. The store would be starting to run more smoothly. Joe had joined the Chamber of Commerce. One of the services they provided was ribbon cutting grand opening celebrations. Joe gave them a call and the Chamber ambassador was more than happy to conduct an opening event. The Chamber would help obtain publicity in the local newspaper and make sure a number of chamber ambassadors would attend.

In addition to 35 people in attendance from the Chamber and new people who might be potential customers, Joe also invited all his many relatives and acquaintances to his store's grand opening. The total count came to over 200. If just 25% of these people told others about the event or Joe's business, that would be another 50 new people who could become potential customers. He used Facebook, Google + and Twitter to tell his circles about the event and called some people personally and asked them to attend.

In preparation for the grand opening, Joe also took a look at the various ways he could spread the word about the event, and came up with the following list:

Traditional Marketing Checklist

- Direct Mail (include social media and website)
- Live Radio (a live radio feed for brick & mortar grand opening)

- Radio Advertising (may be helpful for certain businesses)
- Newspaper (a small newspaper ad in the business services section with a picture—pictures in these type of ads are effective in both the online and print versions)
- Billboard (a billboard along the road can help people remember your establishment)
- Signage (a sign large enough to read while driving by at the posted speed limit)
- Parking (adequate parking for your store size)
- Press Release (a pre-written statement sent to all media in your area)
- Promotional Items (free giveaways with your logo, number, etc.)
- Customer Loyalty Program (buy so much and get something free)
- Sales Kiosk (a sales kiosk in a mall or other public place)
- Grand Opening Celebration

In the end, the Grand Opening, at which potential customers were given free hot dogs and chips, went very well. He received some newspaper coverage and the Chamber published the event on their social media channels and website. At the event, however, it became apparent that Joe had made a mistake (one we hope you will not make). He had not created his online marketing presence prior to the opening. It was time to make up time and get that quickly put in place.

ENTREPRENEUR'S PERSONAL DEVELOPMENT

Part of growing a business is growing as an individual. Perhaps nowhere is this more present than in the process of cultivating customer relationships and growing customer revenues.

While this may sound odd, some success here is about being likable. In business, we may need to increase our "likeability quotient" and be more appealing to others, drawing them into our business. For some, this is completely natural, but for others it can be more of a challenge.

If you are not naturally outgoing, extroverted, or warm, you may find you have to put more energy into drawing customers in.

There is a saying in business that people do business with people they like; it tends to be true. Part of this is recognizing that it is an honor to get the opportunity to serve customers. Never take on the arrogant perspective that customers should feel honored to get to do business with you; rather, the opposite is true. Never take customers or the business they provide for granted.

Never take on the arrogant perspective that customers should feel honored to get to do business with you; rather, the opposite is true. Never take customers or the business they provide for granted.

This will rub off on your team—and their approach to serving customers. If you have a welcoming, genuine, grateful approach, expect that your employees will model this. If you are aloof, bothered, and unlikeable, they will model this as well.

Being a "likeable" company is a first step to generating customer momentum, which is an important concept. If you are successful at "wowing" customers, they will come back and say good things. This leads to more business: good things lead to more good things. Be cognizant of the concept of momentum, and start to put its power to your benefit.

ONLINE MARKETING

So let's return to our entrepreneur "Joe" as he looks to implement some online marketing strategies. Marketing at its core is about getting in front of as many people in your target audience as possible in as many different ways as possible, so when they are ready to make a buying decision, you come up on the short list created in their brain.

Joe now remembered the consultant telling him to create a website and include social media in his marketing plans. Given Joe's customer demographic, social media will not be the only push, but it is a growing media presence that is changing quickly. Joe needs to take advantage of multiple communication channels to help engage potential customers. A website and social media outlets create more places to find and engage potential customers.

Online Marketing Checklist

- Website (include video and images for the best results in any online endeavor)
- *Facebook* Business Page (make sure it is the correct type of page)
- *Google Plus* (this is believed to be a growing format)
- *Pinterest* (a predominantly female platform)
- *Instagram* (great site for capturing the somewhat younger crowd)
- *Twitter* (great site for heavy users of social media)
- Blog (good for longer articles and defining you as an expert)
- *YouTube* (videos can help the buying decision immensely)
- *LinkedIn* (mostly for business to business and professional networking)

A good research website for the demographics of who uses what social media channels is pewinternet.org. Joe did some research and found that all age and sex groups use *Facebook*, so he decided to use it. *Google Plus* is a growing social media channel and may help with search engine optimization. He decided to also use a blog to send out articles. Joe discovered YouTube is a great channel to show his product and services using video, so he decided to create some short videos featuring his store and services and started building a series of "how-to" videos.

After Joe identified the online marketing channels for his business, he decided to delve into each one a little further and make some specific lists of items that would help his customers find him and to interact with them. The top question he thought they would ask, although maybe not consciously, is "What's in it for me?"

Joe asked himself, "What will the customer get out of the buying experience? Will the customer walk away with a feeling that he or she made the right decision?" Joe learned that most unhappy customers just leave rather than complain to management. Instead, they complain to their friends.

Joe decided to look at how his website would look and how the navigation would be configured. His demographic again is mostly male, so the look and feel of the site needed to trend toward a more masculine demographic.

Putting himself in the customer's mindset, he started on the navigation for the website.

Home Page. Joe learned that he shouldn't use a lot of text on his home page or he would lose the interest of visitors to his website. He decided to use about 250 words of rich and relevant content on the home page, describing his services and products. He also included, in a strategic location on the website, a short video (3 minutes or less) of himself greeting and answering the question "What's in it for me?" by explaining the benefits customers would realize by shopping at his store. In the video, Joe discussed his fair prices and friendly service and the fact it was a local, community business. This would also be a good place to add a link to a relevant success demonstrating how a client really benefited. (Stories and pictures are better than lists.)

About Us. On this page, Joe described his experience and knowledge of the industry.

Products Page. On this page, he outlined the different products he carries by manufacturer and type.

Services. Joe described the services his business offers, including repairs, pickup and delivery, and how problems are handled.

Contact. In order for potential customers to easily find Joe's store, he included a map that showed the location of the store, his business email address, and the store's phone number.

Blog. Joe saw the value of providing helpful tips for lawn care and equipment servicing. He decided to use a blog to share this information with customers. The blog was linked to his social media pages and automatically posted to them each time he added a blog entry.

Joe had been to a search engine optimization course and had an idea of how to consistently use keyword phrases throughout his website that his potential customers would use to search for his services.

He also signed up for Google Places so his business would show up in local search.

Social Media. Joe decided to make sure all online and social media venues had the same look and feel. His business website *Facebook* page and all other social media channels would use his logo, business colors, and font in order to showcase a consistent look so his customers could be assured that they were looking at the same company entity.

To keep on track, he decided to create a social media calendar that outlined his posts for each week. He knew he would be busy, and with a predefined calendar of posting ideas or ready-made posts, he could schedule them to be delivered on key dates.

Some of Joe's ideas for posts included:

- Tips on how to use equipment properly
- Tips on lawn care and maintenance
- Videos of each of the above
- Customers' frequently asked questions—translated into stories
- Photo requests of lawns manicured with Joe's equipment (people love to see their work and themselves)
- Inviting questions and tips from Facebook fans, with the ability to review before listing
- Posting photos of new equipment and models arriving
- Posts appropriately supporting local events (e.g., the 4th of July parade)
- Simple questions to promote comments and engagement

Joe now had a list of social media and traditional media to make sure he could use to reach his customers and provide multiple vehicles for his customers to reach out to him, provide testimonials, and share photos.

Joe knew he would be busy running the store, so he created a social media calendar to help with future posts. He decided what he would post on the social media channels he would use. He made calendar entries with topics and some content for the posts on the days he planned to post.

Joe was also able to write and schedule some posts in advance, so he didn't have to worry about posting during busy times in his store.

Joe's strategy was to post at least three times a week on *FaceBook* and Google *Plus*. He knew he needed to use the list of post ideas to spark a regular stream or interesting content to share with his social media audience.

CRAFTING THE COMPANY IMAGE

Part of launching your business will be creating an "image" of the business. This is as true for a "bricks and mortar" business as it is with an e-commerce website. You need to convey the right image to your target market. While it may sound trivial, it is not. Marketing experts continuously point out the importance of a professional corporate image.

This consists of a variety of visual elements: logos, taglines, photos, colors, fonts, and general look and feel. In our experience, it is worth the investment to convey a professional look and feel. You want to be proud of the visual image you project. Very often, a little work here will enable you to present yourself as "larger than you are" and convey the image of a solid, well-established company.

While professional help is suggested in developing logos and business cards (we did say professionals, not your 16-year-old niece who took a graphics course in high school), we suggest you give careful consideration to this prior to turning it over to the pros. In preparation for this work, you should consider the following questions:

- Who is your target market and what image elements (colors, how modern, etc.) will appeal or not appeal to them?
- Which other companies—whether they are competitors or not—have great corporate images you believe would appeal to your target market?
- Can you point to 5 websites you really like that capture the essence of the image you would like to project? Which ones? And why?
- Can you point to 5 websites you really do not like? Again, why?

- What words would you use to describe your business? Do you have a tagline?
- What words would you use to describe the image you want to project in the market? What words are the opposite of how you want to portray your image?
- What colors appeal/do not appeal to you and your target market?

While you will want to "rely on the professionals" for this, you should be an active participant. Also, the more prepared you are at stating what you want, the more probable it is the professionals you hire will help you get there.

One of the reasons corporate image elements are so important is that they are used consistently throughout all the different communication mechanisms. Think about all of the different places you will use your logo! Given these elements will be used over and over and over again (and this consistency is very important), you want to ensure you have elements you (and more importantly, your market) really prefer.

These elements—the ones that create a "tie" between all of your communications—come together to form your branding. As you have probably seen in your experience as a consumer, the brand is often what the customer comes to identify the company with. The name, logo, tagline, colors, and other visual elements are paramount. (If you don't believe me, just drive around in a car with a 4-year-old child who is not yet able to read but who can point out brand after brand after brand!)

INTELLIGENTLY MANAGING CUSTOMERS

With the Joe's marketing strategy and initial branding elements in place, he turned his attention towards the physical customers visiting his store.

Tracking Customer Shopping Patterns. Joe was fortunate to have a steady flow of business in his store. Sales were happening, and Joe wanted to take advantage of his point-of-sale system to learn about customer shopping patterns and income data from daily sales. Joe knows it is important to start collecting customer database information from the start, as this eventually becomes one of the—if not *the*—most important assets of the company.

Joe knew from the financial projections that he needed about $400 per day on a monthly basis to break even. He also calculated that $400 would come from about 10 customers each purchasing $40 on average. Joe wanted to test the accuracy of his projections, so he tracked daily sales, sales amount per transaction, and number of transactions per day. Joe knew it was also important to discover which days were historically busier than others and which factors influenced shopper patterns, such as holidays, local events, weather, and even time of day.

Joe thought there would probably be some hours of operation that might be busier than others, so he decided to track the sales and staff accordingly by scheduling more employees during his store's busy times. Armed with this information, he could staff and make other decisions accordingly.

Customer Service. Joe had three employees, including himself, and they all would have some customer interaction, so training on how to engage and talk with customers would be prudent. Joe set up bimonthly meeting times to review customer service skills with his team. One of the first items on the customer interaction list was to make sure all employees were polite and courteous to each customer, no matter how the customer treated them. Joe knew from experience that a polite kind greeting with eye contact could go a long way in making a sale or diffusing an angry customer. Joe created a list of other customer service topics that included:

- Be polite and courteous at all times.
- Try to engage the customer in conversation.
- Try to use the person's first name.
- Focus the discussion on the customer and the customer's needs.
- Refrain from arguing with customers; if they are upset, instead work to understand their issues and solve their problems.
- Empower the team. Joe identified parameters that gave his employees some leeway in solving problems for the customer so he would not be required to make every decision and the employee would be prepared to act in a way he would.

Joe also decided to conduct some mock customer interaction exercises. Each employee, including himself, practiced mock customer greetings. Joe brought in some friends to help with the exercise. They practiced going through greeting a customer and engaging in some conversation. Joe knew the experience customers had in his store could make a difference in the long-term success of the establishment.

Along with training employees in customer relations, Joe presented them each with t-shirts that included a company logo. He required all employees to wear a clean company shirt when working the floor and also required all employees come to work clean and groomed. The shirts would help prompt a feeling of team unity and allow customers to easily identify store personnel.

Those customers who bought major items like a snowblower or a lawnmower were asked for their name and address, so Joe had his major customers' information, which he could use to market to them. He also asked for their email address, so they could receive helpful tips and discounts from the company. If they did not want to give the email address, it was not pursued any further than a polite "OK." With information like zip code and address, he could start to map out where his customers were coming from, which could help with marketing activities down the road.

Joe decided to offer some workshops related to different aspects of repairing equipment or "how-to" tips on cutting your lawn, working with a chainsaw, etc., in order to interact with customers or potential customers. To reach more potential customers, he planned to teach a community education class on how to care for your lawn.

Community Involvement. Joe decided he wanted his company to give back to the community, so he decided to help promote and donate to a few local causes. He called the local Multiple Sclerosis Society and the local Boy Scouts to see what he could do to help out. They were both excited to have a new participating business. They would both have fundraisers for which he could put up posters and could be a donation spot.

He also planned and budgeted to sponsor local youth sports teams, donate to local fundraising events, and sponsor relevant local events in order to foster a positive reputation within his community for his business's community spirit.

Newsletters. Joe learned that email marketing was another effective form of marketing, so he set up an account with one of the major services to create and send out a regular newsletter to his customer list. He (correctly) reasoned it was important to maintain a regular contact with customers.

As with his social media calendar, Joe created a plan relating to what to put in the newsletters and other marketing materials. He decided the newsletter would go out each quarter, coinciding with the four seasons, and cover new equipment arrivals, discuss seasonal tips, and offer a few promotions or discounts.

Social Media. To help promote *Facebook* and *Google Plus* engagement, Joe decided to put the respective page information by the check out. He also would give a small discount of 5% to anyone who liked his FB page or plus 1'd his Google page.

He would (with permission) post pictures of customers purchasing new equipment on those social media pages as well. He would thank them for the purchase and wish them well on each post. After the business was open for a few months, Joe would get video of customers using their equipment purchased from his store. Inherently, he knew the words from satisfied customers would be much more convincing than anything he could say about the business.

In every company, there are usually a few "customer champions" who voluntarily help promote the company just because they like it. Joe decided to seek out those regular customers to help promote the business. He could ask them to invite others to like his FB page and promote the business through their own posts as well. Employing free marketing strategies like this, he thought, only required creativity and effort, which seemed smart.

Return Policy. Joe knew at some point there would be an unhappy customer, and items would be returned to the store for many different reasons. He created a policy regarding the return of merchandise and wrote a procedure for product returns and reviewed it with his employees.

To prepare the policies, he reviewed those of his competitors, as well as those of his vendors, and wrote a return policy he felt was fair to customers and would protect the business as well. The goal of this was to preserve customer relationships and cultivate the right reputation in the community.

Entrepreneur as Salesperson. Joe could always talk to people, but now he was conscious about the need to improve his sales skills. He knew he had to make a certain dollar amount each day to survive. He decided to take a sales course to brush up on his communication skills and learn some other sales strategies. Joe used his new knowledge to help close some sales on large-ticket items such as riding lawn mowers and shared his new skill sets with his employees.

Joe arranged a meeting schedule with his SBDC consultant every quarter for the first year of business to get an outside look at what he was doing and gather valuable information. He would continuously track the sales and any promotions to discover what worked well and what didn't, so he could maximize his limited marketing resources.

RECAP

As Joe sat at his kitchen table another night looking over the daily sales figures, he felt reassured he was doing everything he could to help promote the business and interact well with his customers. He realized, though, that owning a business meant he would always be in a learning process to improve and grow his business.

It is important for you to make the same plans and assessments with your business to get the doors open and build sales revenues.

Whether you start a brick and mortar store, a consulting business, manufacturing concern, or online business, the same concepts apply. Develop your marketing plan and adjust regularly as your sales start to roll in.

Online businesses have to spend most of their budget on Internet marketing campaigns. You cannot run an online-only business without spending an important portion of your budget to generate traffic to your site and to put significant thought into conversions (traffic to customers).

Go through the checklists of traditional and social media marketing found in this chapter to see if you are using every tool you can to get in front of potential customers.

Be sure to know what sales level you need on a daily basis to break even each month. In this phase of the business, this is the critical metric and something you want a daily, or even hourly, focus on!

Your customers are the reason your company is in existence. Continuous tracking of who your customers are by means of your sales system, personal observations, and demographics of your area is crucial.

And be prepared to adjust to what is happening. Your original sales estimates and your initial "ideal customer" definition are rarely 100% accurate. Take the time to analyze and revise sales projections by comparing with actual sales and adjusting. Also review the information on your target customer demographics. Build upon what works and revise the rest.

MINI-PLANS

While we are sure you learned a lot from "Joe" and his launch marketing strategies, we suggest (as we have in the other chapters) that you brainstorm and organize these "Phase 2, Open—Customers" concepts into a series of mini-plans.

MINIPLAN: LAUNCH PRODUCTS / SERVICES

Premise: If business is founded around the exchange between the company and customers, then the products or services offered are an undeniably important part of setting up the business. Delivering products and services that deliver the right amount of value to attract and retain a strong and growing customer base just cannot be overemphasized.

Key suggestions:

- Translate research on the target markets (customers) and what they value into products and services.
- Translate your research on the competition to develop a product or service approach that finds a space in the market—and fills unmet customer needs.
- Create a product or service that fulfills the competitive advantage you hope to create.
- Develop your product and service such that you can deliver it on time in the right quantities to satisfy the customers' demand.
- Develop a product or service that can be delivered at a cost to generate sufficient profit margins, at the company's expected sell price, to support the operations.
- The product or service must meet or exceed the customers' expectations, such that they will be satisfied with the transaction and be willing to engage in the company in the future.
- Focus on the right quality aspects that will increase the customers' perception of value.
- Develop the product and service offering that will enable the company to tell—and live up to—an appropriate and compelling "story" in the market.

MINI-PLAN: SOFT OPENING

Premise: Give yourself a wonderful gift with your business by doing a "trial run" before you are fully live. This can be a retail business doing an "invite only" opening or even a "trial run" job with a service. The key here is not to worry about being massively profitable, but to get some experience under your belt before fully launching. This is comparable to doing a "beta test" of a product before producing large quantities. The goal is to get experience and also to collect feedback and make "on the fly" corrections prior to your actual launch.

Key suggestions:

- Look for ways to do a "test run" in your business.
- Use this as a learning opportunity.

- Create a “safe space” where it is not catastrophic if you are not perfect.
- Ask people to participate who will give you a fair (and honest) assessment of the business performance, and let them know you are doing this as a test run.
- Use this as a “dress rehearsal” for your team.
- Develop a written plan with (1) goals of the soft launch, (2) key questions you hope to answer, (3) specific and organized methods of collecting feedback, and (4) a method to “debrief” with your team to share collected experience and grow as a team.

MINI-PLAN: LAUNCH MARKETING

Premise: One of the biggest risks of a startup business is that, in most cases, no one knows about what you are doing. The business has been “in the laboratory” instead of out in the active market. Up until this phase, the business really just consisted of a bunch of ideas inside your head (and on paper in the form of these mini plans). But now you need to unleash this thing on the world. You need to spread the word and create awareness, while prompting customer trial, and facilitating initial word of mouth advertising and “buzz.”

Up until this phase, the business really just consisted of a bunch of ideas inside your head (and on paper in the form of these mini plans). But now you need to unleash this thing on the world. You need to spread the word and create awareness, while prompting customer trial, and facilitating initial word of mouth advertising and “buzz.”

Key suggestions:

- Focus on using consistent, key messages (per prior discussions)—and repeat those messages.

- Have your company branding ready to go, and use your chosen logos, taglines, colors, so that the general "look and feel" of the materials is consistent throughout all customer messages.
- Get a website up prior to launch—make sure someone can hear your story online prior to experiencing your business.
- Create a Facebook page as early as you can, and start to post information and photos (unless you have a specific reason to be stealthly). Use this to make friends with your customers as well as to turn your actual friends and families into advocates for the business.
- Create collateral materials that make it easy for you and your staff to tell your story and present your key value propositions and competitive advantage—handouts, brochures, etc.
- Do a press release with your local media outlets on a new business. Research who to contact at each media outlet and email this person the press release. In addition, follow up with a phone call—introduce yourself to the person and get to know him or her. (Note: this will also open up a large number of media reps calling on you to get your business. This is okay—just don't be too surprised by it.)
- Part of marketing is training your team so they know what messages/offers you are putting out into the market. Do not create any surprises for them.
- Think in terms of "grand opening" (even if you are not a retailer) and how you can have a successful grand opening celebration.
- Opt for more over less. Most people are surprised at the sheer volume of marketing activities that must be implemented to attract customers. A disciplined approach helps with this.

MINI-PLAN: LAUNCH SELLING

Premise: Sales is a momentum game. When things get rolling, they can really escalate positively. The bad news, though, is getting started is really hard. Anticipate that you will have to put a great deal of effort into building your initial selling results.

Key suggestions:

- Assume the role of salesperson for your business—as you launch, one of the most important things to do is get some starting revenues.
- Commit to making a certain number of sales calls per day—get into the daily habit of inviting people to join you in your business.
- Tap into your warm market—those you know—and ask them to be part of your first group of customers.
- Don't be deceptive about it, but use prelaunch research as a way to pre-sell. When you ask people for their opinions about your product, service, or business, you improve the likelihood they will opt to also be an early customer. (But be tactful about this!)
- Pre-sell as much revenue as you can. if you can hit the ground running, you are in a better position. If it can be coordinated, ask for and take orders you will promise to deliver upon opening.
- Early revenues are important, not just to get obtain customer cash flow but to learn and adapt. Treat everything like a learning opportunity early on.
- Service is also part of selling. Make sure you and your team are prepared to create happy customers and take care of the situation if you do not. (Fix any early flubs.)
- Be ready to ask for referrals—early on, people will typically be more likely to help you, but you will often have to ask!
- Do a solid job of following up post sale. Not only is this an opportunity to learn about your performance, but it can create an opportunity to ask the customer to return and to provide referrals.
- Set daily activity (actions) and results (sales, customer visits) goals. Track them and use this to hold yourself and your team accountable. Start this from (before) day one.

ENTREPRENEUR'S VOCABULARY

***Product/Service*:** What you sell to the customer. Key issues here must be built around real customer benefits and perceptions of value. Developing products and services which meet key customer needs is essential.

Inventory**:** Investments in products (or the capacity to deliver services) in advance of the time necessary for the actual sale. Having inventory helps to increase service levels and speed of transactions. The focus here is an investment in creating happy customers. Inventory is on the balance sheet as an asset, yet it results in revenues on the income statement. (More correctly stated, inventory transfers over to the income statement as cost of goods sold at the time of the transaction.) Inventory should be viewed as an investment that results in a return in the form of customer revenues. Too much or slow-moving inventory can be a huge drain on cash flow, so inventory growth should be taken on according to a planned, deliberate approach. As a challenge in business, you start to see inventory "creep," which can harm the business. A smart business will have strategies in place to move slow-moving inventory and convert it back to cash, so resources can be invested back in more efficient inventory. To the extent your vendors offer you terms, inventory can be highly related to growth in accounts payable.

Soft Launch**:** Creating a "dress rehearsal" or "test run" opportunity for the business to create an opportunity to "work the kinks out" prior to the official opening. This creates an opportunity to test, train, learn, and adapt prior to going live.

BUSINESS READINESS ASSESSMENT

Rank your business on a scale of 1 to 10 on these key factors:

- The business is prepared and ready to handle customers and transactions with them.
- The business has developed a line of products and services that will be demanded by customers.
- We can strongly articulate a competitive advantage.
- We are prepared to talk about the value of our products and services to customers.
- We are prepared to answer questions relating to our pricing.

- The business has conducted a "soft launch" and has used this as an opportunity to fix problems.
- We have developed our "corporate image" items such as logos, colors, taglines, etc., as a central part of a consistent branding strategy.
- We are proud of the way we will present ourselves in the market.
- We have organized a number of marketing strategies for the launch/grand opening to create early customer awareness.
- We are prepared to capture customer information in a database so we can follow up with our early customers after the transaction.
- Our team has been trained to create an extremely positive customer experience.

8

PHASE 2, OPEN
TEAM

Congratulations! After moving from the conceptual, planning, and initial startup phase, you now are ready to identify the professional service providers, management team, and employees who will create the identity, culture, and expertise to make your company a success.

While you probably started out like many solo-preneurs, doing everything from being the visionary to taking out the trash, it's important to recognize that none of us are expert at everything. When it's time to begin adding capacity and expertise, take a hard look at what your company needs most to move ahead, and honestly evaluate your own strengths and weaknesses. Maybe you're a technical geek who is a software genius but has never seen or balanced a bank statement. Or possibly you're the great communicator and always close the sale, but don't have enough hours in the day to complete the work and meet customer deadlines. Whatever the situation, it is your job to figure out what assistance is needed, how to find and engage the right people, and how to integrate them into your team.

Your goal may be to stay small and employ 1-5 people, or it may be to expand to a staff of 10-50+; either way, the concepts of creating a team are the same. Especially during formation and the early years of operation, each and every person engaged to advise, invest, co-own, manage, and work with you will directly influence the quality of your products/service, customer relations, image, innovation, and growth.

Your role in becoming a team leader and employer is equally critical. You need to develop a philosophy about how the company will be run and operated and become knowledgeable about applicable laws, compliance, hiring and training, compensation packages, and a myriad of related issues. For example, will you compete as the lowest-cost house painting service in town? Or is your goal to engineer and sell advanced water-testing devices? From day one, the ethos you create in the team you work with and assemble will impact almost every decision made, which in turn will influence, guide, and direct the company's future.

This chapter will explore teams and team building; use of paid consultants, outside contractors, and company employees; hiring strategies; and best practices in preparing your business for employees, among other topics to consider before extending your first offer of employment.

BRINGING THE TEAM TOGETHER

Appropriate hiring is one of the most important aspects of growing a successful business. Each new employee impacts and influences a startup's culture far more than would a new hire at a 50- or 100-person company. Since the stakes are high, each hire must be a passionate, engaged, and committed team player filling specific needs for that point in time and able to grow and evolve with what will be ever-changing needs.

In order to know how and when to expand your workforce, ask yourself some fundamental questions about your business and the future you envision, such as:

1. What type of business are you creating? What is your market niche? How will you define success? What level of gross/net revenue do you hope to achieve? How many employees will be

needed, and what types of education, skills, and experience are required?

2. What skills do you and/or other co-founders possess? What gaps do you foresee? What is your management style: collaborative, participatory, and more horizontal, or directive, rule-driven, and hierarchical? Are you able to delegate and trust others with responsibilities related to your business?
3. Create a realistic timeline of the company's planned growth and development, product/service offerings, revenue projections, and related requirements of space, staffing, capital, etc., for increments of 6 months, 9 months, 1 year, and 2 years, and then periodically update.
4. What is your role in achieving these outcomes? How is your time most productively utilized? What activities do you like and dislike? Which responsibilities can be delegated to others?
5. At what stages will you engage professional service providers, such as attorneys, accountants, marketing, HR or IT consultants, etc.?
6. Complying with employment laws, consider when and whether independent contractors can conduct portions of the work or if employees should be hired.
7. How will workload fluctuations will be handled, vacillating from immediate large orders or demand for services (such as during the summer, holidays, or tax time) to slow or delayed periods of growth (such as when your business isn't fully established, economic downturns, slower times of year, increased competition, etc.)?
8. Does your company have the necessary written policies and procedures in place to recruit, hire, train, manage, promote, and fire employees?
9. Does the company plan to have health care, retirement, sick/vacation leave, and related programs and policies now or in the future? How will these be established?

Since a single misstep in employment matters can cause external scrutiny, fines, or a lawsuit, you have a responsibility and keen interest in assuring these matters are legally and properly established before the first employee is hired.

Owners also will be rewarded when employees are trained and become active members of the team because they will be knowledgeable, adequately prepared, and empowered to deal with customer relations. Every customer encounter, ranging from a receptionist's greeting to an e-mail exchange, reflects on your company and its values, just as the dress of your staff and appearance of your office does. When you establish and communicate the company's standards, along with clear lines of authority and accountability, employees respect it and know what to expect.

EXTERNAL TEAM MEMBERS

It's likely that well before hiring the first employee, critical members of your team will include an attorney who will help with tasks such as setting up a Limited Liability Corporation, Partnership Agreement, or Corporation; an IT consultant who may assist with setting up computer and phone systems; a social media expert who may create your mobile website, an online ordering system, or update your Facebook account; and a plastics vendor who may provide an important tip on where to get prototypes manufactured inexpensively.

In truth, everyone you work with, from inception to end consumer, is a part of your team.

- Professional consultants, contractors, and vendors are critical members of your team. Most are experienced, have worked with hundreds of businesses, and can provide invaluable insights into how to efficiently and effectively establish your business. Their services also can help you avoid costly mistakes and time-consuming delays.
- Independent contractors can perform specialized, irregular services your company needs but not perform process-oriented work on a regular basis. Independent contractors can also be used when you do not have enough work to justify a full-time

position. There's often confusion about independent contractor status vs. employee status, and it is important to understand the IRS regulations here.

- Vendors are companies in your distribution channel that create and support the product/service delivery. As at every step of your business, it's important to establish relationships, terms and agreements, and communication channels that enable keeping inventory, production, cash flow, and/or service pipelines primed to ensure efficient and timely delivery.
- Aim to make customers the biggest and best source of advertising, repeat business, and referrals. A satisfied customer will come back and they will talk to others. Also, consider that your business may be able to become part of your customer's team. Think about what kind of team player you and your staff will be in providing solutions to your customer's needs, whether you operate as a business-to-consumer, business-to-business, or business-to-government enterprise model.

As these groups begin to interact with one another and their role in the process begins to impact others in the team, it's your responsibility to set the tone and management style that will inform behavior, foster service, incentivize performance, create commitment and loyalty, promote innovation, and make course corrections as necessary.

THE TEAM BUILDER'S VOCABULARY

Six key concepts related to team building and discussed throughout this chapter include: culture, management team, advisor, employer, hiring, and orientation, which are briefly defined as follow:

Culture includes an organization's values, visions, norms, working language, systems, symbols, beliefs, and habits. Organizational or corporate culture incorporates an organization's expectations, experiences, philosophy, and values that hold it together. It is expressed in its self-image, inner workings, interactions with the outside world, and future expectations.

Typically, organizational culture is based on shared attitudes, beliefs, customs, and written and unwritten rules that have developed over time and are considered valid. It is shown in:

1. The ways the organization conducts its business, treats its employees, customers, and the wider community
2. The extent to which freedom is allowed in decision making, developing new ideas, and personal expression
3. How power and information flow through its hierarchy
4. How committed employees are towards collective objectives

Culture can have a significant effect on even a small company's productivity and performance because it provides guidelines on customer care and service, product quality and safety, attendance and punctuality, and concern for the environment. As the founder and visionary, your actions and decisions will affect the way people and groups interact with each other, with clients, and with stakeholders.

Management Team, senior management, or executive leadership is a team of individuals at the highest level of organization who have the day-to-day responsibilities of managing a company or corporation. A strong management team is particularly significant if you want the business as a whole to grow and develop. As a business grows, the management team also should provide opportunities to expand and grow leadership in other members of the team.

An effective management team can create a more efficient and capable business because the combined skills are greater than that of any individual director or manager. Particularly if each member has different areas of expertise, such as technical/research, financial/administrative, marketing/sales, etc., the company will benefit from having its overall direction and goals viewed from different perspectives.

An ***Advisor*** is a person who is willing to be a sounding board for your ideas and issues and provide guidance, teach, or direct you to the needed resources. A valued advisor also is willing to be brutally honest about what needs to get done, changed, started, or stopped. Advisors can be a person or organization with the experience base and educational knowledge necessary to guide an entrepreneur from concept through business fruition.

A business advisor provides business owners with information that will help them run their businesses more effectively. Business advisors have business experience they can apply to solving problems, identifying potential areas of concern, and helping businesses expand and grow. Advisors can be consulted on a one-time occasion to assist with streamlining or improving a business, or they can play a more active role, offering recurrent advice sessions to their clients. Many business advisors offer one-on-one consultation along with business classes designed for groups of people, such as new business owners. Classes can provide a low-cost way to access business advice that is especially useful for people who may not be able to afford a full private consultation.

An ***Employer*** can be an organization, institution, government entity, agency, company, professional services firm, nonprofit association, small business, store, or individual who employs or puts to work an employee. In exchange for the employee's work or services, the employer pays compensation that may include a salary, an hourly wage, and benefits, in accordance with various laws and regulations.

Hiring is the practice of finding, evaluating, and establishing a working relationship with future employees, interns, contractors, or consultants. Hiring employees involves a certain formality, even if the business is very small and the person hired is a family member. The bigger a business, the more complex the hiring process will tend to be. The major elements in the hiring process are:

1. Definition of the job, generally a written job description and level of compensation
2. Advertising and recruitment process
3. Prospective employee interviews
4. Background and reference checking
5. Job offer, benefits, and related negotiations
6. Orientation and job training, which may be minimal or may involve a formal training program

Orientation is the process used for welcoming and orienting a new employee into your organization and his or her job. During this process, employees are introduced to the company and its goals, policies, and the roles and duties of the new staff, including information about safety, work environment, job expectations, benefits, and the organization chart or reporting structure, plus anything else relevant to the work. A successful orientation helps ensure the employee to feel welcome and understand the expectations for working in your organization.

EXTERNAL ADVISORY TEAM

Creating a functioning, compliant enterprise in today's complex and sometimes litigious world is no easy feat. As noted above, you may have wisely decided to enlist the aid of specialists in setting the foundations for launching your business. It is very rare for an entrepreneur to bring a complete set of the necessary skills to run a business to the marketplace. In fact, that is the raison d'être for "Team" being one of the three necessary components to founding a business! The owner supplements his or her strengths with expert advisors, professional service providers, and staff.

You might have consulted a HR attorney or Human Resources consulting firm to ensure your interviewing and hiring procedures, paper work and intake requirements, health insurance and payroll provisions, and employee manual all provide you with a basis for compliance with current laws and regulations; or, a CPA or payroll service may be retained just to provide accounts for payroll funds and to guarantee the regularity of making payroll and paying appropriate payroll taxes (something you probably will not want to mess with). You may have enlisted a commercial attorney to review contractual agreements and terms with vendors and suppliers in your distribution chain, to provide operating agreements between partners and co-owners, and to create buy-out and or succession plans. An IT company or social media specialist may have been called to assure that POS (Point of Sale), MIS (Management Information Systems), or CRM (Customer

Relationship Management) systems are in place and operating well before you complete the first sale and open for business.

The following is a list of common outside experts companies will often engage:

- Certified public accountant and/or bookkeeper
- Human resource consultant
- Commercial attorney
- Insurance agent
- Commercial real estate broker (if required)
- Architect and contractor (if required)
- IT consultant
- Marketing/social media firm
- Manufacturing or process consultant

There are indeed experts to assist in all aspects of your business, but the critical factor no expert can provide is the management expertise that you as the founder and creator of the business need to bring to the enterprise to inspire the loyalty and best efforts of all team members.

BECOMING AN EMPLOYER

It may have come as a surprise that so many of your team members are outside of your business! As you look outward from the center of your operation, you will learn the importance of lenders, vendors, landlords, professional service providers, board members and others who are not on your regular payroll.

When you look inward to the people who surround you to run the business and who are on the payroll, you must be sure your obligations to them, and to governmental regulatory agencies, are in compliance. And if you're looking around at your staff, it means you've already established a method of finding people, hiring them, and getting them down to work! Make no mistake—putting that person behind a desk, in front of a computer, on the assembly line, in the warehouse, or on the phone is truly a process!

As a cautionary word, many new employers attempt to designate people working for them as contractors or casual labor and plan on issuing them a 1099 earnings statement in lieu of withholding, and paying, mandatory employment taxes, e.g., Social Security, Medicare, income tax withholding, and unemployment and workers' compensation contributions. The Internal Revenue Service (IRS) has become increasingly strict on allowing contractor status and issuance of 1099s.

We suggest you take a look at the IRS website (www.irs.gov) to get the latest information on these matters.

The new owner must also consider company-specific programs the new business may offer so the enterprise is attractive to high-quality, talented staff. You may choose to offer:

- Health care
- Annual leave accrual
- Sick leave accrual
- Family leave
- Profit sharing,
- Retirement plans
- Training or professional development allowance

Most small businesses struggle with offering an elaborate benefit selection to new employees unless the enterprise is well capitalized and has a strong strategy to quickly penetrate a lucrative market. Most businesses are well into Phase 3 before they can consider introducing such benefits. (Expert advisors are extremely valuable in investigating such programs at the appropriate stage in the businesses growth and profitability.)

This all may sound intimidating, but once you research the requirements or retain outside expertise to design the process, the paperwork and processes literally become part of your SOP (Standard Operating Procedures) and cease to occupy large quantities of your time or attention. You'll soon discover much of this is pretty cut-and-dried procedural activity that becomes routine, and you just have to be confident that you and your advisors are current with legal and regulatory changes (such as the Affordable Care Act, social security, unemployment compensation, workers' compensation, minimum wage, and the Fair Labor Standards Act).

But, even before you can place that first ad on Craig's List, LinkedIn, or even in the old-fashioned classifieds, you must first have invested time in your Employee Handbook and/or Standard Operating Procedures guidelines.

EMPLOYEE HANDBOOK / POLICIES & PROCEDURES MANUAL

Most of the elements in the prior discussion should be explained in a brief Employee Handbook outlining your role as the employer and a new hire's role as a staff member. But you can't even place a properly worded ad or conduct a meaningful interview until you've thoroughly outlined the sales process for whatever your product or service; decided how delivery, installation, or advice will be delivered; thought through how problems or questions will be addressed; and brainstormed how customers will be retained, satisfied, and sold to again and again. Once you've decided those matters, you must incorporate your decisions into accessible, understandable, written, and communicable documentation—in various types of media.

The starting point is to codify your business idea into a Vision Statement, which is what you want your business to be, and a Mission Statement, which is a statement of how the business will be run to achieve the mission. These statements will inform your employees about how decisions will be made in the company, and, indeed, create your company culture.

Consider the Vision and Mission Statements of an independently owned health food store and kitchen in a small, rural town. After moving into expanded space and faced with increasing staff, the owner convened her staff and conducted two sessions to solidify the basis for growing the business. Here's what Valerie and her staff came up with:

- ***Vision:*** To be the nutritional information and experiential hub for the citizens of Anytown and surroundings in a continuous effort to improve health and environment.

- ***Mission:*** We provide accurate and timely nutritional information and health resources, and sell wholesome, well-researched and carefully selected products to customers in a compassionate and ongoing partnership to improve their quality of life. While doing this, we will also strive to maintain a prosperous and eco-friendly business that is operated at the highest possible business standards to provide a sound livelihood for our practitioners.
- ***Tag:*** Where Good Things Happen Every Day.

These clear statements of the owner's intent for her business concept infuse her employee relations and policies and her operating policies in a coherent culture and give guidance to every aspect of operations and decision making.

Elements often contained in an Employee Handbook and the SOP Manual might include:

- ***Non-negotiables*****:** policies and standards of conduct which aren't up for debate. These would include activities and actions that must be adhered to, e.g., no stealing; greeting customers in a prescribed fashion; and closing the cash register or invoicing a customer in a precise fashion.
- ***Job descriptions*****:** simple statements of responsibilities by position.
- ***Performance Review*****:** how staff will receive regular, written feedback.
- ***Compensation and professional advancement, and promotion from within:*** how compensation is calculated, how performance impacts increases, and how advancement might be possible.
- ***Employee purchasing, meals, or discount policies:*** defines how all staff transactions for company products or services will be priced and paid for.
- ***Separation, exit interviews, progressive discipline, termination:*** how voluntary or involuntary separation from the business might be handled.

In some instances, the Employee Handbook might be merged with a Policy Manual, or, as the company grows, a more extensive SOP might be devised to document how operational procedures within the business are performed. Start simple, but the spirit of the Vision and the Mission of the owner should pervade the documentation.

This may not feel like the most glamorous or enticing task for an entrepreneur who is fired up about his or her ideas for creating wealth! The reality is many nascent business owners don't have the patience for all this and tend to open for business before these materials are put in place. This often happens if the new owner is a home-based business or if he or she is buying an existing business. But a business can't grow in volume or in product/service assortment and diversity—or in the case of bricks and mortar, become multi-unit—without all these things in place.

The Society for Human Resource Management offers a handbook template at: www.shrm.org/templatestools/samples/pages/employee-handbook.aspx.

TRAINING

Well, you guessed it—you're not done with this process yet. It's not enough that you've thought it through, written it down, and know how to interview and hire; now, you've got to eyeball those new hires and give them sufficient training for them to eyeball your customer or the job they've been hired to do.

The interview and offer should prepare the new hire to join the company and begin to participate, but the training program will reveal specifically how company standards are to be met and clearly define the expectations of management for that new hire's behavior and performance. More importantly, good training is a big component in creating and energizing the company's work and management culture. More about that in the next section.

Training should generally be devised as and divided into three components:

1. Orientation training, which is company-wide, welcomes any employee in any department or function into the company; speaks of vision, mission, customer definition, customer satisfaction; and covers all employment benefits and policies. This training should communicate the spirit of the management philosophy, the goals of the company, and the opportunities and benefits of working there.
2. The next level of training should address the role of and functions of individual departments in the company. Even if the company is small, a marketing department, sales department, maintenance department, or bookkeeping department should have training pertinent to that department.
3. Finally, specialized training can be offered for specific or technical tasks. Many times in a small company, the founder or owner will be doing highly specialized functions that form the basis of the company. But in a company making products, a line worker may receive orientation training, assembly department training, and then training on a specialized function in the assembly department.

Ideally, training should be conducted before contact is made with customers. A key, though, is to have ongoing trainings as your business process changes and evolves, as more product/service is sold, and as increasing customer service improvements emerge.

CREATING AND MAINTAINING A CULTURE

This is the essence of the Team aspect of Phase 2—the owner's leadership by example, use of management vocabulary, and adherence to policy, procedure, management style, and training. As the team leader, one of your roles is to create an intentional business atmosphere that will invigorate team members throughout the entire product/service delivery system.

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Take a flight *on Southwest Airlines®*, purchase a pair of shoes from *Zappos.com®* or a suit from *Nordstrom®*, order a *Starbucks®* espresso, or buy tires from *Les Schwab®* or a Double-Double from *In-N-Out®*, and you will recognize companies have created a vibrant organizational culture. They keep you—the customer—wanting to come back.

Organizational culture is a balance of human psychology, attitudes, actions, and beliefs which, when combined, either create pleasure or pain, serious momentum, or miserable inaction. A strong culture flourishes when a clear set of values and norms actively guide the way a business operates. Employees who are actively and passionately engaged in the business operate from a sense of confidence and empowerment rather than trudging through miserable days filled with extensive procedures and negative feedback. Businesses that establish a performance-oriented culture possess statistically better financial growth, with high employee involvement, better internal communication, and an acceptance of a healthy level of risk-taking in order to achieve new levels of success.

Look back to the point at which you first started thinking about creating a business—what did you want to achieve? It was probably something more than just making money or creating a product or service. You likely had a vision of the kind of company you wanted to work in yourself: one where everyone enjoyed coming to work, worked hard and showed dedication, was treated with respect, and maybe even had a little fun.

When many people think of a company's culture, they first think about things like whether employees are allowed to wear jeans and t-shirts or if the boss sometimes sends in free pizza. A company culture is less about these superficial things, however, than it is about what your business values. How will you treat your employees and show respect? Are you committed to family values, such as will employees only have to work late or on weekends in true emergencies and can parents take care of sick children when necessary? How will you interact with your community and the world in general? What code of ethical conduct will you adhere to when doing business?

Management style plays a major part in how corporate culture is established. How much authority and responsibility will you give employees, and how frequently will they have to check with you before making their own decisions? Do you want to create a role for yourself as a traditional authoritarian boss or nurture a more collaborative culture? Will you acknowledge employees more for doing something right, or you will penalize them for doing something wrong? If it's the former, you'll encourage them to take positive steps to improve your business and accept responsibility. If it's the latter, they'll be afraid to take independent steps and will wait for you to direct their activity.

Employees thrive and feel a sense of ownership when they're encouraged to use their minds and when they receive positive reinforcement for making good choices. So, what can you do to create a culture that rewards the good behavior you see going on around you?

More than 30 years ago, Ken Blanchard pointed out in *The One-Minute Manager* that you can give a person a specific one-minute praising to reinforce what the employee has learned in training, such as "That was great, Charlene! You welcomed the customer into the store with a non-solicitory greeting, gave him some space, and then re-approached him with an open-ended question, suggesting a couple of pair of hiking boots and emphasizing features and benefits. And then you closed the sale. That's the way it's done—perfect!"

This type of laudatory comment is especially suited for letting newer staff know they are doing things up to par and meeting the company's expectations. Indeed, all managers should make that type of dialogue a habit with all new hires! A manager can use another version of this feedback if a new employee is not performing as trained, such as "Kyle, I thought we understood that you'd turn in the timesheet with annotations for overtime by the 3 p.m. deadline on Fridays. Let's make that happen next week. Shoot me an email if you run into any questions or have a problem." Rather than punishing Kyle for a tardy, incomplete timesheet during his first few weeks, the manager has just "redirected" him with a mini-training session to set him on course.

Seasoned employees need positive attention and reinforcement as well. There are many non-monetary methods to let people know they are doing a good job and that it's noticed. In fact, noticing and appreciating an individual's good work is the most effective method of assuring he or she keeps up the good work! Some examples of positive reinforcement methods that are easy and inexpensive for owners and managers to use include:

- Ask the employee for advice or an opinion on a policy or operating procedure.
- Verbally praise, smile, nod, high five, handshake, or fist bump.
- Allow the employee to report results to others in the organization.
- Excuse the employee from a less desirable task or provide a priority parking space.
- Give the employee increased responsibility, short- or long-term.
- Allow the employee to make decisions affecting his/her own work, organization, strategies, or plan.
- Give the employee a choice of work assignments.
- Provide the employee opportunity for special training or a webinar/seminar.
- Make special introductions to company leaders or inclusion in special events.
- Extend social attention, e.g., joining for a coffee break or going to lunch.
- Recognize the employee in the presence of peers.
- Provide a letter or note of commendation.

These are all actions which, in addition to more formal awards ceremonies, plaques, etc., can convey the owner/manager's approval of the work being performed.

This type of interactive, positive management, however, doesn't come naturally to everyone. Most of us recall a boss who never seemed to have a good word to say about anything, much less to a subordinate. Here's one simple way for you and your managers to focus on providing positive feedback to members of your team: provide each person with five shiny new pennies and instruct each to put the pennies in one pocket. During the course of the day, every time you give positive feedback or a reinforcing compliment for a job well done, move a penny to another pocket; by the end of day the goal is to have moved all the pennies to the other pocket. At first it may feel a little strange, but after you experience the reaction positive employee feedback brings, it will quickly become a habit.

While your company's culture will evolve over time, be conscious of it from the start because this culture will impact your business in many ways, including:

1. Boosting employee loyalty. Employees who are a good fit to your company culture are likely to be loyal and satisfied, reducing employee turnover.
2. Helping recruiting efforts. What attracts the best new applicants? Businesses where people feel good about going to work for a company with integrity, respect for all, and where people have fun do.
3. Attracting customers. Just as your culture attracts new talent, it also can draw new customers. When you treat employees with respect, they treat customers with respect. And if your business culture resonates with your customers, and you consistently deliver on your commitments to them, they're going to continue doing business with you.
4. Driving decision-making. If you've cultivated a business culture committed to integrity and honesty, then you already have a framework in place for making decisions.
5. Establishing a positive reputation. Having a positive corporate culture gives you a positive reputation in your business community. In almost any sized community, word gets out to customers, vendors, and fellow business owners about how you run your business. Being seen as a fair and decent employer as well as a good businessperson enhances your reputation in your community.

EXPERIENTIAL LEARNING FOR ENTREPRENEURS

By now you've come a long way. The business is operating and your people seem to be humming along given everything you've got in place. One thing virtually every small business owner experiences, however, is that no matter how thorough the business plan or the operations conceived and documented in Phase 1, the business never operates—nor does the customer ever behave—exactly the way you expected!

As the business begins to operate, customer needs and behavior become clearer to those conducting sales and service, and vendor reliability and performance actually becomes evident, the business owner will need to make adjustments to all facets of the operation to ensure timeliness and accuracy and stimulate peak performance, all while fostering loyalty, commitment, and enthusiasm throughout the team network.

Once all the aforementioned work and documentation has occurred, the owner/manager must monitor key performance indicators (KPIs) for the business and measureable aspects of teamwork and modify policy and procedures to increase competitiveness and productivity. Examples of KPIs in the Team arena might include:

- Individual salesperson performance
- Number of customer contacts converted to customer action and sales
- Cost per sale, or maintained margins on sales
- Employee incidents, complaints, and/or turnover
- Number of customer complaints (or compliments); customer retention and continued business activity
- Timeline for recruiting, hiring, and training staff to maintain productivity
- Stability and reliability of vendor/supplier relations and performance
- Shrinkage and loss prevention incidents and levels (the unexplained disappearance of money and/or merchandise, or safety violations or notifications)

There are many possible KPIs for any business, but the puzzle is to determine those crucial to your business and the manner in which you have positioned your product/service in the marketplace and differentiated your business from the competition. The KPIs you monitor and communicate with your team must be mission critical and should be a manageable number. The key is that the policy and procedures in place must be adhered to by staff and team members.

Management's (your) position should be that policies and procedures will be honored until the organization makes a change in the way business is conducted, but that all team members are encouraged to posit and champion new ideas for relationships between all the team members and the customers. The team members working in your business are the best source of ideas to improve processes, customer satisfaction, and promote efficiency and control operating costs—this is at the foundation of experiential learning.

The team working for the business understands the vision and mission of the company and knows the crucial KPIs. As they work and interact together to satisfy customers, they monitor the KPIs and more fully understand the system defined by policy and procedure. As new ideas begin to emerge, a new plan for some aspect of the business process, or team interaction, begins to crystallize.

But folks can't be doing things the way they think they should be done. The team communicates on the issue, and management devises and implements a new policy, procedure, technique, or even a new segmentation of the customer target market as part of the SOP and the team responds and acts accordingly.

In fact, those promoting the new idea might even be on the receiving end of a positive consequence! A bonus or extra time off, or even a percentage of the savings or increased revenue derived would reinforce inquisitiveness and innovation and stimulate more continuous improvement.

Once the new technique is implemented, the process starts over: Monitor KPIs; think creatively to solve problems or improve performance; bring the ideas to management; adapt and implement; and continue to carry on. In reality, a continuing series of "mini-plans" are augmented to tailor the business to its actual, and constantly changing, operating environment.

MINI-PLANS

The above concept of continuous experiential learning lends itself nicely to the notion of "mini plans." Once the business is open, continuous interaction among the team will reveal areas ripe for customer satisfaction or individual improvement. As the experiential learning described above continues to unfold, management will be faced with constructing small plans to augment and improve operations.

Mini-plans will be required by all departments and functions of the business and will be frequent in the area of the Team. For instance, should a new position be created to handle increased volume or a new aspect of operations; will a function be brought in-house, e.g., marketing, social media management, or payroll; should the compensation system be adjusted to increase performance—and how will that effect operating margins; or, does a new vendor need to be sourced to increase the efficacy of the distribution change?

Obviously, business operating in Phase 2 will see the need for modifications but will typically find itself lacking in capital and person power. As matters of change become apparent, the owner/manager will be faced with the task of prioritization: which change will give the business the greatest ROI (Return on Investment of money, time, and implementation). Once this decision is made, a mini-plan needs to be constructed leading to implementation of the new operational element.

One might proceed by:

- Setting a SMART* goal, e.g., we will bring all our on-line and social media marketing in-house by August 1
- Setting a date
- Determining responsible parties
- Backing out the actual steps to be taken from the inception date to the completion date

- Setting reporting or benchmark target dates
- Formulating a budget

COMMON MISTAKES

Many entrepreneurs will necessarily incur significant expenses and operating overhead in Phase 1 before the business is open and find themselves in a headlong rush to get the doors open or the sales made and into Phase 2 before they have prepared adequately. An owner will pay his professional service providers, acquire equipment COD or with 30 day terms, owe contractors, purchase inventory COD or with short terms, bring on staff to move toward opening, be paying staff to train before sales are actually made, or even be paying rent before sales are being made!

This situation tends to make entrepreneurs/owners/founder/investors just a little bit anxious to start generating revenue. And, understandably, an entrepreneur may be so fired up with his or her idea that she or he just can't wait to get rolling and will open before being fully prepared.

Even though these factors should all be considered in the Phase 1 business plan, most businesses open with shortcomings which will need to be the object of a mini-plan! Some of those shortcomings that will affect the Team include:

- Not clearly defining service standards and processes
- Not conducting thorough interviews and doing reference checks before making offers to prospective employees
- Expecting people will learn to your standards with OJT (On the Job Training)
- Not having a training program in place
- Putting people who are not familiar with your service standards in contact with customers
- Confusing employee status with contractor or casual labor status
- Not monitoring cash flow to allocate funds from sales for payroll related taxes and timely deposits of such funds

- Not deliberately formulating and adopting a management style
- Not applying immediate consequences to behavior, whether corrective consequences for inappropriate behavior or laudatory consequences for outstanding behavior and performance.
- Not treating all subordinates the same, e.g., picking "favorites," or applying policy enforcement or consequences to behavior in a haphazard manner

If you should perchance detect any of the above after you've opened, switch into mini-plan mode and start implementing improving or corrective action as time allows. You will, by the way, experience the difficulty that Tom Peters so wisely articulated in *In Search Of Excellence*: "It is far more difficult to tighten up after opening than it is to loosen up."

When a business opens with a variety of the above shortcomings, staff will find themselves winging it when it comes to getting through the tasks of the day or in dealing with customers or moving to close a sale. In addition, human nature dictates an employee would take the "path of least resistance" in performing his or her job. Think of a distribution center associate who finds it's much easier not to service the forklift regularly or more comfortable not to follow hazardous material disposal to the exact letter of the procedure. Or, what about a salesperson who can create more volume by altering price and making a quantity number slightly different on an invoice?

If the business and its internal team opens and operates with lax standards, incomplete training, or ineffective supervision and feedback, an operating culture will develop of its own accord and not likely come close to the high quality process the founder envisioned. Cracking down on an organization after it believes it has been doing just fine is very difficult—possible, yes, but it requires an intervention that is carefully conceived and executed.

BUSINESS READINESS ASSESSMENT

To start tight and in full readiness mode regarding your team and the full network of people who must work co-operatively to make your business a success, be sure you have:

- Had all legal requirements consolidated in a checklist to make an offer and hire a new person with thorough compliance to documentation and tax regulations.
- Anticipated customer interaction and included all relevant standards in training, policy, and standard operating procedures.
- Installed all relevant technology, e.g., POS, MIS to allow for "time clock," performance KPI monitoring, commission compensation calculation, benefits accrual, and general payroll calculation.
- Negotiated and understand all contractual and operating agreements with vendors and suppliers in your customer delivery chain.
- Established systems for capturing customer information, creating feedback opportunities, and soliciting future sales (CRM).
- Clearly defined all agreements and fee structures with outsourced services such as payroll, real estate brokers, marketing, social media management, computer network services, etc.
- Created and communicated your expectations for staff performance in specific roles and positions through job descriptions, an organization chart, an employee handbook, a SOP manual, training, agreed-upon daily feedback techniques, regularly scheduled management and team meetings, performance reviews, written "incident" reports if necessary, and leadership by example.
- Conducted thorough pre-opening training in accordance with all of the above.
- Trained all management and supervisory personnel, including yourself, in applying daily feedback to all staff in accordance with your adopted management style.

- Created an efficient and regular feedback loop from staff to continually learn about all sales, manufacturing, distribution, loss prevention, new product development, accounting, tax submission, regulatory compliance, safety assurance, and customer satisfaction processes as they operate in the action and reality of doing business.
- Determined how to cultivate new ideas from staff and how to incorporate new processes into the business via mini-plans.

Ultimately, it's all about the people who contribute to the success of your enterprise, including your customers! Though there are regulations and policy and procedures that require compliance with employment, finance, safety, insurance, and tax guidelines, the spirit and vision of the entrepreneur should give life and enthusiasm to the process of satisfying the customer! Good luck.

9

PHASE 2, OPEN
MONEY

In the first phase, you estimated the startup costs and ongoing operating expenses of the business you are starting. You analyzed the cash flow projections, assessed that you could operate this business profitably within a reasonable time frame, and made the decision to move forward. In this phase, you will need to turn your attention to:

- Ensuring you have access to adequate capital to start the business and successfully see it through the startup phase
- Setting up systems for tracking income and expenses and monitoring cash flows, and understanding what this financial data means

FINANCING THE BUSINESS

Do you personally have sufficient capital to cover the startup costs through this phase? If you don't, you will need to seek outside financing. While a wide variety of financing options exists, in reality very few of those options are widely available to most startup businesses. The majority of clients we work with come to us expecting to obtain a business loan. Overwhelmingly, the majority of our clients, however, will not qualify for a startup business loan.

Generally, it will take approximately two years of business operations before a lender will consider that your business, on its own, has established business credit. In the meantime, a lender will make a loan decision based on your personal creditworthiness and financial position. Therefore, you must ask yourself: Am I creditworthy? If not, what steps do I need to take to become creditworthy?

Most of the clients we see today are not creditworthy in the eyes of a commercial lender due to one or more of the following reasons:

- Lack of personal capital to inject into the business
- Poor credit score
- Too much personal debt
- Living beyond their means
- Lack of significant work experience in the industry
- Lack of collateral to provide security for the loan
- Lack of outside sources of income to cover personal expenses

If you are serious about trying to obtain a bank loan for a startup business, you must honestly assess your personal credit position and take steps to make yourself creditworthy. Achieving creditworthiness will require you to (1) pay down existing debts so that you owe 40% or less of the amount of credit for which you are approved, (2) never miss payments or make late payments, (3) cut personal expenses so you are living below your means, and (4) save a significant sum of money to invest personally in the business.

The first step in obtaining bank financing is to invest the time to write a concise but thorough business plan. The business plan is generally the first piece of information a banker asks a potential commercial borrow to provide. The banker will read the plan to determine if your business model makes sense. Do you understand your market? Do you have 2-5 years of relevant business experience in this industry? Have you identified your competitors and found a niche that is not being filled? Do you have a plan to successfully market the business?

As you will recall, throughout this book we have suggested a series of smaller "mini-plans." When you are seeking bank lending, you will need to pull together these various plans into one presentation document to answer the key questions listed herein.

If the banker is satisfied you have the ability and experience to operate the business, he or she will turn her attention to assessing your personal credit strength.

- You will need a strong credit score. Lenders prefer credit scores of 700 or above, but many will lend to borrowers with scores in the 680-700 range.
- You will need to have a significant amount of your own money to invest in the project. Generally, you should seek to bring a minimum of 25-30% of the total capital costs. Of course, the more you have to personally invest, the greater your chances of being approved for a loan and the lower your monthly loan payments will be.
- Your chances of being approved for a loan will be improved if you will not be totally dependent upon the business to supply your personal needs. This generally involves having a secondary source(s) of income, such as retirement or disability income or a working spouse.
- You will need to have assets to provide collateral for the loan. Buildings, land, and equipment are strong sources of collateral. Additional collateral can be provided by pledging personal assets that could be sold if the business runs short of cash. These assets might include second homes, boats, motorcycles, certificates of deposit, and other valuables that you own.
- The lender will require you to provide personal tax returns for the past 2 or 3 years.

If your credit strength makes you a good risk, the banker will then assess the profit potential of the proposed business.

- The first step in determining the business's potential feasibility is to develop monthly cash flow forecasts for the first 24 months of operations.
- Balance sheets and income statements will need to be projected for the first 2 years of operations.
- You will need to ensure that the business's financial ratios are in line with industry standards.
- You will need to determine the breakeven volume of sales.

These financial statements should have been developed and studied as part of your "go/no-go" decision-making process in the first phase. While the above points can be discouraging, they do illuminate ways you can make you and your business more bankable. This may mean you need to spend some time "getting your house in order" to intelligently start your business, but this is a good idea not only to make a presentation to the bank, but for you as well.

We suggest you use these points as a guideline, but once you have the startup plan pulled together, it is not too early to start a relationship with various banks. You will find there is an ebb and flow to how individual lenders approach small business loans, both from bank to bank and, generally, within the lending climate. In the end, you only know exactly where an individual bank's mindset is by asking.

ALTERNATIVE SOURCES OF FINANCING

If you do not have sufficient capital on your own and you are unable to obtain a business bank loan, you may wish to consider other options to raise the needed capital. Those options include:

- Micro lenders
- Factoring (for working capital)
- Incentives offered by local economic development offices
- Leasing companies (for equipment)
- Customers' deposits on orders
- Loans from family members or friends

- Self Directed IRAs
- Crowd funding—incentive funding options like Kickstarter™
- Private placements (being careful so as not to run afoul of securities laws)
- Angel investors for technology/highly scalable business opportunities
- Venture capitalists—not likely, but could be suitable for the rarified few advanced technology plays

ENTREPRENEUR'S VOCABULARY

It is helpful to pause here and define some of the terms in the list above.

Microlenders lend relatively small amounts of capital to help small businesses get started or expand. The SBA's microloan program allows lenders to make loans of up to $50,000. The typical microloan, however, averages $13,000. Due to the small loan size, microloans are easier to obtain than standard business loans. These loans are often used to fund home-based businesses and those with very low startup costs.

Factors (factoring) provide loans using existing accounts receivable as collateral. The factor advances the amount of the invoice less the factoring fees. The borrower surrenders the accounts payable to the factor. Factoring is not typically used to start a company, but it can be used in a company's early growth phase to provide much-needed working capital. Factoring is a relatively expensive source of capital.

Incentives are frequently provided by local economic development authorities to attract new businesses to their localities. Incentives can include the waiver of business license fees, facade improvement grants, e-commerce grants, and general business incentive grants. However, local economic incentives and grants are rare for startups and limited in amounts and applications. In addition, these grants often come with stipulations. For example, a facade improvement grant might require matching funds from the entrepreneur, and a business license waiver may be dependent upon the collection of a certain volume of sales tax revenue that will flow to the local government.

Crowd funding is a relatively new way of raising funds by appealing to the masses for assistance. Crowd funding platforms allow entrepreneurs to pitch their business ideas on the Internet to attract potential investors. Funding is provided in small amounts by a large number of people. Investors may be offered very small stakes, such as a product, in return for their contributions. Kickstarter™ is one of the crowd funding platforms that is used to raise funds for creative projects.

Private placement involves selling shares of stock in your company to private investors. Due to securities and exchange regulations, you will need to engage legal assistance in offering securities for private sale. This option is not typically available to most entrepreneurs in the startup phase of their businesses.

Angel investors are high-net-worth individual investors who seek high returns through private investments in startup companies. Angels often invest in industries or technology with which they are personally familiar. They seek companies with high growth potential, strong management teams, and solid business plans. If you intend to look at this form of financing, you should be prepared to explain how the investor will receive a high rate of return from his or her investment in your business, and over what time period. You should also assume the investor is very savvy and will ask all the right questions.

Venture capitalists include angel investors as well as companies. Like angel investors, they are looking to invest in high growth companies that may yield a high return on their investment. Venture capitalists will generally accept much more risk than typical investors and have a longer investment horizon than other investors or financiers.

EVALUATING THE ALTERNATIVES FOR SOURCING OF FUNDING

Realistically, if you don't personally have the capital you need to start the business, your best options from those listed above are to (1) borrow money from friends and family, (2) seek microloans and/or personal loans, (3) check with your local economic development office for local incentives, and (4) minimize out-of-pocket expenses by leasing equipment.

By far the most common source of funds is to borrow the needed money from friends and family. These are the people who know you best and believe in you. In many cases, they have been hearing about your dream of business ownership for many years. They understand what you are trying to accomplish and are eager to help you succeed.

If you go this route, you need to take care to treat this loan as you would any other loan. Write up a loan agreement stating clearly (1) how much money is to be loaned, (2) when you will receive it, (3) the terms of the loan, (4) when the first and successive payments are due, (5) penalties for late payments, and (6) the conditions that would constitute default. Some entrepreneurs elect to have a lawyer draw up an agreement and record it as a lien against the business; others write up less formal agreements. Regardless, you need to be committed to honoring your benefactor's faith in you and to remitting full loan payments in a timely manner. Getting in this habit is important, regardless of who is assisting you, and contributes to a strong mindset to ensure your business has a strong future.

A microloan is a good option if your business has low startup costs. A microlender will require a written business plan, as well as bank statements and a credit check. The fees for borrowing from a microlender are generally higher than if you had borrowed from a bank. However, a microloan is easier to obtain. If the amount needed is only several thousand dollars, you may be able to obtain a personal loan from your banker.

Local economic development offices often offer some type of financial incentives to encourage businesses to locate in their city or county. These incentives range from a waiver of the business license fee to cash to improve a building's facade. Generally, these incentives come with some strings attached. For example, a city may waive a restaurant's annual business license fee for the first 5 years of operations on the condition that the restaurant generates a pre-determined volume of meals tax revenue for the city. Facade improvement grants often require matching funds from the business owner. Other incentives provide relatively modest amounts of startup capital with the conditions that the business creates a given number of jobs. While these incentives can be helpful, they typically amount to several thousand dollars or less.

Leasing equipment allows you to minimize out-of-pocket expenses for equipment and machinery, thus decreasing your reliance on external sources of financing. Over time, leasing may be more expensive than purchasing equipment outright, but the extra costs may allow you to keep the doors open. Leasing computers and other equipment that quickly becomes obsolete can actually save your business money in the long run, as you can frequently update your equipment without the added costs of purchasing new equipment every few years.

Entrepreneurs often find the size of their dreams do not match the size of their pocketbooks. Scaling back doesn't necessarily mean you'll have to compromise on the value of the products or services you will offer.

As you consider your financing options, you may find you need to scale back the size of your project due to limited funds. Entrepreneurs often find the size of their dreams do not match the size of their pocketbooks. Scaling back doesn't necessarily mean you'll have to compromise on the value of the products or services you will offer. However, it nearly always involves taking a serious look at the projected costs and looking for areas that can be cut without hurting quality. Some ideas here include:

- **Space requirements.** Entrepreneurs frequently overestimate the amount of space required for their office, shop, or restaurant. Leasing rates are based on square footage. If you lease more space than you actually need, you will spend more money in the startup phase for your lease and utility deposits, buildout, furnishings and equipment, and inventory than you need to spend. Additionally, you will be paying more each month for rent and utilities than you should. Determining the optimum amount of space is challenging, but the time and effort can save you a considerable amount of money in the long run.

- **Employee cost.** Consider whether you truly need each employee you plan to hire. It may be possible to eliminate some planned positions and outsource some tasks to other companies that can perform the work more efficiently. Payroll and billing are two prime areas to consider for outsourcing. These functions require specific knowledge but do not necessarily involve a lot of time for someone with the right skills and expertise. By outsourcing these functions, you will often pay only a fraction of the salary you would have paid to an employee.
- **Starting Conservatively.** Many have argued the benefits of starting with only the most basic product, product line, or services. It minimizes startup time and expenses and allows you to "test the waters." For example, is it possible for you to start your business from home and move to a leased space once you have established a clientele? Can you start with one or a few products rather than your full product line?
- **Workspace sharing.** If you will run a consulting or professional service business, you may need only a small office. You should investigate workspace sharing options in your community. You may be able to share a lobby, receptionist, office equipment, kitchen, and conference room with other business owners. In addition to saving money, you have the advantage of not being isolated.
- **Internet-based business.** Many retail products, as well as consulting services, can be offered initially online, allowing you to conduct business from the comfort of your home. You will want to have processes in place to securely accept payments online. You will also need to be able to minimize distractions and separate your work life from your personal life.

COMMON MISTAKES

The following is a list of common mistakes entrepreneurs make when estimating startup costs and operating costs. By avoiding these mistakes, you will minimize your out-of-pocket costs and save money.

1. Overestimating space requirements
2. Buying all new equipment, rather than seeking out good, used equipment
3. Over-staffing, including hiring staff to do tasks that could be outsourced more economically
4. Not understanding all of the lease provisions—having to pay for buildout expenses you thought the landlord would pay
5. Failing to consider all costs, such as utility deposits and hook-up fees, property taxes, credit card fees, and maintenance and repairs

AN EXAMPLE:

Jonelle dreams of opening her own bakery. She has researched retail locations and equipment needs. She estimates her total startup costs to be $28,900. She has only $3,500 of her own money to invest. Due to her lack of retail bakery experience and a lack of collateral, Jonelle is unable to secure a bank loan. She doesn't feel comfortable asking her family and friends to lend her money.

What are Jonelle's options?

Jonelle works with the local SBDC and determines her best options are (1) to operate her bakery from home or (2) to rent cooking time from a licensed commercial kitchen.

After careful consideration, Jonelle decides that renting commercial space is her best option. Her SBDC consultant helps her identify commercial kitchens in the area that rent out their space to other businesses. Jonelle visits several and selects the one closest to her home. Since the kitchen is already certified by the health department and is fully equipped, Jonelle's startup costs are minimal and fit within her $3,500 budget.

She signs a contract to use the kitchen 20 hours per week and begins selling her baked goods at local farmer's markets. She also negotiates with a locally owned grocer to carry her baked goods. As her reputation and sales grow, Jonelle will take another look at the possibility of leasing retail space.

GETTING TRANSACTION READY

Once you have the money in place to finance your business, it is time to turn your attention to the details necessary to begin transacting business, both receiving and making payments. In Phase 1, you identified and hopefully interviewed key members of your "external" management team, including your accountant, attorney, insurance broker, and banker. Now it's time to pull all this together and draw upon the expertise of your team to put processes in place so that you are ready to set up shop, track your revenues and expenditures, and be ready to make that first sale. Your accountant and banker will be key players in assisting you in setting up these systems.

ENTREPRENEUR PERSONAL ASSESSMENT

Most people get into business because they know how to make things and/or they know how to sell things. While their focus is on these two areas of business development, they frequently overlook the "behind the scenes" elements of the business that are administrative in nature. These include the "boring" but critically important things like selecting an appropriate accounting system. Now's the time to make sure your books (and financial knowledge) are up to speed.

One of your primary decisions is determining what bookkeeping/accounting system you are going to use. The most widely used systems are *QuickBooks®*, *PeachTree®*, and *OneWrite®*. Your accountant may suggest another one and, perhaps, customize one to fit your needs or industry. Regardless of the system, keep in mind "Garbage In, Garbage

Out." This means that the information you get out of your system is only as good as the information you put in. So make sure you have your chart of accounts set up properly.

You need to personally assess your financial knowledge by asking yourself if you understand:

- the difference between expenses and capital expenditures
- the difference between debt and equity
- how to categorize assets—current versus long term
- the difference between profits (or losses) and cash flow

If your knowledge in this area is lacking, you may want to take a course in small business finance. At the very least, you will want your accountant to explain these items and assist you to properly set up the chart of accounts and to maximize efficiencies of sharing your books with the accountant. He or she may recommend storing your books "in the cloud" so that you and the accountant each have real-time access to them.

ENTREPRENEUR'S VOCABULARY

It is helpful to pause here and define some of the terms commonly used by bankers and accountants.

Chart of accounts: A list of accounts used by an organization to track monies received and spent. The chart of accounts is divided into five primary categories: revenue, expenses, assets, liabilities, and equity. The chart of accounts is the foundation of the bookkeeping/accounting system.

Sales: Revenues received or recognized on the income statement from the sale of products or services. Some revenues will be recognized but not received during the time period of the income statement due to the seller extending credit (accounts receivable) to the buyer.

Expenses: Costs or payments associated with business operations and generating or supporting the sales, management, and administration of the business. Expenses are classified into direct (or variable) and fixed. Direct (variable) expenses are costs incurred directly with the sale of goods or services and include materials, inventory purchases, direct labor, freight in/out, etc. Fixed costs are expenses which are more fixed in terms of amounts or timing and are not as directly related to the sales function and include such items as rent, utilities, insurance, administrative payroll, etc. Expenses are recognized on the income statement.

Income statement: Also known as the profit and loss statement, this financial report recognizes the operations of a business over a period of time—most commonly monthly, quarterly or annually. Expenses are subtracted from sales revenue to show whether the business made money (profit) or lost money (loss). Right, wrong or indifferent, most small business owners focus on the income statement because this is where they "think the action is."

Balance sheet: The second primary financial statement provides a picture of what a business owns (assets) and how it paid for the assets (debt or cash) at any given point in time. As the name suggests, a balance sheet must balance: the total amount of assets must equal liabilities plus equity. Simply stated, the balance sheet shows the assets the business owns and whether those assets were acquired using loans (debt) or were paid for out of the business's earnings (retained earnings) or money injected in the business by the owner (equity). The balance sheet is frequently overlooked by business owners, as they don't completely understand it and often find it confusing. Unfortunately for the business owner, the balance sheet is really where the action is from a banker's perspective, and is a key indicator of the health—and growth readiness—of the business.

Assets: Assets are the things owned by the business. They include inventory, land, buildings, furnishings, equipment, and money in the bank. Short-term (current) assets are sometimes referred to as cash or near-cash items, as they can be converted to cash easily within one year. Short-term (current) assets include cash, inventory and accounts receivable. Long-term assets have longer lives and generally cannot be sold quickly or easily to generate extra cash. Equipment, machinery, furnishings, land, and buildings are examples of long-term assets. Assets can also be categorized as tangible items, such as buildings, equipment, and cash, or intangible items, such as patents, franchise licenses, and trademarks. It is easier to assign a monetary value to tangible assets than to intangible assets. However, all assets must be assigned a value on the balance sheets.

Liabilities: Liabilities are various types of debt incurred by the company. Liabilities are divided into short-term obligations, which are due within one year, and long-term debt, which is generally repaid over many years. Short-term obligations (current liabilities) are used to support current operations of the business and include accounts payable to vendors, notes payable, credit lines, credit card debt, and unpaid taxes. Long-term liabilities are typically incurred to purchase long-term assets and might include commercial term loans, mortgages, and loans from shareholders.

Equity: Equity is the money that has been invested in the business by the owner(s) of the company. Much of the startup costs for a new business are typically covered by equity capital. As the business becomes profitable, the owners may decide to retain some of the profits in the business to fund future growth; this capital is called retained earnings. Equity can also be raised by selling stock in the company to investors.

Capitalized expense: Costs incurred to acquire assets with long lives, such as equipment, buildings, and intellectual property filings, are recognized—from an expense standpoint—over the expected life of the asset. Rather than deducting (expensing) the full purchase price in the year of purchase, the expense is spread out by calculating the value the assets is estimated to have depreciated during the year. If the asset has an expected life of 10 years, then it is assumed to depreciate by 1/10 of its value each year. The depreciation as it accrues is recognized on the balance sheet as a reduction in initial asset value. The debt incurred to purchase the asset is amortized over the time allotted to repay the loan.

Depreciation and amortization: Depreciation recognizes a longer-lived asset is used over a period of years and therefore is reduced in value (depreciated) over this "useful life" (although tax laws may provide for a means of accelerating the recognition of depreciation to shorten the time of "recognizing" the full cost of acquiring the asset). Depreciation is the recognition of the cost of tangible assets such as equipment and buildings over their useful life, while amortization recognizes the costs of intangible assets, such as patents and franchise licenses, spread over a period of time.

Merchant account: In order for a business to accept payments by credit or debit cards, the owner must establish one or more merchant accounts. A merchant account is established under an agreement between the business and a financial institution (acquiring bank) for the settlement of payment card transactions. In some cases, a payment processor, independent sales organization (ISO), or member service provider (MSP) is also a party to the merchant agreement. Each day, the merchant remits the day's credit and debit card receipts to the acquiring bank. Within one or two days, the acquiring bank credits the merchant's account with the balance less the agreed-upon fees.

Lock box: A lock box is also known as remittance services or processing. This is a bank service wherein customer payments (accounts receivable) are sent directly to a post office box accessible by the bank. This service can expedite the crediting of payments to the business's account.

BUSINESS DEVELOPMENT

One of the first things you'll do in the startup phase will be to establish a banking relationship and set up appropriate business accounts. At the very least you will need a business checking account and perhaps a linked savings account and a business credit and/or debit card. It is a good idea to deposit enough money to cover the first few months of operating expenses in your checking account and then place additional funds into the savings account. Depending on the type of business, you might also need a merchant account in order to accept credit card transactions, a lock box account for direct deposits, electronic funds transfer capabilities, and other banking functions as might be relevant to the type of business and processes you have.

When setting up your business banking accounts, keep in mind that banks are under a tremendous (and ever-increasing) amount of regulation. On top of federal regulations with which that they must comply, they operate under state regulations as well as internal bank policies. Thus opening business banking accounts is not nearly as easy as it used to be, so be prepared for some frustrating times. You will need to take a number of relevant business documents with you when you go to the bank to open your account.

What do you need to bring with you in order to set up your accounts?

- Business organizational papers, such articles of incorporation for a corporation, certificate of organization for an LLC, and DBA certificate for a sole proprietorship. You should also bring your company's operating agreement or corporate bylaws to prove ownership of the business.
- Names and social security numbers of all partners, shareholders, or LLC members. Some banks require all members of an LLC to be physically present to set up the account. Obviously this makes it difficult to set up an account for an LLC whose members live in other localities or states. At a minimum, each person who will be authorized to sign checks must be present to sign the bank signatory card in front of a bank officer.
- Company taxpayer identification (FEIN/TIN). You should take a copy of the official letter you received from the IRS. Also note that the taxpayer is the business, not the owner. The taxpayer name is the legal name of the business. Sole proprietors should strongly consider obtaining a tax ID number for the business

rather than using their personal social security numbers on accounts, as that can create confusion between the personal and the business accounts.

- Your bank may require proof that your corporation or LLC is in good standing with the appropriate regulatory body in your state. Generally, this proof can be easily accessed online and brought with you to the bank.

You need to understand that business banking accounts are not free. You will be charged for many products and services, including checks, credit/debit cards, and bank statements. Therefore, it is worth spending some time shopping around to see what bank will offer you the best value for the services you require. When choosing a bank, however, fees are not the only consideration. You will want to work with a bank that has a location convenient to your business and that will work with you as your business grows.

If you are looking for other banking services, such as a lock box, merchant services, and wire transfers, you might be directed to other departments of the bank in order to set up these systems. Be prepared to discuss your business operations with the business development officer, branch manager, or personal banker so that he or she can direct you to appropriate people and departments to get you set up properly and efficiently.

COMMON MISTAKES

Perhaps the single biggest mistake we see with new businesses is that the owners have not properly set up their chart of accounts. This is the cornerstone of the accounting system, and if the various categories of accounts are not set up properly, the old "garbage in, garbage out" effect takes hold. The most common errors seem to be misunderstanding and misclassifying income statement vs. balance sheet items. For instance, a new business owner might classify the purchase of a piece of equipment as an expense (on the income statement), whereas it should be listed as an asset with an offsetting source of payment on the balance sheet. Then, the asset is capitalized (depreciated) over its useful life and said depreciation is recognized on the income statement and accrued as a reduction in asset value on the balance sheet.

Another common mistake is to classify bank loans and owner's cash investments as sources of revenue (sales) on the income statement, whereas these investment sources should be recorded on the balance sheet as liabilities or equity.

It also makes sense to carefully study the revenue accounts in the income statement to ensure they accurately reflect the types of revenue streams you want to monitor in the business moving forward. Very often these are set up by accountants to address accounting and tax issues but fail to adequately provide revenue monitoring for the business owner. So make sure you feel the revenue accounts reflect how you see the business organized.

To the extent possible, try to create Cost of Goods Solds (COGS) accounts to mirror the revenue streams. This may not always be realistic—a great example is payroll in direct labor accounts where the people work on all of the revenue streams—but if you are able to isolate COGS accounts to directly line up with the revenue accounts, this will serve you well down the road.

The best way to avoid these problems is to work with your accountant as you initially set up your accounting system so that you have your accounts set up correctly and you know how to properly classify your transactions.

MINI-PLAN: SETTING UP YOUR BOOKKEEPING SYSTEM

During your Phase 1 assessments, you probably thought about some basic bookkeeping systems you might want to use. Furthermore you (hopefully) interviewed some accountants, developed your startup budgets, and established a relationship with your SBDC counselor. Now it's time to make sure everything is pulled together and you have the foundation for an accurate and useful financial monitoring system in place. If you haven't done so already, now would be a good time to sign up for some classes offered through your SBDC on basic bookkeeping systems and understanding financial statements. You need to know the language of business (which frequently boils down to the financials) if you are going to effectively communicate with your accountant, bankers, partner, and financiers.

List some basic parameters of your business, things like your key products/services that you are selling and the expenses you've incurred and/or expect in your daily operations. Similarly, make note if all your sales will be for cash or if you will be selling things on credit (and, if so, on what terms). Finally, list out the inventory, equipment, building/facilities and other "up-front" investments you've made and expect to make to get the business up and running.

Now, make an appointment with your accountant to discuss what systems or format he would like to see from you so that you can make sure you have compatible systems to transfer information efficiently and painlessly—and therefore at minimal expense to you.

Next, have the accountant look over the financial list that you compiled and make sure that your chart of accounts has been set up properly. Be sure to ask for clarification or training on how your daily bookkeeping records should be maintained and updated. And remember, there are no stupid questions! If you don't understand what your accountant is saying or why he is directing you to log transactions a certain way, then ASK! We guarantee your advisor will not think any less of you if you don't fully grasp what he is suggesting. (If he does, you really need to find another advisor!)

Now you are ready to launch your bookkeeping/accounting system. Make sure any employees or contracted vendors who will assist here know how the system is set up, how and when you expect data entries, and how to prepare a back-up system so that when (not if) your computer crashes you can recover your financial information quickly. We recommend that you send some "test" runs to your accountant on a weekly basis to make sure you are collecting and entering the data appropriately and that you can generate appropriate reports to enhance your managerial (and entrepreneurial) effectiveness.

MINI-PLAN: BECOMING TRANSACTION READY

"We're not in Kansas anymore, Toto!" Sorry for the cliché, but setting up banking and related financial services for a new business is not nearly as simple, straightforward, or logical as it was in the past. Thank the plethora of new regulations which have been promulgated in the wake of the "great recession/financial meltdown" we suffered the past several years and the ever-increasing globalization of economies and financial transactions. All that said, be prepared for a lot of probing questions, bureaucratic log-jams, seemingly endless documentation, and delays in getting everything set up the way you want it.

So, our "transaction-ready" mini-plan (as all our mini-plans) starts with preparation. Fortunately, you have, or should have, your business plan, budgets, financial/bookkeeping system, and organizational structure properly set up. Furthermore, you've had the guidance of your advisors (SBDC counselor, accountant, attorney and others) to help make sure you've covered the bases. Now it's time to set up some appointments to meet your bankers and see what they can do for you.

Hopefully you've thought through some of the primary services you'll need to effectively run your business. Obviously you'll need a business checking account, but depending upon the type of business you are in, you might also need merchant accounts, lock box services, international currency transactions, overdraft coverage, lines of credit, wire transfer services, etc. The options (and costs) are endless, so you really need to be prepared and know the primary banking services you will need. Furthermore, think to the future: As your business grows, what other banking services might you require in a realistic sense?

Like with anything else, your options are unlimited, and any and all bankers will suggest they can best serve your needs. Big banks will let you know they have many locations you can use to drop off deposits and access your accounts, as well as "experts/departments" you can tap into to handle your every need. Smaller community banks will tell you they can offer you the same services on a more personalized basis. Our suggestion is the more you know about what your business needs, the better informed your decision will be. Always keep in mind that a bank has to make profits to support its operations and that means they have to generate revenue from multiple sources. These sources can and do include interest charged for loans and fees for checking services rendered. The bottom line is there “ain’t no free lunch,” so be prepared to pay for services. If you know what services you need, you can make an informed decision on what fees you might be most willing to incur.

You should “interview” a number of banks so that you can compare and contrast. Make sure they provide the services you need and that they will be there for you when you need them. More than likely your initial contact will be with a business development officer. These people are, for all intents and purposes, the front line sales folks for the bank and may or may not be there for you in the long term. The banking industry is notorious for “revolving door” employment at this level. Therefore, if at all possible, try to find a commercial banking officer or personal banker who has been with the institution for a number of years. Bottom line, you want to have a person you trust and someone you can contact for problems, concerns, or guidance as your business grows and your banking needs expand.

MONITORING CASH FLOWS

One thing is certain, it ALWAYS costs more and takes longer to launch your business than you expect. Sales in the early months rarely reach the forecasted levels, resulting in less cash flowing into the business than expected. So from the outset, you need to track all expenditures and keep a sharp eye on your available cash. Now is the time to “take personal inventory” and refine your initial budgets so consider the following:

- Cash is King! Especially for the new business!
  - › Again, take inventory of your existing/current amounts and sources of cash.
  - › Conserve your cash.
- Spend/invest wisely.
  - › Consider each purchase in terms of if you truly need it now or if it can be deferred.

  - Can you lease rather than buy?
  - Can you barter for services with other small business owners?
- Take advantage of vendor credit.
- Try to get cash up front (or at least significant down payments) on any sales.
- Be VERY cautious of extending credit to customers. (Do credit checks.)
- Be firm on your pricing—don't cut your price just to make a sale.
- If you are a consultant, be aware of "project creep."

PROFIT AND LOSS STATEMENTS

The easiest way to track your progress from a financial point of view is to run regular profit and loss statements (P&Ls). We generally suggest new business owners run monthly, or even weekly, P&Ls for at least the first year of operations. This can be achieved using a simple cash flow worksheet on which each day's receipts and payments are recorded. For most business owners, however, it is easier to run a P&L from your accounting program. Either system will provide you the information you need to assess whether you will have the cash in the bank to meet your upcoming obligations. It is important to be faithful and enter cash inflows and outflows each day so you have the accurate, up-to-date information you need to make wise business decisions.

A regular review of your P&Ls will help you to:

- Assess your cash position. Keep in mind: Cash is king. If you run out of cash, you will not be able to pay your bills.
- Compare actual sales to projected sales. If sales are lower than projected amounts, can steps be taken to increase sales? Were you overly optimistic in your sales forecasts?
- Keep track of your costs of goods sold (COGS). If COGS are higher than expected, it is a red flag and signals you to look for a problem.
  - Are your employees stealing from you? They could be stealing products or cash from the register.
  - Are your customers stealing from you?

  - Are employees wasting products and/or materials by not following company recipes and/or processes?
  - Are mistakes being made in production, thus necessitating that products be remade at the company's expense?
  - Have your input costs increased, thus necessitating an increase in prices?
  - Are you purchasing the wrong inventory items and having to slash prices to move merchandise?
- Keep track of payroll expenses. Like COGS, payroll expenses higher than the budgeted-for amount signal to investigate the cause.
  - Are employees being scheduled for more hours each week than are needed?
  - Do you have more employees than your actually need?
  - Have sales fallen due to poor customer service?
  - Should you be outsourcing some tasks?
- Assess revenue patterns. Are there seasonality patterns to your business you had not recognized? Do you have "slow" days and "busy" days you had not anticipated? Identifying revenue patterns will allow you to adjust work and production schedules to more accurately reflect your business's needs and increase efficiencies.

Getting into the habit of recording cash inflows and outflows daily and running regular P&Ls will help ensure your business does not run out of cash and become unable to pay the bills—or if you do run in trouble, you will be alerted to it sooner more than later. In the long run, you will save time and money by establishing efficient systems to monitor your cash balances.

10

PHASE 3, STABILIZE
OVERVIEW

As you enter into Phase 3, Stabilize, you have an open, transacting and functioning business. There are real customers, and real money is flowing into and out of the business. So now the question is, "How do you get your business from open to stable and sustainable?"

The business is open, but likely it is not yet supporting itself; you are probably spending more cash than you are generating from sales. Capital you have injected into the business, and money from other partners or loans from the bank, may be propping up your cash flow at this point. You may also be taking advantage of extended terms from your suppliers, which also helps. While every business relies on these external subsidies, they all have a current theme: they are time based, temporary "stop gaps" in place only until the business can support itself. There is always some limit to the amount of money available through these sources the business is able "burn" through.

So Phase 3, Stabilize, is a race against the clock. In this phase, the winners bring customer revenues up to a level where cash in from sales exceeds cash out for operating expenses. The losers don't.

An important, yet grim, reminder is that businesses tend to fail in Phase 3, Stabilize. If a business does not reach a positive cash position soon after launch, it can get caught in a downward spiral that is very difficult to escape. This concept will be covered in detail in Phase 3, Stabilize—Money. Money concepts do not happen without successfully mastering the skills learned in Customer and Team elements. In Phase 3, Stabilize, your focus should be targeting each of the three areas to ensure your success.

So Phase 3, Stabilize, is a race against the clock. In this phase, the winners bring customer revenues up to a level where cash in from sales exceeds cash out for operating expenses. The losers don't.

Earlier we warned against thinking you have a successful startup when you open the doors; you do not. Your startup is successful ***only*** when you master the management of these areas and exit this most critical phase, Phase 3, Stabilize.

This is precisely what we will discuss in Chapters 11: Phase 3, Stabilize—Customers, Chapter 12: Phase 3, Stabilize—Team, and Chapter 13: Phase 3, Stabilize—Money.

PHASE 3, STABILIZE—CUSTOMERS

- Which products or services are your customers buying? And why? Which products or services are your customers not buying? Why not?
- How do you "scale" certain revenues to reach the point of stability?
- Which approaches to communicating with customers are working and which are not?
- Are your customers extremely satisfied, returning, and bringing their friends? What can you do to expedite this?

PHASE 3, STABILIZE—TEAM

- What are you doing each week to lead/improve contributions to the team? Are you rewarding employees and team members by showing your gratitude?
- In what areas are you succeeding or failing with employees? What action steps must you implement?
- What elements are missing from your team? How can you fill in these gaps affordably?
- What work is getting done or not getting done? And why?

PHASE 3, STABILIZE—MONEY

- Are you profitable? Why or why not?
- Are you generating the anticipated margins? Why or why not?
- Where do you have unproductive cash tied up? And how do you free it up?
- How is seasonality or growth impacting your cash flow?
- What can you do today, this week, and this quarter to generate more cash than you are spending? What are you doing to rapidly achieve a positive cash position?

ENTREPRENEURS' COMMON MISTAKES: PHASE 3, STABILIZE, FLUBS

Companies usually fail for one simple reason: lack of cash. Either businesses fail to generate enough cash from product or service sales to cover costs, or they fail to keep costs in line with the sales that are being generated. Here are some common errors we see people making in Phase 3, Stabilize. We hope this helps you avoid them.

- Marketing is not sufficient to ramp up revenues as quickly as expected.

- Getting product to the customer is taking more people, time, and money than expected.
- It is much more challenging to manage employees than previously thought.
- The cash position of the company is requiring you to continually make difficult choices between providing product or service to customers, paying off vendors on time, making debt payments, and paying employees. In other words, the business has to do a lot of "tap dancing" while still in a cash-negative position.
- The stress of running the business begins to take a personal toll.

Graduating from Phase 3 is an important milestone. From our perspective, at this point, the business would no longer be considered a startup. It would have succeeded at surviving the challenge of opening a business. Here are the key "graduation" characteristics of a business that has successfully navigated Phase 3 and "stabilized," and at the same time has graduated from being considered a startup:

- The business is profitable.
- The business consistently generates positive cash flow.
- The business is poised for a "next level" of revenue growth; it knows where it is going.
- The business is ready to add additional levels of management resources/team infrastructure to navigate the next levels of growth.
- The company is poised for growth in future phases (those past the first three phases discussed here, relating to the Tri-Start™ matrix).

The last three chapters in the book provide the guidance necessary to successfully navigate through this important and risky phase. Survive it, and you will be well on your way to a healthy, sustainable business that will be closer to fulfilling the expectations you have of it. Complete Phase 3, and while you are not "there" yet, it is certainly much cause for celebration!

11

PHASE 3, STABILIZE CUSTOMER

By this chapter in the story of your business, a lot of sweat, creative energy, passion, sacrifice, money and fear have gotten you through the opening of your company.

Now all the theory and practice become reality. There are real customers, real competitors, and real revenues. At this point, very little matters more than the customer—not even the legal, tax, regulatory, compliance or any other agencies that may have made it tough getting there.

Now is the time to begin securing the future of the company by applying what you know, what you learn, and the experience of being in business to repeatable successes with your customers. Stabilization, in the customer context, is being able to sustain strong, diverse, and profitable relationships with people who understand your value—your customers. The resulting revenue streams literally become the oxygen to feed the health of your organization.

The right sales and marketing strategies and tactics are keys to achieving these goals. As a startup entrepreneur, you likely won't have access to high-price, in-house, seasoned, marketing talent. Instead you will lead a team who, with the right focus, some training, and desire can achieve great things and evolve into the market organization to bring your business to stability. Another definition of marketing is the engagement of activity to satisfy the customer expectations of value at a profit.

Thus, there are two primary goals in Phase 3:

- Grow customer revenues to support the cash flow and financials needs of the business.
- Prepare for the next period of business growth.

ENTREPRENEUR'S PERSONAL DEVELOPMENT

So perhaps you don't feel prepared or excited to be the "de facto" VP of Sales and Marketing in your business. We get it. And, believe us, you are not the first entrepreneur to express this reluctance.

But here are two facts that should encourage you along your development. One, your business likely cannot afford the $150+K per year it will take to hire one. And second, even if it could, no one will care more about your business than you do. The bottom line is your business needs you to step up. It needs you to be customer focused. And this likely means you will have to develop.

If you go to the gym to improve your muscle tone, there is an interesting process going on. First, the weight/resistance training tears the muscle fibers down, and then through a process of recovery, you build back to stronger than you were before. Muscles become bigger, stronger, more toned and more solid—but only by first being broken down.

The same process often occurs in the marketing development of a business and business owner. Before you get really good at working with customers and developing revenues, you get punched in the stomach a few times.

Expect your ego to take a hit or two in this phase around customers. Not everything will be as perfect as you planned. All of this hard work and money you put into "your baby" might not be as appreciated by others as you hope. At times, customers will downright demoralize you with negative feedback. And in others, you will feel like you have thrown a party no one is showing up for.

Before you get really good at working with customers and developing revenues, you get punched in the stomach a few times. Expect your ego to take a hit or two in this phase around customers. Not everything will be as perfect as you planned.

View this as the "breaking down" that precedes building back up, just like the strength training. When things don't go perfectly with customers, you will be challenged to be better, to be more creative, to be more flexible, and to modify at a level you might not have expected. These adaptations are important, as they help bring you closer to what the market actually wants instead of just what you think it wanted.

No question, this is hard. It will feel frustrating. At times you may even want to blame customers for being stupid, competitors for being crooked, employees for not buying in, and everyone else under the sun. It requires mental discipline, maturity, and growth to rise above that. It also requires you take the responsibility for your successes—and your failures—in the market.

Your company goal, and the goal of you and every member of your team, should be to become customer-centric—focused and committed to satisfying the needs and wants of your target market. It is a painful evolution, but if you survive and learn from it, the reward is well worth the struggle.

Phase 3 is about adaptation; it is about changing products and services so they work toward your goal of meeting customer needs. Everything you invested into your approach should be open to question, ready for change, and subject to the objective test of whether or not it works. No matter how well-conceived or planned it was in your marketing plan, reality has to be your guide.

Competitors who you might have underestimated previously will suddenly seem much smarter, and more capable of beating you in the market. And if they may see you as a threat to their market share, sales and profits, they will adapt. You should anticipate them "protecting their turf."

Similarly, rather than being excited and aplenty, in these early days, customers may seem bored or even scarce. Despite all your efforts, creativity, energy and investments, it is simply not happening. For you and your company, the options are limited to "adapt" or "die." Only one of the two is reasonable and worth pursuing.

When you get "humble pie" thrown your way, you must look at it as a challenge to adapt. It is about a growth process designed to force you to be more in tune with the market and to structure your business to meet customers on their terms and meet and surpass their needs and expectations.

At this point, another evolution required of the entrepreneur is being a salesperson to the customer. Previously, the entrepreneur had to sell investors, lenders and others on the concept of her business; but here, he or she will have another more important sales duty: to convince the customers that the company knows what they need and want and is able to deliver to their satisfaction.

As owner, you have to be more than just a salesperson; you have to be the best salesperson in your business, at least in spirit. Your team will lean on you for guidance, training, and experience in selling to the eager, the reluctant, the believers, and the doubters. By your example, they become better and more confident. In this regard, you become the "Chief Tone Setter," and the company needs you to lead yet again.

This means feeling comfortable talking to customers, presenting the company offering, and demonstrating why customers should want to do business with you. You should also be able to field hard questions and answer objections. The business needs revenues. And it needs you. This may evolve as you grow, but in the early days your ability to lead the marketing effort is crucial.

Even if you have a large group of experienced salespeople, they will still rely on the entrepreneur (CEO/President, etc.) to be a strong figurehead. One of the natural advantages of being a small business is the trust customers impart to the business because they can see the owner, connect with you, and, when needed, talk to you about their concerns. They place a value upon knowing whom they are doing business with.

Your presence will have an impact on the company's success with the customer.

The following are skills you should feel good about bringing to the company in your role as "Entrepreneur as Salesperson":

- How to locate and identify customers
- How to assess which products are best suited for the customers based on their different needs
- How to articulate the company's competitive advantage
- How to discuss the company's pricing strategy with customers
- How to deal with and overcome objections, a natural human reaction to being sold
- How to ask the customer for an order (ABC ... always be closing!)

In the world of sales, many successful sales reps grow up to be the sales manager. Yep, you guessed it. In your small business, you get to be the sales manager, too! In normal settings, expect the sales rep to sales manager transition may take place over years, but in the world of your new business, it happens in...well, days.

Here are some of the skills you will want to put in your arsenal in the "Entrepreneur as Sales Manager" role:

- The ability to set sales goals for the various members of your sales team, individually and collectively, including yourself
- An ability to train a new sales rep, both on company specific information and general sales concepts
- The ability to track and monitor actual sales performance (dollars booked, etc.) in relation to goals
- Knowing how to set activity-based goals and track/monitor performance (the things salespeople must do, like calls, presentations, etc.)
- Mentoring new sales reps
- Coaching and assisting experienced reps

Regardless of the makeup of you sales team, all employees, regardless of department, should be trained and empowered to support customers and to represent and promote the company. You will own the responsibility for this one. Apply these disciplines yourself and infuse this mindset in your business from the get go, as this creates a foundation to build upon.

If you're mortal, then likely your confidence will be shaken from time to time. That's normal. To win with customers, you need to be humble enough to listen and learn, but confident enough to believe you bring something very important to your customers. The feedback will not always be perfectly positive. There will be days when you are incredibly encouraged and excited, and others where you are frustrated. To win with customers, you need to face this with confidence, resolve, persistence, creativity, flexibility, and hard work.

DEVELOPING YOUR BUSINESS FOR THE CUSTOMER NEEDS OF PHASE 3

Getting the doors open and generating the first revenues (your Phase 2, Open—Customer activities) is no easy task, but in Phase 3, you really take the business to a different level. To get to stability, you will need to infuse a more mature approach to the customer. Whether in the form of people or systems, you will begin to form an infrastructure that will generate revenues in the short term and also set the stage for revenue development over the course of time. This is an exceptionally important phase.

In this portion of the chapter, we will discuss four key ways you will want to see your organization developing:

- Performance monitoring, particularly relating to revenue streams
- Growing the sales and marketing organization/team
- Implementing a more sophisticated approach to marketing communications
- Identifying ways to scale the customers, revenues, and the business

Performance Monitoring. You want to be on top of the actual revenue progress of the business, how sales are trending, and where you are exceeding or falling behind your goals/expectations. For many of us, this induces a mental groan. You might remember a workplace setting where revenues were watched closely, perhaps even hourly. You might have been accustomed to hearing "We are having a good day," or even, "We need to have a strong last day of the month to hit goal."

The groan happens because you remember the pressure…constant pressure.

The close attention to this performance, however, can be a key driver of improved results. If we don't know things are off—and where they might be off—we have a tendency to just "bump along." So while this kind of revenue monitoring is intense, it is important to your business.

We have a few important suggestions for how to monitor revenues. The first is to set goals and observe the progress against those goals. How much revenue will you do tomorrow? Early on, the approach will likely be close to a "guess" rather than based on any factual data. You will do your best, but initially you will likely be pretty bad at this skill.

The good news, however, is the sooner you get started, the sooner you start to get better. If you think you are going to do $1,000 in daily revenue, and you do $400 one day and $450, the next day, then $500 is a more reasonable goal, and will you start to quickly make those adjustments. You will best refine your ability to predict your revenues by starting and refining. Don't wait until you have a "statistically relevant dataset" to work with. It's better to flail around in the uncertainty than it is to wait and be too scientific or perfect. Let experience be your guide.

With this mindset, you will likely want to look at similar kinds of analyses:

- Daily overall revenues
- Monthly (or weekly) sales by product line/category
- Monthly (or weekly) sales by customer type
- Monthly (or weekly) sales by geography / territory
- Monthly (or weekly) review of your top customers
- Weekly (or daily) sales by sales manager/rep/employee

Yes, this will vary by the type of business; you will want to use this type of an approach and modify the data points and the frequency of review to tailor it to your business.

Let's talk a little bit about mechanics. While there are some software programs coming about that help create management "dashboards" to present key measurables (including revenue-based ones), we suggest the good old-fashioned spreadsheet, at least at first.

There are a few reasons for this. First, using a spreadsheet makes the process extremely flexible. You pick which data you want to monitor and tailor it to your needs. You can organize the numbers (data) in a multitude of ways to suit your needs. Plus, it is easier to play "what if" games with the numbers if they are already in a spreadsheet. And last—but not at all least—you can create a multitude of charts for your review and easily "cut and paste" a given chart (or charts) into an email to help communicate with your team around given data points.

My suggestion is to keep this simple at first; select 5 to 10 key pieces of data you want to monitor. Then set up lines where you can enter both goals and actual performance. Don't turn this into an hour-long data entry exercise each time you update the data; keep it simple. What you will find is you can drop in some quick numbers and immediately gain a great deal of insight. Monitoring the numbers like this over a period of time will definitely increase your familiarly with the numbers and will help you get to know your business better.

Earlier, we talked about adaptability. Performance monitoring helps give you objective, quantifiable data pertaining to customer behavior. Never completely eliminate your "gut" or your intuition, but rather use both intuitive and statistical inputs to come up with a better assessment of how the market is behaving today and how it might behave in the future.

Evolving the Organization. A big part of this phase will likely be about building a team to help you grow revenues. It is, for you, probably not about going out and hiring 10 salespeople; instead it is about managing your own sales activities, turning everyone on your team into a revenue advocate, and facilitating the success of a few key people directly involved in ramping up revenues. While some of this will be discussed in the various "team" elements in this book, we also felt it required some discussion here, as it is so crucial to succeeding with customers.

Earlier in the chapter, we mentioned being customer-centric, structuring your organization to be built around serving the customer. For entrepreneurs, this usually becomes apparent pretty quickly. When you worked for an employer, you got a check with the boss's name signed at the bottom. In your new world as entrepreneur, you get a check with the customer's name at the bottom.

As you may have found in your other work life, service to the customer is not always intuitive to employees. In many organizations, there is a huge emphasis on making the customer more visible, and a great deal of training goes into building customer service skills.

It brings up a very broad, and somewhat pessimistic, generalization (and yes, there certainly are exceptions, but it is actually good for you to have this mindset): *employees rarely care as much about your customers as you do.*

While this is very often not the case, it is a good concept to ponder. Sadly, many entrepreneurs react to this with condemnation towards the employee. That's the wrong move.

Take responsibility for not letting the statement above be a surprise to you. Acknowledge that it is the obligation of your organization to implement a customer focus, and then follow up by "walking the walk" in addition to "talking the talk."

It's a powerful concept. And it can be used to unify your team around a centralized goal of serving the customer. Not just the salespeople, not just the customer service reps, but EVERYONE in the business needs to focus on winning with and for the customer.

The next step after creating a culture centered around the customer is to develop the sales organization. Remember, this can be you and general employees, in addition to sales or customer service team members.

Ongoing training and development is key to this. as it not only creates "teaching moments," but also challenges both the "student" and the "teacher" to stay on top of the game and continuously take the competencies deeper. If you set up a regular schedule for customer-based training, you will find you analyze the business differently and are able to better articulate how to create success. In a way, there is as much benefit for the trainer (likely you) as for the trainee!

A simple way to do this is to watch out for "best practices"—a fancy way of saying that when you see something works, figure out a way to do it again and to teach others to do the same. Most people new to sales and marketing management are surprised to see how much experimentation plays a role. You do lots of things that don't work, probably more than actually do.

So when you have something succeed, make a big deal of it. Smart businesses take a victory (even a small one) and put it under the microscope. They break it down and study it. Exactly what happened? What were the events or actions that led up to the success? What are the precise steps necessary to do the same thing over again?

With a little work, these best practices start to show themselves with some regularity. Get really good at turning them into repeatable success systems—and then share them in training. In fact, a great sales and marketing training tip is to ask every person on your team to bring a new "best practice" to the training session. Each person presents his or her approach to winning with the customer. Then you can collect those approaches, discuss them, study some further, and monitor them. An emphasis on "always improving" will serve you extremely well here.

Coaching is another approach you want to employ as part of your effort to evolve the customer competencies of your organization. Your role here is to help those you are coaching succeed faster. It is about helping them set goals and make progress in that direction. It is less about managing, and more about guiding and leading. Coaching is about being a resource for the person.

Integrating coaching techniques into how you work with your team can be a huge boost for orienting the team around a successful approach to customers, and, ultimately, in generating successful revenue streams to support the health of your company.

To summarize, as part of evolving your sales and marketing organization, you should seek to do the following:

- Infuse a customer orientation to the entire organization.
- Identify and share best practices through training.

- Communicate as a coach with your team about their performance and how to improve.

Marketing Communications for Phase 3. One of the most important recommendations for a new business owner is to develop a strong approach to communicating with the customers and prospective customers. There are two important tenets to this concept:

- Ongoing communications will be different from your "grand opening" approach.
- You must be extremely mindful to increasing marketing communications in the face of tight cash.

Whether you have a retail location or not, a new business is newsworthy, both in terms of media attention and getting noticed by prospective customers. We like to talk about a new business; it is interesting and captures our attention.

But the "newness" tends to wear off. This is a large part of the difference between Phase 2 and Phase 3. Once the initial "sizzle" from your opening dies down, the challenge is to establish a mature, ongoing approach to communicating with the market.

Typically, business owners first look for paid forms of media. Running advertisements seems like a viable solution to the challenge. But as we alluded to above, the nature of Phase 3 is that you are not yet fully supporting the business with the cash flow of the business.

So you face a Catch-22: you must generate enough revenue, but any investment in paid marketing/advertising is now "betting on the come." In the face of this, you need to find a balance between being too cautious and being too confident that throwing money at advertising will present an immediate result. (It is quite possible to do it well and not produce any return at all!)

Given this, let's switch gears. We will come back to paid advertising in a bit, but let's first talk about non-paid marketing: things you can do which require creativity, hard work, and ongoing discipline. From that sentence you might start to understand why many businesses do them so poorly!

We think you should base the foundation of your marketing activities in these non-paid forms of communications. Below, we list a variety of things you could do to promote the business. You will not need to do ALL of these things, however, and should select the ones which most line up with your business. Some non-paid marketing elements you might consider here include:

- Customer database
- Email communications
- *Facebook, Twitter, LinkedIn, Google+*, etc.
- Cold call invitations
- Press releases/article series
- Educational tools/collaterals
- Signage
- Website
  - › Rotating content
  - › Search engine optimization—key words in title tags and on page, including (if relevant) references to city in which business is located

We could probably write a whole book on the “dos and don’ts” of just these marketing tools. Instead, however, we will give you a quick overview with a few points to consider about each. Note: while we have highlighted these as “non-paid,” many will have some expenses associated with them. The distinction we use is that the cost is not necessarily at a “pay to place the individual ad” level.

Customer Database. You want to capture customer contact data so you can re-contact customers. For many businesses, this becomes their most valuable asset, yet many do not even collect the information. This can be as simple as a spreadsheet (or even a written piece of paper) all the way to sophisticated CRM (customer relationship management) software. At the stage you are at now, you likely do not need to spend huge amounts of money, but you do need to have some program designed to capture customer data.

Email Communications. Personal (one to one) communications are best, but bulk emailing to customers is an inexpensive (and legal) way to follow up. Our suggestion is to use email to form personal relationships, but if you are bulk emailing with any frequency, ensure the content you are sending to those customers is valuable—entertaining, educational, good reminders, etc.— instead of annoying—uninteresting, overly promotive, etc. *(Note: there are rules against sending unsolicited bulk email to non-customer prospects. Read up on these if you are considering this!)*

Facebook/Twitter. Super-quick suggestions are to:

- Create a page for your business
- Direct people to it and ask them to join
- Post regularly, but with strong content
- Use photographs, including casual and fun ones
- Ensure the content is relevant and desirable to your customers
- Focus on things that get engagement (likes, comments, shares, etc.)
- Plan through your approach

Doing well here requires some creativity and fun! Also note that you are not guaranteed that all of your page followers will see your posts, so you will need to monitor this on your page and work to make the program work for you. (And you may need to incorporate some paid approaches here to full maximize). To the best degree possible, use social media to help people get to know you and your business and to provide reminders.

Cold Call Invitations. The old tried and true! You may need to use both telephone and in-person visits, but sometimes you will need to reach out to invite people to try your business. For some this is very natural, but for others it can be very intimidating. The key is to connect with the value you bring and to believe you have the ability to significantly help your prospective customer base. Another tip here is to get on a schedule where you track the number of calls made and set goals around this; turn it into a daily or weekly challenge to yourself and those on your team helping you.

Press Release/Article Series. You likely did a press release with the launch of your new business. Now you need to cultivate relationships with key members of the targeted media and hold yourself out to them as a quotable expert on topics relating to your business, making you a resource on which they could rely should they need an expert quote. Another approach here is to write articles as part of a series. These could be sent to the media, as well as used on your website, blog, or social media.

Educational Tools/Collaterals. You should be an expert on certain elements relating to your business, and your target market should have an interest in receiving this information. Identifying opportunities where you can educate your market and position yourself as the expert can be an effective marketing strategy. There are many ways this can surface, including articles, brochures, media quotes, seminars, or individual consultations. Central to this strategy, of course, is to actually be an expert and to continue to develop this competency in your business. Collaterals are handouts and literature to help educate the customer about your business.

Signage. Signage can be an effective communication strategy for businesses with a physical location. This can be signage inside or outside of the business. A good approach here is to change up the signs and keep the signs interesting and informative. Good signage can have a solid impact on the approach to customer communications.

Website. Websites are a must in today's business climate; whether you are an online or offline business, a solid web presence is critical. Give solid consideration to how your website can be an effective selling tool, and recognize that many people will visit your website, even before they visit your business. To get more results from your website, rotate the content and keep it fresh; view what you put on your website as being valuable for your customer. In addition, use search engine optimization to increase the probability of getting your business found online; it is important to study the important "key words" you want people to use to find you when searching and ensure those key words are included in the webpage title tags, as well in the body text of the page. You also want to include local references (i.e., the name of your city) if your business is based in a localized area.

Again, remember that most businesses will not necessarily use all of these things; in addition, this is not a comprehensive list. You will construct your approach based on your specific business. The key here is to take on the mentality that there are these opportunities and that you will structure a regular approach to putting these tools to work in your business on a daily basis.

Switching gears a bit on customer communications, multiple low-cost strategies exist that seek to retain and grow existing customers. A few ideas here include:

- Handwritten thank you cards
- Telephone follow up
- Postcard mailings to existing customers—retention
- Email newsletters

This, of course, leads to a discussion about paid advertising and its role in your move towards business stabilization. This area creates a great deal of confusion and stress for early-stage business owners. We hope a few of our observations will help clear it up.

Business owners often first ask, “What kind of advertising works?” The belief behind this question is that some forms work universally and others do not. Nothing could be further from the truth. Sadly, though, as you begin to talk with sales reps who want you to advertise with them, you will get a lot of conflicting information about how their programs work and other (competitive) forms of advertising do not.

So answer number one is that there is no magic-bullet form of advertising. It varies by industry and even by location. You will want to study the types of customers you wish to meet and identify media they are already consuming. Go where the customers already are.

The next thing we want you to understand is that writing a check for advertising in no way guarantees additional business. There is no way to “buy” business. Done poorly (or even at a moderate/mediocre level), about any form of advertising can produce less return than it costs. So you have to be smart.

Also related to this “no guarantee of return” concept is that paid advertising does work (or it wouldn’t still be around!), but rarely does it work immediately. One of the biggest mistakes business owners make is expecting they will write a check day one and enough extra business will be there to pay for the media from the start. There is typically a time period where the business owner invests in media advertising with very few results before there is a return. However, with consistency over periods of time, well-designed campaigns in good media channels increase the probability of success.

So, if you do it for a long time, are you guaranteed a return? It's not that simple, either. You have to coordinate many other elements to be successful including:

- Selecting the right type of media to reach your market
- Selecting the right specific companies and programs to participate in
- Paying the right price for the media
- Having a marketable product and service
- Having strong messaging around the advertising

Yes, it is a lot of stuff and it means you need to make calculated, well-thought-out decisions and work very closely with reputable companies and mature reps who have the experience and know-how to help you be successful. (Avoid buying from reps who are new or jump around a lot in their job or who are offering "limited-time" high-pressure sales deals.)

One of the reasons for the time investment (which can range from 3 to 9 months) is frequency, an extremely important concept in paid advertising. To win, you must repeat the advertisements. There are many reasons for why this works. We desperately want to believe that if we blast out our first ad to 10,000 people, someone will see the ad and buy. It doesn't necessarily happen this way. Instead, messages repeated with some regularity over the course of time begin to create awareness, reach people at the time when they actually need your product or service, and prompt trials.

Another suggestion: don't make your decision based on the media rep who happens to catch you in your business and who seems friendly. Instead, take a very broad look at the different options and do your research. Given that you will have to repeat the ads, often for months with no return prior to achieving a strong return, you are better off taking some time and really researching the various options.

Here are some forms of paid advertising you may want to research and consider:

- TV—Cable
- Radio
- Billboard
- Newspapers and magazines
- Yellow pages/directories
- Paid sponsorships
- Pay-per-click ads
- Paid Facebook ads/sponsored posts

Our last suggestion with evolving your marketing communications approach is to organize, plan, and implement around a marketing calendar. In many ways, success in this area comes down to a consistent, regular approach to the market. The war is not won with one great campaign, but rather over the course of time with a progression of multiple campaigns, one after the other...month in month out. Like clockwork.

As you progress, you will find there are things that work in the area of marketing communications, and you'll need to repeat them. The challenge often comes with executing these with the needed consistency. An example might be doing daily Facebook posts. It works, but it takes a lot of discipline to do an interesting, engaging post each and every day. So the goal of one post per day ends up being three per week in practice, and then slips to once every ten days. The marketing calendar can help to organize this and to put tracking mechanisms in place to keep you on track.

A marketing calendar does not have to be fancy. It can be a *Word*® or *Excel*® document organized around the month with the individual activities which must be completed to execute the concepts. While it may sound simple, implementing a marketing calendar is one of the more powerful things you can do in your business.

Identifying Ways To Scale. The difference between big companies and little ones can be boiled down into one word: scale. Scale impacts your company throughout its existence, but scale is a key part of achieving "Stabilize" and sets the tone for the next growth stages of the business, which follow the three startup phases discussed in this book.

Scale is a fairly straightforward concept. When something works in your business, figure out a way to do it over and over again. Consider the franchise model. For instance, let's look at a home cleaning business. Scale works here because there is a business model that works at the individual level (a "unit of one") in a given city that can be duplicated over and over again (in other cities), hopefully with improving efficiency.

Scale is a fairly straightforward concept.
When something works in your business, figure out
a way to do it over and over again.

While scale can be applied to many areas of the business, it is especially powerful in the "Customer" area, or the marketing approach of the business. Your business needs to find moments with the customer that can be scaled.

In a home cleaning franchise, you can see marketing scale happening in many ways. First, let's look inside the individual business. The business gets one customer, the business does a great job cleaning, and the customer pays the business and is pleased with the service. The customer wants the cleaning company to come back every week moving forward. This is marketing scale: the company delivered its service once, and the customer has requested the company to repeat this (repeatable revenue) weekly moving forward. If you look at a year, one (cleaning) became 52 (cleanings). Scale worked to perfection!

So our cleaning business has one successful customer who has asked for weekly cleaning services, which is a big win, but probably not enough to "Stabilize" the business. So the business needs to employ scale again and find another customer. Because gas is expensive and it takes a while to drive across town, the cleaning business owner makes an intelligent decision: find another customer in the same neighborhood. One customer becomes two. And the process is repeated.

Other examples of scale in our imaginary business are:

- Identifying other neighborhoods to serve (likely expanding the number of people cleaning in the process)
- Testing different advertising methods, and when something seems to work, repeating it
- Opening up another territory in a different city

And there are probably many more. While these examples are very simple and basic, we have highlighted several important ways to bring marketing scale into play: customer acquisition, revenue scale, and geographic market expansion.

Though your business may be very different from a cleaning franchise, the same kind of principles apply. You need to find marketing scale, again, both for achieving stability now and for creating a platform for future growth. How do you do this?

One answer is simply to look for things that work. Our tendency in business is to overly harp on things that don't work and to simultaneously underemphasize things that are working. It's a bad mental trap, which most of us fall victim to at times. Being disciplined means you are always scanning your business to look for things (even little ones), that can be replicated.

Next, think through what scale might look like in the business. Your goal may not be to become an international corporation, but it might make sense for you to brainstorm what it would look like if it were. How would your business have to change if it were a business of that scale? You might not implement all of the ideas you generated from this brainstorming exercise, but you very well might come up with some important ones.

Another thought is to follow the bouncing revenue dollar. For every dollar of revenue your company generates, ask yourself, "How could I repeat that?" For some businesses, scale is very clear and easy to see. For others, scale is more hidden, but it can reveal itself with observation and seeking. Look at every customer and every sale as a potential opportunity for scale.

And lastly, test it. You may identify 10 ways where scale could impact your business. Try all of them, fail at nine of the ten, yet succeed beyond your wildest dreams with the tenth. The awesome thing about scale is you can often take your business to incredible heights with just one powerful element of scale effectively applied to your business.

An important part of developing your business in "Phase 3, Stabilize—Customer" is to find scale in the business.

THE OUTSIDE ENVIRONMENT FOR PHASE THREE—CUSTOMER

In prior chapters we have extensively discussed the outside marketing environment; any real marketing development cannot occur without this consideration. So as you progress along your development in the different phases, you will need to consider the impact of others on your marketing efforts and customer success.

Specifically, in this third phase, there are some objectives relating to the outside environment. First, we suggest you seek ways to turn customers into advocates. Creating happy customers is an extraordinarily important outcome with your first interactions with customers; they come back and they bring their friends. Your reputation will begin to form at this stage with customers, and a great one makes life much easier!

Understanding how to create a happy customer is really based on exceeding the expectations they have of your business prior to entering the transaction. Live up to the promises of your marketing, and double check to be sure the customer is as pleased with your efforts as you are. (Believe me, it is extremely common for a business to think it did a great job, only to find the customer was fairly disappointed.)

To get customers to the point of being advocates for your business (and essentially becoming a volunteer sales force through referrals and word-of-mouth advertising), you have to take them beyond the point of being casually happy and make them wildly enthusiastic. Some suggestions to accomplish this:

- Ask them! Understand what they like and what they did not like.
- Ask them what you could have done better—they will tell you, if you give them permission to critique you/help you improve.
- Assume customers are NOT as happy as you think they are.
- Assume you will have to be better to reach this goal.
- Invite them to return to your business.
- Ask them to tell their friends.

Vendors are another part of your marketing success. This can include suppliers, as they can help you improve the product quality and service levels offered. Advertising and marketing suppliers such as media reps or consultants should not just "sell" you on things but should instead be an outstanding resource for your success and development. Hold high standards around this.

Keep in mind that there will be many people trying to sell you on a lot of things. Do your best to learn from them, but recognize that even if you like them, you are not obligated to purchase. If you end up buying something from everyone who "sounds good" or "is a nice person," you will likely find yourself broke. There are many more people selling things in the area of marketing than you will be able to buy.

Lastly, competitors are an important part of the external environment. They are vying for the same business you are. But unlike in other phases, you are now out there in the market. If you are doing anything right, you will start to attract some attention from your competitors, and they will likely respond—possibly in ways you do not particularly care for.

The best advice here is to continue to keep your eyes and ears open. Your first goal is to be aware of the actions competitors take in response to your new business. The second goal is to respond accordingly, neither overreacting or underreacting.

In most situations, the best approach to competitors is to focus first on yourself. Be the best company you can be. Be the best "you" that you can be. In the relationship with your customers, it is really more about you and your actions than it is about your competitors.

Avoid the temptation to "wrestle in the mud" with competitors. There are two ways this can surface. The first is with words. Competitors may say something disparaging about you. Avoid the temptation to retort. Instead, take the high road. Start off with a compliment about the competitor, but then explain confidently why you think the customer is better served by your business. "Trashing" the competition typically backfires and actually makes you look weak to the customer.

The next "mud wrestling" concept is related to pricing. Sometimes competitors react to new competitors by lowering their prices. A lot of new entrepreneurs respond by doing the same. All that happens here is that you attract customers who are only loyal to the lowest price, and you deteriorate the market. Try to resist this by selling quality and value. Be a better option to your customer than the company that is only trying to be "cheaper than." In the end, you will build a stronger company.

Remember, when you wrestle in the mud with pigs, all that happens is that you get dirty, and the pig likes it!

MINI-PLANS

There are several "mini-plans" that are important at this phase in business:

- Managing the Customer Mix
- Managing Product Mix
- Marketing Communications When Cash is Tight
- Next Level Revenue

MINI-PLAN: MANAGING THE CUSTOMER MIX

Premise: You have started your business and are starting to generate revenue from multiple different customers, so you have a "customer mix." Understanding the mix by customer type and achieving a more ideal mix is important.

Key Questions:

- How well do you understand the different customer type segments in your business? Can you make a concise, focused, organized list?
- Which customer groups are performing better than others? Are you noticing important concentrations of customers?
- Are there customers/groups of customers who are more profitable than others?
- Is the current mix of customers different than you projected? How?
- How could the customer mix be more ideal?
- What action steps do you need to take to bring the customer mix closer to ideal?

MINI-PLAN: MANAGING THE PRODUCT MIX

Premise: Very similar to having a mix of customers (customer types), you will also have a mix of products/services. In this plan, you will look at your mix of products or services (or product categories). Based on factors such as margin, capacity, and customer demand, you will also have an ideal product mix, though the business will not always perform to it. This plan will help you set goals and manage the business to move towards that ideal product (or services) mix.

Key Questions:

- How well do you understand the different product type segments in your business? Can you make a concise, focused, organized list?
- Which product groups are performing better than others? Are you noticing important concentrations of product lines?
- Which product lines are most profitable? Least?
- Is the current mix of products different than you projected? How?
- How could the product mix be more ideal?

- What action steps do you need to take to bring the product mix closer to ideal?

MINI-PLAN: MARKETING COMMUNICATIONS ON A BUDGET

Premise: You won't have an unlimited advertising budget, but increasing customer communications at this point is central for growing the number of customers, the quality of customers, and amount of customer revenues.

Key Suggestions:

- Define the target markets you wish to reach with your communications.
- By market, make a list of the key messages you wish to convey.
- Ensure that some of your customer communications are targeted at retaining existing customers and getting reorders.
- Make a list of all free strategies you plan to employ.
- Make a list for all paid strategies you plan to employ and do sufficient research around this.
- Focus on consistency across the different medias you employ.
- Be deliberate about branding.
- Organize the communications strategy around a calendar.

MINI-PLAN: NEXT LEVEL REVENUES

Premise: An important part of success in Phase 3, Stabilize—Customer is to scale existing revenues to achieve a level of stability in the business. This means identifying things in the business that are successful at generating revenues (and fixing or eliminating those which are supposed to, but are not). Very often you can accomplish this by finding a "unit of one" that can be repeated and increased, leading to revenue scale. Not only does this help you achieve the goals of Phase 3 (and graduate from the startup phase), but it also sets you up to make progress in the future.

Key Questions:

- From a revenue generation standpoint, what are the things working that can be repeated and will lead to revenue growth?
- What is the "unit of one" in your business that can be increased to lead to revenue growth?
- What are the positive benefits (reduced individual costs, synergies in customer acquisition) to your business which should come with this revenue growth/scale?
- What challenges do you anticipate with this revenue growth?
- What are the important customer and product mix issues (discussed above) that impact the next levels of revenue growth?
- Can the "revenue scale" issues that will help you achieve Stability in Phase 3 also help set the stage for next level revenue growth in the future? How and how not?
- Describe the revenue (and cost) economics associated with scale or "unit of one" revenue growth. What are the revenue and cost ramifications of the growth elements?
- How will your business revenues look different in 3 years if you achieve your revenue growth goals?
- What changes in the external environment are either working in the favor of or will create challenges related to the expected future revenue growth?

ENTREPRENEUR'S VOCABULARY

Target Markets: Groups of customers you seek to sell to. Marketing should be organized around the customer, and this helps to organize segments as well as to collect additional information about customers. Success is found in more precise definition, growing the company's specific knowledge base, and monitoring evolutions and changes in the customer base (including identifying errors the company had relating to its understanding of customers.) While customers are individuals, meaning they are unique and have individual motivations, this concept does seek meaningful generalizations which can be helpful in attracting customers.

Marketing Communications: A broad category in marketing that seeks to create awareness, educate, and prompt purchase from customers. The approach can include free and paid elements and should rely on focused messaging strategies and seek to infuse frequency (repetition). Being organized and executing is essential here, and typically requires organized planning. The overarching goal here is to deepen the relationship with a growth customer base.

Advertising: Paid marketing communications. Focus areas include the right message and consistent branding elements, along with the right frequency, to produce meaningful results and to put mechanisms in place to monitor performance. Generally, paid advertising requires a significant amount of repetition to produce desired results, so it should be viewed as a long-term investment.

Social Media: Web/electronic based mechanisms where consumers can communicate with each other and easily produce online content, share with others, and receive comments and discussion. Examples include blogs, *Facebook*, *Google+*, *LinkedIn* and *Twitter*. (This arena is evolving rapidly and could be different when you are reading this than when we were writing it!) An important characteristic of social media is they typically do not require significant programming knowledge, making the tools extremely accessible to a broad percentage of the population. Key concepts here involve building a following and providing regular, meaningful content that will attract the interest of your followers, as well as creating mechanisms for ongoing interaction.

Marketing Calendar: A method of organizing marketing communications around a calendar. Many marketing communication strategies involve repetition and consistency, and a calendar is an excellent way to do this. They can be completed with a written calendar, a WORD document, or a spreadsheet. Many people use marketing calendars as a tracking mechanism to ensure a large number of marketing tasks are completed in a timely manner.

Word-of-Mouth: Ask most entrepreneurs, and they will say the most effective marketing strategy for them is word-of-mouth, the buzz or referrals created by customers who encourage other customers to purchase as well. A solid approach here is to get very proactive about creating this phenomenon instead of simply just "doing a good job" and hoping customers tell their friends. Exceeding customer expectations and making it easy to refer/invite others are important here. Also, simply asking happy customers to refer others is an effective strategy.

Product Mix: This looks at the percentage of revenue that comes from your different product and service revenue categories. Typically it is wise to organize what you sell into 3 to 8 different categories. Studying the mix considers the desired mix and how the actual mix varies and analyzes what to do to make the mix more ideal.

Customer Mix: This is very similar to the concept of "product mix" above, but focusing instead on customers and groups of customers. What do you need to do to make your customer mix more ideal? Often this considers the various levels of profitability for the different customers or customer types.

Customer Acquisition: The company activities and costs associated with bringing on new customers. Taking the specific costs to acquire the customer and comparing this to the revenue streams expected can help to manage revenue growth strategies. This is a significant part of marketing that many companies rarely have a strong "handle" on.

Revenue Scale: This is the concept of doing something successfully for a customer or a certain group of customers and figuring a way to do more of the same for those customers and for other customers. It is literally doing something well and then doing more of the same. Examples include a single retail location that is scaled to multiple retail locations, a general geographic expansion, or adding a product or service line, etc. Revenue scale is an important part of identifying overall revenue growth strategies. Often revenue scale is facilitated by identifying a “unit of one” concept that can be well defined, understood, and then replicated.

Geographic Expansion: Expanding the business to facilitate revenue growth by adding a similar business in another location. This is often a component of revenue scale. The old adage says the second location is always the hardest one. If you can scale to 2 or 3 locations successfully, it indicates you can probably expand to even more markets. Put much energy into the decisions, organization, planning, and execution on markets two and three, as this is often where people often try and fail.

Unit of One: An important concept relating to scale. It narrowly defines the “unit” you plan to scale. The more you understand the dynamics of the “unit of one,” the more probable your success when you bring on additional, similar units. Scale often works to take a single “unit of one” to two or three, and activities necessary to make one work, then the more poised you are to expand to 10 (for example) and 20 and beyond. The more you understand the specific financial and performance issues related to the “unit of one,” the greater the probability for success.

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PHASE 3
TEAM

You have now gone through the excitement of creating an idea, starting the business, and generating some real revenue. Wow! You are on the path to making this business idea a success and making it into a longstanding company.

Congratulations.

There will be times, however, when you may question yourself: "What have I really gotten myself into?" You look back at the long days with no pay, and all you see going forward is more longer days. And if you're lucky, maybe a few dollars might make it to your pocket. Welcome to being a small business owner!

Don't despair. Anyone who has started and run a business has gone through this same grueling process. Some are more successful than others. But all go through some evolution to becoming a better, smarter entrepreneur. Remember, you are the first member of the team! So let's do what we can to make you one of the successful ones.

The first two phases of the business involved staying lean, perhaps doing much of the work yourself or getting help from family and friends.

Now in Phase 3, you must decide how to move your business forward with your "Team." In this section, we will discuss how your team might look. Without a good team, the hill will be much steeper to climb, so pay attention!

One of our favorite business books is *Good to Great*, by Jim Collins. In it, he reinforces how the right employees are the most important asset, and that getting the "right people on the right seats of the bus" is a vital part of a company's development.

To be successful, you must have the right people for the right job. Your team needs to have chemistry, work well together, and, most of all, share the same ethics and philosophy as you and believe in your mission.

With this in mind, ask yourself the following questions: Who, of your current people, do you need to move forward with? Who might need to need to be replaced? And who might need to be added to take the business forward?

Maybe after these past few months, you decide your brother-in-law is not the perfect person for the sales job, or maybe your wife is not the bookkeeper you had hoped for. To be successful in this phase and going forward, you must have the right people doing the right jobs.

Phase 3 is where the rubber meets the road—where you really dig in, grow the business, and start making money, or close the doors. It really is that "black or white" of an issue.

In this stage, some entrepreneurs can't make the difficult decisions that must be made. They can't let go the people they started with, even though they are either dead weight or just the wrong person. Unfortunately, this phase is where you may actually have to fire those who are not contributing productively to the business.

The entrepreneur may keep saying to himself or herself something like, "They helped me so much during this process and didn't really get much pay, so I feel obligated to bring them along."

The right decision could propel you to profits and success. The wrong decision could bankrupt you. Which entrepreneur will you be?

NEXT LEVEL POSITIONS

One of the main success factors in this phase is to identify the positions (and duties/responsibilities) you need for your business to move to the level. For these positions, create specific and thorough job descriptions. You likely considered similar things for the opening phase of the business, but it is now time to get a little more serious about implementing the concepts to achieve the stability we seek in Phase 3.

Every business is different, and your team will evolve differently from any other. But there are some common positions we see in this phase. Let's discuss those here.

- ***Administrative Positions.*** Do you need someone on staff full time to answer the phone, handle email, send letters, and schedule appointments? Now that your business is growing, don't try to do all the work yourself. Your talents may be put to more valuable use growing and managing the business than they would be filing papers.
- ***Accounting Services.*** Do you have many bills? What about account receivables and inventory? Are you able to produce timely financial statements? Does this take much time or not? If so, is it a part-time or full-time position? Or should you consider hiring a bookkeeping service to handle the more difficult parts of your accounting, or can an admin person take up these duties?
    - › You must keep a tight control over your financials. (See the Money discussions in this book!) So don't do tasks you are not qualified for or do not feel comfortable doing. Many times this decision is a personal preference based on the individual's knowledge and comfort with accounting. Back in 1963 when the IRS was first computerizing, the term GIGO was developed. We all know this today as "Garbage In—Garbage Out." This certainly holds true for accounting. If you have garbage numbers going in, your financial reporting will be a mess, and you will not know how your business is doing (garbage out).

- › With today's computerized bookkeeping software (both desktop and cloud based), accounting is simpler than it used to be, but even with simple software, you still have to know what you are doing and properly set up your system day one.
- › One option might be having an accountant set up your books, doing the accounting internally yourself, and then having the accountant review your bookkeeping monthly or quarterly. It is always good to have a professional—and an extra set of eyes—look at your numbers.

So what accounting needs will you have? They will include the following:

- When working with clients, I am often asked "When do I need to get a CPA?" The right question should not be when, but *if*, you need a CPA. Not every business needs a CPA. If you are looking strictly for bookkeeping services, there are bookkeepers or basic accounting firms that may meet your needs at more affordable prices.

  You are smart to have a more sophisticated CPA firm when you need help with financial analysis or have special accounting needs such as federal contracting requirements or special SEC requirements. Certainly, you will want to look into more advanced accounting expertise if you are buying or selling a business and/or have any complex tax issues. (It's smart to be frugal and try to save, but know when it is also smart to spend the money for the best expertise.) Interview potential CPAs to be sure they fit your requirements, they know your industry, and they can easily communicate with you.
- If you plan to have a staff (even yourself under certain tax structures), then you will need to have a payroll system in place. There are many options for payroll, such as payroll programs, outsourcing to an online service (many local banks offer this), using an accounting firm that offers the service, or a payroll company or a PEO (Professional Employment Organization), also known as an employee leasing company.

** Important note: If you outsource payroll, be sure the company is reputable and you have proof the company is paying your payroll taxes. Remember, as the owner you are responsible for payment of payroll taxes, regardless of whether you are doing payroll or not. You may be paying the payroll tax to the payroll company, but is the payroll company paying the IRS?

So what other positions do you need to consider?

- ***Sales.*** Who will be involved with ramping up revenues? Up to this point, you may have been the salesperson, along with every other position. But now is the time to really grow customer revenues. There are several options to consider. You may decide to hire a salesperson, have someone do sales part time, hire an independent representative or manufacturer representative, or just sell online. You may also need to have customer service person to handle orders. The dollars coming into your business are essential for its ongoing survival, and growing solid revenues is a key part of "graduation" of the business from Phase 3. (The customer cash inflows from revenues must be able to support the business to win in this phase!)

  If you don't have enough sales, the company won't last long. Determining whether to bring sales in-house may depends on your type of business. Be sure you properly evaluate the pros and cons of your sales team, and be sure you develop proper training materials. But regardless of how you do it, make sure you have a plan—and a team—that will ensure you have sufficient revenue streams to survive.
- ***Distribution.*** How will you get your product to the customer? Is this something you do internally, or is it cheaper and more efficient to outsource to a local delivery service, UPS, or a distributor? You need to weigh the known factors such as costs, but also the unknown variables such as dependability, delivery times, and customer service. Remember that even though they are not your employees, they still represent your company.
- ***Marketing/Advertising.*** Up to this point, your marketing may have consisted of a website and maybe some business cards.

You may now need to think about branding and development of a more complete marketing communications strategy. Assess whether you have the expertise to handle this internally or if you need to hire someone or a company to handle your website, social media, Internet marketing, and traditional marketing materials such as media, brochures, and sales materials.

- › For most small businesses, finding the right person who can offer a consistent message and branding is important. Check for other local small businesses and interview the business owners about their marketing companies, look at their portfolios, and talk to their customers. Make sure the person or company is someone you feel comfortable with and really knows and understands your business.
- › If you plan to do media advertising, especially radio and TV, look for a local media representative who can help you purchase the ads at a better rate than you could by purchasing directly. Also, keep in mind that under most circumstances the media reps are paid by the media companies, not by you. So their advice may have some bias to it.

- ***Executive Coach.*** During this phase, the entrepreneur needs to be careful not to burn out. It is common to feel like there are many balls in the air and much of your time is spent putting out fires. Remember, "if you are up to knees in alligators, don't forget you need to first drain the swamp."
  - › It is not unusual during this phase that entrepreneurs (remember, you are a vital member of the "team" yourself!) find it extremely helpful to hire an executive coach. You may be asking, "What is an executive coach?" This is someone who will listen and help you determine your goals. Most importantly, a coach will be sure to hold you accountable for the tasks you decide are most important.
  - › Sometimes entrepreneurs just need someone to get them back on track. This is where an executive coach may help. A note of caution: many people say they are an executive coach, but many do not have the skills or experience to really assist you. Be sure you interview in detail any coach you are considering

and talk to his or her clients. You will be exposing you and your business to this person in much detail. Be sure you feel comfortable with him or her.

› If you don't use an executive coach, make sure to monitor your level of mental fatigue. As part of your day, take time to relax and stay healthy by exercising, eating right, and getting enough sleep. Your ability to think, react, produce, and maintain stamina will determine your success. Taking care of yourself and remaining healthy will allow you to do this. Concentrating solely on your business and forgetting your health will cause more harm than good in the long run.

- ***Production People for Product.*** If you are selling a product, how are you producing it? And how might this change as revenues ramp up? Are you producing it yourself, or do you have it being produced elsewhere? Is the outsource company shipping the product also, or do you need to have a warehouse? Do you need additional people to handle shipping, receiving or warehousing duties?
- ***Production People for Services.*** What if your business is a consulting firm? Let's say you provide engineering services but do not want to have a full staff of engineers on your payroll. Maybe you use independent contractors to provide services. You need to have systems in place to find qualified people, a process to select them, and a system to be sure they are providing the quality service you want.

  Another example might be a contractor doing home remodeling. You might be the only employee, but you use subcontractors to complete the work. What is the system you have in place to select the subcontractors? Be sure that if you are using independent contractors you are complying with the IRS definition of a 1099 independent contractor. (There are rules here and you need to know them. Try the www.irs.gov website for the most up-to-date definitions.)

Depending on your business, you may or may not need to add many positions during this phase, but what is clear is that you need to evolve the business so that customer revenues support the costs of the organization. As you start to map this out, consider drawing up organizational charts to show the progression of the business from where it is today to where you see it going as you get the business to stability.

RECRUITING, HIRING & RETENTION

For many businesses, the "employees at open" will logically evolve during Phase 3. Depending on your team and what it takes to achieve business stability, you may be adding people to get there. Building a team for the long term can be different from simply getting the doors open and generating first revenues.

At this step, you may initiate a more formal approach to recruiting and hiring. Here are a few tips:

- Really take job descriptions seriously. We discussed this in Phase 2, but it takes on significantly more importance as you hire more and more people.
- Interview more than one person for each position; too often people make a hire because someone is available and we think they can help. We find it makes sense to go through a process of interviewing multiple applicants and selecting from the best.
- Incorporate phone interviews and face-to-face interviews; both provide value, and often, different insights.
- Use interview questions that simulate the actual work the person will be doing. Sometimes these are called "experience-based" questions, as they help us better understand if the person really knows what he or she is talking about
- Which is a great segue to...don't automatically believe a resume or interview. People don't have to outright lie to still deceive you; don't assume that because they worked for a large company or have a degree they are an expert at what you need. Often it is not the case.

Interview more than one person for each position; too often people make a hire because someone is available and we think they can help. We find it makes sense to go through a process of interviewing multiple applicants and selecting from the best.

Related to recruiting and hiring is retaining your best performers. Remember, you are building a team here, and losing key people can be extremely deflating. Here are a few suggestions:

- Give them positive feedback; contributors like to feel they are appreciated.
- Help them develop; often, high performers want to grow and progress, and they can get bored if they feel they are doing the same thing all the time.
- When they prove themselves, often high performers appreciate being given more leeway to do the job they way they want to; unless they are the type who happens to like it, avoid micromanaging every detail.
- Get to know the person; people are different and with top performers, it is worth the extra effort to really hit their individual hot buttons.
- Make sure they see a future for the business; performers want to feel like they are contributing something to a solid company whose best days are ahead of it.
- Help them see a future in the company; don't make promises you cannot deliver upon, but give the person a feeling that he or she is an important part of the future. The more "disposable" people feel, the more likely they will be to jump at other offers.
- As they will get recruited to leave, keep a strong, open dialogue with them; it is better for them to be open with you if they are being recruited than for them to sneak around your back. Keep doors open, so you have a chance to keep the strong people.

DISCIPLINARY ACTIONS & FIRING

We might as well keep going with some of the "HR Standards" that tend to show up in Phase 3. Sadly, not every employee will work out. This means you will need to put disciplinary processes in place, and you may even need to terminate people. Some suggestions:

- A good employee handbook is critical here and can delineate exact expectations, so that everyone is on the same page, as well as outline disciplinary processes the company will follow.
- Treat everyone the same; consistency is important. The biggest challenges in this area tend to surface when people feel they have been treated differently than others were treated (even if it is warranted). When it comes to disciplinary actions and firing, you want to be able to demonstrate fair and equal treatment.
- Document, document, document—be sure to put it in writing, and even have the employee acknowledge and sign it. Though it can be uncomfortable, this kind of paperwork can be a major "saving grace" should you need it down the line.
- Be fair and be reasonable about "second chances"; people make mistakes and can correct performance or behaviors.
- If you know it is not going to work out, however, resist prolonging it. There is a saying that goes: "Be slow to hire and quick to fire." Many of us do the opposite, though, as we want to believe in people and that it will get better. Sometimes we are just putting our heads in the sand; often, it is best to just cut your losses.
- If you must fire someone, take the high road in doing so: talk to the person face to face, and do your best to help the person (by being honest) and by being fair about it. Think about it like this: How would you want someone to fire your child if they really had to? It might be a good guideline to go by.
- Regardless of the reason for leaving, try to conduct exit interviews with the employees, both to learn from the experience and to have a productive dialogue that can benefit both sides.
- It is also a good idea to have access to expert legal/HR assistance, as there will be times when you want to gain additional insight

and build in additional levels of legal protection. This can be one of the most frustrating aspects of being an employer

OTHER TEAM MEMBERS

Running a business is no picnic, and it is important for entrepreneurs to surround themselves with necessary advice, guidance and support. You may need others to assist you, mentor you, coach you, or even offer a shoulder to cry on.

Advisory Board. An advisory board is a non-paid group of people you ask to assist you in understanding what you need to do to be successful in your business. Each advisor should bring certain skills or experiences. Maybe one person has industry, sales, or marketing experience. Maybe another individual understands product distribution, financial analysis and, most importantly, having access to other advisors who basically know how to run a business.

These advisors agree to be called on from time to time to assist you with questions and suggestions. They may periodically meet as a group, but often they are just people you can call on.

Mentors. You may also consider looking for a mentor. Mentors are people you really respect because of their knowledge and ability to convey that knowledge to you. A mentor relationship is a much more committed relationship than one offered by a person who sits on an advisory board. The right mentor is always available to help, guide, and teach you how to grow and manage your business. Finding the right mentor is not easy, but it is worth the effort.

HR LAWS AND REGULATIONS

You don't need to be an HR Attorney to hire employees, but as a business owner, you are expected to know the basic Federal and State HR laws. As your organization progresses, it becomes increasingly important for you to understand the basic "lay of the land" as it relates to the legal issues associated with running a business.

We suggest, at a minimum, that you become familiar with:

- The minimum wage in the state(s) you will have employees
- Workers compensation laws and insurance
- Liability insurance
- What paperwork needs to be filed when you hire someone (I-9, W-4, state forms, state new hires requirements, etc.)
- How to set the payroll, deductions, and tax filings
- Workplace posters, etc.

Visit your local state website often to be up to date on HR-related laws and regulations. Consider your local workforce center as a resource as well.

Federal websites:
- www.dol.gov
- www.eeoc.gov
- www.osha.gov

It also makes sense to have an HR expert (consultant or attorney) you can tap in to when you need to have difficult questions answered or when a crisis arises. This person does not have to be on a retainer, but rather just needs be in your "Rolodex," so that when you need someone, you know who to turn to.

EMPLOYEE HANDBOOK

If you are going to have employees, you should have an employee handbook. The employee handbook is the basic "guide" for an employee and employer to know what to expect while working together. Don't make the employee handbook too lengthy or too detailed, but make sure you cover the basics. With the complexity of employment law, we recommend you have a qualified employment attorney review your handbook.

Attached is a sample table of contents of what the handbook should include. This is to be used as a sample and is not exclusive. Your attorney may have additional recommendations.

SAMPLE TABLE OF CONTENTS

SECTION 1: Company info
- Company summary
- At will employment
- EEOC

SECTION 2: What to expect from us
- Paycheck
- Overtime
- Meal and break period
- Vacation
- Sick time
- Time off
- Holidays
- Jury duty
- Benefits

SECTION 3: What we expect from you
- Work schedule
- Confidentiality agreement
- Standards of conduct
- Sexual harassment
- Dress code

PERFORMANCE TOOLS TO MANAGE YOUR TEAM

At this point many, entrepreneurs often find the process of managing employees to be highly frustrating. When you hand off certain duties, in particular ones involving customer service and sales, it is not uncommon for your team members or representatives to not provide the same level of service you did. Be sure you have training systems to teach team members how to provide the customer service and sales information you expect. This is an ongoing process, and one that must be monitored.

Because of this, team members should be managed and informed about their performance. It is suggested you do an annual review, but even more important is that you coach and praise your team all year long, not just at review time.

Performance Management Checklist. The following checklist was prepared as a quick reference tool for the performance management process.

Please keep in mind the three fundamentals during the entire year, not just at review time. Review the checklist through each phase of the performance management process. As you plan, use the checklists for objectives and results, support plans, and meeting with your team.

The Fundamentals of the Performance Management:

1. Does your team understand what you expect of them?
2. Does your team know how well they are performing?
3. Does your team have what they need to improve their performance?

Objectives and Results Checklist:

- Are your organization's objectives/goals reflected in the objectives and results expected of the team member?
- Is it clear what is expected of the team member? Are objectives specific, accurate, and results oriented?
- Is it clear how performance will be judged through the results?
- Are these expectations realistic? Achievable? Timely?
- Have you planned for NO SURPRISES by the end of the process?

Support Plan Checklist:

- Are there any obstacles to the team member meeting your expectations of objectives and results?
- Can these obstacles be overcome with specific training, equipment, increased feedback from the supervisor, or other means?
- Are there any other obstacles in the way of achieving the goals?

- If so, can they be overcome by reprioritizing or reassigning some tasks without sacrificing performance in other areas?
- Does the Support Plan accommodate all the requirements needed for the team member to meet the objectives set?

Meeting with Your Team Checklist:

- Will the team members understand how performance will be judged?
- Have the team members raised any objections to the proposed objectives and corresponding results expected?
- If so, have these been resolved?
- Have you explained what performance management means to your team members and outlined the three phases of the process?
- Do the team members understand the benefits of the process?
- Do the team members understand the importance of their jobs to the goals of the team/unit/department?
- Do the team members understand your expectations in terms of both objectives and results expected?
- Do the team members feel they have all the resources required to achieve these results? Is the Support Plan complete?
- Does your team understand that they can return to you at any time to discuss your performance expectations—particularly if they are encountering problems? Have you answered all the team members' questions?
- Have you heard your team and taken their concerns and comments to heart?

Ongoing Support and Feedback Checklist:

- If you were to perform a review today on any of your team members, would there be any SURPRISES for them?
- Have you set a goal for yourself to informally, but regularly, "touch base" with each of your team members to ask how things are going, ask whether there are any problems, and discuss any difficulties in the achievement of their performance? Do you correct performance problems immediately?

- Do you congratulate successes immediately? And remember that success is relative? (For instance, getting a supply requisition in on time can be a major success for a chronic procrastinator!) Sometimes, acknowledging the "little things" is extremely important.
- Have you reviewed the team members' work plans and objectives at least once during the period?
- Have you updated or modified those work plans and objectives that require revision?
- Have you done so with the team members' input and agreement?

Performance Review Checklist:

- Have you provided factual information where appropriate on the form?
- Are your comments specific and accurate, making reference to original goals established under objectives and results?
- Can you support the judgments you make and record on the form specific examples of the team member's performance during the period?
- In cases where the team member's performance met the objectives set, have you acknowledged the team member for a job well done?
- Were there any surprises from the team member? Did you adequately address them?
- Have you both signed the report?

Personality Assessments. In addition to these checklists, you also need to understand the personality of your staff. Understanding that each person has different wants and desires is important. Each person handles supervision differently. Each person handles praise and criticism differently. It is your job as owner and leader to understand and motivate your team.

Some tools available include (these tests are available in multiple places on the Internet and can be easily be found doing a quick search):

- DISC Assessment—an assessment each team member takes that will give you information about each person's personality. The assessment measures:
  - › Dominance—Person places emphasis on accomplishing results, the bottom line, confidence
  - › Influence—Person places emphasis on influencing or persuading others, openness, relationships
  - › Steadiness—Person places emphasis on cooperation, sincerity, dependability
  - › Conscientiousness—Person places emphasis on quality and accuracy, expertise, competency
- Myers-Briggs Type Indicator—another assessment tool that measures:
  - › Extraversion or Introversion E or I
  - › Sensing or Intuition S or N
  - › Thinking or Feeling T or F
  - › Judging or Perceiving J or P

PROFESSIONAL DEVELOPMENT

An important outcome of team reviews is a professional development plan. Many owners do not feel they can afford professional development, but much of professional development may be able to be done in-house through mentoring or shadowing other team members.

Having a written plan for the areas for improvement and a strategy for obtaining those skills is important. Most team members want to do a good job in their role and the owner taking the time to consider and invest in their team goes a long way to increase retention and promote a positive culture in the organization.

A professional development plan should include the following:

- Objective of the professional development—quantifiable if possible
- The steps or tasks leading up to achieving the goal

- A plan for how that new skill will be used on the job—quantifiable if possible
- A calendar-based plan which lays out key time-based milestones in the plan

For Example:

Professional Development Plan
Team Member: Joe Smith
Current role: Sales representative
PD objective: Increase closing rate from 50% to 60% in 2014.
Tasks of PD:

1. Shadow with Sales Manager—25 hours
2. Attend SM Training in Q2
3. Mentoring with Jerry Johnson—5 hours a week

Implementation: Results should be an increase in calls per day from 20 to 25 and an increase in the new business closed from 50% to 60%.

MAINTAINING A CONTINUOUS IMPROVEMENT CULTURE

One thing that often holds companies back from change is a lack of implementation. Business owners often say they have an open-door policy and even a suggestion box, but team members may say they do not feel heard. Seems strange, doesn't it? We have found that team suggestion boxes are often left empty because there isn't a good feedback loop for people to find out what happened with the suggestion they made. Given that, they simply stop suggesting.

A simple system is needed to allow the person suggesting to know what happened with their suggestion. Having ourselves been in charge of sifting through the suggestion box, we understand that there can be some reluctance to review suggestions because you may feel you have to implement every suggestion. Some suggestions are expensive or not timely, or sometimes just won't work—but team members may feel shut down if they are not addressed, and more importantly, appreciated.

Keys to a good feedback system:

1. Make sure the feedback loop is closed. If you can't implement the change because of budget constraints, let the person know you will revisit this with the new budgeting cycle.
2. Keep track of the suggestions visually in the business. Put them in a place where everyone can see both the new suggestions, the ones completed, and the suggestions' current status.
3. Allow people to talk about the suggestion and budget some time for the person to work on the idea, but be positive and appreciative of the suggestion.
4. Celebrate the suggestions. Maybe even have a competition to see who can give the most suggestions, or throw out some new crazy ideas just to get people thinking.

The goal of the suggestion process is to keep team members engaged and to provide input from many different positions in the company so that critical issues can more easily surface in the company. This type of culture typically has higher staff retention rates as well.

COMMUNICATION IS KEY

How is your information flow? Better yet, what are the symptoms of poor communication flow? In a small business, both the owners and team members wear many hats and sometimes communication suffers. During Phase 3, you may still be working on your information flow. Great businesses develop their team to be focused on excellent communication.

Consider the following questions:

With Customers

- Do potential customers understand what products and services you offer?

- Is your messaging consistent throughout all forms of marketing and communication (website, newsletter, advertising, marketing collateral pieces)?
- Do you consistently deliver on time to your customers?
- How is your company's on-time delivery strength in comparison to your competition?
- When customers place an order, do they receive what they ordered without returns or complaints resulting from miscommunication?
- Overall, is your customer retention high?

With Team Members

- Does your staff understand the direction of your company?
- Do team members understand their role and others' roles?
- Can your staff tell through metrics or specific feedback how they are performing in their positions?
- Do team members understand how they affect the result or profit of your company?
- Do team members know the core values of the culture you are trying to create or maintain in your organization?

Information Exchange

- Is information readily available about the status of your customers and potential customers?
- Do you maintain good financial information for making decisions?
- Do you maintain and communicate information about trends that may affect your business?
- Is information on internal company best practices readily shared?
- Is there a sense of trust in the business amongst the team?

Consider your "No" responses and think about the areas of breakdown in communication. Lack of communication means people are not following through sometimes with clients, which can affect your revenue. They also may be basing their decisions on poor or wrong information, hesitating to make changes, or not making needed changes. The costs add up quickly.

Make people accountable by reviewing the information they are collecting in the system and asking questions.

Another critical communication tool is the meeting. Conducted both in-person and over conference lines, meetings can be extremely effective at pulling people together, yet can also be a huge drain on time and can create more problems than they solve.

As you start to put meetings together, here are some tips to improve the effectiveness:

- Limit meeting attendees to those who need to be there. Companies have a tendency to have a large number of people at meetings—and often many of them are neither talking nor listening.
- Get on a schedule. Meetings held with some regularity or ongoing consistency are typically the most productive.
- Publish an agenda prior to the meeting, along with work that participants can do in advance so they can come to the meeting prepared, and hold them accountable for doing it.
- Get to decisions. One of the challenges of meetings is that issues are talked about but are not brought to a finality. Try to get into this decision-making habit.
- Have someone lead the meeting to keep the group on task.
- Have someone else take—and publish—notes after the meeting.
- Insert discipline to stay on topic, make decisions, assign responsibility, and target completion dates.

SOPS FOR INTERNAL PROCESS

Certain parts of your business need to be standardized. During Phase 3, you may have decided that consistency was needed for certain parts of your business. This is particularly relevant for businesses that may have potential risks for production or delivery. Standard operating procedures (SOPs) may be required to ensure the product is created in a certain process each time. Additionally, if you are training new team members, it is much easier to train and get them up to speed if there are SOPs in play.

As you start to grow, you may see the effects of not having SOPs in place. For instance, you might see a higher scrap rate or a growing percentage of unbillable time, or you may feel like you are putting out a lot of fires and solving the same problems over and over again.

SOPs do not have to be complicated. Simply write down the step-by-step instructions for the most common tasks each person does. You can also download templates for SOPs or use flow charts or checklists to ensure consistency. It is best if you have the person doing the task draft the SOP; then, have a second person from the company walk through it to edit and provide feedback.

DO YOU NEED LEADERSHIP TRAINING?

Leadership training for yourself and your team is an investment, but one that typically pays off. During Phase 3, you may feel overwhelmed and think life would be easier if you could just clone yourself. Since this is not possible, asking for a helping hand and developing others around you might be the answer.

Your leadership skills can bring strength to your business or limit its potential. Identifying potential leaders during Phase 3 may help decrease your feelings of overwhelm. The best place to start is to consider how you are spending your time. What are the things you shouldn't be doing? These tasks may be things that are not your strength, or you may see that your efforts could be better used in other places. For example, often the owner will feel like he or she needs to do the bookkeeping, when in fact if this person is more skilled in doing the sales, his or her return could be higher by focusing on revenue generation and hiring a bookkeeper.

Often successful business owners will look back and remember one of the greatest joys in developing the business was recognizing and nurturing the talents of others. People enjoy being recognized for their talents, and most people will enjoy added challenge that makes the job interesting.

During Phase 3, you can develop your leadership skills and those of your staff. This doesn't have to be an expensive week-long training. Maybe it is just starting a book club in your office to begin reading some of the stronger leadership books. Make it practical and easy to start out with; then see where things evolve to.

If the budget exists, providing leadership training through multiple existing leadership training programs can do wonders for building not just managers, but leaders.

While we suggest attending leadership training, here is a list of key leadership tenets that will serve you in building a team of loyal followers:

- Have a vision of what the company can become and be able to articulate this.
- Instill confidence in your team, which indicates you have answers to potential problems that may arise in the business.
- Seek smart ways that both the employees and company can win—seek mutually beneficial approaches.
- Never ask someone to do something you would not do yourself.
- Be in tune with organizational conflict, and be an element that solves conflict and brings the team together.
- Be impeccably honest and stand by your word; build trust.
- Improve your communication skills.
- When problems arise, address them maturely, factually and without dispensing a great deal of blame—address them head on.
- Share team victories—avoid hogging up all the glory for yourself.
- Take the higher road—leaders do not need to cut corners.

Follow these steps and you can build not only a successful team, but a successful company. Here are some suggested classic books on leadership, coaching, and team development:

- *The 7 Habits of Highly Effective People*—Steven Covey
- *The E-Myth*—Michael Gerber
- *Good to Great*—Jim Collins
- *On Becoming a Leader*—Warren Bennis

- *The Essential Drucker*—Peter Drucker
- *Leadership Jazz*—Max DePree
- *21 Irrefutable Laws of Leadership*—John Maxwell
- *Living the 80/20 Way*—Richard Koch
- *The 5 Dysfunctions of Teams*—Patrick Lencioni

THE ENTREPRENEUR'S VOCABULARY

Part of developing your entrepreneurial skills is being able to "talk the talk." Here are some vocabulary terms relating to Phase 3, Stabilize—Team.

Leadership: The process of eliciting the support of others. Leaders function in an environment where they can motivate, direct, and inspire followers.

Recruiting: The process of finding the right individuals to fill positions in an organization. Steps in this process including defining the position and promoting the position so the desired number and quality of applications are identified.

Hiring Process: The process by which organizations hire and integrate new employees. Steps include recruiting, interviewing, selection, and orientation.

Employee Retention: The process of keeping the best employees. Aspects here include compensation, intrinsic rewards, recognition, morale, coaching, training, opportunity for advancement, and promoting general employee satisfaction.

Professional Development: The process of increasing the skills and competencies of team members, including the leader/entrepreneur. Key elements include training, coaching, and on-the-job experience.

Coaching: The process of helping the coachee (client, employee, etc.) achieve success at a faster rate. Elements include goal setting, accountability, listening, and brainstorming.

Training: Education in the workplace. Topics tend to center around business skills, software skills, and job specific skills. This can be done in a formal or informal setting.

Performance Compensation: Elements of the compensation structure which are based on performance. Examples include commissions, bonuses, piece rate, or profit sharing.

Team Conflict: Managing the process of human conflict in teams. Clearly defined roles, conflict resolution, and documented processes and procedures can be used to reduce prospective conflict.

Meetings Management: The process of ensuring that effective meetings are achieved and the pitfalls of poor meetings are avoided.

Role Confusion: A phenomenon in which team members are unclear of their specific duties and responsibilities, leading to team conflict. Good job descriptions, organizational charts, and overall communication can reduce this phenomenon.

Disciplinary Procedures: A set of management processes designed to handle behavioral issues with employees, including things like write ups, warnings, meetings, documentation, and firing.

MINI-PLANS

- The "Get to Stable" Organizational Chart—Chances are good your organizational chart will change some during the Phase 3 time period between the opening revenues and company stability. You may wish to draw up several org charts that show this evolution.

Additionally, many of the positions listed in the earlier portions of this chapter are relevant.

- HR Basics—This is a short plan to describe the Human Resources Processes present in the business, including elements such as:
  - › Recruiting
  - › Interviewing
  - › Hiring
  - › Job Descriptions
  - › Employee Intake Paperwork
  - › Employee Orientation
  - › Employee Handbook
  - › Benefits Listing
  - › Employment Posters
  - › Disciplinary Processes
  - › Firing
- Creating a Culture—This document helps you become very purposeful about creating and managing the culture. Elements discussed in this plan can include:
  - › Mission and Vision Statements
  - › Statements of Values/Ethics
  - › Employee and Customer Bill of Rights
  - › Teamwork Development
  - › Conflict Management
  - › Celebrations
  - › Morale Boosters
- Key Systems—Systems should be considered in those tasks which are repetitive and require a consistent outcome. Elements of this plan should include:
  - › A list of systems to develop
  - › An overview of the elements needed in system documentation
  - › Step-by-step descriptions of the inputs, processes, and desired results
  - › A description of how to propose and implement changes to the systems
  - › Standard Operating Procedures, also referred to in this chapter as “SOPs”

13

PHASE 3, STABILIZE
MONEY

When you started this journey, you did lots of research to confirm your plan's viability before you took action and opened the doors. During Phase 2, Open, you probably experienced the ups and downs of finding a location, building or renovating, forming solid relationships with your team and vendors, and developing loyal customers and a product mix or service that is in demand. You may recall the feeling of being airborne without a net—dips spun you to new highs before plummeting again while you hung on tightly through it all.

You know now the best plans and the strongest systems can be shaken, but after the rush of the startup, you should now be finding the business starting to get into a rhythm, hopefully gliding toward a stable platform. You may even be surprised at feeling a little let down by the calm. But the road to the next stage—stability—is equally as challenging. You won't be disappointed.

In Phase 1, Open, you created a budget and projections, analyzed them all and made the decision to go. In Phase 2, you obtained the financing to start the business and set up the systems you needed to track the money. In Phase 3, we are going to look at the things you will need to do to monitor your business's financial development and plan for its growth.

Some of the common things we see people miscalculating or being surprised by after opening the doors are:

- Understanding the trade terms and practices of vendors
- Knowing how they can use payment terms to their advantage
- Managing inventory to maximize services and minimize wastage
- Knowing what their accounts receivable turnover ratio is
- Knowing what their number of days in receivables is
- Knowing what their inventory turnover rate is
- Keeping their stock levels sufficient to allow timely completion of jobs
- Getting their machines running efficiently and at capacity

Stabilization is a process of taking ownership of the financial operations of your business. Understanding and managing the financial aspect of your business will give you tremendous power as you grow your business and add equipment, machinery, and staff.

To stabilize, you will start by focusing on four primary goals:

1. Managing revenues.
2. Improving margins.
3. Managing expenses around quantifiable, measurable objectives.
4. Pulling it all together within the context of budget targets.

Your job in this phase is to guide your business to a level of profitability that generates a consistent and positive cash flow; this requires financial discipline and attention to detail. It doesn't mean you have to keep a copy of your budget in your pocket and read it every night before bed, but you do need to stay aware of the overall financial condition of your business.

It means assessing every facet of how money works in the business and how it is impacted by management decisions, business operations, sales and marketing, and borrowing. You should start to see the interconnected nature of the numbers in the business and develop a more mature perspective, based on studying your own, actual numbers. When you "go live" with financial analysis, it is more meaningful than estimates and projections, or even book learning.

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By now, it should be pretty evident how profitability impacts cash flow. No profits...no cash (at least eventually). In this chapter, you will be exploring tools to help you set a strategy for profitability. Profitability is all about sales versus costs; thus, to become more profitable, you must either increase revenues or reduce costs, or both.

You can increase revenue by:

- Increasing sales to existing customers
- Adding new customers.
- Increasing the number of products sold to each customer/new products—growing average order size
- Increasing prices
- Decreasing prices and increasing volume (but be careful, as it's not a guaranteed strategy)
- Increasing the frequency you sell to customers/repeat orders

You can reduce costs by:

- Reducing cost of goods sold (increasing margins)
- Reducing operating expenses
- Reducing cost of output
- Reducing cost of debt
- Increasing the revenue efficiency of expenses—getting more result for the same or less expense

To increase your revenues and improve your margins, you may need capital beyond the startup cash. Did you review the budget numbers from Phase 1 and add the actual numbers your businesses achieved? If not, now would be a good time to enter and review them. It is important to know how your reality compares to your plan so you know how reality will impact the business in the coming months.

How is your cash flowing? When will your business be ready for growth? Do you have access to capital to support your business growth? The answers to these questions will help you choose the best strategy for your company.

We are going to develop your strategy by breaking the process into four concepts along with related mini-plans:

1. Accounting
2. Profitability
3. Cash management
4. Performance monitoring

When you do this, you will be working on:

- Balance sheet management and review
- Profit growth planning and review
- Monitoring accounting reports and comparing actual to budget

Through the mini-plans, you will build your mastery of financial management. Using what you learn, you can create an inventory management plan, a receivables plan, and a budgeting process. While you are navigating the four areas, concentrate on what you will be doing differently from what you are doing now. This will help you avoid these common mistakes:

- Too much focus on survival rather than operational effectiveness
- Not enough monitoring of key measures or indicators of success
- Not comparing your performance to industry averages
- Sporadic review of budget to actual
- No consideration of market performance

- No monitoring of cash flow
- No management of assets—inventory, accounts receivable, supplies

Before getting started with the four mini plans, it makes sense to step back and assess your readiness for the next steps. Work through the table below. Depending on your assessment, you may want to revisit the chapters on team building, review the key words in the Appendix, or schedule a visit with your area SBDC consultant to be sure you have all the resources available to attain your objectives, reach your goals, and ensure continued stability.

ASSESSING MY FINANCIAL ABILITIES TO GET TO STABLE

Key Activity	I excel	I am adequate	I need help
Accounting Abilities			
Profitability Analysis Abilities			
Cash Management Abilities			
Performance Monitoring Abilities			
Raising Capital Abilities			

Companies fail most often during this phase when there are problems with cash flow or with record keeping. Working through the mini-plan process will help you take ownership of your profitability and cash position at all times.

A big part of this process is to begin to think like a financial manager. In previous phases, you were most preparing to actually conduct business. At the start of Phase 3, you are really just getting started with transacting business: real dollars coming in as well as going out. It is important to note, however, that critical skill begins here: your ability to monitor the actual financial progress of the business.

For many, this mindset shift is difficult. You may not consider yourself a "numbers" person, or you may even hate to balance your checkbook. All of these are understandable, but none are great excuses to remove yourself from the important financial management part of the business. You can, and you really should, take this on as a learning process. Many people who were initially quite intimidated by the process have become financially literate.

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As you will see in the remainder of this chapter, much of this comes down to the following straightforward concepts:

- Creating recordkeeping processes to monitor what is actually happening in the business
- Being able to read and interpret the reports your business will provide—this is essentially "connecting the dots" between what numbers say in a report and what that translates to within the business
- Making plans, including projections and doing your best to estimate how the business might look in the future, if certain assumptions come to fruition
- Comparing actual results to those plans and seeing where—and why—there are variances
- Taking corrective action—when the numbers tell you to act (either in the form of changing something not good or trying to replicate something positive), you have to translate this into action

- Having the courage to experiment and learn—most people going into this process probably do not have the background of a CFO, but they are willing to try to learn, even working through uncertainty and feeling uncomfortable
- And really, just believing that you can evolve into a financial manager—your business will benefit greatly if you are willing to put yourself on this path

As you have seen in this book, very often the business evolves only if and when the entrepreneur does as well. This third phase not only determines if and when you are able to "graduate" from being a startup business (and ultimately sustain and survive), but it also sets the tone of the financial progress of your business moving into the future. In many regards, the financial concepts in this chapter signify your development and graduation from the three phases found in the entire book.

UNDERSTANDING KEY ACCOUNTING CONCEPTS

Admit it. Did you actually shudder when you saw the word "Accounting"? When you don't understand the reports or how they work together, it can be menacing. But accounting captures day-to-day operations to tell the business story. The story is used to measure sales, operating costs, inventory, and payroll. Your work in the Money section of Phase 2 should have helped you identify software and other programs that can help to track and report the financial activities of the business.

Phase 3, Stabilize, takes a business that is likely not profitable and not generating cash to one that provides a return and adds value to your life. You will reach the profitability you desire by managing pricing, sales volume and costs. The tools you will use are:

- Break-Even Analysis—measures the level of sales needed to pay fixed costs
- Current Ratio—measures ability to pay short-term obligations

- Debt to Equity—measures the proportion of equity and debt used to finance assets
- Accounts Receivable Turnover—measures effectiveness of credit terms and collection activity
- Inventory Turnover—how many times inventory is sold and replaced

Business planning starts with historical performance and looks forward into the future. The end result provides a financial snapshot to make business decisions.

Whether you are using accounting software, a spreadsheet, or some other method of recordkeeping, you will need to produce and review accurate and timely reports. The documents that will help you plan and manage your growth are:

- Income statement (also called profit and loss statement)
- Balance sheet
- Cash flow statement
- Ratios

If your software does not calculate the needed ratios, you can build a spreadsheet to track progress. Set up a schedule for monitoring progress.

You are accountable for the methods you use to run your business. And while the bank will ask for financials and you have to turn them in yearly for tax purposes, you also will need to have the discipline necessary to get on, and stay on a schedule. For the most part, not one will ever force you to do this, but you will want to have accurate and timely reports to make pivotal decisions. Understanding the financial statements, the story they tell, and the role they play is essential.

On a weekly/monthly basis, review the income statement, balance sheet, cash flow statement and ratios. Compare with same time period last year, if available, with your projections and with industry standards to see how you are performing in relationship to them. Calculate the ratios to measure your improvement and how you compare to your industry. You also want to look at the trends to see if you are improving.

Growth may require you to invest in both current and fixed assets. You must balance sales, current capacity, and cash with future requirements. Buying assets and inventory and hiring employees ahead of sales may cause a cash shortfall. Building capacity too late, however, may mean losing out to a competitor. So it is a constant balancing act. Here are some suggestions:

Current Ratio (calculated by dividing current assets by current liabilities)—A ratio under 1 suggests the company will struggle to meet its financial obligations when they come due. While indicating a company is not in good financial health, it does not necessarily mean it will go bankrupt. The current ratio reflects the efficiency of the operating cycle or the ability to turn product into cash. Companies that have trouble getting paid (receivables) or have long inventory turnover can run into liquidity problems (have difficulty paying their bills) because they have all their cash tied up in inventory and AR assets.

Debt to Equity (calculated by dividing liabilities over equity)—A high debt/equity ratio indicates a company has been aggressive in financing its growth with debt. This can result in unstable earnings due to increased interest expense and increased overall risk. However, the ratio also depends on industry averages.

Accounts Receivable Turnover (calculated by dividing annual sales by accounts receivable)—By maintaining accounts receivable, businesses indirectly extend interest-free loans to customers. A high ratio implies a company operates on a cash basis or its credit and collection process is efficient. A low ratio implies the company should reassess or better implement its credit policies to ensure timely collection of accounts.

Inventory Turnover (calculated by annual cost of goods sold divided by average inventory)—This ratio should be compared to industry averages. A low turnover implies poor sales and/or excess inventory. A high ratio implies either strong sales or ineffective buying. Excessively high inventory levels are unhealthy since they represent an investment with a low (even zero) rate of return. It opens the company up to trouble if that inventory never moves or must be discounted dramatically to sell.

Things to Remember:

- A low inventory turnover is usually a negative sign because products tend to deteriorate as they sit in a warehouse or on your shelves.
- Companies selling perishable items have very high turnover.
- For more accurate inventory turnover figures, the average inventory figure, ((beginning inventory + ending inventory)/2), is used when computing inventory turnover.
- Average inventory does not account for any seasonality effects on the ratio.

MINI-PLAN #1 –ACCOUNTING SUMMARY

Key Activity Addressed: Accounting—processes to track the flows of money

Goals of the Mini-Plan: Calculate & understand the key tracking and reporting components for "bankable" companies

Background Information Relative to This Key Activity:
- Balance sheet—assets, liabilities, & equity
- Profit & loss statement—revenues, cost of goods sold (COGS), & expenses
- Current assets—cash, accounts receivable, inventory, marketable securities, prepaid expenses, and other liquid assets that can be readily converted to cash (typically within one year)
- Current liabilities—short-term debt, accounts payable, accrued liabilities and other debts due in less than one year

Key Progress Elements:
- Bookwork is completed in a timely manner.
- Operations information is communicated.
- Trends are monitored.
- Resources are identified/provided to improve in the future.

- Progress is reviewed with your CPA or SBDC Counselor.
- Software is fully utilized for tracking operations.

THE ALL-IMPORTANT PROFITABILITY

Let's move forward and look at profitability. Profitability provides the business with an ongoing ability to exist. It is measured with the income statement, and ultimately, each part of the business operation should be assessed to stabilize and optimize profits.

Profitability is a key contributor to cash flow, and thus it is a critical element to achieving Stability. If costs exceed revenues, the business will be living on borrowed time. Smart business people monitor how efficient expenses are at generating sales, margins, and profits.

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Money from a bank loan is a cash transaction to operate the business or buy assets. It does not impact profitability. It will show up on the cash flow statement and balance sheet. Different than profitability (found on the income statement), the balance sheet shows the solvency of the business at a specific point in time. The amount by which the assets exceed the liabilities is the net worth of your business.

The income statement, cash flow statement, and balance sheet form a complete financial picture. By using numbers from these statements, you can calculate some basic ratios. The ratios below can be used to establish goals and set projections and to keep tabs on profitability (and where it is being gained or lost) in the business.

Gross Profit Margin (calculated by subtracting revenues less cost of goods sold, then divided by revenues)—Used to analyze how efficiently raw materials, labor and manufacturing are used to generate revenues and profits. A higher margin percentage is a favorable profit indicator. Companies without a production process (for example, service businesses) may or may not have a cost of sales. In these instances, the expense is recorded as a "cost of merchandise" and a "cost of services," respectively. Monitoring similar concepts is important in any business.

Operating Profit Margin (calculated by operating profits divided by sales)—Management has much more control over operating expenses than its cost of sales outlays. Positive and negative trends in this ratio are usually directly related to management decisions. Ultimately, this ratio shows how effective the company is at converting sales into profitability. It also shows the efficiency of operating expenses at generating sales, margins, and profits.

Net Profit Margin (net profits divided by sales)—Often referred to as the bottom line. It is the most often mentioned when discussing profitability. This ratio should not be considered alone, but analyzed with the gross profit margin and operating profit margin. Setting goals and managing around this (and the other ratios) is desirable.

Return on Assets (net profits divided by assets)—Shows how well management is using total assets to make a profit. The higher the return, the more efficiently the asset base is utilized.

Return on Equity (net profits divided by equity)—Measures how much you earned for the investment in the company. The higher the ratio percent, the more efficient you utilized the equity base. This ratio should not be considered by itself and may also need to consider debt to equity.

Increasing profitability is one of the most important goals of a business, in particular in the third phase of a startup. Successful businesses constantly look for ways to improve profitability. Whether you are reviewing the past or projecting the future, measuring profitability is important to improve the success of the business. It is possible for a business that does not show a profit to survive, given a sustainable cash flow, but it would be difficult to survive in the long run. The business would not be considered viable for a transfer of ownership, by a bank, or in relation to graduating from Phase 3.

Assessing future changes using projections allows one to review the profitability of a small or incremental change in your business before implementation. Use your key action steps to review operations.

The first step is to define the goals and measures. Decide where you want to be in comparison to industry averages, and as you develop your own numbers, in relation to your past. Determine the required activities, which team member is responsible, and the time frame and costs to complete or meet each goal. This detail analysis, over the course of time, will give you a much better "handle" on profits in your business and how to manage the company towards improved performance.

Create a table or spreadsheet (dashboard or scorecard) to monitor your chosen goals and targets. Establish benchmarks associated with a specific time frame. Monitor your progress. One suggestion here is to create charts and graphs that show historical performance, targeted performance, and actual performance in relation to it. This will help you expedite the acquisition of financial know-how in your business.

Margin calculations and ratios are used for monitoring profitability. The gross profit margin shows the cost of goods sold as a percent of sales. This shows how well inventory is managed. The operating profit margin shows earnings before interest and taxes (EBIT) as a percent of sales. The net profit margin shows how much of each sale dollar shows up as net income after expenses are paid. If the net profit margin is 2%, it means that 2 cents of every dollar is profit.

Businesses earn profits by mixing their labor and management with inputs and capital assets to produce goods and services for sale. In order to be profitable, three things must exist:

- Earnings (or efficiency),
- Turnings (effective use of assets)
- Leverage (using debt to multiply earnings and equity)

Specifically, this shows:

- How efficiently inputs are being used to generate profits [earnings].

- How well capital assets are being used to generate gross revenues [turnings].
- How well the business is leveraging its debt capital [leverage].

MINI-PLAN #2 –PROFITABILITY SUMMARY

Key Activity Addressed: Understanding and Growing Profitability

Goals of the Mini-Plan: Calculate & Understand Profitability Ratios:
- Assess profit margin, return on assets, and return on equity.
- Select the ratios you wish to monitor in your business.
- Create scenarios that show various levels of profitability based on different assumptions (profit modeling).

Key Questions to Evaluate:
- What is your gross profit margin?
- What is your operating profit margin?
- What is your net profit margin?
- How do your actual margins compare to budget?
- Where are the gaps in your profitability?
- Where are their opportunities to improve?

MANAGING CASH—PLANNING, DAILY MANAGEMENT, AND PROTECTION PROCESSES

Growth often puts a strain on cash, but there are things you can do to generate better cash flow. And even profitable businesses can have negative cash flows that can drive them out of business despite the profits. Ensuring the business has the necessary cash is of utmost importance.

Cash on hand means having the ability to consistently pay all costs, including inventory and wages. In Phase 3, Stabilize, you may find yourself wondering why your cash heads south just as your sales head north. Cash flow forecasting allows you to focus on the future by asking one key question: “What if?”

Most businesses start with a loan or investment help. Lenders and investors will want to review the business on a quarterly or an annual basis. A negative number for cumulative cash flow is the lender's definition of "upside down," which means there could be problems borrowing cash if you need it and there certainly could be an impact on loan terms.

A good cash management program includes monitoring that measures cash needed to purchase inventory and pay bills. Projecting cash issues before they happen provides a greater opportunity to manage small problems before they get out of hand.

Timing is critical to cash flow. Costs and revenue do not always occur at the same time. Businesses need to have enough cash available for cash poor times. Is your cash position standing in the way of new accomplishments? As revenues increase, so will the cost of operations. Planning helps avoid the cash-flow problems that can occur with growth:

- Dilution of effective leadership
- Straying from goals and objectives
- Communication barriers between departments and individuals
- Little attention paid to training and employee development
- Stress and burnout
- Avoidance of delegation and control maintained by owners
- Failure to maintain quality

The most profound statement in business is "Cash is king." Cash management is about looking at the cost of future growth as well as the normal "peaks and valleys" of the business. The break-even concept helped you understand the sales you need to cover costs. Cash management will show you what level of sales you need to make more profit, pay yourself better, or cover cost increases.

Additionally, business owners should have an emergency fund. The only thing a business counselor can guarantee is that things are going to come up that you cannot control. Even if an insured event occurs, it may take time before reimbursements can be obtained, and sales may suffer during event-recovery time.

A rule of thumb for an emergency fund is to have an amount easily accessible equivalent to three (3) to six (6) months of the business average income. A line of credit loan can help when this fund is not fully in place. One great thing about the emergency fund, once fully established, is that it can be used to feed a retirement fund for the owner. When the emergency fund reaches the six (6) month level, the owner can review capital needs. If none exist, then the emergency fund can be lowered to a three (3) month level. All funds over this level are placed into the retirement fund. The owner then builds the emergency fund back to the six (6) month level. The process repeats again and again. If the business needs to purchase an asset, the owner can choose to use the amount over the three (3) month level to pay cash for that asset. Fund amounts should grow as the monthly business revenue grows.

Cash keeps your business operating on a monthly basis. It pays for supplies, labor and equipment, and inventory. It will allow you to expand. Here are steps to measure, monitor, and manage the cash moving in and out of your business.

- Monitor your cash balance in a dashboard...weekly if you are in a relatively safe cash positive, daily if you are cash tight.
- Know where you stand with a cash-flow statement. This shows whether you are adding to your cash reserves or eroding them.
- Go to the source. Determine whether the cash flow problems arise at the beginning or the end of the cash-in or cash-out spending cycle. Consider periods of growth, when investment will be necessary.
- Consider market conditions that may deplete cash reserves, and take measures to overcome these issues. Pay close attention to the timing of the purchase of materials and the completion of the project.
- Keep cash flowing. Minimize your fixed expenses. Find and maintain the right size for your business to keep expenses in line with sales.

The cash flow margin shows how efficiently your company converts sales to cash. Cash flow from operating cash flows comes from the Cash Flow Statement. Net sales come from the Income Statement. The larger the percentage, the better.

Proper cash flow management identifies the difference in timing between cash out to pay employees and suppliers and cash in from customers. Business owners who are unaware of this timing difference cannot plan successfully for financial, economic, or market changes.

Managing cash also identifies how long it takes to collect money from sales and how much money is available to pay suppliers and employees. Managing expenses and costs through relationships between pricing, volume and operating costs will usually result in increased sales and profits.

Cash flow mismanagement can be a critical factor in challenging the stability of your company.

Understand the relationships between pricing, volume, and fixed and variable operating costs. Create checks and balances for proper management of continued growth and development.

By projecting scenarios based on possible opportunities or threats, you can make plans for future funds. Work with your CPA or SBDC to create a projected income statement and cash budget. You can learn how to plan for seasonal highs and lows and manage the efficiencies for a positive impact on your business's future. Most important, however, is to monitor your actual progress (results) in relation to your planned/projected performance. This helps you identify the things you can change that will have the most impact on improving cash flow. The more specifically you identify opportunities or shortcomings, the more effective your efforts will be.

One last comment on cash flow: be aware of the timing of personal income taxes that may arise from profits in the business. It makes sense to get with your accountant, CPA, or tax advisor to ensure that as cash accumulates throughout the year, you are creating a reserve account (either personally or in the business) to ensure you will be able to pay your personal income taxes that will be due.

MINI-PLAN #3–CASH MANAGEMENT SUMMARY

Key Activity Addressed: Understanding Cash Management

Goals of the Mini-Plan:
- Calculate & Understand Cash Management ratios.
- Construct cash flow projections under various scenarios/assumptions and play "What if?" games.
- Be proactive to allow for flexibility to pivot when financial, economic, or market conditions shift and move.

Background Information Relative to This Key Activity:
- Cash flow statement
- Operating activities
- Financing activities
- Investments activities

Challenges to Overcome/Questions to Answer Relative to This Key Activity:
- If you reach a sales projection, will you run out of cash?
- What level of assets will be needed to reach that level of sales?
- Where's the money going to come from to pay for those assets?
- Is there a financial gap?
- Sales and net profit—do profits rise and fall in the same proportion as sales?
- Sales and cash flow—are there seasonal patterns? As sales go down, are you collecting cash from prior sales at a greater rate than you are investing in inventory?
- Sales and inventory–are you buying increasing amounts of inventory to support increasing sales? Is cash going out faster than it's coming in?
- Sales and accounts receivable—are accounts receivables rising with sales? Is cash coming in faster than it's going out?
- Are you paying down debt, or do you feel the need to bring on more? Why?
- Financial gap—does the gap create a need for short-term debt?

Key Action Steps to Overcome the Challenges Relative to This Key Activity:

- Establish a quarterly or semi-annual meeting with an expert (SBDC counselor, accountant, and/or banker) to review cash flow.
- Decide how success will be measured for this key activity.
- Ratios and cash flow improvement occurs.
- Cash flow becomes stable.
- Cash resources begin to grow.

PERFORMANCE MONITORING—ANALYZING, ANTICIPATING AND COMMUNICATING

It's time to pull it all together. Once you have on-demand access to accurate, real-time financial statements for your business and a budget to project profitability, and you know how the profitability of the business impacts your cash flow from your monitoring of the cash-flow statement, you will be in a position to take control of this crucial element in your business.

Any projection of future performance is based on an understanding of past performance, rates of improvement, and assumptions about future internal changes and innovations. Businesses should also consider what external environmental changes will impact future performance.

A dashboard is a popular method of tracking key indicators important to the performance of the business. These indicators can be a mix of financial and non-financial information. All key indicators impact performance. The items you monitor should be aligned with the strategic business activities outlined in your mini-plans.

As you, your lenders, and your investors continue to monitor the health of your small business, answer these questions:

- Are you delivering monthly reports on time? Do these reports include balance sheets, profit-and-loss reports, and (year-end) tax returns?

- Are your cash balances stable? Monitor this regularly, especially if your business is in an industry impacted by seasonal or economic swings.
- Are you managing your accounts-receivables? Are your customers paying late? If so, this may affect your ability to pay off debt, delaying inventory purchases, which will ripple through to your cash flow.
- Many small business loans are collateralized by working capital (accounts receivable and inventory). The loan opportunity is usually based on the 30- to 60-day accounts receivable balance. Are you reviewing your balances quarterly? Any changes may affect your risk rating. Typically, reporting is "as required by lender," so you should be prepared for any requests for more frequent financial reporting.

As you monitor the ongoing state of your business, maintain good communication with your lender or investor. If you have to restructure your loan, the key to your success will be upfront communication with the lender or investor and how much knowledge they have of your business.

Though not always a "guarantee," options for restructuring business loans might include reduced interest rate, temporary interest-only payments, shorter "clean-up" provisions, extending the loan term, and re-amortizing the loan. Deterioration can occur quickly in this economy, which makes communication more important than ever.

MINI-PLAN #4 –PERFORMANCE MONITORING SUMMARY

Key Activity Addressed: Understanding Performance Monitoring

Goals of the Mini-Plan:

- Calculate & understand performance ratios.
- Know & understand your financial statements.

Background Information Relative to This Key Activity:

- Statements needed: Balance Sheet, Profit & Loss, & Cash Flow.

- Financial performance refers to measures of cost and revenue. Measures include return on investments, value added per employee, debt-to-equity, return on assets, operating margins, performance to budget, and the amount in reserve funds.

Challenges to Overcome Relative to This Key Activity:

- Knowing "What should I compare to?"
- Understanding "How do I get those comparisons?"
- Understanding what a good ratio is.
- Irregular monitoring of actual to goals.

Important Questions to Address Relative to This Key Activity:

- What problems will be presented with growth?
- How do I forecast what will be needed to support increased sales?
- How can cash be freed up to fuel growth?
- How much will need to be borrowed, and when will it be paid back?
- How is an expansion strategy developed (or rejected)?
- What components of the business model will change with an expansion decision?
- How can growth (or no growth) be managed?

Key Action Step to Overcome the Challenges Relative to This Key Activity:

- Establish a quarterly or semi-annual meeting with an expert (SBDC counselor, accountant, and banker) to review financial data.
- How Will Success Be Measured for This Key Activity?
- Sustainability is achieved.
- Profitability is consistent.

NEXT LEVEL FINANCING—AND THE IMPORTANCE OF THE PRO FORMA

You are in the home stretch! For business owners who are making money and are well managed, there are real opportunities. To be considered a strong prospect, banks and investors will be looking at income tax returns, income statements and balance sheets, accounts receivable and accounts payable aging, monthly cash flows and an explanation of any unusual issues. They will be looking for your benchmarks and where you began, and comparing them to where you are now and where you want to go. The Pro forma, a set of financial projections, is often presented to lenders or investors to show the financial merits of the loan or the investment.

A Pro forma is a hypothetical forecast of what the business wants to achieve in the future. Pro forma statements are essential to existing businesses to compare operations from one year to the next. The Pro forma is developed from assumptions, projections, and historical performance. Your banker or investor will compare your historical performance to your projections and then challenge your assumptions. Your assumptions are the logic that supports getting from where you are to where you want to be. Assumptions impact the sources and uses of cash and the amount of money you may need to borrow.

Creating the pro forma means that you will:

- Detail all revenue streams. Depending on the type of business, these may include sales of products/services, referral revenues, advertising sales, licensing/royalty fees, or data sales.
- Be consistent with your financial statements. Pro-forma statements are projections based on the strength of historical performance. Consider weaknesses and the logic of assumptions regarding opportunities. Mitigate future risk. It is critical that these projections reflect what you have outlined and explained in your mini-plans.
- Validate your assumptions and projections. Your financial plan is based on your key assumptions. It is critical that the assumptions are feasible. Assessing and basing financial projections on those

of similar firms will validate the realism and maturity of the financial projections. An SBDC consultant will be able to access industry standard comparisons.
- Detail the uses of funds. Lenders and investors want to know what, specifically, you plan to do with their money and how those assets will increase your performance in the future.

Most companies have a need for additional capital as they progress, and this may be an important part of moving on from Phase 3. Presenting your story to a lender or investor is an important skill to develop. Here are some keys to telling a successful story that you may want to incorporate into your mini plan:

- Be realistic with your funding objectives
- Work with your consultant or accountant to present historical, current, and projected financials in a bank-ready proposal.
- Practice your 3-minute pitch to communicate your proposal effectively.
- Explore resources for transition planning and business valuation.

Bankers' red flags are usually triggered by businesses that:

- Don't make money
- Submit inadequate, infrequent, or inaccurate financial statements
- Submit frequent, varying loan requests
- Submit an unclear, poorly thought out loan purpose
- Show rapid, unusual inventory build-up
- Show uncontrolled, unmanaged growth
- Show inadequate cash flow and coverage of debt service
- Show thinly capitalized operations and a tight cash flow
- Show high accounts receivable concentration (any customer greater than 20% of A/R) and slow pays
- Don't understand or use benchmarking for financial analysis
- Don't know or understand key performance indicators (can't explain if business is going to improve, stay the same or deteriorate and why)

- Make grandiose income or profit projections that are out of line with industry averages

There are important realities to funding structures. Keep in mind that current assets should only be financed by short-term debt. Develop the sources and uses of your pro forma to use current cash flow to pay back debt to purchase current assets. Permanent assets should be financed by equity, long-term liabilities or intermediate-term debt. The debt to purchase permanent assets is paid back using net profits. Also know the lender may amortize the payback of interest and principal over a longer term to keep the payment low, and then offset with a balloon payment, which will require you to pay off the balance or refinance the loan at that time.

There are Golden Rules to developing and maintaining lending and investing relationships. You should know where you fit into this list.

- Be prepared. Think things through before you present them.
- Respect your banker or investor for knowing their business by helping them understand your business.
- Always keep the commitments you make. Past performance is the key to credibility.
- It's always best to discuss borrowing money when you don't need it. Know how much you will need and what you will do with it. The banking relationship you build now will be your keystone when you do need money.
- Bankers generally assume no news is bad news. Keep your banker informed of your business with regular financial reports and discussions.
- Rates are negotiable and are not the only issue. It's best to negotiate from a position of strength.

Your banker or investor is looking at the pro forma, but reading between the lines. Know how to sell yourself and your abilities. Know how to tell your company's story.

WHAT'S NEXT?

Getting to stable is really about consistency of performance as evidenced in a stable cash flow. There's a predictable trend now. You've got a handle on the accounting. You are consistently measuring and interpreting the financial progress of your business. You are communicating the status of your business to important third parties. There's no more guessing. By maintaining your accounting system, you have improved your odds of making the right decisions for your business. Your numbers are now telling a consistent story of a strong company. The ratios are all in line and make sense. You are building cash reserves for the working capital your growing business will need. You are monitoring performance to identify and plan for issues that may arise with customers, competition, or capital. You have moved on from focusing on survival to focusing on areas that need to be improved.

View the financial concepts in this chapter as part of your business evolution. You likely will not feel as comfortable with the concepts at first as you will down the road. And your business will go through "ebbs and flows" where you are feeling masterful, and very "not" masterful. Work with these concepts with the intention of improving your knowledge and execution of these concepts over time. You will be better prepared two years from now than you are today, particularly if you approach the concepts with the right attitude and put forward the work necessary to make improvements. This concept of evolving can serve you extremely well in your business career.

As you move forward, use each mini-plan as a work in progress. Implementing each of the mini-plans will help you continue to move your business forward toward a practical vision based on a solid underlying foundation, evidenced in an ongoing "bankable" pro forma. This will continue to be true as your business changes. You now have a good idea of what provides the strength and flexibility to pivot when the marketplace or the economy shifts and moves. You will know how to maintain your balance. Welcome to stability! Take time to celebrate your strength, your endurance, and your accomplishments as you refresh your vision to prepare for what's next. Congratulations! You are now on your way to the rewards you hoped for from the business!

ENTREPRENEUR'S VOCABULARY

Balance Sheet: Assets, liabilities, and net worth of a company. Indicates the financial position of a company on a specific date.

Bankable: Your financial ratios are strong enough to meet bank standards. The company is considered stable enough to ensure profitability.

Budgeting: Expectations for a company's future performance.

Cash Flow: How cash comes into and out of the business, and the net impact on cash balances.

Cash Flow Statement: Captures operating results, and any others which impact the overall changes in levels of cash in the business. A strong indicator of the viability of a company.

Cash Positive: Cash coming in exceeds cash going out. Does not necessarily mean profitability. Nor does profitability ensure being cash positive.

Financial Management: Looking at past performance and making plans for changes to meet market and economic challenges.

Income Statement/Profit & Loss: Tells the business story, using revenues and expenses, for a period of time.

Innovation: Implementing changes to improve products or processes to create new value.

Profitable: Having revenues exceed costs and expenses, found on the income statement.

Profitability Ratios**:** Financial measures used to assess the ability to generate earnings. A company is doing well if the ratios are comparable or superior to industry standards and are improving in regards to its history.

Stabilize: Be thriving for an extended period of time. Paying bills on time and having cash left at the end of a period.

Sustainability: The ability to address current needs and future challenges.

Variable Costs: Costs which vary with production or sales volume. They rise as production increases and fall as production decreases. Fixed costs such as rent, advertising, insurance and office supplies tend to remain the same regardless of production. Fixed costs and variable costs comprise total cost.

KEY ACCOUNTING RATIO CALCULATIONS

Breakeven Analysis

Sales – variable costs = contribution margin
Contribution margin – fixed costs = breakeven

How used? This helps determine the level of sales required to achieve a breakeven level of profitability; it is also very important in positioning the business to be cash positive.

Current Ratio

Current Ratio = current assets/current liabilities (Balance Sheet)

How used? This helps predict the business's ability to pay its bills. By looking at current assets and current liabilities, we see what items should produce cash in the next year, as well as the items which will require cash in the next year. It is a liquidity ratio.

Debt to Net Worth

Debt to Equity = total liabilities/equity (Balance Sheet)

How used? This is a financial health ratio and shows whether the businesses assets were effectively purchased with debt or equity. The more debt is leveraged, the more pressure on the business to generate profits/positive cash flow more quickly.

Accounts Receivable Turnover

Accounts Receivable Turnover = net credit sales/average accounts receivable (Balance Sheet)

How used? This shows how quickly the business is collecting on credit sales, effectively how fast your customers are paying their bills. As the business grows, this can have a significant impact on cash flow. You will want to monitor this over time to see if you are getting better or worse compared to your historical results.

Inventory Turnover

Inventory Turnover = sales/inventory (Balance Sheet)

How used? This shows how quickly you are "turning" inventory into sales—or how many times per year your inventory is turning over. With some additional calculation, this can be converted into days of inventory. This will help quantify how long you are waiting for investments in inventory to translate into returns in the form of customer sales and margins; it is also a key element in cash flow, particularly in a business that is growing rapidly.

Profitability Ratios

Profit margin:	Gross Profit/Net Sales = ___%
Operating profit margin:	EBIT/Net Sales = ___%
Net profit margin:	Net Income/Net Sales = ___%
Return on assets:	Net Income/Total Assets = ___%
Return on equity:	Net Income/Stockholder's Equity = ___%

How used? All profitability ratios are used to monitor how effectively the company is at deploying resources and to generate profits. For every dollar of "X" invested (be it assets, equity, cost of sales, or expenses, etc.), how much return (in the form of profit) is generated?

Cash Management Ratios:
Debt coverage ratios: (Annual net income + amortization or depreciation + interest expense + other non-cash items)/ (principal repayment + interest payments)

Cash flow from operating: Cash flows/Net sales = ___%

How used? Measures what percentage of sales are translated into cash generation. This is an operating efficiency ratio that also contributes (even drives) profitability and cash flow. How efficient are you at generating cash, and are you getting better or worse?

A note on financial ratios: you should familiarize yourself with these concepts and look at them in your business. However, you will probably find certain ratios to be more important to you and how you monitor the business, and others are less so. This is okay; our suggestion is to start with the ratios you (and your advisors/team) feel are most important to the critical progress of your business. Our experience is that when you start monitoring certain ratios, you will see other things you want to study and you will add to your analysis. This, too, is part of your own evolution as a financial manager. We would rather you look at 4 ratios that are completely meaningful to you than 20 that you hardly understand or care about.

Similarly, you may find that a "custom" ratio provides more value in your business than a standard ratio. While you may not find these in a financial management textbook, if you see numbers in the business you want to study in relation to other numbers, we suggest you do so. The key with ratios is the insights they provide you and how they improve your ability to study the business and make intelligent decisions.

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WRAP UP
NEXT STEPS

Congratulations for completing reading this book. There is a lot of information here. Because the book was written with input from and by over 27 people, we know the chapters were not totally consistent and some common themes were repeated, but the reality is that many things need to be considered at multiple phases within a business, and the startup phases are quite dynamic.

Whether you are considering starting a business or are nearly through Phase 3, we hope our discussion of the three phases (Concept, Open, Stabilize) and the three focus areas (Customer, Team, Money) and the TriStart™ Matrix they form were helpful in clarifying the tasks related to creating a successful, long-standing business.

If you followed our initial suggestion and read whole book first so you could understand the whole process, we applaud your efforts. As you go back and navigate through the individual phases, it may make sense to revisit the key points in the phase where you are currently working.

We hope our discussion of the three phases (Concept, Open, Stabilize) and the three focus areas (Customer, Team, Money) and the TriStart™ Matrix they form were helpful in clarifying the tasks related to creating a successful, long-standing business.

Remember, these three phases are pretty distinct and it helps to "compartmentalize" what is typically a pretty complex, intimidating overall process. If you understand the three phases, know where you are in the process, and take focused steps to progress to the next level, we believe your startup process will be less costly and less painful and will move along more quickly. It can have this kind of impact.

We have provided some indication herein where, after the 3 startup phases we have described, the business goes into a growth mode. At this point, the company will focus on revenue growth, scaling, and building infrastructures (systems, people, capacities, etc.) to propel the business forward. The next phases tend to be even more strategic in their approach.

Strong performance and solidly covering the bases in these first three phases will better prepare you to excel in the next growth phases on the business. They also help form an important foundation for you as a business owner or manager.

Now mastering these phases is up to you. For those starting a business, we want you to do it intelligently, safely, and successfully. We believe in you and your business. On behalf of the 27 different authors of this book, we wish you the best of success, and know we are all rooting for you!

To access more materials on this program, please visit www.ProfitThinkTank.com. And, as suggested in the book, look into the SBDC and other community support programs in your area for assistance.

APPENDIX
BUSINESS ENTITIES AND TYPICAL REGISTRATIONS

One of the most common things startup entrepreneurs inquire about is the process of registering the business and actually creating the business entity. There are important decisions here and errors can be made, so it should be done with caution, and importantly, with the direction of experts, such as your accountant, lawyer, and/or other consultants. Often, different industries and different circumstances will warrant a different response to this question, so there are no real good "cookie cutter" answers.

Some questions to consider...

- Are there opportunities in your industry for revenues and/or expense breaks based upon the legal structure of the business?
- Is the government, state or federal, an important part of your targeted customer base?
- Are there any "set aside" programs that might benefit you as a contracting or subcontracting entity?

- Are you a minority-, woman-, disadvantaged-, disabled- or veteran-owned business?
- Do you have personal assets you need to shield from the business or its creditors which are not protected by other means?
- Will the business expose you to litigation from partners, customers, competitors, suppliers, employees, and/or the general public?
- What tax implications are there for you relating to your business and its legal structure?
- Will your business be required to collect and remit sales tax?
- Do you anticipate having a partner (or partners) who would own equity and/or investors who would own shares in the business?
- Do you intend to sell or "pass down" the company to any other individuals, including heirs?

Some of these questions you will be able to answer directly. Others are better answered after collecting information from others, but all impact various issues relating to how you will decide to set up your business.

LEGAL STRUCTURE

This is actually a legal and tax question as well as one to attempt to limit your legal and financial risks, so you should consider discussing your personal financial and risk exposure with an attorney, CPA, financial advisor, and/or other consultants. It is not that you cannot "reverse" your decision here, because often you can; however, it can be a fair amount of work, cost, and hassle. A good decision from the start may make life easier down the road.

Given the legal ramifications and the fact that different circumstances will dictate different advice, we are going to be cautious about providing too much prescriptive advice here; rather, we will attempt to provide some summary information to help start you on your pathway. The most common types of legal structures in small to medium-sized companies include the following:

- Sole Proprietorship
- Partnership
- Limited Liability Company (LLC)
- Sub S Corporation
- C Corporation

SOLE PROPRIETORSHIP

- Easy to create—simplest structure
- Business and the individual are essentially recognized (legally) as the same
- Business ID number can be your social security number if you are not an employer
- Lowest level of reporting/registration requirements
- Personal assets are subject to any liability the business incurs; highest level of exposure
- Business can only have one owner
- Default type of business if an individual starts a company and does not create another entity type
- No survivorship of the business as a legal entity if the owner dies
- Business profits flow through to the owner's personal income for taxation purposes

PARTNERSHIP

- Business can have multiple owners
- Business should be guided by an operating agreement between the partners; though while highly advised, this is not required
- Simple to create—least paperwork/registrations required
- This is the default business type if two individuals start to conduct business together without creating a different legal structure
- Personal assets of all partners are exposed to any liabilities the company may incur, regardless of ownership percentage, financial ability of the partner, or fault
- Business profits flow through to the multiple owners' personal income for taxation purposes

LIMITED LIABILITY COMPANY (LLC)

- Can have one or multiple owners, which are called members in the ownership structure
- Must be registered with both the state and the federal government
- Will likely need to file operating agreement and articles of organization with the state business registrations
- Profit distributions to owners can vary from the business ownership percentage
- Must apply for the federal Employer's Identification Number (EIN, which is similar to a social security number for your business), regardless of whether you are an employer or not
- Creates a limited liability structure to attempt to limit exposure of the owner's personal assets to the liabilities incurred by the company
- Business profits flow through to the multiple owners' personal income for taxation purposes

SUB S CORPORATION

- Similar in format to a Limited Liability Company, though LLCs are generally regarded to be more straightforward to create and there are other distinctions
- Owners are called shareholders
- Organizational documents are called articles of incorporation
- Business has an unlimited life and will exist until the shareholders disband it; business can survive the death of a given shareholder (owner)
- Differs from LLC in that profit distributions to owners must align with ownership percentage
- Business profits flow through to the multiple owners' personal income for taxation purposes

C CORPORATION

- Legal entity often employed by organizations that plan to offer securities/stock in the public market (i.e., go public) or through other financial entities (venture capital, etc.)
- Creates a more straightforward method to offer stock options to employees as a form of incentive
- Entity is taxed on profits, as well as the profit which flow through to the owners, creating a "double taxation" effect

Again, the choice of a legal entity often requires input from your attorney, accountant, and other consultants, and is dependent on the business circumstances, the industry you intend to operate in, and personal circumstances of the owners.

Since it was mentioned, we should quickly highlight some of the elements often included in operating agreements and articles of organization/incorporation. Templates of these can be obtained online, but it always makes sense to consult an accountant or attorney on this type of matter; saving a few dollars can cost many in the end. Common elements in these documents include:

- Who owns the business?
- What is the percentage ownership?
- When was the business formed?
- How will voting be handled within the organization?
- How will profits be distributed?
- How will the partners handle disputes?
- How can ownership interest be bought, sold, and disposed of?
- What will the individual owners each contribute to the formation of the business?
- What legal indemnifications will the partners provide each other?
- How will liabilities be handled if they exceed the funds available inside of the business?
- Is additional clarification required pertaining to any of the verbal commitments between the partners

FEDERAL REGISTRATIONS

There are various registrations you may (or may not) need to apply for with the federal government.

One that is applicable in nearly all business situations (excluding sole proprietors who are NOT employers) is a federal Employers Identification Number (EIN), which, as stated above, is somewhat like a Social Security number for your business (though they do not necessarily refer to it in this way!). The Internal Revenue Service (IRS) issues this number and a number can be applied for electronically on the IRS website at www.irs.gov. This number will be used in many instances, such as establishing a bank account, state entity registrations, payroll deductions, and income taxation.

Another important federal designation is for minority, disadvantaged, veteran or disabled business owner status. This can be particularly relevant if you are contracting or subcontracting with state or federal government entities. Businesses who believe they qualify for such designations can conduct research and apply on the U.S. Small Business Administration (SBA) website at www.sba.gov.

Other federal registrations may be relevant in businesses in the following industries: agriculture, food, drugs, medical devices, alcohol, tobacco, gambling, and radio and TV stations. The IRS website has a search tool where you can enter the state you operate in and the type of business, and it will provide a list of registrations and government agencies (both state and federal) that you may need to register with.

Lastly, the U.S. Patent and Trademark office is involved with registering patents and trademarks. More information can be found at www.uspto.gov. While these registrations are not requirements, they do afford a level of protection and can be extremely useful for researching any other intellectual property issues.

STATE REGISTRATIONS

There are also state registrations you need to consider in starting your business.

Unless you are a sole proprietorship, you will need to register your business with the state. Various states have different names for the departments that handle this, such as Secretary of State, Department of Corporations, Business Portal, etc. In most situations, you will register organizational documents (such as articles of incorporation, etc.) with the state and be provided a state registration number.

You will also need to register with the state tax organization (Department of Revenue, Department of Taxation, etc.). There will be income tax ramifications, employee withholding tax ramifications, and/or sales tax ramifications.

Like federal registrations, there can also be state registrations that are industry specific, including: agriculture, food, drugs, medical devices, alcohol, tobacco, gambling, pawn brokering, day care providers, and radio and TV stations, to name a few.

Many states also have trademark or fictitious name registration options to provide a state level of protection for your business name and other intellectual property concerns.

Most states have a "portal," or "business center," or "one stop" business resource organization and/or website. This organizations will help you navigate through the registration requirements in your individual state.

LOCAL REGISTRATIONS

Other registrations may pertain to city and county organizations. Some issues relating to local registrations include:

- Zoning and Permitting
- Health Inspector
- Food Service Permit

- Liquor License
- General Entity Registration

INSURANCE

Though this is an extremely brief mention, part of setting up your business is to establish the various insurance protections you will need. This list, of course, can get very long, but some of the most common forms of insurance you may need include the following:

- General Liability
- Product Liability
- Professional Liability/Errors and Omissions
- Directors and Officers Insurance
- Business Interruption
- Data Compromise
- Employee Health Insurance
- Building/Property Insurance
- Automobile Insurance (even if you are using a personal vehicle for business purposes)
- Workers' Compensation Insurance
- Life Insurance
- Disability Insurance
- Others

The best suggestion here is that you will want to connect with a strong commercial insurance representative and be educated on the various products and coverage available and do your shopping here.

OTHER REGISTRATIONS

There are a few other registrations you may wish to consider, and they relate to your online presence.

- Domain registration—you will want to research availability and reserve a domain name if you have a specific web url you wish to protect.
- *Facebook/Twitter* pages—if you are planning social media strategies, you will also want to reserve the urls for those pages as well.

While these registration and entity issues all have an important impact on the business now and in the future, for the most part, once they are created, they will not be the driving factors in your business success. Issues such as customers, team, and money—the main topics of this book—will.

APPENDIX
USING THIS PROGRAM WITH THE SBDC

There are a number of fantastic support organizations in the country (and throughout the world) whose mission is serving entrepreneurs and helping them start and grow productive businesses. Not only does this directly benefit business owners and their employees, but it has a broader societal impact.

One of those programs is the U.S. Small Business Development Center (SBDC) network. As you probably saw, the TriStart™ Matrix was developed—and this book written—by a team of 27 consultants with ties to the SBDC program. The program shares elements these experts have taught and consulted about over decades of experience and hundreds of thousands of hours of client interaction. Because of this, the TriStart™ program is an ideal companion to SBDC (or comparable) consulting.

In this section, we would like to provide some suggestions for how to best use this program to your benefit. Here are some insights:

- The more prepared you are to meet with your consultant, the more benefit you will receive. While this book is not a replacement for the benefit of individual consulting, understanding the contents in this book will help address your specific questions and issues more rapidly.
- Read (or even skim) the whole book first, to get a solid "lay of the land" for the process of starting a business. Then, assuming you are in the first phase, called Concept, we suggest you thoroughly read the through the 5th chapter of the book (and the first Appendix item on registrations and entities) and make a list of questions prompted by this, so you can ask the consultant very direct questions.
- Draft several mini-plans from Phase 1. You don't have to be a fantastic writer or even have a "finished product" to meet with a consultant, but having some ideas recorded on paper is an important start. Having something to present to your consultant early on is a great way to put consulting on a fast track.
- There is a free short e-course on the www.ProfitThinkTank.com website. Consider taking this course prior to consulting sessions with the SBDC consultant. Working from a solid base makes you better prepared.
- There is also an SBDC Prep worksheet on the Profit Think Tank website. Complete this short questionnaire as a starting point to starting work with the Tri-Start™ program. You will astonish your consultant with your preparation if you come with answers around these questions. Do all of these things, and you are well on your way to a productive start with your consultant. (You will get more from the interactions from the get go.)
- Because they offer high-level, high-value services at little or no cost, it can take some time to get an appointment with one of these consultants. In addition, many centers are requiring some training courses or preparation prior to meeting with a consultant. While these things vary from state to state and center to center, we suggest using this program to prepare in advance of your interactions with your SBDC consultant to get the best use out of your time, and theirs.

APPENDIX
BIOS OF THE AUTHORS

The individuals who contributed to the book, all consultants affiliated with the SBDC program, are listed in alphabetical order by last name as follows:

SUSAN BALL

Susan Ball is a Certified Business Analyst at the University of Mary Washington SBDC. She recently received certification in Export and Trade consulting and was certified as a NxLevel® instructor. Prior to working with the SBDC, Susan co-authored finance textbooks, taught high school mathematics, and owned a pizza restaurant. Susan has a bachelor's degree in mathematics and economics from the University of Mary Washington and an MBA in finance from the University of Florida.

MARK BITTLE

Mark Bittle is the Market Development Manager for CenturyLink of Southeastern Colorado. Prior to joining CenturyLink in May of 2011, Bittle founded Progressive Impact, a company that specialized in developing people and the organizations in which they work. Bittle, an Iowa native, moved to Colorado Springs in September of 2008 after founding several financial firms, which led him to become the president of the Iowa Association of Mortgage Brokers in 2006-07. During his 18-month tenure, he led the effort in quadrupling membership. He was named to the *Colorado Springs Business Journal*'s 2011 40 under 40 Rising Stars and the Iowa Mortgage Broker of the year in 2007, and was nominated to be the 2006 Iowa Man of the Year. Mark is a volunteer consultant and presenter with the SBDC in Colorado. Bittle graduated cum laude with a bachelor's degree in communications, with certifications in leadership and conflict management from Denver's Regis University. He is an avid soccer player.

HILLARY BURKINSHAW

Over a 23-year career working with entrepreneurs at all stages of business development, Hilary has connected with literally 1,000s of business owners. She has facilitated the development of business, strategic, and marketing plans that helped clients acquire over $200 mm in financing. Hilary is now the Executive Director of CP 504, a Certified Development Company, (CDC), a not-for-profit that works with businesses, banks, and the U.S. Small Business Administration to provide affordable financing options for corporate asset purchases. Prior to this, as the Director of the Illinois Small Business Development Center at Governors State University, she designed, developed and delivered programs to meet the needs of the existing and aspiring entrepreneurs. In additional to her work with traditional entrepreneurs, Hilary works with soon-to-be ex-offenders, teaching entrepreneurial skills at Chicago's Metropolitan Correctional Center. In 1999, she founded the Professional Women's Network and was a founding member of the Illinois Entrepreneurial and Small Business Growth Association and is a past chair of both organizations.

CURT CLINKINBEARD

Curt is the Founding Member of The Profit Think Tank® and spearheaded the effort to bring together the different authors of this "TriStart" project. Curt is also the author of a marketing book, *Customer Pillars*, a profitability book, *Profitability Is...*, and a management system for medium-sized companies called "Profit Competencies." Curt was previously the center director of the Kansas University SBDC, where he consulted with over 1000 entrepreneurial clients. Curt has presented at 9 of the last 10 national Association of Small Business Development Centers (ASBDC) conferences and has provided training to over 1,000 SBDC consultants. In the private sector, Curt has been deeply involved with two successful medical products manufacturing firms. In his spare time, he plays keyboards and guitar and sings in a rock band.

JUDITH COLLINS

Judith Collins serves as certified business counselor, consultant and trainer for the Dallas Small Business Development Center within the North Texas SBDC Network. Judith received a BA degree in International Relations and Economics from Boston University and a Masters in Public Affairs from the Lyndon B. Johnson School at the University of Texas at Austin. Her experiences include working as a business development manager for the Greater Dallas Regional Chamber of Commerce, where she was instrumental in assisting small businesses develop overseas networks to market their products, and working as a policy analyst for the Government Accountability Office (GAO) to improve the efficiency and effectiveness of the Department of Defense (DOD). She currently is an active committee member at El Centro's Small Business Academy, where she encourages youth entrepreneurs to participate in community development activities.

JAMES DREVER

James is the Regional Director in South Central Wyoming for the Wyoming SBDC and has been serving clients in the area for several years. Before joining the Wyoming Small Business Development Center team, he was a Marketing Director at a local software company, serving clients nationwide. Before earning his MBA at the University of Wyoming, James lived, worked and studied in several different countries, also running a small consulting business. Jim has a certificate in teaching business ethics from the University of New Mexico. When not working, Jim can be found volunteering with the his ski patrol, mountain biking, hiking, fishing or wearing a firefighter's uniform as part of the local volunteer Fire Department. Jim was recognized in 2014 as the Wyoming "State Star" in the SBDC program.

MALEIA EVANS

After successful careers in both legal administration and health care administration, Maleia joined the TN Small Business Development Center of Dyersburg State Community College in September 2010 as Director. She currently serves a six-county territory, in which she educates, counsels, and trains business owners from all walks of life on how to start, grow, and sustain a business. In 2012, Maleia was named the National State Star, representing TN, by the American Association of Small Business Development Centers. As

Founder of Second Saturday Success, a non-profit organization whose mission is to educate, inspire, and nurture professional and personal development, Maleia is a national, regional, and local speaker in areas of professional development, workplace motivation, healthcare administration, women's inspirational topics, and prison ministry/ recidivism coaching.

LORINDA FORREST

Specializing in small business and entrepreneurship for 25+ years, Lorinda serves the Central Valley and Mother Lode Region as the Small Business Deputy Sector Navigator for the California Community Colleges Economic and Workforce Development Framework and has partnered with the SBDC. She has owned or co-owned five startups in Southern California and worked with a variety of others ranging from one-person operations to venture-funded Silicon Valley startups. Her experience spans many industries, including tourism, health care, investment banking, retail, service-oriented businesses, and restaurants. She is a certified training facilitator for Kaufman Fast Trac Growth® Venture and Tech Venture as well as the Kaufman Ice House (entrepreneurial mindset) programs and the Profit Mastery® program. Lorinda earned a BS in Business Management from Western Governors University. She is a beekeeper, founder and past-president of the Sierra Foothill Beekeepers Association. She enjoys gardening, fly fishing, downhill and cross country skiing, hiking, cycling and spending time with family.

DAVID GAY

David K. Gay retired after 21 years as the Director of the Small Business Development Center (SBDC) at College of DuPage. In 2013, David founded InSight Business Advisors to continue his work with small businesses and maintain his close relationship with local Small Business Development Centers, economic development organizations, bankers, accountants, consultants and other professionals that work with the small business community. David's academic credentials include a Bachelor of Arts degree from Hanover College (Ind.), an MBA in finance and post-graduate work in entrepreneurial studies from the University of Denver. He is a graduate of the Oklahoma University Economic Development Institute program and is a Certified Economic Developer under the International Economic Development Institute. He is an active member of the IL Entrepreneurship and Small Business Growth Association and a Certified Business Counselor in that organization.

MARCELLA HURLEY

Marcella is the Regional Director of the Small Business Development Center in Pierre, South Dakota, and serves business clients in a fourteen-county area in Central South Dakota. She was recognized as the South Dakota "State Star" consultant in 2014. She is a member of the National Small Business Association and is a Certified Economic Development Finance Professional. Marcella has also served as Budget Analyst for the University of South Dakota School of Medicine, Senior Planner for University of Nebraska Medical Center, Manager of the South Dakota Housing Authority Homeownership Program, partner in a real estate mortgage company, and V.P. and Branch Manager for a commercial bank. Marcella is also a business coach and trainer and adjunct faculty member in accredited business schools in South Dakota, Iowa and Nebraska, as well as a writer and amateur photographer. Marcella graduated from the University of South Dakota with an MBA. She subsequently obtained Certification as Economic Development Finance Professional from the National Development Council.

ANNE HLAVACKA

Anne is the Director of the Wisconsin Small Business Development Center at the University of Wisconsin-La Crosse. Prior to taking that position in June 2010, Anne practiced law for over 20 years with Reinhart Boerner Van Deuren s.c., a large corporate law firm (200+ attorneys) headquartered in Milwaukee, WI. Anne is a graduate of University of Wisconsin-La Crosse and Marquette University Law School. She has been recognized with the Business Journal of Greater Milwaukee Women of Influence Award, the Association of Women Lawyers Outstanding Mentoring Award, and the Small Business Administration's Legal Assistance Award in Wisconsin. Anne is a board member of the UW-La Crosse Foundation, Pump House Regional Arts Center, Coulee Region Business Center, Wisconsin Business Development Finance Corporation, and Lincoln Opportunity Fund. The La Crosse SBDC received the 2012 Small Business Development Center Service Excellence Award for the Midwest region and Wisconsin.

DENA JOHNSON

Dena Johnson is the Regional Director for the Small Business Development Center at Big Sky Economic Development in Billings, Montana. She brings to it an extensive background in finance, having worked for Wells Fargo Bank and U.S. Bank Private Client Group, serving both retail and small business clients. She has also spent years managing a national chain business with over 150 direct reports responsible for the operation, as well as marketing and regional training for other stores. She earned her BS in Business management from Rocky Mountain College and her Master in Business Administration with an additional emphasis in Leadership from Grand Canyon University.

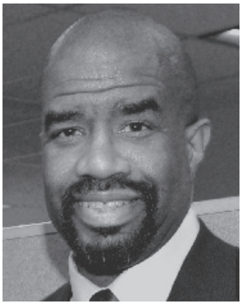
WILL KATZ

Will is the Regional Director of the Small Business Development Center at the University of Kansas. He received his BA in Philosophy and Russian in 1993, and earned his KU MBA in 2001. Will has a variety of professional and management experience from companies both large and small. He spent seventeen years at E and E Display Group in Lawrence, KS, beginning in 1987 and culminating with a stint as Production Manager in charge of manufacturing operations for a company with 200 employees producing $25 million in annual revenues. He has also served as a people leader in Fortune 50 companies, General Motors, and Target. In almost eight years as director, Will has met with more than 1,500 entrepreneurs and prospective entrepreneurs. KU-KSBDC clients have started approximately 300 businesses and raised approximately $50 million in capital during that time.

KARL KLEIN

Before joining the Kansas SBDC, Karl was involved in the daily operations of businesses that sold and serviced appliances, home electronics, lawn and garden, and tools for over 32 years. The extent of his involvement spans from 20 years of ownership in Kansas at the store level to district management overseeing multiple units throughout the state of Kansas. Karl received his MLS in Organizational Leadership from Fort Hays State University, and his BBA in

Marketing from Stephen F. Austin State University. In addition, Karl is currently an adjunct professor for Fort Hays State University.



VINCENT MCCOY

For the past decade, Vincent has served the Inland Empire Small Business Development Center as Director and as a business consultant. Vincent holds a master's degree in Finance and Marketing from Northeastern University along with a bachelor's degree in accounting from CSU—Hayward. Prior to joining SBDC in 2000, he worked in software implementation, was an accounting consultant, a business manager for an industrial computer company, and owned a rental information service. He taught at Victor Valley College for 8 years as adjunct faculty in the areas of marketing, business management and small business management. Vincent serves on various boards and task forces including educational and loan committees.

GENE MUCHANSKI

Gene is the Executive Director of the Dive Industry Association, as well as being involved with multiple companies and publications involved with the scuba diving industry. Gene was a diver and dive training instructor in the U.S. Navy. Previously, Gene was a consultant with the Houston Small Business Development Center and is passionate about entrepreneurial and economic development. In his spare time (as you might have guessed), Gene likes to scuba dive.

MARK SCHMIDT

Mark Schmitt is the Director for the Small Business Development Center at Cochise College. He currently serves on Cochise County Tourism Council, Center for Economic Research Advisory Board, and the Executive Board of SEAGO. He obtained his BS in Business Administration from the University of South Dakota at Vermillion and a MBA from the University of Phoenix. Prior to working at Cochise College, Mark was self-employed for 20 years. Mark has owned and operated the following businesses: JCPenney Catalog Desk, South West Gift Store, a shipping and packaging store, a carpet cleaning business, a money services business, a tuxedo rental store, a TV/VCR repair shop, a satellite instillation company and a paging and Internet service provider business. In 2011, Mark received the AZSBDC's state award for "Economic Impact." In 2012 he received the AZSBDC's state award for "Client Satisfaction." In 2013 he received the AZSBDC's "State Star Award" for achievement in small business development. He is the author of *How to Start A Business/Instructions* and he co-authors a weekly column in the *Sierra Vista Herald*'s Money Section called "Ask M & M."

CLAUDIA SHAH

Claudia has over 17 years of experience working in different industries and internationally, from manufacturing to financial Institutions in both Colombia and in the United States, including holding different positions such as Administrative and Finance Director and Vice-President of Human Resources. Today, Claudia uses her bilingual skills to provide consulting with the Spanish-speaking community in multicultural organizations through the Santa Monica SBDC in California.

GARY SUDDITH

Gary is a Jones County, MS native, and has a diversified background, which includes the following positions: Center Director, JCJC MSBDC, Eastern U.S. Regional Vice President of a Fortune 500 Company, Community Bank President and Loan Officer, Chief Administrative Officer of a Mississippi City, Draftsman/Estimator/Manager of a construction company, and he has owned and operated three businesses. Gary has a BS in Business Administration from William Carey University, Hattiesburg, MS, and an MBA from West Virginia Wesleyan College/University of Virginia Darden School of Business. He was the 1998 Recipient ASBDC "Star Performer" Award as one of the top ten in the nation.

TOM TANNER

Tom graduated with a degree in Economics and Finance from the Virginia Military Institute in 1978. After a tour of duty in the U.S. Army, he returned to civilian life to work as a branch manager for a large corporation. In 1983, he and some partners opened a photographic and computer graphics business, Photo USA. There he served as Vice President of Operations for the chain of 25 stores in five states, later buying the Virginia locations. Because of his long time interest in boating, Tanner opened a boat dealership and pro-shop at Smith Mountain Lake in 1998. In 2002 he sold the boat dealership, and in 2006 he sold Photo USA after 23 years in the photographic business. Tom is now a full-time professional business counselor with the Roanoke Regional Small Business Development Center, and was recognized in 2014 as the Virginia "State Star." Tom is a PMP (Project Management Professional), Six Sigma Green Belt®, Certified Quick-Books Pro®-Advisor, Certified Guerrilla® Marketing Coach, Certified

Business Analyst, ProfitMastery® Facilitator, and trained Strategic Planning Facilitator and is designated by the IRS as an RTRP.

CHRIS THOMPSON

Chris V. Thompson joined University of Missouri Extension's Business Development Program as a Business Development Specialist in 1999 and works out of the University of Missouri Extension's Small Business & Technology Development Center in Cole County. In 2013, he was promoted to Associate Extension Professional. He has also developed a variety of training programs for the Missouri Business Development Program and has led numerous teams. As a Business Development Specialist, Chris has helped his clients create or save 1,644 jobs, has started 38 new businesses and has completed 6 ownership transfers; he conducted 454 training events with over 3,100 entrepreneurs attending and counseled or coached 478 reportable clients during 2,361 sessions. Prior to joining University Extension, Chris worked in both the private and governmental sectors. Additionally he was an examiner, senior examiner and team leader for the Missouri Quality Award program for 7 years and is a certified graduate of the Palladium Kaplan-Norton Balanced Scorecard® training course.

TERRI URBANEK

Terri is a Business Counselor and Outreach Specialist at the Wisconsin SBDC at UW-La Crosse. Terri is a graduate of the University of Wisconsin-La Crosse (Accounting) and holds a Masters of Business Administration from Upper Iowa University-Fayette. Terri has over thirty years of experience working with a wide range of industries. She has provided ad hoc consulting services for not-for-profit and for profit organizations in the La Crosse area. Prior to joining the SBDC office, Terri worked in the credit union industry, serving in the positions of Director of Accounting, Vice President of Finance, and Internal Financial and Operations Auditor. She is an Examiner for the Wisconsin Center for Performance Excellence, a part-time adjunct business instructor, and a volunteer judge for the WI Yes program.

CURT WALCZAK

Curt's education includes an accounting degree, business management degree, Microsoft Certified Systems Engineer certification, certification as a QuickBooks Pro Advisor and Economic Development Finance Professional certification. He has 19 years of experience in private industry, where he was a purchasing agent, office manager, and information technology manager. He has worked as a professional business consultant for the University of Minnesota Duluth Center for Economic Development for 13 years helping clients prepare business plans, financial analysis, Internet marketing promotion, and search engine optimization.

AUNDREA WILCOX

Aundrea is currently the Senior Business Counselor of the Tennessee Small Business Development Center (TSBDC) at East Tennessee State University (ETSU) Kingsport Affiliate Office, and Executive Director of the Kingsport Office of Small Business Development & Entrepreneurship (KOSBE) at the Kingsport Area Chamber of Commerce, Tenn. She has provided technical assistance to over 1,000 individuals or businesses. Previously, she provided expert testimony at a hearing of the Subcommittee on Contracting and Technology of the U.S. House of Representatives Committee on Small Business in Washington, D.C., and served as a session moderator on

"Small Business Incubation" at the 55th Annual Tennessee Governor's Conference on Economic & Community Development. Aundrea is also the author of the new book, *Startup Savvy: Strategies for Optimizing Small Business Survival and Success* and a contributing blogger on business and finance to The BOSS Network, which was recently named by Forbes.com as one of the Top 10 Entrepreneurial Websites for Women and one of the Top 10 Best Career Sites for Women.

NICK WILEY

Nick Wiley is a Business Advisor and Instructor at the Oregon Small Business Development Center Network and specializes in Digital Marketing and e-Operations Software. Nick's career has spanned a variety of industries, from banking and finance to seminar marketing, high tech (Hitachi), non-profit, commercial real estate, and restaurants. He has a BA in Business Management with an Entrepreneurship concentration, a Certificate of Global Management, and a minor in Spanish at the University of Oregon. In addition, he is Google Adwords & Analytics Certified and is a Certified Hootsuite® Professional.

CASEY WILLSON

Mr. Willson is currently the Main Street and Sustainability Programs Manager at the Lead Center of the Maryland Small Business & Technology Development Center (SBTDC) Network. He brings 40 years of experience to bear in helping small businesses, has presented more than 175 town meetings to 4,000+ businesses across Maryland, and meets personally with scores of small businesses throughout the state to provide confidential one-on-one counseling. In 1989, Mr. Willson founded The Willson Company, a consulting firm that won several MAXI and Merit Awards from the International

Council of Shopping Centers for its innovative training and customer service programs. From 1985 through 1989, he was employed by Britches of Georgetown ($300M/year) as Director of Employee Relations and Development and sat on the Operating Committee. He served as VP of Human Resources for BikesUSA, a $31M/year chain of 23 bicycle shops, until joining the MD SBTDC in 2001. Mr. Willson's working knowledge began with his early experience in owning/operating seven shoe stores and opening and acting as Regional Director for thirteen optical shops. He holds a MBA and a MA and is a veteran of the U.S. Army.

MARC WILSON

Marc is the Retail Consultant working for the Virginia Small Business Development Center (VSBDC) Network and brings 35 years of retail experience to bear in helping retail, restaurant, and tourism-related small businesses refine and promote their concepts to the public. Marc started his retail career in 1975 as co-owner of the largest distributor of Earth Shoes in the United States. As Earth Shoes went the way of the Pet Rock, Marc joined Britches of Georgetown as a salesperson and finished a 12-year career there as Vice President of Operations after growing the company from 9 stores to 109. He then joined Circuit City and opened 83 mall-based Circuit City Express stores. At Crown Books, he managed 250 bookstores as Vice President and General Manager. The son of the founder of Circuit City asked him to be President and CEO of the Bicycle Exchange, a chain of bicycle superstores that he had invested in and which was in dire need of a turnaround. Marc then took his career into cyberspace as the Vice President of Merchandising of an online college bookstore specializing in textbooks and emblematic apparel. As President of Storetrax, Inc., he managed an Internet site dedicated to landlords and developers leasing retail space. Most recently, he traveled to Dallas, Texas, to open the world's first energy efficiency store for Current Energy, LLC, a company funded by Ross Perot, Jr.

ABOUT THE AUTHORS

The TriStart™ Matrix was developed and authored by 27 consultants associated with the U.S. Small Business Development Center (SBDC) program. Bringing over 500 years of combined experience working in and with small businesses, this team came together to create a new, unique program to assist prospective entrepreneurs successfully navigate the process.

In early 2014, this group of startup experts started the process by conducting a series of six different conference calls to form the outline of the TriStart™ Matrix and to identify the key things entrepreneurs must accomplish through the process. These conference calls, which are recorded and are available on the book's website, set the tone for the collaborative development of this program.

After this, the 27 members divided up into teams of three to collaboratively write the individual chapters. After drafting the book, the entire group of 27 consultants had an opportunity to review and comment on the program, meaning each of the experts was able to provide input on the entire book.

The SBDC network consists of approximately 1,000 centers with about 4,000 consultants nationwide. Over the past 25 years, this organization has provided low-cost and no-cost consulting and training to millions of new and existing small business owners, making it one of the largest small business consulting entities in the United States. The TriStart™ program is an excellent tool to prepare for and use in conjunction with SBDC services.

For more information about the authors, the SBDC network, and The TriStart™ Matrix, and for multiple free online materials, please visit www.ProfitThinkTank.com.