Readers are talking about *Transitioning From Employee to Entrepreneur…*

"If you've ever thought about going out on your own and being your own boss, the tools and strategies outlined in Storm's easy to read book will enable you to find your dream and realize it. Lots of usable and practical ideas!"

Bob Kriegel Ph.D.
Best selling author of *If it Ain't Broke… BREAK IT!* and
How to Succeed in Business Without Working so Damn Hard

"*Transitioning from Employee to Entrepreneur* is a must-read for anyone giving even the least amount of thought to starting his own business. In fact, I'd say it's also a must-read for many who have already become entrepreneurs and need validation."

Bob Erdmann
President, Columbine Communications & Publications

"Marvin L. Storm has created an excellent guide for those who're ready to make the big step from employee to entrepreneur. His comprehensive "road map" is filled with no-nonsense advice that helps clear the path to achieving the dream of business ownership."

Matthew Shay
President, International Franchise Association

“Marvin L. Storm’s *Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs*, is a terrific read, but you would expect nothing less from one of the leading experts on franchise relationships and franchise operations. If you are looking to step out of employment security into the world of business ownership and equity creation, this is one book you need to keep on your desk. Marvin gives you a step by step approach to avoiding the unnecessary errors that make many entrepreneurs fail and the secrets that make some into world class business owners.”

Michael Seid
Managing Director, Michael H. Seid & Associates (MSA)
Co-Author, *Franchising for Dummies*

“As a lifelong serial entrepreneur, I can certainly appreciate the need for a book like Marvin L. Storm’s *Transitioning from Employee to Entrepreneur*. There’s an entrepreneur within in every one of us, as my friend, Michael Gerber, author of *E Myth Mastery*, is prone to say. That start-up entrepreneur, often a corporate employee yearning for the independence of business ownership, dearly needs the guidance from a tried-and-true entrepreneur like Marvin. His book gives invaluable insights on the pitfalls to look out for and how to avoid them, which is critical succeeding as an entrepreneur.”

Peter J. Burns III
Founder & President, Institute for Entrepreneurship www.instituteforentrepreneurship.com

“As someone who has taught entrepreneurship courses for over twenty years, I have used and reviewed many books on the subject. At the University of Texas at El Paso, we offer a course on entrepreneurship for entering students. Our purpose is to plant the idea that they may be able to achieve their career ambitions by being their own boss. I have never found a better text for the course than *Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs* by Marvin L. Storm. If Storm's book does not get them excited about becoming entrepreneurs, nothing will."

Frank Hoy
Director, Centers for Entrepreneurial Development, Advancement, Research and Support
University of Texas at El Paso

"A must read for anyone who is thinking of starting a business. Since I have been down the entrepreneurial road several times in my career, I can say the principles outlined in this book are lifesavers to the individual that may be investing their life savings into a new business. Do yourself a favor, get this book and read it."

Marc A. Kiekenapp
Managing Partner, KRA Franchising, LLC

"This fits on my shelf along with my textbooks because it contains sage advice, and I am sure it will be referred to repeatedly leaving the edges bent and torn. I feel the book lends itself to the classroom and could introduce the topic of Entrepreneurship. The Road Map is a great idea and especially helpful to remember when you need a road map; before, during and after the trip."

Bill Heck Managing
Principal, The Harland Group

“Workers of the world…look up. You will be faced with choices; you should start thinking about your options now, not at time of stress and vulnerability. This book will help you look at yourself and paths which you should consider for the inevitable changes which will come your way in life and in particular, the entrepreneurial world.”

Terry Buller
Attorney at Law

“Marvin L. Storm’s, *Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs* , is right on target. It is truly a GPS for anyone thinking of making the biggest decision of their lives. The insights in the book help the fork in the road decisions to stay employed or become an entrepreneur.”

Arthur J Neuman
Co-founder, Handyman Connection

“I started my own business with very little capital and a vision of building a major magazine. The concepts presented in *Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs* , are ones that I had to learn the hard way on my way to achieving success. Anyone thinking of venturing out on their own should make it a priority to get the Marvin L Storm’s book to ensure that they are in fact entrepreneurial, and second that they use the suggestions in the book to avoid as many costly mistakes as possible.”

Therese Thilgen
Publisher, Franchise Update

“Having helped build one of the largest franchise companies in the world and assisted thousands of entrepreneurs in getting into their own business I have learned the value of learning all you can before you leap into the world of entrepreneurship. A new entrepreneur should not open a business without reading this book. The practical insights learned from this book can only help insure the success of any new business venture.”

Peter D. Holt
Chief Operating Officer, Tasti D-Lite

“Having personally gone ‘From Employee to Entrepreneur’ I couldn’t stop from smiling as I read Marvin’s book. The book could have been called “Been There, Done That!” as it is so clearly written by a man with experience behind every word in the book. There are thousands of books on the shelves written by professional “writers.” This one is written by a professional entrepreneur. You can pay a high-priced consultant to help you analyze a business plan for a new venture, but you’d be wasting your money without reading Marvin’s book first.

This book helps you understand what being an entrepreneur is really about, if being an entrepreneur is really right for you and helps you envision the future of being an entrepreneur, regardless of your specific business plan. Being an entrepreneur is not always as sexy as it may seem, and Marvin knows this. Having started an entrepreneurial venture that failed cost me dearly. Then, starting another that received venture financing, expanded nationwide and surpassed my original plans, I can only imagine how this book could have helped me if it came out a few years ago!

This book will save a great many entrepreneurs time, money, and personal frustration, and will no doubt narrow the distance from start-up to success. I would suggest that anyone about to embark on writing a business plan, raising capital or investing their own money in a venture read Marvin's book first. It just might be the best decision they make as an (aspiring) entrepreneur."

Marty Metro
Founder and President, UsedCardboardBoxes.com

"As a tax professional and an award-winning business book author, I work with entrepreneurs all the time. *Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs* is a book college students thinking of a career to starting a business, seasoned corporate executives wanting to have more control over their career or individuals thinking of acquiring a franchise business should read before making their decision to become an entrepreneur. It is a crucial first step in deciding if entrepreneurship is the right path to follow. It is also a great ongoing reference for those who have chosen to be entrepreneurs."

Joseph Morris, CPA
Tax Specialist and Award Winning Author of
Mergers and Acquisitions: Business Strategies for Accountants,
Software Industry Accounting and
Joint Ventures: Business Strategies for Accountants

"In my business I help entrepreneurs raise growth capital. I see the good, bad and ugly aspects of launching a company. Marvin Storm's book, *Transitioning from Employee to Entrepreneur*, is not a scholarly business book dealing in theory, but a hands-on practical guide for entrepreneurs to follow in making the decision whether or not to become an entrepreneur."

Tim Dailey
Partner, Clearcreek Partners

"I have coached hundreds of start up entrepreneurs and small business owners over the last 15 years, helping them to achieve theirs goals. For years, Michael Gerber in *The E-Myth* has helped struggling entrepreneurs and small business owners get on track and get profitable. Now, Marvin L. Storm, in *Transitioning from Employee to Entrepreneur*, helps the frustrated employee determine whether they have the "right stuff" to be an entrepreneur, and if so, Marvin provides a simple and clear road map how to make the journey successfully. This book can help you avoid costly and commonly made mistakes, saving you time and money. It is a must read for anyone thinking about starting a business. We have added *Transitioning from Employee to Entrepreneur* to our required reading list for all our new business coaching clients. I wish Marvin had written his book about 15 years ago."

Perry Sawano
President, Integrity Financial Consulting

“Marvin L. Storm’s book, *Transitioning from Employee to Entrepreneur*, captures the essence of what it means to be an entrepreneur. Having worked with hundreds franchise companies that seek quality franchisees I understand what it takes for anyone, from corporate executive to first time entrepreneur, to succeed as a entrepreneur. Insights and examples outlined in the book provide an aspiring entrepreneur a methodology on how to systematically prepare to make the move from the world of being an employee to that of an entrepreneur. The information and practical tools provided in this book is worth its weight in gold.”

Kay Ainsley
Managing Director, MSA Worldwide

“As an attorney, I come into contact with many executives who are considering taking that crucial first step in deciding if entrepreneurship is the right for them. *Transitioning from Employee to Entrepreneur* is essential reading for anyone considering leaving the world of long time employment and becoming an entrepreneur. In fact, I would say no one should do make this transition unless they have read this book.”

Charles G. Miller
Partner, Bartko, Zankel, Tarrant & Miller

“With over 40 years of experience in the entrepreneurial environment I have seen just about everything in business. Marvin L Storm’s book, *Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs* , encapsulates the essences of what it means to be an entrepreneur vs. an employee working for someone else. It also outlines what it takes to be an entrepreneur and if someone should seriously consider this career alternative. No one currently working for someone else should go into business for themselves without a thorough reading of this book."

Richard Rogan
Past President (Retired), Hub Group Distribution Services and Hub Highway Services

"If you want the American Dream of owning your own business to come true in your life, *Transitioning from Employee to Entrepreneur* is a must read. The insights in this book give you a road map to success through business ownership, with a nuts and bolts approach that's easy and fun to read. As Marvin Storm so clearly shows, just because you've been a successful employee doesn't mean that you're ready to run your own business. *Transitioning from Employee to Entrepreneur* clearly shows the gaps that you'll need to fill and then tells you exactly how to fill them so you can have the success you desire."

Jeff Elgin
CEO, FranChoice

"Having helped launch and manage numerous businesses over the years, I have learned that it is not always as easy as it appears. I have learned that being an entrepreneur requires a lot of effort, time and resources to become successful, and this path is not for the faint of heart. Having a good business plan and strategy is essential, and Marvin L Storm's book, *Transitioning from Employee to Entrepreneur*, is a resource tool every entrepreneur thinking of leaving their career should read before and after they start a new entrepreneur venture. Careful study of this book will insure that many costly mistakes are avoided."

Richard Palfreyman
President/CEO, Relax the Back Corporation

"The transition from employee to becoming a business owner can be filled with frustration, doubt and fear. Marvin L. Storm's book, *Transitioning from Employee to Entrepreneur*, is a valuable guide for anyone leaving traditional employment to better secure their own future through business ownership. The book provides a road map that aspiring entrepreneurs can use to take the guess work out the process."

Gary Wofford
Franchise Consultant/Advisor, www.ownfranchises.com

"In the executive recruiting profession the key element in creating a success marriage between an executive and an employer is finding the right chemistry and skill match. It is the same with people considering a foray into an entrepreneurial venture. The book, *Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs* , is a book every executive considering stepping out of the corporate world and becoming their own boss should read because it outlines all of the elements to consider in making this life changing transition. Following the advice recommended in this book will eliminate costly and unnecessary mistakes in becoming an entrepreneur."

Nancy Estep
President, Sterling Global Executive Search.

"Marvin L. Storm's book, *Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs* , is an excellent crash course through Entrepreneurship 101 and 102 and in a very easy-to-read form. It is not only informative but is also quite motivational. If the reader is unsure whether to start a business, this provides the thought process to make an informed decision."

Ed Witman
Witman Associates

"The American Dream is to own your own business. Marvin L. Storm's *Transitioning from Employee to Entrepreneur* is a must read for any person who aspires to start their own business and needs a road map to success. As a seasoned entrepreneur, Marvin's unique insight guides the reader through a candid assessment approach and step-by-step plan in evaluating their entrepreneurial aptitude. Following his advice, anyone will understand how to make the transition to being an entrepreneur and magnify their probability for success."

Robert Jurkowski
President, On Demand Advisory Services
Former CEO, Intacct Corporation

“Every breadwinner will benefit from reading *Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs* . The abundance of real-life examples, clear explanations, wonderful witticisms, sound advice and the easy reading format make it a hand book in ‘how to make the transition to entrepreneurship’ something that everybody should read, even those who would rather stay in their employee role. I only wish I had read it 20 years ago. I want my two sons to read it before making important life decisions in the future.”

Michael Halliday
Director, Missouri State University Physical Therapy

“*Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs* is an invaluable resource and self assessment guide for anyone considering self employment or an entrepreneurial career. The insightful self-examination checklist, the pros and cons of being an entrepreneur, the 10 entrepreneurial myths, the financial and marketing considerations, and many more timely topics make this a must read for the professional or executive seriously evaluating their entrepreneurial aptitude and attitude. The book is a concise, straight forward and long-overdue analysis how to make the transition from an employee to an entrepreneur. Bravo!!”

James Dement
MBA, Franchising Consultant, Entrepreneur

“*Transitioning from Employee to Entrepreneur* is one of the most useful and valuable business books I have read. Making the journey from corporate employee to business owner and operator is one of the most important steps that many people will take in their lives, and this book, with its wealth of practical suggestions and insights, presented with clarity and obvious concern for the entrepreneur, is probably the best investment that a prospective business owner can make."

David Holmes
Partner, Holmes & Lofstrom, LLP

"Twenty-five years in franchise PR has taught me to get to the point. Storm does this extremely well in this very incisive book filled with real 'nuggets' of knowledge. Any would-be or could-be entrepreneur would be foolish to pass up this read."

Rhonda Sanderson
President, Sanderson & Associates - The Publicity Specialists

"Marvin L. Storm has written an immensely readable and invaluable guide for aspiring entrepreneurs. He provides a complete road map for transitioning from an employee to an entrepreneur. This book provides an unvarnished look into entrepreneurship, and Marvin tells it like it is—from the viewpoint of a practicing entrepreneur and someone who approaches entrepreneurship with honest, integrity and experience. An indispensable read for anyone who has ever wondered, "Do I have what it takes to venture out on my own?" This book will provide the answer."

Gregory Matusky
President, Gregory FCA

“I have never met anyone who became a millionaire with a 9-to-5 job. Marvin L. Storm’s book addresses the most important issues for entrepreneurial success.

By stressing the planning process, the book helps the entrepreneur test ideas on paper before applying them in real life. If the concept does not work on paper, it won’t work in real life. The book may save any serious entrepreneur their time and investment.

Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs highlights one of my strongest beliefs: success is in how you play your cards, not in what cards you are dealt. Everyone has a skill or talent that could make them a successful entrepreneur, the trick is to identify the strengths, then focus to turn effort into success Marvin’s book is a tool that any serious aspiring entrepreneur can use.”

Tory Brown

CPA, Venture Capitalist, author, columnist and serial entrepreneur

“*Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneurs* is a must read for anyone contemplating a career change. Marvin

L. Storm’s book provides invaluable insight and wisdom into the nuances of starting a business and being an entrepreneur; it defines the path to success, be it a first entrepreneurial foray or a fiftieth.”

Vern Christensen Partner Outlook Capital “It does not make a difference if you work for a Fortune 500 company, a small regional firm or are a homemaker thinking of starting a business. Reading *Transitioning from Employee to Entrepreneur - A Road Map for*

Aspiring Entrepreneurs will help to prepare entrepreneurs for the trip ahead."

Darrell M. Johnson
President, FRANdata

Having been in the franchise business for many years I have seen hundreds of people leave the corporate world and become entrepreneurs.

Transitioning from Employee to Entrepreneur - A Road Map for Aspiring Entrepreneur is a book that any person thinking of starting a business, buying a business or getting into business by becoming a franchisee should read. In fact, it should be mandatory reading.

Burt Yakin
CEO, Cartridge World Franchise Corporation

"*Transitioning from Employee to Entrepreneur* hits the mark on what people should read before they classify themselves as an "entrepreneur." I've met hundreds of people over the years that were frustrated with their career and thought they would enjoy owning their own business. The book asks questions every aspiring entrepreneur needs to honestly ask themselves so they can make the best decision for themselves."

Gary Salmon
CEO, FastSigns

Eternal thanks to my wife and family for accompanying me on my incredible entrepreneurial journey. Together we learned to appreciate the journey's peaks and valleys, bends and turns, the emotional highs and lows and financial rewards that emerge from a successful entrepreneurial journey.

CONTENTS

INTRODUCTION

Today's business world is changing at an ever-increasing rate. This fast-paced business climate creates both problems and opportunities. If you are reading this book, the chances are that you are aware of many of the problems and are thinking about taking advantage of some of the opportunities. Perhaps you are interested in starting your own business.

You may consider yourself to be an entrepreneur in the purest sense, someone who naturally stays awake at night thinking of creative ideas to market to others. Or, you may be driven by economic necessity. Perhaps you want to investigate what the start-up landscape looks like before you plunge into the job market one more time Maybe you've always wanted to own your own business or expand a hobby or skill into something that will earn you a decent living. You probably see small businesses start and fail all around you and want to understand both the pitfalls and benefits before you commit yourself to your own bold adventure.

Since the early 2000s, after the “Internet Bubble” lost its air, America has resumed its economic expansion, and new ventures abound everywhere. New start-ups are flourishing. Venture capital is flowing into new ideas and companies. Entrepreneurship is being taught at universities. Interest rates are near an all time low. This is a fertile environment for the launching of new businesses, large and small. There has never been a better time to be your own boss.

Maybe you want to take charge of your economic future and catch one of these brass rings. Or maybe, like me, you are looking toward the time when the boom shifts and slows down, making new business opportunities more affordable. When this happens you want to be ready to position yourself in a new venture that offers some security and personal control of your future. In either case, you would be wise to spend some time, before you commit to a new enterprise, thinking about whether running your own business is right for you. If you think it is, you will want to choose one that best fits your personality and your needs.

Whether you already have an interest that you want to convert into a business, or are uncertain if taking the entrepreneurial plunge is best for you, this book will help guide you in charting your business future.

What Kind of Business?

Inevitably, you will need to determine just what kind of business you want. Whatever you choose, you can count on it being more involved than you thought it would be. It will be more exciting, more frustrating, and more time consuming.

I recently returned from an International Franchise Association Convention, whose members are associated with most of the franchises in the world. About 2,500 to 3,000 people attended, representing about 500-600 franchise companies. At the convention I had conversations with several people about starting a franchise business. It was an opportunity to share my experience and answer questions from people who were considering a new business adventure or who had just embarked on one.

I especially remember my conversation with a woman executive at a national American company. She is taking a year off to see what she wants to do. She is thinking of becoming a franchisee in the senior care industry. Her particular ambition was to be in a business that served older people. When we were talking, I said to her: "Let me tell you the realities of going into business for yourself, the good, the bad, and the ugly. You've got to ask, "Who am I? Can I do this?" You will have to consider what business you are really in. It will not be in the senior care business. You will be in the business of training, motivating, and managing minimum wage workers."

I also talked with a young African American man who has an inner-city McDonald's franchise. He said that he hires 1,000 workers a year. He told me a story about a recent young trainee whom he told to mop the floor by the bathroom. The worker said he hadn't joined the company to mop bathroom floors. My friend told him that that's where everybody starts, and proceeded to fill the bucket, get the mop, and show him how to use it. He told him that he'd come back to check on him in ten minutes. When the owner returned, the mop was up against the wall and the worker was gone. This was part of reality in his business.

In any business, including the franchise business, there's always the question of what business you are really in:

- Are you an owner/operator, where you and your employees work shoulder to shoulder and do all of the work yourselves— in essence a personal services business?

- Are you really in the recruiting and training of employees business (similar to the McDonald's franchisee mentioned above)?
- Do you have a bricks and mortar business, where the brand or location drives people in the door and all you have to do is manage?
- Are you in a business that may have a significant portion of the revenue shift to an online web-based business format over time? If so, are you equipped both technically and emotionally to make this migration?
- Do you have a marketing-oriented company, where your advertising campaign is the business?
- Is your job as the entrepreneur to develop business, and then train others to do the business?

These are only a few of the questions you will want to ask yourself about your business. Knowing what business you are really in is often more important than the products or services you sell. Whatever business you think you will be in, it's a good idea to take the time now to determine how you will make it work. You don't want to end up feeling like you have leaped off into the unknown, only to crash on the rocks below.

To me, starting a business is like embarking on a voyage of discovery. You need maps, plans, financing, tools and technologies, prospective employees, and a general idea of the terrain you will be exploring. But, no matter how well you plan, there are always parts of the adventure that are unexpected and surprising. Just as in real-life explorations, you have to be prepared for unforeseen circumstances. Let me give you an example of such an adventurous voyage. Reading about it will probably make you happy that you are thinking about starting a business instead of voyaging to the South Pole, but both require careful planning, strong leadership, a good crew, creative problem-solving, and endurance.

A Bold Journey

> *To strive, to seek, to find, and not to yield.*
> —Alfred, Lord Tennyson, "Ulysses"

In August of 1914, just as World War I was about to begin, Sir Earnest Shackleton set out from England on an expedition to the Antarctic. He took with him a ship full of men who had navigating and arctic experience. The purpose was to be the first to cross Antarctica via the South Pole. The South Pole had already been reached by Roald Amundsen in December of 1911 and, slightly later, in January 1912, by Robert Falcon Scott. Scott's expedition cost him his life. Polar exploration was heroic and extremely dangerous.

Shackleton was a skilled leader with a wealth of experience in polar exploration. He had the latest maps and the latest technology, as well as scientific paraphernalia and navigation equipment, including cameras for taking still photos and moving pictures. He had dogs and food designed for arctic use. His expedition included seasoned subordinates. Based on the quality of his planning, there was no way the expedition could fail.

But he didn't plan for the forces of the pack ice that surrounds the Antarctic. After a long trip from England to the south, via Madeira and Buenos Aires, Shackleton's ship, the Endurance, became trapped in the pack ice almost within reach of its goal. After being trapped in the moving ice for over a year, the ship had to be abandoned. The men and dogs scrambled onto a floating iceberg and drifted out to sea. As the iceberg broke up in the "summer" heat, the expedition took to its three small boats.

Keeping the boats together and afloat was no small task. Only superior navigation and great personal courage brought them through heaving, ice-packed seas to small, uninhabited Elephant Island. When they reached the island, it had been 497 days since they had touched dry land, and the adventure was not over.

From Elephant Island, Shackleton set out for South Georgia on April 23, 1916, with five men in the largest of the small boats, the James Caird. The journey lasted 16 days and covered nearly 240 miles over the roughest seas imaginable. When they reached South Georgia and landed, they still had to cross an unexplored mountain range to get to the other side of the island where there was a Norwegian whaling station. Shackleton and two others accomplished this trek after 36 hours of non-stop climbing and descending and several false trails.

But the adventure was still not over. Now Shackleton had to gather the resources to rescue his men. The world was at war, and it was difficult to find a ship and crew to make the rescue voyage. The men were finally taken off Elephant Island on August 30, 1916 without the loss of a single life.

The Business Journey

Why do I use this nearly 100-year-old adventure of discovery to introduce a book on transitioning from employee to entrepreneur? It may seem like a stretch. But there are many things that a voyage of adventure and the launching of a business have in common. As I've said, both require adequate funding, careful planning, skillful management of people and resources, flexibility in meeting changing conditions, and hard, hard work. And even with these assets, there is no guarantee.

People were willing to believe that Shackleton could accomplish anything he set out to do. They were willing to back him, even though the expedition's goal was difficult to achieve. In terms of the original goal of crossing the Antarctic continent, the Shackleton expedition was a failure. But in every other sense—the adventure, the superb leadership, the memories, the triumph over almost insurmountable odds, and the safe arrival of every last member—it was an amazing success. In fact, the expedition redefined success for every expedition that came after it.

Beginning a business is dangerous, maybe not to life and limb, but certainly to ego and pocket book. Like Shackleton, you set sail because you hunger for the challenge and have a gut feeling that you will be successful. Notice, too, that his ship was named the Endurance. You must be able to accept unrelenting responsibility. You will need to keep the finances under control and, at the same time, know how to spend when it is required. There are going to be moments of panic and retrenching. You will have to learn to do things you haven't done before that may be out of your comfort zone. Technology may look as if it will carry you through, but chances are that it will not be sufficient. No matter what maps, blueprints, or plans you are working with, there will be costly changes, requiring you to adapt and learn quickly:

- You have to accept the risk. Are you cut out for it?
- Things will go wrong. Are you willing to define and redefine your goals?
- Planning is a must. Are you willing to plot your course carefully, and then plot it again?
- Management is crucial. Are you able to learn new leadership skills?

- You can't rely exclusively on technology. Are you able to apply technology in your business and adapt as technology changes, while maintaining that intuitive feel for what makes the business work?
- Like an expedition, there is a beginning, a middle, and an end. Sometimes the beginning and end are part of the same step, and the business fails during start-up because of events beyond your control. If you are lucky, there will be a long middle. What do you do in the middle?

This book is designed to help you answer these questions before you embark. It will help you chart a specific course and design a strategy for your new venture. I have divided it into sections that will . . .

- ☑ Recap the history and the evolution of the American Dream.
- ☑ Discuss the pros and cons of being in business for yourself.
- ☑ Answer the question, "Are you cut out to be an entrepreneur?"
- ☑ Debunk some of the myths about being an entrepreneur.
- ☑ Reveal the steps required to get into your own business.
- ☑ Outline the key things you need to do after you start your business.
- ☑ Explain the life-cycle of every business.
- ☑ Describe how and when to exit your business.
- ☑ Summarize the necessary steps to profitably sell your business.

So now — are you ready to begin?

PART

1

AM I SUITED TO THIS JOURNEY?

Not everyone is an adventurer. Some of us are happy to sit in an armchair and read about what it is like to "boldly go where no one has gone before." But others of us want to be in the forefront, accomplishing things that offer challenges and rewards. We want to lift our lives out of the well-worn paths that we have traveled as employees.

Business conditions are continually changing. What seemed to be safe and secure way to earn a living—a long-term commitment to a career with a stable company—hardly exists any more. In this first part of the book, we will explore the state of the business world today. You will be asked to consider what would motivate you to turn away from the illusion of continuous employment with a company that pays a decent wage and provides loyalty to its employees.

We also will take a closer look at the factors that motivate people to become entrepreneurs, acknowledging at the same time that entrepreneurs come in many forms. As you read the first chapter, ask yourself whether any of these entrepreneurial profiles fit you. What specific abilities would you bring to your own business?

Chapter 1

Downsized, Overworked, Underappreciated, and Frustrated

The only happy people I know are the ones who are working well at something they consider important.

—Abraham Maslow

Three Strikes and You Had Better Get Out

Bill Clark began his career in banking right out of college. He was loyal, hard-working, giving 110% of his creativity and soul to his employer. After 10 years with the bank, he had been promoted to upper middle management with his future prospects looking good. Bill remembers well the day that everything changed.

Rumors were circulating in the office about the possible merger with a competitor bank. The rumors turned out to be well founded. In a few short months, Bill went from what seemed to be a promising career in banking to an unsettling series of employment interviews with other financial institutions. As Bill considered his options, he thought of changing careers but opted to stay with what he knew best. He didn't want to jeopardize his family's future on a high-risk lark.

Within a few months, Bill landed a position at another financial institution in the area and his life returned to a normal rhythm. He immersed himself in his work and his prior experience bore fruit. He rose through the ranks of management and became well-respected among his peers. Even though he had been dealt a wild card, Bill had landed on his feet and life seemed promising once again. Maybe the disruption had been for the best.

Then it happened: déja vu. The rumors of another merger caught Bill by surprise. Was this the beginning of another nightmare? If there was another merger, would he be downsized again? Having been through this before, Bill prepared for the worst.

As he monitored the swirl of interoffice rumors and news releases in the local press, it became obvious that this was not going to be any different from what had happened before. Even though the emotional roller coaster wasn't as bad this time, it was still extremely upsetting to him and his family.

The merger did take place, and yes, Bill was downsized again. Being somewhat more reflective this time, he thought about exploring other alternatives. He hadn't seriously considered other career choices before, but this time he looked at his situation in an entirely different light. Bill even toyed with the idea of buying a business and becoming an entrepreneur. In the end, however, he decided to stay with what he knew best and accepted another position in the banking industry.

Unfortunately, the consolidation in the banking industry continued. His next position was nothing to write home about, but it put bread on the table. The position had a more impressive title, except that it was with a small regional bank. Within two years this bank was swallowed up too. Having been jilted three times, Bill finally decided it was time to do something different. He was not going to take this anymore!

Bill's "three times and you're out" situation may seem unusual, but it is actually quite common. Many people find themselves on the outside looking in, even after decades of loyal hard work. Some of them have opted to explore what it would be like to take charge of their future and control their own destinies for a change.

Twenty-Six Years and What Do You Get?

Sally Burton had worked for 26 years for the same property management company. She had started at the bottom and had worked her way up to supervisor. Now in her mid-50's, Sally was looking forward to retirement in 6 to 9 years. Unfortunately, retirement became a part of her future a lot earlier than she anticipated.

When Sally got a new regional manager, the two of them did not hit it off. Maybe it was because the new manager was 20 years younger and acted as if he had invented the property management business, or maybe it was because of his management style. Whatever it was, after 26 years Sally found herself being right-sized out of a job.

We Are All Created Equal, or Are We?

Jeane was a woman with big ambitions. After graduating near the top of her class, she selected a career that she felt would lead her to success and financial rewards: the accounting profession. She believed she would be perfectly positioned to become a partner when gender restrictions started to loosen up in the future.

She put in long hours, much longer than her male counterparts. Her work was outstanding and she received excellent performance reviews. The more dedicated she was, the larger her workload became. She got some of the most difficult and challenging assignments in the office. But she never complained. She just got the job done.

In less than five years she rose to the manager level in the firm. Now even more responsibility was loaded on her, with more long-term assignments and more clients. Before she knew it, she was billing 27% more hours than anyone else at her level.

Career and Life Paths

Today the lines between careers and personal lives are becoming blurred. To keep our careers separate from our personal lives, we need to define, classify, and eventually eliminate the excess garbage that is making life meaningless for so many people.

To set a foundation for this discussion, we will refer to our career as a career path and our daily lives as a life path. A career path is our work or employment environment. For many the career path has become the Holy Grail pursued at the expense of everything else. Rarely does this pursuit yield the fulfillment sought.

A life path consists of the events and experiences that make up our daily routines outside of our work. Each aspect of life is interconnected to form a life path. Personal happiness, relationships, stress level, health, and even sex, weave a complicated tapestry that creates the mosaic of our life path.

When our career path and life path become incompatible, or when the demands of our career path overshadow our life path, the result of this conflict is stress, anxiety, frustration, and unhappiness. The demands of today's highly competitive business environment, together with the continual havoc caused by the mergers, acquisitions, and corporate restructuring activity, have caused a fundamental change in the relationship between employer and employee. Traditional employers are responding to this competitive business environment by becoming less sensitive to the needs of their employees. They are often less concerned with the personal and family issues of their employees and their employees' desire for stability and loyalty.

When a career path becomes incompatible with your life path, it may be time for a change. A career path and a life path should evolve into a career life path. A career life path is a paradigm shift incorporating the demands of a career with the need for a meaningful personal life.

During the next few years, she was shocked at what began to happen. Her peers, all of them male, started to receive junior partner status. Not to worry, she thought, my time will come. But it never did. It became clear that after years of a grinding schedule and the sacrifice of her personal life, she had hit the glass ceiling. Unfortunately the ceiling was Plexiglas and wouldn't break.

Frustrated, she sat in her office one afternoon looking out at the city skyline and thought about what she had accomplished in the last few years of her life. She wondered what the future held for her. Was she in control of her life? Her career? Was she going to face the same biases if she left the public accounting sector for the corporate world? Was she ever going to have a personal life? Was this the position that she thought she would be in when she had been hired so many years ago?

> **GOLDEN NUGGET**
>
> *When the elements that make up a life path are in harmony, there is an inner peace that enhances the routine of living.*

Jeane had many questions but few answers. Was it time for a change? What was her career path? Her life path? In a flash of understanding, she realized that the most important parts of her life were being dictated by outside circumstances. She felt like a puppet. As she sat there looking out the window, she vowed that it was time to change her career life path and control the direction it would take from now on.

Is It Time To Change Your Path?

In today's world, being downsized, overworked, and frustrated are common realities. Each of the examples I've just described has the same theme. I could have shared many more similar situations about the challenges facing people in business today. Although the factual circumstances in each situation may differ slightly, the underlying theme is the same. Why? Because times have changed.

Gone are the days of loyalty, stability, and recognition for a job well done. The new career paradigm is the result of corporate restructuring, downsizing, acquisitions, mergers, and the breakneck pace of new company start-ups. It has created the mobile executive with a work history of five, six, or more positions listed on his or her résumé. A few years ago, a résumé with this pattern of work history would have been career crippling. Today, it is the norm. In fact, if you are too stable, this may be perceived as a lack of ambition.

The long-term loyalty of companies to their employees is a thing of the past. The priority is short-term profits at the expense of everything else. The popular business mantras seem to preach "squeeze everything you can out of those around you and then move on" and "if the bottom line can be improved, the quarterly revenue expectations met, and the stock price boosted, what else matters?" The problem is that the people who are responsible for this shift in corporate philosophy—the pursuit of short-term profits at the expense of everything else—will eventually understand that the people who are the backbone of their companies will begin to exit en masse to pursue their own paths.

Don't Change Your Job; Change Your Path

Today more people are making career choices within the framework of a career life path. They are choosing positions that blend career and lifestyle considerations, paralleling professional as well as personal priorities in their lives. Because of the competitive job environment, many employees are considering personal goals carefully before accepting a position. If your job is wrecking your personal life, it may be time to change your path, not your job.

Change is Good

Bill, Sally, and Jeane were, in one way or another, controlled by their career paths because their careers controlled their personal lives. Although no one absolutely controls all the events and circumstances in his or her life, a much larger degree of control can be realized when the right modifications are made to bring career and life paths into sync. Together we will explore what some of these modifications might be, as well as how you can achieve them. By the time you have finished reading this book, you will be much better prepared to decide which path is best for you.

In addition, I will explain why simply changing positions, jobs, or the company you work for will not always bring satisfaction. I will also explain why just making modest modifications in your life will not necessarily put you where you want to be in your career and in your life. Additionally, we will explore why just doing the same thing at a different time and place will not always prepare you for your future: financially, professional, or emotionally.

The American Dream—This Isn't the *Leave it to Beaver* World Anymore

In the 1950s and early 1960s television series, *Leave It To Beaver*, Ward Cleaver always came home at 5:00 P.M., was greeted by "The Beav," kissed his wife June on the cheek, and sat down to read his evening paper, looking as if he never had a worry in the world. The Beaver Cleaver days are gone forever.

In order to know how to take control of your life and put yourself in the best position to live your own version of the American Dream, you must understand what dreams are all about. You must know what the American Dream is and is not, and what you need to do to realize and live your own dreams.

The American Dream of a few decades ago was the little house with the white picket fence, a dutiful spouse and two or three children, homemade apple pie cooling on the kitchen window sill, a new Chevy in the garage, and Old Yeller in the front yard waiting for father to come home from the job. Dad planned on retiring from his job after 30 years of loyal service, at which time he would receive the traditional gold watch at a retirement dinner, and a pension for all of his years of loyalty and hard work.

Today, if there is a house at all, it does not have a picket fence because your subdivision homeowners' association does not allow little white fences. You have a lovely wife (or husband or significant other), but no one can really tell if you're attached to each other, since you're never seen together. You're both working 12 hours a day just to make ends meet.

Your kids, if there are any, might or might not recognize you if you were to show up at the daycare center unexpectedly. The homemade pie in the windowsill is made by Mrs. Smith and is cooked in a microwave. Actually, it does not sit on the windowsill because your tract home has security windows that do not open. There is no new Chevy in the garage, just a five-year-old minivan. Old Yeller? He is just a distant memory. You had to get rid of him because your neighbors complained about the barking.

The American Dream

The American Dream by definition is a state-of-being that promises nirvana, fulfillment and a meaningful retirement. It is an illusion.

What about that job with the important title, the financial security, and the pension? No such luck—you have just been "right-sized" again for the second time in five years. The pension has been replaced by a self-funded 401k plan with a minor contribution by your employer. The new reality is not at all like the one your parents and grandparents dreamed of and planned for.

Yes, most of us want to live the American Dream. But today the reality is more like a whitewater rafting experience, with a blur of scenery that flashes by as your raft shoots the rapids. Sometimes the ride is quiet and scenic. At other times, it's like riding a level five—you could be thrown out of the raft at any moment.

Many people have found that as they round the bend in the river, they come face-to-face with a roaring waterfall. If mid-stream corrections cannot be made quickly enough, they will go careening over the edge and crash on the rocks below.

You are probably scratching your head and asking yourself, "What in the heck is this guy talking about?" The metaphor is my way of trying to get you to visualize the frustrations many people have about their careers and personal lives. A lot of people are just fed up with being employees and constantly facing waterfalls around every bend in the river. Sure, they have survived waterfalls in the past, but will they be able to continue? As long as you are in someone else's raft, you have very little control. Here's the question: "Is it time to trade the raft for your own powerboat that will give you more control and the ability to steer your own course?"

The good old days of job security, job fulfillment, and loyalty are gone, dead and buried. They are the casualty of dramatic economic change and dislocation of the employee environment. How did all of this happen?

Dramatic Changes

Dramatic change is usually accompanied by a great upheaval. The dramatic changes in the American economy in the last two decades have resulted in vast upheavals and disruptions in how business has been traditionally transacted. Past paradigms of lifetime employment, job security, and the gold retirement watch have given way to downsizing, rightsizing, and the portable career. These dramatic changes have created new rules and new paradigms:

- The Japanese achieved overwhelming success using quality systems in the 1970s and the early 1980s, when "Made in America" became a reason not to buy a product and "Made in Japan" became a sign of quality. These competitive pressures forced a realignment of the way quality was viewed by American business and eventually forced it to respond aggressively. The important issue here is that we did respond. This ability to respond to challenges is what has made American enterprise successful. But the changes that were required helped create the phenomenon known as "downsizing," sometimes called "rightsizing."
- The savings and loan/junk bond debacle of the 1980s shook the very core of the country's economic fabric. It forced tremendous consolidation in basic corporate structuring, and further fueled the downsizing trend.
- The Cold War and the redeployment of the entire defense industry plunged entire regions of the United States into recession. Remember the "It's the economy stupid" slogan during the 1992 Clinton-Bush presidential campaign? The recession not only forced Bush out of office, but also continued the consolidation process companies were already using to eliminate cost.
- Many economists attribute the economic rebirth of the 1990s to changes in the capital gains tax and other tax law changes, in combination with the growth of e-commerce. This recovery has become the longest economic expansion in our country's history and has fueled a surge of capital investments into new technology-oriented companies.
- The "Internet Bubble" that began in the mid-1990s, and eventually imploded in 2001, caused enormous dislocation, consolidation, and the loss of a trillion dollars in individual

The Pace of Change

The pace of technological advances in recent years is staggering. Today, the retail cost of one MIP (millions of instructions per second) of computer performance is a few ten-cent coins or less. Ten years ago, a single computer MIP cost $500. Twenty years ago, it cost a quarter-of-a-million bucks. Thirty years ago—well, NASA's elite Ames Research Center, supported by the Department of Defense, could barely assemble one measly MIP of computer power.

Here's the kicker: in a few years, you'll buy that same MIP for a less than a cent. It's gone from hundreds of thousands of dollars to a less than a cent! Moore's Law, named after James Moore, the man who invented the microprocessor, states that the power of the fastest microprocessor doubles every 18 months. This type of technological innovation is just one in a series of factors that have dramatically altered our entire business universe. It has changed old paradigms and created new ones. And it will continue to do so at speeds we find hard to fathom.

net worth. Rosy visions of a nice retirement, new house, or leisurely lifestyles, had to be postponed indefinitely.

- The technological boom has fueled industry with new inflows of capital, and the pace and breadth of technological changes has grown to breathtaking levels. These technological changes have altered, and will continue to alter, the business and economic landscape.
- As the Internet continues to evolve from Web 1.0 (1995-2006) into today's Web 2.0, and traditional e-commerce business models morph into more sophisticated interactive and social networking models, there will continue to be dramatic and painful dislocation of people and resources.
- As this process rolls through the economy, the Internet itself will evolve, morph, and change at lightening speed. Five years

ago, who would have thought Google would be one of the most dominant companies on the planet and Microsoft in danger of being a "has been." Prognosticators predict the Internet of today will look nothing like the Internet of the future.

The Internet is proving to be to computers what the electric motor was to electricity. Stanford University economist Paul David points out that, although electricity became available for lighting in the 1881, it wasn't until the 1920s, after the widespread adoption of the electric motor, that electricity boosted productivity in factories. The Internet is the electric motor of this millennium.

This Isn't Kansas Anymore

Each one of the technological advances listed above has not only altered the economic landscape in the past few years, but has forced dramatic changes in the relationship between employer and employee. These developments have altered the perceived, sacred lifetime-employment birthright offered in the past by many Fortune 500 companies. And they have forced the changes that result in continuous rightsizing.

It is not uncommon to see weekly newspaper headlines that shout, "IBM [GM, Ford, GE, HP, or some other large multi-national conglomerate] To Lay Off 5,000 [25,000, or 50,000] Worldwide." Thousands of companies worldwide have undertaken the biggest corporate restructuring ever, eliminating millions of jobs. And this process is not over.

The sub-prime mortgage crisis has collapsed Bear Stearns, Lehman Brothers, and brought the "Big Three" auto companies to their knees. The new corporate mantra of "slash and burn" has become the way businesses are managed today. The *American Dream* is fast becoming the *American Nightmare.*

The Cycle of Unemployment to Reemployment

The time it takes someone to move from the "pink-slip" world into the "new employment" world can be termed a cycle. In today's world, the cycle time for getting from one world to the other is a lot longer than it used to be. There are three major reasons this cycle has lengthened. The first one is the pace of technological change, which we have already discussed. The other two are the prevalence of dated skills and recession driven downsizing.

Dated Skills

The second reason for an elongation of the cycle time is dated skills. Employees and managers who have dated or obsolete management and technology skills require time to attain the new skills demanded by the rapid evolving business environment. The rate at which new technologies are introduced is mind-boggling. Blackberries, Pocket PCs, wireless Internet, blogs, iPods, iPhones, Podcasting, VoIP, digital media, smart phones bluetooth enabled, streaming video, IP-TV, and so forth. The list is long and getting longer by the day.

We live in a world of the hyper-availability of information and rapidly advancing technology. The pace of innovation and adaptation can seem overwhelming. As needs for skills evolve, middle-aged managers with tons of experience may have a difficult time being assimilated into new jobs as their work environments evolve. This isn't necessarily because they don't know their stuff. It may be because what they know is no longer as important as it used to be. There is so much more to know that they haven't yet caught up to the new demands in their work environment. Experience counts, but it is now more important to master the art of change itself than to learn a new job skill. This means becoming techno-savvy, which is difficult for many people to do. Transitioning to a new job magnifies this problem many times over.

Replaced by a Kid

Abe Rankin received his MBA in 1978 from Northwestern University and began his marketing career with a Fortune 500 company. His first career move was a lateral shift to a fast-growing Fortune 1000 company. After five years of rapid advancements, he was earning more than $150,000, plus a significant annual bonus.

Then came the merger of the company with a larger entity. The slashing of duplicate positions began. Abe survived the first two cuts, but not the last one. It became obvious that one reason he was let go was that, even though he had considerably more experience and his better management skills than those of his counterpart, his technology awareness was substantially inferior.

Probably the biggest deciding factor, however, was that his salary was twice as much as that of the younger candidate. The younger candidate was willing to work longer hours, travel extensively, and generally make his career his life. Abe felt he had already put in his time on the road and often declined to travel, sending an assistant whenever possible.

What's wrong with this picture? Let's look at the numbers. Abe was a highly paid mid-40's executive, working fewer hours, relying on his experience, and not wanting to work the long hours that were going to be required. On top of all of this, he barely knew how to log onto the Internet, let alone create his own web page. The salary he commanded was more than $150,000 a year, with six weeks vacation. And he had a benefits package that included medical and retirement funding, adding another 30% to his base compensation.

The picture of his competitor is a little different. He was an energetic twenty-something junior executive, willing to work 80 or 90 hours a week and travel at a moment's notice. He had no compunction about not taking long vacations, and, in fact, didn't take all of his current vacation. His salary was $70,000, and his benefits package only added another 16%, since he was single and not vested in the retirement plan for another four years. On top of all of this, he was a technowhiz. He grew up with a computer and the Internet had become his way of life.

Age and experience are not necessarily key assets in today's fast-paced, information-driven business climate. Because of the rate of technological change and the salary structure of senior middle- to upper-level managers, it is frequently more economical for companies to replace a middle manager with a younger, less-experienced person who has an aggressive, hard-working, take-no-prisoners attitude. In fact, the management job that doesn't combine technological skills and responsibilities with management skills and responsibilities is getting very hard to find.

Finished at Forty

Professional athletes, dancers, and fashion models all peak in their careers while still in their youth. Coal miners, construction workers, and chess players all burn out by middle age. Corporate America is also becoming a place where it is difficult to age gracefully.

There is a new trend emerging in American business: Yesterday, a manager may have seen his better days by 55 years of age; today, 40 is starting to look and feel really old. Yesterday, the productive peak of a worker in corporate America was in the mid-50s. According to a recent Fortune Magazine article, a survey of more than 750 CEOs set the average age today at 43. In five years, this may very well dip below the age of 40. The technology adoption rate is one factor that is driving this trend.

Yesterday, seniority was a stable part of the corporate culture. The corporate hierarchy was well established. Generally you had to pay your dues to climb the corporate ladder. When an average worker reached a career plateau, he would just park himself there until he retired. Today, output counts, not experience. The world is faster, more efficient, and more cruel.

Today, the plateau is a very narrow ledge. Because of the relatively high salary of the mid-40's worker, stopping on this ledge is an invitation to be bumped off by the next generation of technowhizes, workers who are less costly and more familiar with the job that needs doing now. With product lives getting shorter and the speed of change getting faster, stopping on the ledge to brush up on those skills may not even be possible. Even the ledge is shrinking.

Can't produce? Then you're outta here! Today there is a near-zero tolerance for those who are not pulling their own weight. If your salary is higher than your productivity, better brush up on that résumé. The older managers are, the more likely it is that they can be replaced by someone younger and more effective who earns much less. In fact, business is adapting much faster to this new world than any 40-year-old can hope to by adapting his or her skill set.

While today's managers were toiling away at their desks, the next generation was surfing the web, playing around with new technological tools, and becoming proficient in texting, blogging, MySpace, YouTube, FaceBook, Twitter, and all things digital.

The world I have just described is mostly limited to the management hierarchy below senior management. Youth is still rare in the executive offices. A Fortune Magazine article states that the average age of the Fortune 500 senior executive is 56. But here changes are also creeping in. In 1980, 69% of the Fortune 500 CEOs were older than 55. Today, that figure is 61%. The number of CEOs under 40 has increased 17% since then. My guess is that it just takes longer for change to reach the top, but it will arrive there too.

The Executive Suite

How big a problem is this? Today there are nearly as many people over 40 years of age in the United States as there are under 40.

This group of aging workers—the 78 million baby boomers—is competing for a shrinking pool of good positions. The pool is shrinking because technology, and more recently the Internet, is changing the way business is being done. Corporate structures are becoming more efficient, and the need for a deep management structure is evaporating.

But what about all the experience that took years to accumulate? Isn't this a valuable commodity in the workplace? In some areas, yes, but experience is not what most corporate managers are looking for today. Because of the speed of change and the new economy, experience is not always valued as an asset. In fact, it can be viewed as a fatal liability: The older a person is, the less likely it is that he or she has the necessary technological skills or the desire to adapt and compete.

Yes, there are still positions that favor the older, experienced executive, but that niche is shrinking fast. What counts is flexibility, the ability to work excruciating numbers of hours, the ability to learn at warp speed and on the fly, the willingness to accept dramatic change, and the ability to adapt to that change without breaking a sweat. On top of all of this, most people in their 20's think they can do anything they set their minds to do. They are invigorated by the challenge, rather than overwhelmed by the pace of change.

Add to all of this, a company's ability to pay the horde of eager young workers with stock options in order to keep them around and to train them as necessary. This salary flexibility allows companies to mobilize a crowd of young kamikazes who can do a lot of damage to the competition.

Is it any wonder that today's corporate management is saying in job interviews, "Tell me about your Internet skills?" It just may be another way to ask, "How old are you?"

It's Magic—See, No More Jobs

Finally, a major reason for the pressures on the old career paradigm is the current merger and consolidation activity that has been sweeping the corporate landscape and will probably continue to do so.

With each merger and/or acquisition, thousands of jobs just simply disappear, never to reappear. This shrinking pool of management jobs, coupled with the technological advances and constant corporate restructuring, causes many in traditional employment roles to ask, "Am I next?"

In the recession often referred to as the "Great Recession" that began at the end of the first decade of the 21st Century, created the most sweeping realignment of in the world economy since the Great Depression in the 1930's. This realignment sparked a wave of corporate restructurings, mergers and acquisitions, failed banks and bankruptcies that no one could have ever imagined resulting in hundreds of thousands of jobs that literally disappeared and many of them are permanently gone forever.

For many in the traditional employment world, there has never been a better time to explore the world of entrepreneurship leveraging skills that have been acquired over a career and year of toiling for others. Now may be the time to 'sail one's own ship."

CHAPTER 2

Forget What You Learned in College and at Home — Why Most People Take a Job

Rowing harder doesn't help if the boat is headed in the wrong direction.

—Kenichi Ohmae, Management Expert

What Are You Going to Be When You Grow Up?

When you were just a kid, how often were you asked, "What are you going to be when you grow up? A doctor, a nurse, a lawyer, a fireman, a school teacher?" From a very early age we are programmed by society to think about a life work and focus our thoughts on getting the education we need to do that work. Often this is simply so we can be qualified to pursue a career as an employee working for someone else or for some large organization.

Fast forward to high school. Career fairs, guidance counselors, parents, and friends—all of them pushed you toward a college or trade school that would prepare you to become an employee. Even those of us with parents who owned their own businesses were encouraged to seek a professional career. Why?

Because, according to the conventional wisdom of that time, working for a large, well-known corporation seemed to offer the best chance of success and security. In years past there may have been truth in this assumption. Now, however, working for a large, national corporation is no longer like living in Shangri-la.

There are many avenues people take to develop a career. Some career choices are well planned and thought out, and others happen by chance. Let's explore some of ways people end up in their careers.

Choose a Major; You Can Always Change It Later

You are reviewing your college application. There it is in black and white. Many college applications demand that a major be declared. Seeking out counsel for what career to consider, you approach friends, the high-school career counselor, your clergy, and parents. One of the most common answers you hear is, "Choose anything; you can always change it later."

Armed with this attitude and by reflecting on your own desires, you pick a major—English, for example. Why English? You have been told that if you can write, you can get a job. This may be partially true, but it is not bulletproof logic.

After being accepted for college, you are faced with selecting classes from a course catalogue. After selecting various general requirement classes and a class or two relating to your major, you manage to squeeze in an elective class. Whether you know it or not, you have embarked on a journey that will determine much of what you will become and do in a future career.

Now reflect back on those college classes. The lectures of the professors and the subject matter, to some extent, are oriented toward an eventual employment situation. You are constantly encouraged to use your knowledge and degree to secure a good job. Friends, parents, and career counselors stress the importance of getting the kind of grades that will help your résumé stand out. In essence, you spend the better part of your educational experience preparing and planning for the moment you will be interviewing for that career position—as an employee.

The Non-College Route

For those of you who chose to begin working right out of high school or after a few years in college, the path was similar. Almost always you spent your time working for someone else. Of course, you often dreamed about getting a better job or having your own business, but the barriers seemed so high.

As you toiled away, however, you were learning the skills that made you a valued employee. And if you did look for another opportunity, you naturally thought of just changing jobs. Different path; same results.

And Now There Are Two

Sometime after high school or college or early in your first real job, you may have gotten married. Marriage brings responsibility, the need for stability, and less flexibility. All of that reduces your desire to take risks outside of the traditional employment world. The steady employment lifestyle fits well into the marriage scenario. The biweekly paycheck goes a long way toward resolving the insecurities brought on by additional financial responsibilities.

Career Bondage—The Shackles that Bind

After establishing your career, the expectations of your friends and peers began to play a significant role in your life. Everything, from advancement within your department to your performance evaluations, keeping up with the Jones' and their new sports utility vehicle, and those expensive vacations, nudges you closer to the narcotic of the paycheck and a lifetime as an employee. You are entering a state-of-being I refer to as "career bondage."

As your career progresses, you become addicted to the perks of

Career Bondage

Career bondage is being trapped in a job, profession, or career that you do not have the ability or desire to leave because of family obligations, financial considerations, lack of skills, or fear. Career bondage is just as real as being an indentured servant was 300 years ago. The only difference is that career bondage is usually self-imposed.

employee dependency: country club membership, attendance at class reunions, an expanding social circle, and the new house. You begin to acquire new and better toys. There's the R.V., the summer cabin, the boat, the season tickets, the vacations, and so on. You are now entering the "dependency zone" and a much higher level of career bondage. When you are in the dependency zone, you begin to shy away from anything that might jeopardize your seeming success.

The Dependency Zone

When you are in the dependency zone, you are unable to quit working, change your career, or exercise financial flexibility. Once in the dependency zone, you find yourself living from paycheck to paycheck. Your credit card debt has escalated. You find yourself making payments on playthings you don't really get to use. Unforeseen, but necessary, expenses come as calamities. If only you could make just a little more money. But what you receive in raises (if any) is not quite enough to keep up. Leaving your job might create an immediate risk to your cash flow. Everything could go bust. The dependency zone is similar to being addicted to alcohol or hard drugs. You get hooked, and there seems to be nothing you can do to get out of the trap.

Exploding the Myth

Now, don't get me wrong. There is nothing inherently wrong with being an employee. The economy has a need for people working for companies that provide necessary products and services. The reason for this discussion is to explode the myth we absorbed in childhood; the myth so frequently reinforced throughout our youth, adolescence, young adulthood, and early career years. The myth is that financial security and career satisfaction are necessarily found in the traditional employment role. It's no surprise that many people hold on to this perception, even when they find themselves in career chaos wondering, "What went wrong?"

> **The Millionaire Next Door**
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> In their best selling book, *The Millionaire Next Door*, Thomas J. Stanley and William D. Danko claim that 80% of America's millionaires are first-generation rich. They are independent businessmen. Such a person owns a small factory, a chain of stores, or a service company. He lives next door to people with a fraction of his wealth. He has made his money, not as an employee, but as an entrepreneur.

The purpose of this discussion is to build a foundation for understanding the realities of employee bondage and to see what can be done to unlock the shackles.

What a Difference a Generation Makes

Just a few decades ago, it was a common belief that security, success, and career satisfaction consisted of getting a job, getting married, raising a family, spending 30 years working, getting the gold watch, and retiring on a nice pension without once changing jobs.

Oh, what a difference a generation makes! Working for a large, well-known corporation today rarely provides the same status and security inherent in such a career path a few decades ago. If there is one thing that working for a large multinational corporation does not offer, it is job security. Even if you can hang on within a company, you may find yourself jumping from position to position in an attempt to maintain the salary you have worked yourself into. Yes, it is true that there are situations and circumstances where job security exists, if only temporarily; but the overwhelming probability is that you will most likely, at one time or another, find yourself on the short end of the career stick. Downsizing is just a merger, an acquisition, or a corporate reorganization away. Because of the continued pressure of the current business environment we live in, this trend is not likely to change anytime soon

The Big Leap

Like a small boy whose father encourages him to jump from a dangerous ledge into his waiting arms, those who want to change the framework of this employee-employer cycle have to be willing to take a leap of faith. But unlike that same small boy who has faith that his father will catch him, anyone who attempts to embark on a new path toward business ownership must be aware that are no loving arms to keep him safe.

Explorers like Sir Earnest Shackleton or Merewether Lewis or Ferdinand Magellan, or any of a hundred others, decided to risk life and limb in the pursuit of an adventure. The explorer put his faith in preparation, in the understanding of the dangers, in native skills and intelligence, and in supportive technology. The business adventurer also knows that preparation, intelligence, and support are crucial for success. And, he or she also knows that there will be challenges that cannot be foreseen.

Each one of us must do things that require a leap of faith sometime in our lives. It may be changing from one job to another, starting a new career, or moving to a new area. Many choices require the belief that things will turn out all right. Even after we have carefully gathered all the necessary information and the choice looks obvious, we still have to have faith that our careful gamble will pay off.

The risk a person takes in moving from one job to another is modest if the positions are similar. It's an entirely different story, however, if one is considering changing to another career entirely or considering becoming an entrepreneur. There are several key factors that need to be considered.

Perhaps the most important factor is personality. As obvious as this may seem, I have seen many cases where the wrong choice was made because of an assumption that desire, energy, and capital alone would carry the day. Each of these elements is important, but they will never compensate for a mismatch between personality traits and the entrepreneurial opportunity.

Coming to an understanding of who you are and whether or not you have the abilities and talents to succeed in a new and unfamiliar world is critical. There are several things you can do to become a little more familiar with your personality and your abilities.

The Common-Sense Approach

Nothing is quite as simple as knowing intuitively what you are capable of doing. The knowledge comes from three sources:

Interpreting Past Experience. We are largely a sum of our past experiences. If you have been successful in your career, you most likely have the confidence to tackle similar challenges. If you have failed at a job, you may be hesitant to venture into unfamiliar situations.

Past experience can be used a determining factor in what you choose to do. But, be aware that it may not be reliable. So often, being unsuccessful has little to do with our abilities and more to do with circumstances. Here is an example:

Nathan Pearlman took a job at a boat-manufacturing firm. Because of his previous responsibilities, which relied on his extensive and extremely successful marketing and sales experience, he was put in charge of developing a marketing plan for the sale of luxury yachts. But since he was new to the business, he did not understand the market or the motivations of a person who might be considering buying a yacht. During this time, when interest rates were high and money was tight, no matter what advertising and marketing he tried, the firm sold few yachts.

Eventually, Nathan was let go. This was the first time he had been fired in his entire career. It was a devastating blow to him. He never ventured into an unfamiliar business again.

Was he right in coming to this conclusion? Was he putting unnecessary restrictions on his abilities? Most likely he was. His failure was less a function of his ability and more the result of economic conditions over which he had no control.

An opposite example can also be true. Too much success can lead to youthful exuberance and a false sense of having the Midas touch.

Morten Brickman was trained as an accountant. But early on, he came to the conclusion that he wasn't cut out to be an accountant. He and a partner opened a frozen yogurt business. They hit the market just right: The economy was expanding. A retail space became available in a killer location and there was a surging interest in health-related foods. They had the capital to open up a very attractive store. They were in the right place at the right time.

Fortunately, they had the talent and ability to take advantage of the market conditions, and they did. They built a highly successful business. They made a lot of money. Then the market began to change. But they were so convinced that their success was the sole result of their own abilities that they expanded the menu offerings in their shop. They made the decision to diversify the products in their shop at a time when frozen yogurt started showing up in every ice cream shop, gas station, convenience mart, McDonald's, and grocery store. And to their surprise and financial ruin, the market simply did not accept the yogurt/sandwich/coffee shop concept. They eventually had to close their business.

Both their success and failure were largely beyond their control. Had they been more experienced, they might have realized this and might not have made the mistake of betting the family farm on a new career in a difficult market, with a product mix they knew very little about.

Knowing Your Abilities. Many people truly know their limitations. They know what they can do and what they cannot. They don't get into trouble by becoming involved in situations where their abilities and the requirements of the business are incompatible.

There is, however, a fine line between knowing your limitations and being insecure about trying knew things. How often have opportunities been missed because insecurities disguised themselves as self-knowledge? Here is an example:

Nick McGowan was a successful trial attorney in Los Angeles; yet after more than 20 years of practicing law, he had a hankering to run his own business. As an attorney, he had always been paid based on his billable hours. There may have been repeat business, but the earnings potential largely came down to the number of billable hours.

Nick acquired a franchised business in the home-services industry. Since he had great communication and motivational skills as a successful trial attorney working with and motivating jurors, he felt he would be able to use his talents in the entrepreneurial world. His key to success was not in knowing everything about the home services business, but his ability to recruit, manage, motivate, and retain great people. He knew he had these talents and reasoned he could be successful in any business that required these skills.

By having the confidence to try a new career, Nick was able to take advantage of a golden opportunity that eventually led to an extremely prosperous venture. He successfully made the transition from a career in which his income was largely determined by how many hours he worked to one in which he earned his income from how well he leveraged his knowledge. After a few years of working hard in managing his business, his compensation was not based on how long he worked, but by how well he managed his business.

Relying on Others. Sometimes others know you better than you know yourself. They can keep you out of trouble, as well as encourage you to tackle projects and situations that you would not normally consider. The secret of listening to others is to know and trust them and their understanding of you. If they know you well, including your abilities and liabilities, they can give you a more objective view of an opportunity than you can give yourself.

The best approach in considering other career alternatives is to use all three of these common-sense strategies to provide input as new opportunities come along. To further help you to figure out your abilities, the next chapter offers additional insight into the entrepreneurial personality. How do you fit in?

CHAPTER 3

Entrepreneurial Personality Types

Nothing in life is to be feared. It is only to be understood.
—MARIE CURIE

The Would-Be Entrepreneurs

There are many types of entrepreneurial personalities. Understanding each one will help you determine which entrepreneurial attributes you possess.

Before he embarked with his handful of troops to march into the interior and begin the conquest of Mexico in 1519, Hernán Cortés had his ships burned in front of his men. He was signaling to them that the only road they could take was before them. There was no way they could return by the route they had come. They were now committed.

Definition of an Entrepreneur

An often-used definition of an entrepreneur is "Someone who will guarantee a five-million-dollar loan with five dollars in his pocket."

True Entrepreneurs

True entrepreneurs belong to a unique breed. Some say they are born, not self-created. Not everyone is cut out to be an entrepreneur. Entrepreneurs generally are fully committed to their dream. They let nothing stop them. It's all or nothing.

Some would-be entrepreneurs never get a good night's sleep. They fret over everything. They cannot delegate. They cannot make decisions, and when they finally do make a decision, unlike Cortés, they will not "burn the ships in the harbor."

Would-be entrepreneurs always leave an escape route, like a ship anchored in the harbor. This means that they never completely commit to the business they've undertaken. It may seem that they lack self-confidence, but in most cases, they lack the entrepreneurial personality. Whether they cannot live without the illusion of complete control over their lives, or whether they simply cannot bear the responsibility of taking their destiny in their own hands, they are not really cut out for serious risk.

True entrepreneurs are visionary people who can see the buildings before they are built and cannot understand why everyone else can't see them. They have the capacity for risk. Almost daily, they bet the farm on their venture because they are absolutely convinced of their ultimate success.

They also have the ability to convince others of their dreams. They have the drive to follow their dreams through to completion. They readily burn every ship in the harbor, leaving themselves and those associated with their enterprise no escape route. Why?

For them, success is a foregone conclusion. Please understand; this is not because there is no risk. They have weighed the risk and found that it pales in comparison to the rewards. Their egos are not tied up in the kind of failure that might occur either. They have a strong faith in themselves, whether the enterprise is successful or not.

Risk Tolerance, Do You Have It?

One of the key elements in being a successful entrepreneur is the ability to take risks. Entrepreneurs form a special breed of risk takers. They are a hard-working, visionary, and persuasive bunch. Security-conscious individuals are not comfortable in the same situations. Rarely will capital, effort, and hard work be able to save a business start-up run by a non-risk taker.

There is a story about Desert Pete. It goes like this...

An old gold prospector is coming back from many months of panning for gold. He has five full bags of gold dust. In order to get to town, he has to cross a long stretch of desert. It will take several days to cross the desert and he has only a horse and a pack mule for transportation. Halfway across the desert, his horse breaks a leg. He has to shoot the horse.

With only the pack mule, he begins the long walk into town. Since he had not planned to be on the trail for so long, he took only two days of water with him. He is now in the third day of the trip with a couple of more days to go before he reaches town. Even with careful rationing, he runs out of water on the third day. Late on the fourth day he spies a water well. He approaches the well and finds a bottle of water with a note wrapped around it.

The note reads: "This well has produced water for many years. It is replenished with underground streams. The pump is old, but it works if you prime it with all the water in the bottle you are holding. Pour the water in the bottle down the pump head and pump like mad. After about two minutes of pumping you will hear the gurgling sound of water rushing up the pump

Take all the water you need, refill the bottle and leave it for the next feller. Remember the pump needs *all* of the water to prime itself. If you take even one swallow from the bottle, there will not be enough to prime the pump. Have faith my friend; prime the pump with all of the water in the bottle, and the well will give you all you can drink.

Entrepreneurs have faith enough to pour all of the water down the pump head *without hesitation* and then pump the handle like hell, *expecting* the water to come gushing out of the pump head.

Do You Have the Personality of an Entrepreneur?

There are six basic types of people who might consider themselves entrepreneurs. They range from those who should never consider making the leap to those who are doing themselves a huge disservice by *not* embarking on the bold adventure.

Personality Type I: The Eight Mentality

If you almost always leave at quitting time, find it a real imposition to have to stay after work to get things done, and would only do so when asked, then most likely you are not an entrepreneur. By definition, an entrepreneur does whatever it takes to make things happen, however long it takes. Here is an example:

Stan Roach worked as a product manager for a large retail conglomerate in Cleveland, Ohio. Fresh out of college, he took a junior level position with aspirations of moving up the line to his present position. His hobby was fishing. He planned elaborate weekend trips during the summer to go fly fishing and week long trips in the winter to go ice fishing. It was his escape from the drudgery of traditional employment. He was active in several special-interest fishing clubs that held meetings during the week. In order to make these meetings on time, he had to leave work early. It was not uncommon to see Stan's desk empty twice a week an hour before it was time to quit for the day. He always mentally committed to make it up later, but he never seemed to find the time.

> **GOLDEN NUGGET**
>
> *Entrepreneur is not a noun, but an attitude.*

After a few years in his present position, he was becoming discontented with his boss. His boss would often ask him to stay late to work on rush projects. This really irritated him. His time after five o'clock should be his own, Stan reasoned. He put in his eight hours. He was getting tired of other people running his life.

In order to have more control over his life, he was considering leaving his job to start a business. He looked at various opportunities and was getting serious about a couple of those opportunities. The more research he did and the more pressure he had at work, the more committed he became about striking out on his own.

Stan eventually purchased a printing business. After the initial phase of taking over the business, he began to live out his dream. Now he had complete and total control over his time. Within three months he was taking long weekends to go on elaborate well planned fishing trips. He was also leaving work much earlier to do some "on-the-fly" fishing and to make his fishing club meetings. The best part of all was that he did not have a boss telling him what he could and could not do. Truly, this was the good life Stan had dreamed about. He was actually living his dream.

Less than a year after he bought his business, he began to have serious cash-flow problems. Many of the company's long-term customers had quit working with him because Stan's commitments to them were not being kept. They were used to a higher level of quality, customer service, and commitment. Frankly, they weren't getting that from Stan.

The sad thing is that Stan never saw it coming. He was away from his office all too often when critical customer calls would come in. When he finally realized he was losing ground, it was too late. Less than 18 months after he took over the business, the original owner had to step back in and repossess it because Stan could not meet the installment promissory note payments he had agreed to.

The lesson to be learned from Stan's story is a simple one. Being an entrepreneur is a full-time, not a half-time pursuit. Being an entrepreneur is rarely accomplished with an eight-to-five work ethic. Stan was not even an eight-to-five type; he had a "do not interrupt my life with work" personality.

It takes long days and weekends without vacations in the early months and years as an entrepreneur. In the long term the payoff may be worth the sacrifice, but the payoff comes only after you know, understand, delegate, and manage your business to success. Someone who expects to enjoy the fruits of successful business ownership soon should never start a business.

Personality Type II: The By-Default Entrepreneur

The by-default entrepreneur is someone who achieves entrepreneur status through fortuitous circumstances, not because of his or her own drive and ability. These circumstances may include:

- Inheriting a business.
- Going to work in the family business because there were no other viable jobs options available.
- Taking a job right out of school, continuing to work in the business until the owner retires, and then taking over.
- Starting a business on a part-time basis and, because the business flourishes, turning it into a successful full-time endeavor.
- Having a father-in-law who wants you to join him in his business. At first you refuse, but he offers you a king's ransom to join the firm. The money is too much to refuse. Now your boss is your father-in-law.
- The owner dies, and you and a partner, who are employees in the business, buy it from the widow in order to keep your jobs.

Regardless of their plans or desires, people get thrown into situations they did not anticipate. They become involved in situations they are totally unprepared to handle and enter into a lifestyle they would never have chosen naturally. They end up as entrepreneurs by default.

It is not uncommon to find these people living unhappy and miserable lives running their businesses. But they figure it's a job and it pays the bills—so what the heck; things could be worse. In any case, staying put is easier than changing course. Their daily existence ranges from dull servitude to living hell. They go through the motions and don't have the drive to execute the critical elements that would make them a success.

A business may continue making money in this way until the market or economy changes. That could be a long time. But when changes begin to occur, the by-default entrepreneur is not aware enough of what's going on to notice the shifting business environment.

The business will begin to suffer slowing sales, encroachment by competitors, or a complete shift in the need for its product or service. These changes can happen slowly or overnight. A business run by an uncommitted, by-default entrepreneur is a disaster waiting to happen.

Personality Type III: The Armchair Entrepreneur

Armchair entrepreneurs read about entrepreneurial successes and fantasize about how they too can cash in. They look at various businesses over a period of years, sometimes decades. Unfortunately, the armchair entrepreneur never gets around to doing anything about his or her dreams. There are always reasons: the lack of capital, family obligations, or a chronic case of risk aversion. The armchair entrepreneur rarely realizes the dream of business ownership because he or she just does not have the drive, enthusiasm, or ambition to change the status quo.

If these armchair entrepreneurs do get into their own businesses, they generally lack the enthusiasm and vision to be financially successful. They may make a living out of it, but that's about all they have the moxie to do.

Personality Type IV: The Rambler

This type of entrepreneur is a person who launches a business, and when the business hits some tough times, moves on to another enterprise. Their attention span is short. This person has an idea-a-minute and is never able to finish what he or she starts. The rambler becomes successful only through luck.

When these individuals worked for others, they could never keep focused long enough to hold a job. Many times they have two or three projects underway at one time, and they never finish any of them.

As luck would have it, sometimes a rambler is in the right place at the right time with the right idea, and manages to hit a home run. If a rambler is successful in getting a business up and running, and can sell it or find someone to run it before losing interest, there is a chance for success. Occasionally, a rambler's company even makes money and sometimes a lot of it. If, however, the company isn't sold or run by someone else, a rambler will eventually ruin an otherwise successful enterprise by overspending on peripheral projects, over-expanding, allowing competition to overtake the business, or letting a lack of interest bring it down.

Personality Type V: The Blind Egotist

This person is blind to his or her lack of talent and competence. Blind egotists believe they have what it takes, and no one will ever convince them otherwise. They are absolutely sure of their entrepreneurial talents. They are usually bright, ego-centered people and are generally weak in areas where people skills are important. Because they have inflated opinions of themselves, they are usually frustrated in their current careers. They talk themselves into believing that running their own business is the answer. Their view of the world is "How hard can it be?" or, "If Joe Blow can succeed in his own business, then anyone can do it." They open their business with an attitude that shouts out, "This is going to be a slam dunk!" It never is. Here is an example:

I Am an Entrepreneur, I Am I Am

Marcus Sawyer was a CPA. Admiring the way some of his clients had built successful businesses from scratch and had made large amounts of money, he was often frustrated by his own career. He felt he worked harder than they did, but did not have the wealth and status to show for it. Having talent and intelligence far superior to his clients, he reasoned he would succeed as an entrepreneur.

Eventually he found a business venture that appealed to him and one he felt had the potential to become successful. He invested a substantial amount of his own money in the venture and assumed active management of the business.

Within nine months he knew he had made a huge mistake. Even though he understood the business and could manage the financial and operational aspects, Marcus' lack of personnel, sales, and marketing skills had created a disaster. He just did not have the ability to build a team of good sales and marketing people. He tried to hire a sales manager, but always hired candidates who were unable to stand up to him. He was unaware that the strong, competent candidates intimated him, and he never hired those types of people because "it just didn't feel right."

GOLDEN NUGGET

Having a high IQ or an advanced college degree is not a prerequisite for success. In fact, it may be a liability. The prerequisite to success is knowing what job needs to be done and how to do it.

The company was hemorrhaging money. Finally, he sold it to one of his clients, and he was able to retain the business as a client for his accounting practice. Within three months, the entrepreneur to whom he sold the business had taken charge of the marketing and sales problems and turned the company around.

Personality Type VI: The Entrepreneur's Entrepreneur

There are some people who have been doing things their own way since childhood. They are the lemonade stand entrepreneurs. They sell candy to their friends and earn good profit margins. They do yard work to earn money, eventually hiring their friends to do the work while they manage jobs. They dream big dreams. They may or may not fit into the traditional educational system. Many find part, or all, of their schooling to be boring, and some have become used to getting poor grades.

Whatever the circumstances, these individuals are born to be entrepreneurs. They thrive on the independence, excitement, freedom, and challenges of sailing their own ships. They are totally committed to the success of whatever venture they are involved with at the moment. They have staying power. Although they may not have natural dynamic charisma, they can inspire the troops—if only through good ideas, hard work, competence, and their incredible passion and dedication to the business. They can sell an idea. They can make things happen. They recognize their strengthens and their weaknesses. They get their buzz in life by creating something from nothing. Above all, they live, eat, and drink being who they are: creators of their own enterprises. They are true entrepreneurs.

True Entrepreneurs Are Not All Alike

But even true entrepreneurs do not come only in one color and size. They have different ways of doing things. Some are hyperactive; others calm and methodical. Some are tyrannical; others are the nicest people you will ever meet. Some are young, some are old, some are men, some are women, some are gay, some are straight, some are wealthy, and some never achieve wealth because their definition of success does not include making a lot of money. Some thrive in the city, some in rural America, some are college-educated, and some never finished high school. But they all exhibit particular collections of character traits—I will call these e-styles.

Visionary Style

These individuals rely on intuition and gut instinct. They see the future. Ted Turner is an example. He visualized an all-news cable channel. He had an intuitive sense that people would watch the news if it was available on a full-time, on-demand basis. The media establishment thought he was crazy. Nothing fazed him, however. He risked a considerable investment to push forward and he assembled and launched an all-news channel that we know today as the Cable News Network (CNN).

Creating something from nothing, with little more than a concept and a clear vision, is the essence of the visionary entrepreneur. Visionary entrepreneurs usually focus on conceptual undertakings—concepts that are ahead of their time. They see businesses that have yet to be proven, and have faith in ideas that everyone else thinks are far-fetched. Or they acquire a failing company because they can see a way to resurrect it, even though people are telling them they are nuts to become involved.

Like all entrepreneurs, visionaries do not hesitate to take risks. Sometimes they fail, but their failures only give birth to other ideas or to a refinement of the original idea. With little or no delay they re-launch their failed efforts, or launch their next venture. All entrepreneurs have failures. The visionary entrepreneur has more than most because he or she is dealing with concepts, unproven ideas, and failed businesses.

Nevertheless, the visionary eventually succeeds in most undertakings and generally gives the world breakthroughs in business. Historically, they are the Henry Fords, the J.D. Rockefellers (oil), the Andrew Carnegies (steel), and the Ray Krocs (fast food) of the world. In the beginning of this millennium, they are Bill Gates (software), Shawn Fanning (music downloading), Steve Jobs (computers, animated movies, and digital music), Michael Dell (on-demand computer manufacturing), Sergey Brin and Larry Page (Internet search-Google), Mark Zuckerburg (FaceBook), and Craig Newmark (www.craigslist.org). They literally create their own worlds, and then manage them to dominance.

Methodical Style

The methodical style belongs to entrepreneurs who are analytical in evaluating opportunities. They have plans. They slowly and methodically execute their plans. They have good organizational skills and can implement a system and follow it. They have many of the other skills of successful entrepreneurs, but they approach the task at hand deliberately and logically. They are different from the visionaries because they usually do not create something from nothing. They would rather use an existing business model and then exploit inefficiencies in the marketplace to improve upon and perfect something newer and better.

The entrepreneur with a methodical style is usually successful because he or she thoroughly thinks through the process and has the skills necessary to effectively execute a plan. Because this person uses a logical method, he or she can be successful in any type of businesses. One business model that followers of the methodical style usually have success with is the franchise. In franchising there are systems already in place, and the entrepreneur can execute an existing system and follow a pre-established business format, injecting personal talents and skills to effectively implement the franchise model. In many cases, they even innovate to improve the franchise model.

All of this is accomplished without the need to be the visionary or conceptual originator of the idea. The visionary entrepreneur is never satisfied with simply fine-tuning the engine; he or she needs to continually reinvent the existing engine or move on to a completely new engine. The methodical entrepreneur fine tunes the engine, balances the tires, adjusts the alignment, checks the tire pressure, rotates the tires, and then steers the car down the road faster, better, and with a lower cost per mile than anyone else can.

Co-Venture Style

The entrepreneur who uses a co-venture style is a person who has an unusually strong set of specific skills. This person is not a "jack of all trades." This person is a specialist who knows how to blend his or her skills with those of others in a synergistic way. The co-venture style works well with either a visionary or methodical entrepreneur. Co-venture entrepreneurs understand their strengths and weaknesses. They build or recruit the necessary talent to supplement their own skill sets.

A good example of this style can be found in an entrepreneur who has exceptional sales skills; someone who can network effectively, build relationships, and provide motivation. In order to be truly successful, however, this entrepreneur needs to co-venture with someone who has the necessary technical, financial, or operational skills required to execute the business model at ground level.

This can be done two ways. One is to find a business partner. If the right fit is found, the co-venturer and partner(s) can be a very potent combination. However, one should be aware that failed partnerships are more common than successful ones. It is difficult to find compatible people who have the same goals, objectives, income needs, capital, interests, and personalities necessary to enter into a business together. When it does work, it is a wildly successful venture, like Beethoven's Ninth Symphony at Carnegie Hall, or the Lewis and Clark expedition. When it doesn't work, it's like Dante's *Inferno* or Truman and MacArthur.

Am I an Entrepreneur? And If I Am, Which Type Am I?

Deciding if you have entrepreneurial abilities is not as easy as it might seem. If you feel that you do have entrepreneurial abilities, it may be difficult to understand what type you are. Your judgment may be clouded by lack of self-awareness.

If you feel you *don't* have these skills, it may be even more difficult to identify what kind of entrepreneur you might be. Your entrepreneurial instincts may have been smothered by years of employee conditioning; by the educational system; or by your family, your friends, and your employer. In that case, you may be afraid to strike out and spread your wings, and your latent talents may be suppressed too deeply to be revived.

Whom do you ask to find out if you have latent entrepreneurial abilities? And if you do discover you have these abilities, how do you figure out which entrepreneurial model you fit into, and what specific abilities you bring to the world of business ownership? Finding someone who is competent to evaluate your abilities is next to impossible. There are very few schools, if any, that teach their students how to become entrepreneurs or bring out their latent entrepreneurial skills. But this is beginning to change, as leading universities are now launching courses focused on entrepreneurship.

So how do you get an inkling of your abilities in this area? There are books you can read to learn more about various aspects of entrepreneurship, but most of these books do not tell you whether you have the characteristics of a successful entrepreneur. You can ask friends. You can ask businesses associates. You can pray.

Personality assessments are also available, usually for a small fee. A good assessment can be worth the price many times over, since these tests are predictive of your success as an entrepreneur. This is a growing science, so for the most current information we have about these types of tests, please request more information by e-mailing me at profiles@marvinlstorm.com or by visiting my website www.marvinlstorm.com.

Remember, even after getting all this external input, it still comes down to your own personal evaluation.

The next chapter will assist you in identifying your entrepreneurial abilities.

Chapter 4

Identifying Your Entrepreneurial Abilities

A weed is no more than a flower in disguise.

—James Lowell

If you think that you might fit the profile of an entrepreneur, or if you are still not quite sure, this chapter will help you identify the skills and abilities you might bring to the founding of your own business. There are two steps you can take in gaining an understanding of your core entrepreneurial abilities. One is specific to you, and the other is centered in common sense.

Personality Profiling

The first specific step calls for the use of a personality-profiling test. These profiling instruments are amazingly accurate and have been developed over a period of years through sophisticated sampling and algorithms. They correlate various traits and characteristics for the purpose of mathematically predicting a probable set of results.

Although not foolproof, these tests serve as an indicator of probable success under a given set of circumstances that exist in traditional business settings or in entrepreneurial. Large sales organizations give this kind of test to ensure they are recruiting sales personnel who meet the basic criteria. Many sales representatives, who are hired as a result of their test results, still fail. But the failure rate is significantly lower than it would be without factoring in the test results, and some of the obvious mismatches can be avoided.

These instruments do an outstanding job of profiling the key characteristics a successful entrepreneur needs to possess. Essentially, these profiling instruments measure drive and attitude. Without these aptitudes, success is unlikely. While profiling can indicate if they are present, it is not as precise in measuring their intensity, quality, and interrelation.

Common-Sense Self Examination

The second step in identifying your entrepreneurial abilities is using good old common sense. There are six important questions you need to ask yourself about your various personality traits, opinions, and attitudes.

1. What are Your Motivations? As simple as it may seem, one of the easiest ways to begin to assess your entrepreneurial abilities is to understand your motivations. If you are interested in the entrepreneurial lifestyle and are working in your current job with an entrepreneurial attitude, you are very likely to be an entrepreneur in-the-making.

If you are just looking for another career because you cannot get along with your current boss, have been recently downsized, are envious of your entrepreneurial neighbors, or just like the idea of being your own boss, think again—you may be headed down the wrong path. You need to understand what is driving you take the leap.

2. Are You Self-Motivated? Can you make things happen? Do you enjoy the process of planning and executing? Do you get satisfaction from a job well done?

Can you manage heavy responsibilities? Are you comfortable being held accountable for results—real, not soft, results? In the world of traditional employment, if you are given control of a large budget and then mismanage the project, the consequence may be getting reassigned to another project. When you are operating your own business, it is *your* money that is being mismanaged. Can you handle this type of pressure and responsibility?

Of course, if you are successful, you get to enjoy the sweet smell of success, the attendant financial rewards, and the satisfaction that *you* did it. If the risk of failure does not bother you, and the thrill of the success appeals to you, my friend; you may ready to come out of your shell and let out the entrepreneur within.

3. Do You Enjoy People and Can You Manage, Motivate, and Inspire Those Around You? Do you enjoy motivating and managing other people and their activities? Can you inspire others to action? Will they follow you?

Simply because you enjoy working with people does not mean you will be successful as an entrepreneur. You must be able to *manage* people. This does not mean merely telling others what to do. It is the entire process of building a culture in your business that attracts high-caliber employees. You need to have the ability to recruit good people and inspire them to want to work for, and with, you. There are very few businesses that can succeed without an entrepreneur who has an exceptional ability to work with, manage, and motivate people, both customers and in-house staff. If you do not have the ability to execute this part of the business, stay where you are because your probability of succeeding as an entrepreneur is low.

4. *Do You Have the Capital?* Your good looks and magnetic personality will get you only so far as an entrepreneur. Since one of the major reasons for failure in any business is under-capitalization, you should not venture into the entrepreneurial world without being adequately capitalized. Often there are articles about people who succeeded in a business they launched on a shoestring. But what don't make the headlines are the businesses that failed because of inadequate capitalization. The failure-to-success ratio is five failures to each success. The major contributing factor to these business failures is under-capitalization.

5. Do You Have a Lot of Stamina? If you can't imagine

From Salesman to Entrepreneur

Dale Overholt was a salesman. After 27 years in sales with different companies, he wanted to strike out on his own. Since Dale was a car nut, he purchased a business in the automotive aftermarket industry. From his years of experience in sales, Dale knew the success he had achieved was largely due to his ability to work with, relate to, and persuade others, as well as his emphasis on customer service.

He felt he could use these talents as an entrepreneur to build a successful retail automotive aftermarket parts and repair business. And he did just that. His business became one of the leaders of his niche in the community.

Although he was familiar with the world of cars, knowing everything about the automotive business was not his key skill set. Dale's ability to inspire both his staff and his customers with his concept of service is what kept his team going strong and his customers coming back for more. Product or industry knowledge alone does not a success make.

giving up time off—weekends, holidays, and vacations—you will not enjoy being an entrepreneur. Working long and unusual hours will be necessary as you get started. Over time, if you have built the right team, it will be possible to control your work schedule. But only the effort you put into the business up front will assure that the time will come.

Just be prepared to do whatever it takes to make the business a success. Talk to any entrepreneur and he or she will tell you the same horror stories about how hard they worked in the early days to get their business on its feet. Entrepreneurs also speak fondly about those days of sacrifice and hard work. It's the thrill of overcoming great odds and doing it on their own that brings such emotion to the surface.

GOLDEN NUGGET

If managing, motivating, and creating an office culture that people want to work in is one of your strengths, remaining in the world of traditional employment will result in continued frustrations that only increase over time.

6. Do You Have Support From Your Inner Circle? Mountain climbing is difficult to do alone. When scaling most peaks, it is essential to have climbing buddies along to help you out. Opening, operating, and managing a business is much easier to do with help from the important people in your life. Your inner circle can be made up of a spouse, a significant other, brothers,

The Next Time

Alexis Jones was the marketing director for a software company. She had been successful in every position she had held with the company. Her personality was unique in that she could instantly build rapport with small or large groups. Everyone kept telling her to start her own business. Finally she did. With a little bit of capital and a lot of enthusiasm, she launched her business.

Never having operated her own business before, she completely underestimated the time it would take to build up a clientele. Even though she had some promising leads on new clients, her money ran out before she could consummate any significant deals that would increase cash flow.

She returned to her prior position to put bread on the table, but continued to run her business on the side. Over the next year, she slowly built up her clientele; and finally, with a focused financial plan and more capital this time around, she left her job for the second time to build an enormously successful business.

sisters, or parents. Whoever they are, they will need to know you, trust you, and sacrifice for you. If some of them are really involved in the business, they will need to have real, usable skills, or the ability to learn them in a hurry.

I do not recommend trying to launch a business on a solo basis. There are times when you will need the emotional support that can come only from those who understand you and your goals. You will have days that cause you to wonder, "What I am doing in this business?" or "What did I get myself into?" It is valuable to have a cheering section to give you encouragement when the going gets tough, as it certainly will from time to time.

GOLDEN NUGGET

It will take twice as long, and up to double the capital, as you think it will to launch a business.

When the Business Becomes an Entrepreneur's Identity

Because entrepreneurs are self-confident and devote so much of themselves to their businesses, it is not unusual for an entrepreneur to have his or her personal identity and self-worth tied up with a fledgling company. The company becomes the alter ego of the entrepreneur; and when something happens to the company, it can become a personal problem. It is important for an entrepreneur to separate his or her ego from the company and maintain a separate identity.

Fear of Failure

Do you fear failure? Most successful entrepreneurs do not. They fear not succeeding. There is a difference. Failure is a large part of being successful; in fact, it is almost a prerequisite. Failure brings perspective. Failure brings insight. Failure brings maturity. Success

No Support at Home

Bill Baker was a natural entrepreneur. From the time he mowed lawns and washed windows in high school, he had wanted to have his own business. He read voraciously about successful entrepreneurs. He made friends with and got jobs working for entrepreneurs. He planned for the time he could venture out on his own. But, there was one thing that he never planned on.

His wife was ultra-conservative and security conscious. When he finally found the right opportunity to get into his own business, she was reluctant to see him leave a well-paying and promising job to pursue the uncertainties of the entrepreneurial world. She finally relented and grudgingly agreed to allow him to pursue his dream.

As is often the case with start-ups, Bill's business took some time to get going. His wife could not sleep nights, she lost weight worrying about their financial situation, and she became difficult to live with. Her lack of support began to have an effect on Bill's ability to continue. In order to save the marriage, Bill returned to his old firm.

A pat on the back and understanding from the people closest to you is critical in giving you the fortitude to push forward. There isn't an entrepreneur on the planet that has not had times when he or she has wanted to throw in the towel. Getting through those times is a lot easier when there is someone in your corner who cares for you just because of who you are. You will need it, and it is nearly impossible to succeed without it.

experienced too early in an entrepreneurial venture can create a false sense of invincibility.

Success as a 29-Year-Old

Upon graduating from college in finance, Drake Martin took a staff position with an accounting firm for a short time. But, when the opportunity arose to start his own business, he jumped at it. He went into partnership with a friend, and they launched an equipment leasing company.

During the first several years their company grew exponentially. The number of employees expanded from a secretary to over 60 people in less than two years. The profits in the business were good. Everything seemed to be going right. Drake began to believe *he* was the reason that the company was growing and succeeding. If he willed it, then it would be so, he told himself. And all of this was accomplished before his 30th birthday. In Drake's mind, he was the entrepreneur's entrepreneur. This is not an uncommon point of view for an entrepreneur who finds overwhelming success early on.

During the fifth year in business, tax laws started changing and this affected the type of leasing his company could do. Drake did not believe the changes in the tax laws would have much of an impact on the business. After all, *he* was the reason for the success of the company. He was omnipotent, and if things needed to improve, he would simply will it to be so. He largely ignored the tax law changes and pushed forward with new leasing programs.

Even though the changing business environment was altering the marketplace, Drake introduced a new leasing product. The new leasing program went bust, and he quickly learned what seasoned entrepreneurs already know: the marketplace rules. Although an entrepreneur can sometimes make luck happen, the marketplace cannot be controlled by an entrepreneur's aggressive pursuit of the wrong new product or idea.

GOLDEN NUGGET

Success is the ability to go from failure to failure without losing your enthusiasm.

—Winston Churchill

Drake's company, which had experienced years of growth and profitability, had to lay off all but a few employees. For all practical purposes, he was out of business. Yet, being the entrepreneur that he was, Drake turned his efforts to other opportunities and regained his success in a few short years. As Drake tried to figure out what went wrong, he had several "Ah-has."

Ah-ha #1. Success is a combination of factors, and the entrepreneur is only one piece. The market, the economy, the product/service, the staff, and the abilities of the entrepreneur are all important.

Ah-ha #2. Timing and market conditions play an important part in success. In Drake's case, all of the stars lined up at one point in time. When he and his partner launched the company, it took off like a surfer catching a wave. If an entrepreneur has the ability, the energy, and the desire to paddle out as the ocean begins to swell, he or she may be in a position to catch a great wave. Drake and his partner caught the wave and rode it for all it was worth. However, it is important to understand that surfers do not make the waves, the surfboards, the ocean, or the beach.

> **GOLDEN NUGGET**
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> *Although very few ventures succeed without the dedication of the entrepreneur, often the entrepreneur plays only a minor part in the overall success of a business venture. Success in a new venture is a combination of timing, talent, market conditions, and staffing.*

Ah-ha #3. Never underestimate the power, the temperamental nature, and the rapidity of change that exists in the marketplace.

Ah-ha #4. Success and failure are often out of the entrepreneur's control. Things outside of your control can cause the market to change. Never assume that you can control all aspects of the marketplace. Be prepared to change with the market and be prepared to make that change quickly. Do not be crushed if circumstances beyond your control cause you to fail. Just pick up the pieces and move on.

Ah-ha #5. Failure is an important element of future success. Without failure, an entrepreneur can gain a false sense of invincibility.

Failure is the great equalizer. It is the telescope that focuses the eye on the faults of the past, redirecting the eye to new opportunities in the future. Wisdom comes from failure. It is what creates perspective. In fact, without it, success is hollow.

Ah-ha #6. Success that comes too easily is not always a blessing. In fact, success experienced too early and too easily can be the worst thing that can happen to an entrepreneur. A few bumps and curves in the road can keep an entrepreneur alert and prevent him or her from driving off a cliff.

Drake did not have any bumps or curves in the road early in his business. Consequently, he switched to autopilot, believing that he was so brilliant nothing was going to slow down his success. As the business cruised down the path of success in autopilot, he was too busy looking at the scenery to note the warning signs. He ended up driving off the cliff at full speed, not knowing what happened until he hit the ground.

GOLDEN NUGGET

Success achieved too early can breed a fatal self-confidence that lulls you to sleep, making it harder to respond to changing conditions.

The Pros of Being an Entrepreneur

- Your time is flexible. This can be a plus or minus for an entrepreneur. If you can manage your time effectively, you may be able to plan a lot of your personal time around your business activities. The most important issue is that the job gets done, not how much time you spend doing the job. In the world of traditional employment, the quantity of time spent doing the work can often seem to be more important than the job that actually gets done. Perception in traditional employment can be everything.
- A business can be family friendly. With control over your

time, the ability to successfully manage priorities can open up a whole new world of freedom. If you have strong family values, and if you haven't been able to spend time with your family because someone else has been calling the shots, then managing your own time can be a pathway to greater personal happiness.

- There is less bureaucracy, red tape, and office politics than is found in the corporate world. If you like to have the buck stop at your desk without having a mile-long approval process, then being an entrepreneur is where it's at.
- You can get paid what you are worth and for what you produce, and not just by the hour, week, or month. As an entrepreneur, you participate in the profits from your efforts instead of watching someone else get all of the credit, benefits, and money for your hard work.
- You can build for your own future and not your bosses'.
- You can do what you know is best and not what is politically correct.
- You can make your own decisions.
- You will benefit from the tax advantages of operating your own business. One of the last great tax shelters available today is business ownership. It can provide bundles of benefits not available to traditional employees. Talk to your accountant about the benefits of setting up a corporation, partnership, or sole proprietorship.
- You can build equity for your retirement. Business equity comes in several forms: an aggressive self-funded retirement plan, equity build-up in the business that is realized as capital gains when the business is sold, company cars, salaries that pay family employees, and finally, the medical and other fringe

benefits available for business owners.

- You can sail your own ship in the waters of your choosing.

The Cons of Being an Entrepreneur

- You will work a lot harder, at least initially, than you are currently working. If your work is not harder as an entrepreneur, it will definitely be more intense.
- You will not have a support staff as you do in the traditional employment world. In many cases, *you* are the personnel, payroll, accounting, human resources, marketing, and operations departments. As your business grows, this will change, but initially you will wear many different hats.
- When you make a mistake, you cannot point fingers at someone else. Many times you just have to look in the mirror to see who is responsible.
- How you get paid will change. You will not have the guarantee of a steady paycheck.
- Gone are the three, four, or five weeks of paid vacation each year. You will get vacations, but not usually during the early years of operation. This flexibility comes only after the business has become stable and successful.
- Gone also are the times you can call in sick and take the day off.
- There will be difficult times, including tight cash flows, extraordinary expenses, key people leaving at the most inopportune moments, and those lonely times when you ask yourself, “Why in the heck did I do this?” or “What was I thinking?”
- You can become lost in the forest and not see the trees. Since

you must become a jack-of-all-trades for the most part, it will be difficult to find time to do strategic planning. Focused entrepreneurs always find time to climb a hill and view the landscape. If you do not do this, it will only be a matter of time before you will be ambushed by a competitor or a change in the marketplace.

- At times it will be necessary to readjust your lifestyle. Tightening of the belt may be required.
- As you enter the world of the entrepreneur, your social circle will most likely change. You will begin speaking another language, the language of your own business. Your interests will change. Because your world will change so dramatically, it will be more difficult for you to have meaningful discussions with friends who are members of the salaried workforce. Plan on losing some of these friends and making new ones.
- You will face the possibility of failure. You will fail to reach

Storm's Law of Entrepreneurial Compensation:

Simply stated, entrepreneurs will be underpaid during their first year or two of business. During the next three to five years, they will be paid what they are worth. After the businesses have matured, in years five to seven, entrepreneurs are generally overpaid for what they do.

When you talk to employees of a successful entrepreneur, they are quite often resentful about how much their boss is earning and how little time he or she seemingly devotes to the business. The employees do not know or remember when their boss borrowed on the cash values of his or her life insurance policy to make a payroll and the 100-hour weeks spent as the business was getting started. All they see is the present, not the past.

If you understand and accept Storm's Law of Entrepreneurial Compensation, then you may be ready to seriously consider becoming an entrepreneur.

all your goals. That much is guaranteed. Your business may also fail. Can you handle failure and pick yourself back up and keep going? Some people just cannot do this. It is one the most critical aspects of being ultimately successful. If you talk to many entrepreneurs, nine out of ten will tell you that they failed at some point along the way. Can you handle it? Can your family? Can your ego?

There are many pros and cons. The bottom line is that after all is said and done, you have the ability to control more of your own destiny as an entrepreneur than you do as an employee. Deciding if the rewards outweigh the risks is not easy, but most "true" entrepreneurs find it a no-brainer and are only too eager to find the right time and opportunity to make the leap.

CHAPTER 5

Being an Entrepreneur — Facts and Myths

Experience is the name that everyone gives to his mistakes.
—Oscar Wilde

You are at a cocktail party, and the discussion turns to the recent downsizing trend in your area. Someone relates the story of Jim Schultz, a friend of everyone at the party, and his success in launching his own business. You hear the comment, "If he can succeed in his own business, anyone can!" Not necessarily. The following discussion reviews and dispels some of the myths about becoming successful as an entrepreneur.

GOLDEN NUGGET

One of the greatest myths and misconceptions is that anyone can succeed as an entrepreneur. Nothing could be further from the truth.

Myth #1: Anyone Can Succeed as an Entrepreneur

One of the bigger myths in circulation is that if you have been successful as a responsible employee, running your own business is a piece of cake. The following story explodes this myth and gives an essential and representative picture of how the skills from traditional employment do not necessarily transfer into the entrepreneurial world.

The Cop Who Couldn't

Ben Milken was frustrated in his position with a local police department where he had been successful in all of his endeavors. Ben had only seven years to work before he could collect a full pension, but the frustration level was so great he opted to enter the entrepreneurial world.

After years of looking at various types of business, he settled on restaurant food delivery. He thought, "How difficult could it be to run a delivery business?" After all, he had worked his way up in the police department from a dispatcher to department head. He had walked the beat on patrol. He knew where to go and how to select the fastest route. He had managed dozens of people and had always enjoyed new challenges. In addition, his public service had given him experience in dealing with other problems and situations that he expected to encounter in his new business. Adding up these pluses gave Ben confidence to pursue his dream.

Ben did not anticipate the huge difference between the public sector and the private sector. The transition is as radical as any that can be imagined. Making the leap from the economically secure environment of the public sector to the wild-west environment of the entrepreneurial world is difficult, at best. It ought to be carefully considered by anyone who contemplates it.

In the public sector, "zero-based budgeting" was the norm, and the consequences for going over budget were slight. But in the private sector, knowing how to manage a strong profit and loss element was essential. Failing has enormous and immediate consequences. On top of everything else, Ben was used to a structured environment with a lot of in-house support services and a work schedule that had always been predictable and generous with vacations and sick time. None of these things exist in a start-up business.

The first weekend after opening his business, Ben took off for a long weekend, leaving a new semi-trained manager in charge. Later, when asked why he took a long weekend during his start-up, he simply responded: "I had worked hard opening the business, and felt I deserved a break. Besides, I am the boss, and if I want to take a weekend off, I will."

A business consultant working with him asked regularly for his financial statements, and his standard reply was that the accountant was working on it. After six months of the accountant "working on getting the financial statements together," the business was coming under stress from cash flow concerns. In his prior public service world, there was very little emphasis put on profits. It was all about budgets and meeting the plan. Even if you went over budget, there was always a reserve fund to draw from. Not so in the private sector. Once his reserve funds were exhausted, Ben had nowhere to turn. The problem was compounded because he had not given his accountant the necessary information to generate the financial statements. Consequently, he did not know where he stood financially until it was too late.

Eventually, Ben ended up returning to the public sector. He felt beaten, he was out of business, and his retirement funds were depleted. But he was a lot wiser as a result. His question, "What can be so hard about running a business?," proved to be a poor attitude to bring to a world in which he was ill-equipped to succeed.

Myth #2: If I Am an Executive and a Good Delegator, I Can Be Successful in My Own Business

Barry Keats graduated in electrical engineering, and after a brief stint with some small electronics manufacturing outfits, he landed a management position in a high-tech company. After 15 years of pressure, he wanted to downshift to the low-tech and "less stressful" world of small business ownership. This is the first clue of impending disaster—business ownership is not less stressful! But Barry went ahead and acquired a service-oriented business, and within a year he had nearly 50 employees.

Service oriented businesses generally require "high-touch" personal interaction with staff and customers. In his prior life as a manager, Barry was outstanding at delegation. He could delegate and manage from afar. Managing highly compensated, professional white-collar engineers is a lot different from managing a much lower paid, service-oriented staff. Management styles need to change accordingly. Barry did not change.

When Barry opened up his new business, anticipation was high. Tens of thousands of dollars in advertising were invested in the grand opening to jump-start the business. The grand opening worked like a dream. Within a few months sales revenues were much greater than expected. Things were really rolling along.

As the business grew, so did the management structure. Keep in mind that a service-oriented business requires a real feel for the people side of the business, both customers and staff. Barry delegated nearly all of the personnel issues to his office staff. Although sales were still growing, at the end of the first year the business incurred a substantial net operating loss. Why was this so?

The delegation of critical customer-service-related responsibilities to lower-compensated and less-motivated employees so early in the business was causing tremendous

GOLDEN NUGGET

Delegation is good when done properly. When done improperly, it is the noose that will tighten around your neck until you are swinging in the wind from the old oak tree.

inefficiencies in the operations. Advertising costs were high because the repeat business was below average. Turnover required more administrative overhead to recruit, hire, and train new staff members. With turnover came more customer complaints and higher warranty expenses. When Barry checked with similar businesses in his area, he found that they were more profitable with less volume. Finally, he reluctantly got more involved in the direct management of the staff and made customer service a top priority. Miracle of miracles, profitability returned within five months.

Myth #3: The Family that Works Together, Stays Together

Many people have a picture in their mind of "the family business." In this model the father starts the company, his wife works by his side, and eventually the children take over the business. Everyone lives happily ever after. Not so. Families in which family members are running a business together have the highest rate of family discord. Yes, there are successful family operations, but this is the exception rather than the rule.

Duane Haskins and his wife Jeannie had been married for 17 years. They had two children. Duane had spent his career in advertising, dealing primarily with radio. He had worked as an advertising sales representative, advertising sales manager, and radio station manager. His wife was a nurse.

The lure of establishing a family business where he and his wife could work together was strong. After looking at numerous opportunities, they settled on a retail packaging and shipping service center. They opened a new location and later acquired an existing store. Duane's attendance at Rotary, Chamber of Commerce, and local business groups brought the business a lot of visibility and referrals. As the two stores grew and became well established in the business community, Duane and Jeannie had to spend more and more time at work.

It may be there were other things in their marriage that weren't right (as there usually are), but the years of being together 18 hours a day magnified whatever problems already existed. Gradually, communication between Duane and Jeannie became difficult. Separating their business lives from their personal lives became impossible. Divorce seemed to be their only option.

Duane got the business, and Jeannie got the house and most of the other assets. Now that Jeannie was not in the stores on a daily basis, Duane began to understand why the business had flourished under her personal touch. Duane enjoyed being the outside person interacting within the community, but he did not really enjoy being in the stores working behind the counter. Being a shopkeeper was not comfortable for him. Within a year he had to sell the company at a significant loss.

GOLDEN NUGGET

The family that works together does not always stay together.

A Family that Made it Work

Raymond Pope had run his own business most of his adult life. Now retired, he was getting bored hanging around the house and walking the dog. He and a friend started a small business in their basement. Within a few years, the business had grown beyond their expectations. After all, they had only been trying to keep busy, not build a company. Since the business grew so fast, they began to franchise it. After the company had opened more than 70 franchise locations, Raymond brought his son into the picture.

His son had been a financial officer with a Fortune 500 company. Raymond and his son worked together shoulder-to-shoulder. Yes, there were disagreements between the old-school and the new school about how to run a company in the 1990s, but Raymond was smart enough to know when to step aside and let his son make his own mistakes.

Under his son's leadership the company began an aggressive, national expansion; upgraded the management team; and brought itself into the electronic world through computerized operations, an Intranet, and business systems. The story continues today with the business on its way to becoming an internationally-dominant power in its niche.

Magnifying the Cracks

Yes, many family-run businesses are successful; however, if your marriage or family relationships are not built on a solid foundation, running a business together will only magnify the cracks that already exist. The pressure of operating a family-owned business will eventually cause these cracks to get so big that the business will suffer and the relationships may collapse.

Myth #4: If You Are Good at a Specific Skill or Trade, You Can Run a Business and Apply That Skill

Jon Baker was a contractor who had come up through the trades, learning each trade from the ground up. He had become a licensed electrician, licensed plumber, and a master carpenter. He loved working with his hands and building things. Over a 20-year period he had worked for some of the best and most successful builders and contractors in the area. He couldn't help noticing that they always seemed to make the big bucks while all he was making was a living—a good one, but still just a living.

Jon saw himself as a spear-carrier. He knew that being in his own business had risks. He eagerly watched and took notice of how things were done. He always volunteered for extra work and looked for opportunities to get involved in the business side of the operation. Finally, he felt he was ready to set out on his own. Carefully, he set up his small construction business in his home. He had two clients right away for room additions. He took great pride in his work and did most of it himself. The results were satisfying. The clients were happy. But his bank balance showed that he did not make any money on these jobs. Obviously, he had underbid the jobs.

Jon tackled his next few projects by hiring some guys he knew to help him. This time the quality of their work was not good, and he ended up doing much of the rework himself. Even so, more business continued to come in. Now he had four or five jobs going at once. In the rush, he hadn't taken time to get a good bookkeeper in place. He failed to file his payroll taxes on time, and he was always late paying his bills. But the business just kept coming in. Cash flow became a real issue. After a while he started taking deposits on new jobs to pay bills on existing jobs. Before he knew it, the roof caved in when three big jobs he was expecting to get substantial deposits on did not come through. He had a payroll to make, but without any money to deposit, everything came to a grinding halt. When this kind of thing happens, failure of the business is usually at hand, and this was no exception.

GOLDEN NUGGET

Having good technical skills does not qualify you to be an entrepreneur. In fact, it may impede your success if you lack other basic entrepreneurial skills. You may delude yourself into thinking that you know the core work of the business so well you can't possibly fail.

Jon is now back at his old company. He was a great contractor who could do everything in construction except manage his own construction company.

Myth #5: Work Hard for a Few Years and You Will Be On Easy Street

Mark Jepson was a talented guy and a real entrepreneur. He got his degree in accounting and worked for a national accounting firm. He left the world of accounting to take a position in the food distribution business. He worked for a large regional firm as its controller. He learned the business inside out. Before long he had the confidence to consider striking out on his own. He got a few investors together and purchased a local food-distribution company that was having financial troubles. Mark jumped in with both feet. He knew exactly what he had to do to turn the business around. After working 90 hours per week for months on end, the company started to make the slow turn-around that he knew it would. After two years he had doubled the sales and more than tripled the profits. Everything was coming up roses. In the fourth year he acquired a major competitor.

He now had a good management team in place, and business was growing at a reasonable clip. For the first time since he took over the company, Mark started to take time off. The business seemed to do just fine without him. He took a six-week vacation. The business continued its growth curve. The growth rate was slower, but still healthy. Next came the country club membership and the twice-a-week golf dates. He rationalized his time on the golf course because he was making business contacts. In fact, other opportunities were opening up for him. He started to invest substantial amounts of money in no-lose commercial real estate projects.

> **GOLDEN NUGGET**
>
> *Competition will eat your lunch if you leave the table, and sometimes even if you don't.*

His days at the office were now limited to two days on a good week. During one of the weekly management meetings that he hadn't attended in six weeks, he was shocked to learn that one of his major clients had been lost to a national competitor. This client had been one of his first. No one from his company had called on or talked to the client in more than nine months. He immediately got into his new Mercedes and drove over to their office. After several hours with the client, he walked slowly out to his car. He just sat there. He was numb after what he had heard from his now-former client. Outstanding customer service, a thing he prided himself on, seemed to be a thing of the past. He was shocked to learn of late deliveries, inaccurate billing, and numerous incorrect orders.

Mark immediately stopped golfing, sold his no-lose commercial real estate holdings at a loss, and refocused on his business. Within a year he had righted the ship, and things were back to where they should have been.

There is no "Easy Street" in running a business. Businesses take attention. Mark was one of the lucky ones—he was able to salvage most of his clients and turn his business around.

A typical entrepreneurial business passes through various phases of growth, beginning as a small business and growing into a mature business. This life cycle can be divided into the following phases:

- **The Entrepreneurial Stage:** The launching of the business. After hard work and long hours, an eventual stabilization occurs.
- **The Growth Stage:** With stability comes the ability to grow. Sales increase and profits start to appear.
- **The Credibility Stage:** The business is now recognized as a leader in the industry. Recruiting good people becomes easier. Opportunities present themselves. Life is good.

- **The Fat, Happy and Stupid Stage:** As in Mark's case, many companies become complacent with their success. The hall of business history is littered with the carcasses of failed companies that were leaders in their day. IBM, General Motors, and Zenith are Fortune 500 examples of companies that lost their leadership positions by becoming complacent with their successes. In IBM's case the company was able to turn the ship around. General Motors may or may not be able to turn the ship around, and who is Zenith? In smaller entrepreneurial businesses these stories are far more common. We just never hear about them because they do not make the headlines.
- **The Decline or Reinvention Stage:** Businesses do not last forever in their original incarnations. In today's economic and competitive environment, the marketplace changes too dramatically for a business to do the same thing today as it did yesterday and expect the same results. One of two things eventually happens to a business. It may remain static and be rendered obsolete by the competition or a change in the marketplace, eventually ceasing to exist. Or it can continually reinvent itself. It can innovate, change, and adapt to the marketplace. This is the reinvention cycle or stage. Most businesses try to reinvent themselves when things go bad, but the time to plan a reinvention is *before* things go bad.

A Law of Physics

Every element in the universe is in motion. No particle can remain stationary. A particle is either moving forward, sideways, up, or down, or it is retreating. It is never stationary.

So it is with business. Very few businesses can hover in place. If they do, they are losing ground to the competition, whether they realize it not. If they stay in one place too long, they get run over.

Myth #6: Working Hard Will Make Me Successful

Mac Johnson was the hardest working person in the freight business. He worked 12 hours a day, 7 days a week for months on end. Taking only two vacations in ten years, he prided himself on how hard he worked. He never had time for local association meetings where new technologies and competitive threats were discussed. He never attended any national conventions to learn about better and more efficient marketing and operational strategies. He disliked delegating work to new staff members because he could do the job better himself.

Burnout

Burnout is defined as the physical exhaustion or lack of interest in the business resulting in emotional and psychological fatigue. The symptoms of burnout occur when the entrepreneur's work becomes his or her life. This gives rise to long hours, few outside interests, and a paranoid fixation on the details of the business.

Burnout is a downward spiral, which intensifies with the decline of the business. The only predictable result is either the collapse of the business or the collapse of the entrepreneur.

No one would disagree that Mac was hard working. He just wasn't working smart. The entire premise of a capitalistic economy is that revenues are earned from the effective utilization of labor and materials to create goods and services that can be sold at an amount greater than the cost of production. The difference is the profit. When there is not an effective utilization of labor—in this case the labor was the sweat of the entrepreneur and not the skillful leverage of the labor of others to create value—it is hard to earn a profit.

Mac was simply working for a wage, not working to earn a profit. He made a living, but in the ninth year he had reached a burnout phase in his entrepreneurial pursuit. Generally, burnout is accompanied by a lack of interest in the business. When burnout begins to manifest in an entrepreneur, a simultaneous downward spiral of sales revenue usually begins. When sales revenues begin to fall, the ability to profitably sell a company drops significantly. In Mac's case the burnout was so severe that he literally handed the keys to someone to take over his company.

If the company had been sold when the revenues were at their peak, it would have brought a substantial price. *A business operated around the personal services of the owner and with little management infrastructure in place will have minimal value.* Care must be taken in building a database of customers, maintaining the equipment and storefront, and retaining an outstanding reputation in the community.

In Mac's mind, hard work equated to success. Hard work was necessary in Mac's case because of his stubbornness and unwillingness to delegate many of the company's responsibilities. The result was a lot of work for a very small payout when the business was sold.

Myth #7: If You Do Not Like Selling or Promoting Your Business, You Can Hire Someone to Do It

It would be nice if you could hire someone to do everything in your business. Unfortunately, there are key functions in a business, especially in the start-up mode, that should not be delegated to others. One of these is direct responsibility for business development. I use the term "business development" instead of "selling," because this term is more descriptive of the actual process of building sales revenue.

I've been asked why I don't include selling as the key element of this discussion. That's a good question. Selling is a technical skill that requires both people skills and product knowledge. In addition, you have to be able to communicate consistently and effectively. Good communications skills and the ability to identify how people make purchasing decisions are the core abilities required.

Business development, on the other hand, is working on the *strategy for getting and keeping customers*. It is not the tactical execution of the strategy. That belongs to selling. Business development is the plan for executing the sales plan.

A person can be the best salesperson on the planet and manage to screw up a business by taking orders from the wrong type of customer. A good business development strategy will tell you what the market is, who the customers are, and how the customers can be serviced. Growing sales revenue only for the sake of growing revenue can put a company out of business. Why?

The Entrepreneur's Job Description

The first role listed on an entrepreneur's job description should be Director of Business Development. Most other functions of the business can be delegated successfully over time. Rarely should the business development function be delegated in the first few years. Sometimes, in *mature* businesses, this function can be delegated to a seasoned and experienced person who ideally has an equity interest in the business.

Getting too many of the wrong kind of customers is a path to certain failure. You may need to "fire" some of these customers. This is difficult to implement because your sales staff may not know why some customers are not desirable; or their compensation may be tied to simply making sales, regardless of the quality of the sale. They may not understand that the long-term survival of the business may depend on getting and keeping the right type of customers.

The Production Manager Fabricates His Own Failure

Setting the strategy for business development calls for careful thought and planning. The proper strategy is more likely to be set by the owner of the business than by a hired hand. Stanley Strongman learned this lesson too late.

Stanley was a successful production manager for a manufacturer of store fixtures for retail businesses. He made an exceptional living because he was people oriented and worked for a firm that had developed a reputation over the years as a premier provider of its products. Stanley was the production manager responsible for all aspects of fabrication of the company's products.

An opportunity to acquire several retail outlets came along. Without a lot of thought, Stanley made the plunge. He figured he had been providing manufactured items for the retail trade for years and believed he had a good feel for the retail world.

Stanley made a substantial financial commitment and acquired the company. He launched into the adventure without hesitation, never giving a thought to which direction he was heading. He hired a salesman he had known for years in his prior job. Stanley's main goal was to build the customer base, so he told his salesman to go out and find new customers wherever he could.

He did not give the salesman guidelines about the kind of customers to recruit. Naturally the salesman, paid on a commission basis, sought out the easy targets. Before long, the salesman was bringing orders in at a steady rate, and Stanley was writing him big commission checks. Everyone seemed happy. The sales were growing, the salesman was making money, and the customer base was getting larger by the month. But, there were two flaws in the way the sales were growing:

- Flaw number one: Most of the initial customers represented a specialized and highly volatile segment of the retail niche. While it was not obvious in the beginning, this flaw turned out to be disastrous later.

- Flaw number two: Most of the new customers were new businesses, less than two years old.

When the economy took a slight downturn, the segment of the market that represented most of Stanley's customers was hit particularly hard. On top of that, many of these businesses were newer and did not have the resources to weather a downturn, which meant that they were slow in paying their bills or were unable to make payments at all. Stanley's business could not survive the drop in sales during this brief recessionary period.

Stanley let his salesman make quick sales. He had not built a diversified customer base with adequate credit and standards. If he had, the business might have grown more slowly, but when the economy took a dip, the fallout would have been manageable. He probably would still own the company today.

Myth #8: I Do Not Need an Accountant; I Can Do the Bookkeeping Myself

With the advent of powerful computer accounting software programs such as *QuickBooks, Microsoft Money, Peachtree for Windows*, and a multitude of others, as well as emerging online accounting companies, it is possible to use the nifty report features of these software programs to manage accounting tasks. Although there is value in using these accounting software packages, they are not designed to carefully scrutinize the business to aid in making good decisions. They do not replace a bookkeeper who reconciles and enters adjusting entries and ensures an accurate financial picture, or financial advice from a CPA or other financial advisors to help analyze financial statements,

Sal Pooley managed three retail operations. He was doing all the right things. He recruited, hired, and retained great people. He understood the difference between marketing strategy and selling, implemented a sophisticated marketing strategy, and executed the strategy flawlessly. He was doing so many things right that sales were increasing exponentially.

With the rapid increases in sales, Sal was preoccupied with managing business growth. The accounting was done in-house. Sal was thorough with the accounting records and had the bookkeeper provide monthly financial statements, which he reviewed with a fine-toothed comb. He checked every margin and every expense and knew where he should actually be on a *pro forma* basis. He used the cash-basis accounting method, since he historically did not have more than a few thousand dollars in inventory, minor receivables, and payables.

Sales increases for the year to date were exceeding 82%, but he was not making a profit. His staff was excited about the sales increases, and they were working hard because they were on a profit-sharing plan. But each month when he sat down with his managers to share the financial information with them, they left the table rather discouraged because there seemed to be very little profit. In fact, there were often losses. He started to lose some key employees who felt that they were being ripped off and that, while he was promising them profits, Sal must be hiding those profits so he would not have to pay their profit-sharing percentages.

Sal could not understand the situation either. He watched expenses like a hawk. In fact, he had been cutting expenses dramatically. He monitored all the margins on the jobs that were bid and completed. The margins were right where they were supposed to be, and yet the business was still not showing a profit. The employees could be stealing from him, but he had tight controls in place, so he was confident that this was not happening. What in the heck was going on?

He finally sat down with an accountant who reviewed the financial statements and asked him a few questions. The accountant told Sal that he was in fact making money. Sal looked puzzled. Where were the profits? The accountant also told him that the bookkeeper was doing a great job on accuracy and proper classification of all income and expenses. If this was true, what was wrong?

The accountant explained to him that historically the business had always paid its bills within a few days of receipt to take advantage of early pay discounts. Also, there had never been any significant accounts receivable, since most of the business had been in cash. However, through Sal's marketing effort, a new category of customer had emerged: the large corporation. These accounts did not pay cash, but normally paid on a 60-to-90-day cycle. These were grade-A credits, but they had extended payment terms.

As the accountant explained, the company was using the cash basis accounting method, and the accounts receivable did not currently reflect the sales that were being made today. They were only realized when the payments for the sales were received months later.

Since Sal was paying the expenses almost immediately and sales were increasing dramatically, this created a double whammy for the company's cash flow. First, sales revenue was not recognized, even though the work had been done. Secondly, since sales were increasing, more expenses were being incurred, and those expenses were being paid on a current basis without the immediate recognition of revenue related to these sales.

GOLDEN NUGGET

The roadside is littered with the carcasses of entrepreneurs who have failed, not because their businesses were flawed, but because they either did not understand the nuances of financial management or did not have adequate information to make informed business decisions. They did not seek out a good financial advisor.

When the financial statements were reviewed for the month, Sal was looking at a current expense report that did not recognize *any* income from sales to large corporations during the current month. The result was a distorted income statement that showed a loss.

The accountant instructed the bookkeeper about how to generate accrual-based financial statements that could be used to pay the employees their bonuses. Soon the staff began to stabilize, and the growth of the business continued. The accountant also introduced Sal to a banker who was able to provide some working-capital financing based on receivables. Now Sal could continue to grow his business with the knowledge that he was not running out of working capital during this growth period.

As small enterprises grow and become larger, they evolve from simple, straightforward businesses into more traditional, full-scale business that must deal with all of the complexities of modern financial management. Sal was fortunate to have an accountant he could rely on.

An entrepreneur should always be involved in, and understand, the financial side of his or her business. You do not have to be a CPA to run your business, but you need access to someone who can provide you with valuable insight about the financial realities.

Myth #9: If He Can Do It, So Can I

Kelly Sweeny was an insurance adjustor working for a large auto insurance company. He had been with the company for more than 15 years. His job was getting to him; it was basically the same thing day after day. He began looking at various business opportunities. After several years, Kelly selected a franchise business. He felt the business played to his strengths: he worked with people every day in his insurance adjuster's job, and he really liked serving people. It seemed a natural choice to find a business in which there was a high degree of interaction with people.

As he looked around at friends and other business associates who had become entrepreneurs, he thought "How hard can running a business be? I am brighter and more skilled than old John and Sally and certainly better than Pete. If they can do it, so can I."

After owning his new franchise business for less than a year, Kelly approached the franchisor and asked the company to find a buyer for him. The franchisor was surprised because the business was doing fine, the sales were above average, and the expenses were in line, with the exception of customer refunds.

Closer investigation revealed that Kelly could deal with customers as long as everything was okay. In situations where there was a problem with a workman on the job, or if a customer was unhappy, Kelly just caved in. He couldn't face controversy.

In his other career, working for the large national company, he could always refer difficult customers up the line. In his own company, however, the buck stopped at his desk. Since he could not make a firm decision and draw the line about what was reasonable in sticky situations, he had one way to solve problems: he simply wrote a check, many times for amounts substantially greater than the price of the services, just to please the customer. It did not take long for most of his customers to figure out that he was an easy touch. Doing business in this manner was costing him tens of thousands of dollars a year.

Kelly could not deal with the pressure of an unhappy customer and was aging fast. And since he could not separate this part of the business from his personal life, it was also ruining his marriage and his relationship with his kids. The franchisor found a new licensee, and weeks after the business was sold, it returned to profitability.

Nothing in the business changed, with the exception of a firm and fair voice that was able to resolve problems with relative ease. The result was that both parties are happy today. Kelly is back working as an insurance adjustor, and the new franchisee is knocking them dead as business continues to boom.

Myth #10: It Is Easy to Do the Marketing for the Business

Junior Hackencamp purchased an existing retail business. Junior had previously been a general manager for a large drug store retailer. He had managed people and budgets. He had also overseen the marketing, purchasing, and most other functions of the business. The idea of running his own retail business seemed like a snap. After all, he had run a much larger entity successfully for years.

The consultant who assisted him in acquiring the business laid out a marketing plan for him and also warned him not to be so cocky. The kind of business he was entering was marketing intensive. Junior needed to spend a lot of time outside of the office, meeting with potential and existing customers. He had never done this type of marketing but was convinced that it would not be a problem.

In addition, the consultant warned about the gravitational pull of the operations side of the business. He explained that marketing is usually treated as a discretionary activity, while the day-to-day operations of the business are viewed as mission critical. The consultant explained if there is not a real commitment to marketing and business development, these activities would never get done.

> **GOLDEN NUGGET**
>
> *Successful marketing is the key factor lacking in most unsuccessful businesses.*

When procrastination begins, continual postponement of the marketing function will become the operating standard. Junior just laughed and confidently assured the consultant that doing the marketing on a regular basis would not be a problem.

Three months after Junior had taken over, his business consultant visited. Things seemed to be going well. When the subject of marketing came up, Junior just smiled and said that he had done some; but that the business was growing so fast he had not gotten around to following the marketing plan. He promised that he would get right on it.

I think you can anticipate where Junior's attempt at marketing was headed. Yep, after four years Junior had not yet developed and executed a marketing plan. Sales continued to grow, but the growth slowed to a snail's pace. The slowing of sales pulled Junior farther into operations, since the cash flow was not available to bring on the extra staff he had planned to hire. Extra staff would have allowed him to get out and visit his customers and, thus, learn more about marketing.

The last time the consultant visited Junior, he still wanted to get out and do that marketing. But he just did *not* have time because he couldn't afford to hire the staff that would allow him to be away from operations.

Unfortunately, tomorrow will never come for Junior. Once the gravitational pull of operations gets hold of you, it's almost impossible to escape.

Black Holes

Black Holes have a density so great that light cannot escape their gravitational pull. Daily operations in a business are similar to celestial black holes. The gravitational pull of the operations in a business is so strong that, once in its grasp, an entrepreneur cannot escape. He or she should delegate and manage most of the operations of a business and focus on the marketing and business development functions. An entrepreneur who allows him or herself to be sucked into the black hole of operations will rarely be seen again outside the business, and the critical marketing and business development activities will be left undone.

CHAPTER 6

Are You an "Intrapreneur?"

You got two choices: you can choose to do what you love or choose to love what you do.

—Tom Kite

It is often said that entrepreneurs today have become the engine that drives the nation's economy. They are the free spirits who are not afraid to take risks to begin a new venture. They are the people who fail, brush themselves off, and get up and keep pushing forward. They are the people who learn from their failures, launch new ventures, and do not make the same mistakes again. They are the people who helped invent the Internet and the host of web-based companies that are sprouting up every day. They are the people who dream the impossible dream and then make that dream a reality.

Some believe we are living in the age of the entrepreneur. It seems a safe bet that economic historians will look back, describe this era as a unique period, and give a substantial amount of credit to the entrepreneurial spirit.

Yet entrepreneurs account for a relatively modest percentage of the total work force. Established, multi-national corporations still maintain, for the time being, the largest share of economic muscle, employing tens of millions of people and commanding significant positions in the economic well being of the country—although the total number of new job creation comes from the new and growing small businesses market segment.

Realizing the growth and success experienced by the entrepreneurial segment of the economy, more sophisticated and innovative large companies are trying to tap the entrepreneurial spirit and interject it into their companies. These companies realize that the world is moving faster and that tapping into the entrepreneurial mindset can help them adapt to their hyper-changing environment more easily than relying on the mindset of traditional corporate employees.

If the entrepreneurial spirit can be adopted by the culture of more traditional companies, they can become more competitive and react to dynamic changes in their business environments. I call the kind of person these companies are looking for the *intrapreneur*, one who embodies the spirit of entrepreneurial adventure within the structure of traditional employment. The intrapreneur is, perhaps, not ready to abandon the role of employee, but nonetheless, he or she is an enterprising, independent thinker who wants to innovate and explore new ground.

An intrapreneurial spirit has taken IBM, for example, from the conservative, MBA, pinstriped-suit business model to a more free-wheeling, service oriented and consulting model. Not so long ago, IBM was wallowing in red ink and corporate chaos. A company that had once set the vision for the entire business world was lost and flailing around aimlessly.

The world had changed, and IBM had not changed with it. A company that, for decades, had prided itself on being loyal to its employees and never laying off a single one was faced with the difficult task of a complete corporate reorganization and strategic repositioning—including layoffs.

Today, IBM is a more innovative and entrepreneurial company. It has the ability to react quickly to changes in the marketplace. Today IBM is an innovative company. Speed in making decisions is a priority. Getting there first is mission critical. Incorporating the entrepreneurial spirit into its culture was so important that Louis J. Gerstner, the CEO who turned the company around, preferred employees who acted more like entrepreneurs than traditional IBM employees. "Don't confuse activity with results," was one of Mr. Gerstner's mottos. This motto reflects the entrepreneurial mindset. Mr. Gerstner's strategic shift is being carried on by management today.

Definition of an Intrapreneur

An intrapreneur is one who organizes, implements, and interjects the entrepreneurial spirit and attitude into the traditional business model with the expectation of gaining a competitive advantage within his or her business unit.

IBM is now a fiercer competitor and, as a consequence, the blue in Big Blue is a lot bluer than it used to be. But IBM is not home free. The market today is a brutal place. Constant change and innovation is critical to long-term success. IBM has reinvented itself once, and may have to do it again in the near future.

How did all of this happen? How did a company steeped in a white-shirt-and-pinstriped-suit mentality become nimble enough to capitalize on new trends in business and the economy? I believe much of the credit goes to a change in attitude and perception. The change? It's the ability to get employees to think like entrepreneurs, or in the framework of the large company structure, become intrapreneurs.

Interjecting the Entrepreneurial Spirit into a Company, Unit, or Position

Joan Madison was a division manager for a restaurant supply company. She had worked her way up from being a warehouse clerk to a sales representative, and finally, to a division operations manager. She understood every aspect of the business. Because of her understanding of how it worked and her feel for the market, the relationships she had built over the years with large customer accounts and vendors gave her the confidence to be at the top of her game.

As often happens, the business environment changed. During the last nine months, her division sales revenue and the sales revenue throughout the company had dropped for the first time in years. The sales decrease had occurred despite the strongest economy the country had seen in years.

There was a national meeting of all of the division managers. After a few hours in the meeting, a theme began to emerge. The Internet was siphoning off sales from the company. Smaller distributors had implemented an Internet strategy that had streamlined their operations, and they were subsequently under pricing Joan's company consistently.

The reaction to this new development was varied. Some of the division managers felt this was a passing fad and that once their customers got tired of dealing with a computer monitor, they would return to the benefits of dealing with live representatives, people they had relationships with.

Other managers were more concerned and suggested that the company test the water and set up an advisory committee to study an Internet strategy.

Joan had a different take. The new technology challenged her, but she knew intuitively that something significant was happening.

She argued aggressively for a radical change in focus. But as so often happens in larger companies, her voice was drowned out by the crowd.

A corporate minion was put in charge of selecting an advisory committee. There was no real sense of urgency attached to forming and setting up guidelines for such a committee. The Internet Advisory Committee was just one more item on a long agenda at the meeting.

The agenda then focused on reducing expenses, laying off marginal people, beefing up customer service, and installing a new budget with an emphasis on putting more sales representatives in the field. The meeting adjourned with little fanfare, committee members went back to their regions, and it was business as usual. The problem was that business was not "as usual."

Joan was not satisfied with the decisions made at the national meeting. One of her neighbors worked for a new Internet start-up. Although Joan really did not understand the nuances of the Internet, that was about to change. She spent many hours learning more about the Internet from her neighbor.

Within three months, she had decided to put up her own regional website. After five months, many of her customers were ordering online. Her sales began to climb. She was able to snare some of the customers who had left the company, as well as attract some new customers. Some of these were people with whom she had never been able to make any headway, until she told them about her online ordering system and how much money it could save them in paperwork alone.

At the next semi-annual national meeting, Joan sat in a meeting of divisional managers. The same tales of woe about declining sales were heard. Profits were down again too, even after the implementation of the plan to lay people off, increase customer service, and add new sales representatives.

The person who had been assigned to put together an advisory committee on the Internet reported that she had finally gotten five people to agree to serve on the committee. The committee had held a formation meeting to set out its goals and objectives. The committee was asked to report back on its progress at the next meeting in six months and to provide recommendations about how the company should approach the Internet. No speed records were being set here.

Joan could not believe her eyes and ears. Her region was the only one in the company that had experienced sales increases. Granted, the sales had not increased dramatically, but they were nevertheless up when every other region was in a freefall. As she walked out of that meeting, Joan was amazed at the lack of vision, awareness, and insight she had just witnessed.

Such is the fate of intrapreneurs in large companies. They are often unloved, under-appreciated, and many times are considered threats to more traditionally-minded employees and managers.

Moving at the Speed of Information

Our world is moving so fast these days that the person who stops along the road to take a rest or view the scenery is often run over.

Joan had experienced the traditional decision making process of a large company: form a committee, study the problem, submit a plan, review the plan, get the plan approved, and finally, implement the plan. In the business world today, this philosophy and attitude leaves a company at a significant competitive disadvantage and in danger of extinction.

Speed is critical to the new business paradigm. In other eras, the funding of a new business concept took months and sometimes years. A business plan, an operating, profitable prototype, and an extended period of due diligence was customary in the cycle of funding a new business concept.

Decisions dealing with e-commerce, product innovation, staffing, and strategic direction need to be acted upon *now*. Not next week. Not tomorrow. It also must be understood that moving fast can cause mistakes, but that making mistakes is usually less devastating than the damage caused by delaying a decision.

Today, hundreds of thousands and sometimes millions of dollars are often committed over lunch with a venture capitalist. The billionaire fortunes that took decades to amass in the past are now being achieved in years and sometimes months. Sometimes this money is committed to ventures that are not going to be successful. That's also part of the paradigm.

Does any of this make any sense? Yes, it does, not because people have changed, but because we live in different times. The advent of worldwide digital innovation has changed the rules.

I doubt if anyone reading this book will disagree that the world of business is dynamic and moving at an ever-increasing rate. Part of the new paradigm is that successful people and companies will adapt to one extent or another and thrive in the new world we live in. Because intrapreneurs think differently, they are able to take advantage of this new world within their existing companies. They see opportunities when others see obstacles. They do not wait to be told to act. They act, they get things done, and they soar over their peers.

GOLDEN NUGGET

The first rule of intrapreneurship is to tread lightly. The second rule is patience. Sooner or later your actions will be noticed.

Of course, intrapreneurs often need to temper their enthusiasm and implement ideas carefully into the mainstream. Otherwise, they will intimidate their cohorts.

How Will Companies Change?

A mature company cannot become an entrepreneurial company overnight. By their very nature, these companies are mature entities with all sorts of traditions, a substantial customer base, and long-time employees. Such a company has a well-established culture that may be very difficult to change.

Yet, despite these handicaps, large companies can and do change. If properly motivated, management can move the company forward by encouraging employees to become more entrepreneurial. They can encourage divisions or individual units within the company to become more entrepreneurial. This will not be done, however, by announcing, "Today, we will be more entrepreneurial." The process is a multi-stepped approach beginning with delegation of responsibility and then getting out of the way to allow people to innovate. The company must learn how to reward real results and discourage gamesmanship that perpetuates bad behaviors.

Letting Out the Intrapreneur Within

Sheila Bullock was a retail manager of a large department store chain. In her retail world of rigid management by the numbers, Sheila followed a prescribed management style that her mentors had ingrained in her for more than a decade. . She rarely deviated from the style she was trained in because the company had always required rigid compliance with its way of doing things.

Then the company replaced its CEO. The CEO announced that the decision about how various departments in the company operate would be the responsibility of department managers. As long as the managers stayed within a set of guidelines (which is critical in any intrapreneurial initiative), they could operate their departments as they saw fit. When Sheila was given the responsibility of solving problems and innovating as she thought best, interesting things began to happen.

Innovation Is the Future

How do mature companies become intrapreneurial? To best understand this, we need to take a look at the new business paradigms, created in Silicon Valley in the 1990s, which have evolved into what many are now calling the Internet 2.0, with 3.0 not far behind. Everyone in Silicon Valley understands that radical ideas are the only way to create wealth, both corporately and individually. Who would have thought that ideas such as Internet searching would turn into Google, selling a Pez dispenser into eBay, evolving a digital Walkman into the iPod, or uploading homemade video span into YouTube?

An average venture-capital firm in the Silicon Valley receives as many as 5,000 unsolicited business plans a year—unsolicited, mind you. How many unsolicited business plans does a senior vice president of a mature company receive every year? Ten? Five? Zero? Until there is a belief within a company that business paradigms are different today and that growth and opportunities are out there and need to be exploited, the company will be a target for stagnation.

Another big difference in attitude between an old-paradigm company and an entrepreneurial one is found in the traditional corporate hierarchy, where there is only one place to pitch a new idea—up the line of command. Unfortunately, this means that just one *oblivious person* up the line can effectively stop a revolutionary, company-changing idea in its tracks.

What is the attitude in your company? Is it old-world? Are individuals encouraged to innovate? Innovation is where the future lies.

One of the first things she did was gather the names of her best customers and invite them to an invitation-only, after-hours, private shopping session. Customers were invited in groups of three to five people and given plenty of personal attention from the sales staff. The results were that the average sales per customer spiked upward significantly.

Initially, there were problems concerning who received a private invitation and who didn't. The company decided to employ a technique used by private clubs. A new member had to be recommended by an existing member. In this case, a current private shopping customer had to recommend a friend in order to for that friend to receive an invitation.

GOLDEN NUGGET

People controlling their own destinies produce superior results and are happier doing their jobs.

This type of innovation and creativity can be implemented in large multinational organizations as well as in small independent businesses. In every case the results are the same: more productivity, sales, and profits.

Virgin Bride

Some companies do foster innovation. Ailsa Petchey was a young flight attendant with Virgin Atlantic Airways who was helping a friend plan a wedding. Like most brides, her friend was overwhelmed by a seemingly endless list of "to do's:" the flowers, the church, the minister, the reception, the catering, the invitations; the list goes on and on. And a misstep in any one area can turn a blissful day into a nightmare. Petchey had a flash of an idea—create a one-stop, do-it-all wedding service. She took her idea to Richard Branson, the flamboyant Chairman of Virgin. Today Britain's largest bridal emporium will arrange your entire wedding, from beginning to end. The name: Virgin Bride. How far would you get with an idea like this in your company?

Adapt or Die

In small to mid-sized organizations, the same rules about becoming an intrapreneur apply. There may not be bureaucratic malaise to maneuver around, but there is always something that can thwart the entrepreneurial spirit in companies of every size. It may be insecurity about taking risks, lack of knowledge, or simply the stubbornness of the culture.

Marie Ellis was a broker with a large regional business broker. She specialized in the resale of manufacturing businesses. She had built a reputation within the manufacturing community as someone who understood and appreciated the unique challenges of her clientele. She was able to sell more manufacturing businesses in her niche than anyone else. She was the top dog.

Marie was technophobic. She preferred to use the basic tools of her trade: the phone, the power lunch, and an extensive classified advertising marketing plan. This formula worked for years. However, she was reluctant to change with the times. When she finally got a fax machine, that was a major step for her, and e-mail was something she tried to avoid at all costs.

With the advent of the Internet, the industry began to change significantly. More and more businesses were being listed over the Internet. Although the Internet rarely actually sold a business, it was instrumental in getting a lot of listing inquiries and expeditiously disseminating information about them. All of her competitors were incorporating web sites into their marketing strategy and achieving substantial success by doing so

Even though Marie was faced with changes in her industry, she refused to adopt any new technology. She insisted on using the established means of attracting potential clients and the old ways of marketing her listed businesses. As far as she was concerned, it was the personal approach that created success.

The person at the desk next to Marie was a new broker. He was young and aggressive. He was an intrapreneur at heart. He watched Marie work. He learned from her, but also incorporated Internet selling strategies into his way of doing business. Before long, even though he had only been in the business for a year, he was the top broker in the office.

Marie just could not understand how this young kid sitting next to her was getting so many listings and closing so many sales. She began losing clients to the younger, techno-savvy brokers in the area, brokers who were able to procure large numbers of interested parties for both listings and the sales of businesses, and who could do it all in a shorter time frame than she could. The word spread fast that Marie was not on the "Net" and that if you wanted something sold, you had better not list it with Marie.

Today, Marie is still in business, but she is no longer a player in her office and certainly not in the industry. Yes, she now uses e-mail, has her own website, and is generally "connected." But others who were earlier adaptors established themselves as the leaders and remain so today.

Evolutionary theory is based on the survival of the fittest. In economic terms, the same premise holds true—innovate or die. The weak do not survive over the long term. Never be afraid to venture into the unknown and innovate early in order to inoculate yourself against extinction.

If It Isn't Broken, Break It;
Then Make It Better

Nowadays there is something wrong with the philosophy that says, "If it isn't broken, don't fix it." Many times the person in the driver's seat doesn't know or understand whether something is broken or not. He or she usually continues doing the same old things, thinking that nothing is broken, until disaster hits. This kind of leader does not see or want to see the warning signs until it is too late.

PART

2

WHICH ROUTE DO I TAKE?

So far so good. You have decided that you may be suited to the role of business owner. Ahead lie many paths, some known and some unknown, but you are convinced that you have the native skills and intelligence to weather the journey and find the results you are looking for.

Like Marco Polo, you are about to set off to seek your fortune, to be the captain of your own destiny. But what destination are you seeking? Which route will you take?

Marco Polo, the 13th-century Venetian merchant and explorer, traveled the fabled Silk Road to China in the company of his father and uncle, who had made part of the journey before. Marco's journey outward bound was filled with dangers and adventures. He reached the court of Kublai Khan, the Mongol ruler of China, and traveled throughout the East, finally returning to Venice after *nearly 20 years* by way of the Spice Islands (Indonesia) and Ceylon (Sri Lanka). It is said that he brought back a fortune in jewels sewn into his ragged garments. What an adventure!

Did Marco Polo know precisely what route he would take and what he should be prepared for? No way! Parts of the route he knew and parts he didn't. He was the first Westerner to make this journey. You have an advantage over Marco Polo. The routes to business ownership are better known than the routes to 13th-century China. You can take the time now to carefully consider your options so that you won't have to wait 20 years to bring home your treasure.

CHAPTER 7

Thinking About Your Business

The time is always right to do what is right.

—MARTIN LUTHER KING, JR.

How to Get Started

Now that you have decided that you're an entrepreneur at heart and are considering going into your own business, what do you do first? There are many issues to consider. Which ones do you address first, and where do you find the right information?

1. What are the first steps for conducting your due diligence?
2. How do you decide what business is best for you?
3. How do you finance your business?
4. How do you hire the right people?

Although the task of beginning to research a business may seem formidable, if it is done right, you can enjoy gathering the information you will need for your journey. Remember that you are engaged in a process, not a crash course. You don't have to know everything overnight. So much of locating the right business is being in the right place at the right time, and being patient until this happens. *That is why it's important to begin this process when you do not need to make any quick decisions.*

The first issue to resolve in transitioning from employee to entrepreneur is whether you should acquire an existing business or start your own business from scratch. Both of these strategies have their advantages and disadvantages.

New Businesses—The Start-up

Starting a new business can be an exhilarating experience. It can also be tedious and overwhelming. What kind of experience you have largely depends on your preparation. The advantages of starting a new business are centered on three key areas:

1. *Starting from a clean slate, you are not burdened with old systems, equipment, and office culture.* A new business rarely has skeletons in the closet since there is generally no closet. A new business requires establishing an entirely new location. It also requires that a staff be built from the ground up. The advantage in recruiting new employees for a start-up business is that everyone is new and can start with the same expectations. No one carries old attitudes, habits, and preconceptions from an existing business.

2. *It is easier to build the brand and a reputation from the ground up, positioning the company in the customer's mind just the way you want.* A reputation can be created that is consistent with your mission statement and integrated into the entire fabric of the business. Beginning from scratch enhances the control a new business has over the public's perception of its brand. Controlling the brand is not always possible when taking over an existing business.

3. *The ability to create, build, and control the company culture is a powerful tool in recruiting new employees, building a style of doing business, and creating the personality of the business.* In an existing business is can be very difficult to change the existing culture. It can be done, but it can take years and a lot of hard work. Controlling the recruiting process, profiling each candidate to be a part of a team, and building the company culture in advance give you powerful tools for constructing a solid company foundation.

   By controlling the recruiting process, you can create a profile of the kind of person you want to hire. You can interview people who fit the vision you have of the culture you are building. And you can share your vision with them in the process. This allows you to get buy-in from the new employees, thereby creating a potent competitive advantage in the marketplace. If each new employee is selected with the company's values and goals in mind, it will easier for you to educate, train, and instill the company's core values and sense of mission.

You Are Now Free to Move About the Country

"You are now free to move about the country" is the slogan for Southwest Airlines. Southwest has done an outstanding job in building its culture by recruiting people with a specific personality type and a value system similar to that of the company's.

Southwest has a particular style of doing business. It recruits employees who will be able to buy into their style and goals. Southwest never varies from this process. Because it has consistently recruited people who fit the profile it has established, Southwest is more likely to communicate its mission and core values to its customers through its employees.

I fly a lot. When traveling on the West Coast, I find that Southwest is usually the best airline for me. It is normally a delightful experience, if you do not mind not having a seat assignment. The company's management wants Southwest to be a fun, exciting, and rewarding place to work. If you fly Southwest or talk with its people, you will see that its mission and values are being lived on a day-by-day basis by their employees.

> **GOLDEN NUGGET**
>
> *When someone asks you why companies like Southwest can be so successful in executing their mission, your reply should be, "It's the culture, stupid!"*

If you have flown often on Southwest, how many times have you been serenaded by an airline flight attendant over the intercom after landing? It frequently happens. Why?

Southwest has built a company culture based on people who are outgoing and who enjoy singing songs they've composed themselves over the intercom. This gregarious attitude comes naturally. The company believes that its most valuable asset is not its aircraft but its employees.

By the way, all Southwest employees own company stock, and *Forbes* consistently ranks it as one of the best U.S. companies to work for. Is this an accident? Not really. This policy began when the company was founded and has been supported through the years.

The Other Side of the Coin: The Risks

There are also a fair number of risks in starting a new company. These risks are generally grouped around lack of experience and insufficient financial capital.

Lack of experience is just what it sounds like. Most start-ups are launched by first timers. They have not had their own businesses before. Government statistics surrounding start-up businesses are frightening. They reveal that, after five years in business, more than 80% of all new businesses fail. This is a staggering percentage. Why do they fail?

One big reason is lack of experience! Suppose there were a hundred people watching a mountain climber scale Half Dome at Yosemite National Park in California. Suppose they were then handed backpacks loaded with mountain climbing gear and instructed: "You just watched someone climb Half Dome. You have the necessary equipment to make the climb, and here is a map of the route you need to take. Now go and climb Half Dome."

What Your Company Looks Like

What your company looks like will be determined by the type of people you hire, what values you establish, and how you instill these values in them.

In order for all of this to happen, you have to have a plan and a vision about what the end product is going to look like. And then you have to stick to your guns during the hiring process, even when it's not easy. The rewards will be there if you can do it.

What do you think the chances are that a large percentage of these hundred people would be successful? I am sure that it would be less than 20 percent.

This example is not much different than starting your own business from scratch. Having never started a business, beginners will make mistakes. Just as in mountain climbing, the mistakes can be fatal, and often are.

For the inexperienced, it is important to execute a start-up plan carefully. If this is done faithfully, your climb to success can be achievable and rewarding.

A Beginner Who Scaled the Mountain

Tom Marlow was an accountant. He had recently gotten a divorce and decided to change his life completely. The divorce had drained him financially. With little left to risk and wanting a completely new life, he started a small retail service business from scratch, investing about $30,000. That represented everything he had in the world at the time.

The $30,000 investment was the beginning of a secure financial future for Tom. He worked the business methodically. He used his financial background to manage the cash flow. Although he stumbled at times on the sales and marketing part of the business, he never gave up. He read incessantly about sales and marketing strategies. He attended seminars and workshops. He joined the Chamber of Commerce, the Rotary Club, and several other business clubs that could generate leads for his business. He tackled each problem that confronted him with the enthusiasm of a 25-year-old.

After the first year in business, he showed a small profit. The rest is history. Over time he expanded to other locations and finally sold his business and retired to Oregon, the home of his youth.

GOLDEN NUGGET

Plan your work and work your plan.

With no experience and very little money he was able to convert hard work, careful planning, continuous improvements, and enthusiasm into success. Over the years, Tom's success has been repeated tens of thousands of times. The secret is having and following a plan, sticking to your plan, working hard with the right attitude, and never giving up.

Buying an Existing Business

Buying an existing business can increase the success rate for new entrepreneurs. Why?

There is already a steady flow of cash, a base of existing customers, and an experienced staff that has been in place for a number of years. All of these elements reduce the probability of failure. But assuming control of an existing business is a lot more expensive in financial terms than a start-up.

From Engineer to Entrepreneur with Enthusiasm

Henri Morton worked for Lockheed as a packaging design specialist for defense related contracts. Henri's wife had recently passed away and he was newly married again. Since the defense industry was in a severe downturn, Henri decided it was time to move on and gain a little more control over his professional life. He researched numerous opportunities and finally selected an existing business.

The business was in its sixth year of operation and had a well-established clientele in the financial district of San Francisco. The price was substantial, but the business had shown steady sales increases every year. The profits were there, the location was good, the client list was impressive, and the staff was stable. The biggest question that faced him was, "Is the business worth the price?"

After a considerable amount of due diligence, Henri made the decision to move forward with the purchase. After taking over the business, Henri made some changes, but the most important thing he brought to the business was a lot enthusiasm and a serious focus on business development.

One full year after he took over the business, sales had increased 24 percent over the prior year. Henri acquired two more locations over the next few years, expanding his business into new markets. With the fast start, a renewed enthusiasm, and a real focus on building the revenue base, Henri's acquisition strategy paid off.

New or Existing?

Whether you decided to open a new business from scratch or acquire an existing business, many of the same principles apply. Whether you would be more successful with a new business or an existing one depends on your skill set. It can also depend on what really excites you. Is it digging a hole and pouring the foundation or building on top of an existing foundation? Is it scaling a new peak that no one else has climbed, or is it scaling a known route with newer equipment, using better techniques, and refining your skills to better enjoy the climb? Many times it is not the destination, but the journey. Whichever journeys (processes) excite you will determine which type of business ownership excites you.

Finding a Good Business Opportunity is Like Panning for Gold

There are many business opportunities out there. In fact, they are almost too abundant. The big problem with such abundance is that most existing businesses for sale are loaded with problems. The reason many of these businesses are being sold is that they are not making money, competition is getting too fierce, the market is changing or has changed, or the owner is tired of getting nowhere and wants out. Some of these businesses are like the walking-dead. They are no more than corpses, but they don't yet know they have

Walking-Dead Businesses

In reality, an existing business may already be out of business but not yet know it. These are "the walking- dead" businesses. These businesses have decreasing sales, aggressive competition, and key people who have left or will soon leave the company. They continue to operate not knowing they have a cancer that will soon kill whatever business remains. The owner may put the business on life support by feeding it cash intravenously, but when that support is taken away, the business flat-lines and is officially pronounced dead.

died.

There are real diamonds-in-the-rough out there, however. These are businesses that just need the right touch to allow them to bloom into prolific cash-flow machines. How to sort through all of the business opportunities available in the marketplace to identify the diamonds from the walking-dead is the million-dollar question.

How to Find the Diamonds-in-the-Rough

There are four places to find a business opportunity:

1. *A business broker* is someone who acts much like a real estate broker. The broker locates people who wish to sell their companies. He or she advertises these companies to find qualified buyers.

   The seller pays a commission of 6-12 percent of the total sale price of the company to the broker. Many business brokers help with the due diligence process, assist with the financing packaging, and help the buyer and seller negotiate terms. Some business brokers specialize in specific types of companies. Others handle all types.

2. *Local, Regional and National Newspapers* have classified advertising sections which include "Businesses for Sale." In most large, regional newspapers, businesses for sale and franchises are listed separately. In smaller local papers, businesses for sale and franchises are listed together. This advertising medium is similar to real estate listings that are also found in the classified section of newspapers.

   Advertisements of this type give very little information about the business for sale or the business opportunity offered. You have to sort through many classified listings to find a sound prospect that fits your needs, skills, background, and capital.

There are also specialty newspapers that publish nothing but businesses-for-sale listings. One such paper is actually called *Businesses for Sale*. It is a national publication and has thousands of listings. It is published on a monthly basis and is mailed to its subscribers.

Other national publications that list businesses for sale are the *Wall Street Journal*, *USA Today*, *INC*, and *Entrepreneur*. They have businesses for sale listings in their classified advertising sections.

In the *Wall Street Journal,* businesses for sale are found in the Marketplace and the B section of the paper called, "The Mart" which lists franchise business opportunities each Thursday. *USA Today* has a classified section, "Businesses for Sale," which is published five days a week. The franchise business opportunities are found in the classified advertising section on Wednesdays. *INC.* has a section at the end of the magazine that offers a classified listing of opportunities. *Entrepreneur* has a number of advertisements for franchise business opportunities, and there are additional listings of businesses for sale in the classified section.

If you choose to rely on the classified newspaper listing to find your business, be prepared to sort through a lot of listings. Somewhere in there you might find a diamond in the rough.

3. *The Internet* is playing a more significant role in the sale of businesses. There are now Internet sites devoted exclusively to the sale of existing businesses and franchise business opportunities. Franchise business opportunities found on Internet sites are both start-up and existing franchises

businesses.

These web sites change so fast, it is not possible to list them in this book. Simply open up your Internet browser, go to your favorite search engine, and type in "businesses for sale" or "franchise." When the search list appears, select one site that seems to fit your needs and choose the web link titled "more like this one." This will refine your search criteria to a more narrow selection of business and franchise websites.

The Business Resale Network is a leading online information source for buying or selling a business and a good source for researching all types of businesses. Thousands of people use this site every week to search for businesses for sale, list businesses for sale, find a business broker, look for business financing, and/or research all aspects of buying and selling a business. The web address for this site is www.franchising.com

4. Network within the business community. This is the last and perhaps the most useful method for locating a business or franchise to acquire. It is a more time consuming process, but it can yield solid opportunities before they hit the "business for sale" listings. CPA's, bankers, real estate agents, and insurance agents are good networking resources. Also, the Chamber of Commerce, Rotary, and other business clubs where leads are exchanged can be excellent sources, including your own social circle.

Regardless of what avenue or avenues you choose, finding the right business for you is going to take some real detective work. It's a lot like panning for gold. The gold is there, but you have to sift through a lot of dirt and rock to find it. When you do though, the work is worth it.

CHAPTER 8

Franchise or Independent Business: Which One is Right for You?

In every enterprise, consider where you would come out.
—Publius Syrus

The Fork in the Road

After you become immersed in the process of seeking out a business opportunity, you will most likely ask the question, "Should I go into my own business or buy a franchise?"

This is an excellent question. I have found the following question and answer format to be most useful in explaining the concept of franchising.

Q. What is franchising?

A. Franchising is a business strategy that enables the use of the collaborative efforts of franchisees and a franchisor to create brand identity through the implementation of established marketing programs and operating systems. These programs and systems enable franchisees to get and maintain a competitive edge in the marketplace that will allow them to attract more and more customers than the competition.

Q. When someone is awarded a franchise, are they buying it?

A. No. It is important to understand that the franchise relationship is a licensing arrangement and is not a purchase agreement. A franchise cannot be "bought" or "purchased." To understand the concept of franchising, it is useful to compare a franchise to a motor vehicle driver's license.

Conceptually, you cannot "buy" your driver's license. A driver's license is issued to the license holder for a period of time and under certain conditions. When someone is issued a driver's license, an administrative fee is charged to cover the cost of issuing the license.

At the expiration date of a driver's license, if the holder of the driver's license has conformed to state requirements, the license can be reissued under the current terms and laws in force at the time of reissue. There is usually a small administrative fee for this. After the driver's license is reissued, the individual can continue driving.

If, however, the license holder has not conformed to the relevant rules and terms and has, for example, received too many traffic tickets, has driven recklessly, or has been arrested for operating a vehicle under the influence of alcohol or drugs, the driver's license may not be renewed.

Similarly, a franchise licensing agreement is issued to a franchisee by the franchisor under certain terms and conditions. The franchisee pays an initial franchisee-licensing fee. The franchise-licensing fee covers the cost of issuing the license and other marketing and administrative costs.

Since the franchise license is not "bought" and is not "owned" by the franchisee, the franchisee cannot do what he or she wants with the license. A franchisee must conform to the terms of the licensing arrangement. For example, he or she must implement the operating system, use and not modify the trade name and logo, conform to the marketing plan, and follow other procedures that ensure the consistency and quality of the brand. By consistently promoting the franchise brand and the implementation of the operating system, and by delivering a quality product to customers; franchisees gain an edge over the competition, allowing them to get, and keep, more and more customers.

If at the end of the licensing term the franchisee has complied with the terms of the licensing agreement, the franchise license is reissued for a small administrative fee.

In summary, it's important to understand that a franchise agreement is not a purchase and sales agreement, but is a licensing agreement. This is one of the major areas of misunderstanding between a franchise company and a franchisee.

Q. Why is it so important that a franchise be understood as a licensing agreement?

A. If a franchisee believes a franchise has been purchased, the franchisee may feel entitled to do whatever he or she wants with the franchise business. In a franchise system, however, the franchisor requires that a prescribed system of operation be implemented and followed. A franchisee cannot create and operate his or her own system. If each franchisee did this, there would be many different operating systems and no consistent execution of the concept (*i.e.*, some McDonald's would have "Big Macs" and others might serve tacos or pizza. There would be no consistency and the customers would not know what to expect when they walked into a McDonald's restaurant). This is exactly what franchising is designed to avoid through the creation of brand consistency and product awareness. The effective execution of the franchisor's system will give the franchisee a competitive edge in the marketplace.

Q. Why is it so important to maintain a uniform system?

A. It is necessary to follow an operating system so that a consistent, high-quality product can be delivered to the consumer. The franchise system and franchisees will gain a competitive advantage in the marketplace and be able to get and keep more and more customers.

Q. Why is franchising such a powerful growth strategy?

A. The power of franchising is in the ability to brand. Branding is one of the most potent marketing strategies available to a business and is inherent in the franchising system. Such a strategy causes a particular franchise system to dominate its niche in the marketplace. The system, developed by the franchisor, allows the business to attract and keep more and more customers. This in turn increases market share, which will attract still more customers. It is a powerful competitive advantage.

Q. What is branding?

A. Branding combines all the elements into a marketing and operations strategy that communicates the essence of any particular franchise concept. It is not merely a logo or a name. When you see the "golden arches," the images that are conjured up in your mind are more than just hamburgers.

Ask yourself the question, "Are hamburgers all that McDonald's stands for?"

The answer, of course, is that McDonald's is far more than just hamburgers. It is the company's customer service, the legacy of Ray Kroc, Ronald McDonald, the colors of its decor, the style of its buildings, the logo, its advertising, the multitude of locations, and the young, usually-cheerful employees all dressed in clean coordinated uniforms. All of this is in addition to the consistency of the food that defines McDonald's in the public mind. All of these factors contribute to brand identity.

Very few people have ever accused McDonald's of having the best hamburger on the planet. But the effective execution of the operating system enables the company to sell more hamburgers than anyone else in the world.

To build a brand effectively, the entire operating system, the marketing plan, and the training plan—everything right down to how to answer the phone—must be focused on what you want the customers to visualize when they see your logo.

Q. Can I sell my franchise?

A. No. You can sell the assets of your business, but you have not purchased the franchise, so you cannot sell it in the traditional sense.

The process of "selling" in the franchise world is known as assigning the right of the franchise (via assigning the franchise licensing agreement). The franchisor must approve, and cannot reasonably withhold approval of a new franchise licensee. The new franchisee must meet the criteria that the franchisor has established. This process of approval helps maintain the high standards of a franchise system. Obviously, other franchisees do not want poor-quality franchisees allowed into the system. They support the process that keeps the quality of franchisees high throughout the system. It only makes sense.

Q. What are royalties?

A. Royalties are ongoing licensing fees for the use of the trade name and the operating system. It is important to understand the royalty paid by a franchisee is not for day-to-day operational support.

Many times franchisees mistakenly believe that they pay royalties for support. This concept of "fee-for-service" breeds unrealistic expectations in the franchisees. Why? It's because in the first few years, franchisees know very little about their businesses. The franchisor is providing a disproportionate amount of support for the royalties paid. This is a good deal for new franchisees. They are getting more than they are paying in royalties.

However, the wheel turns. In later years, when sales volume is increasing, royalties, which are usually a percentage of sales, also increase. Now, the type of support given is different and not so intense. In the early days, the franchisee was always calling the franchisor to get information and help. As the franchise matures, the franchisee understands the business and does not need to call as often.

At this point, the franchisee may be thinking, "What has the franchisor done for me lately?" A franchisee may begin to ask, "I am paying all of these royalties, and what am I getting in return?" These thoughts and feelings are common whenever franchisees believe that they have "bought" their franchises and are paying for support with the royalties.

If, however, the franchisee understands the premise that he or she has acquired a license to use the logo, trade name, and operating system and that the royalties are for ongoing use of the system, then the relationship between the franchisee and franchisor is likely to continue on an even keel.

With a good relationship, there is a greater probability the franchise company will achieve brand dominance and attract more customers, thereby gaining a competitive edge in the marketplace.

Q. How does marketing work in a franchise?

A. Generally, franchisors require three levels of advertising: The first is local advertising—advertising dollars spent in the local market. The second level is regional advertising, and it is generally required by franchise agreement. This money is paid by all franchisees in a region. It is collected and pooled in a marketing fund and allocated among regional marketing initiatives and operational efficiencies that are designed to build the brand at the regional level creating a competitive advantage. The last type of advertising is national advertising. This advertising expenditure is also required by franchise agreement. It is collected by the franchisor and placed in a national advertising fund that is spent on large national advertising campaigns. Some newer or smaller franchisors, however, do not have a regional or national fund. A smart newer franchise company will have provisions in its franchise agreements allowing for the collection of regional and national advertising fees to be collected when it does become regional and national in scope.

The purpose of all advertising is to brand the franchise concept, and this can be more easily achieved by a group of franchisees working in a collaborative effort to achieve a common goal.

Q. Would a franchise business be right for me?

A. Read on.

A Franchise or My Own Business? Which is Best for Me?

That depends. If you are a true entrepreneur, then you will not fit into a franchise system. You would be a person who gets your thrill in life from creating something from nothing. This kind of businessperson likes to sail his or her own ship exclusively and explore new seas and routes. You would find it difficult to conform to a formal operating and marketing system, with the route already formatted and defined.

> **GOLDEN NUGGET**
>
> *Putting the true entrepreneurial personality type into a franchise system is like putting a wild animal into a cage. Life in the cage will hold no joy.*

If, however, you like to implement systems and strategies and have no specific need to create something from nothing and, in fact, you prefer not to "reinvent the wheel," a franchise may be an ideal fit.

Most people who choose franchising as their road into the entrepreneurial world select this route because the system is proven. They have not run a business before, and they do not want to risk the expensive learning curve that is necessary in launching a start-up business. They are also people who can execute business plans but may not have the ability to create a successful plan from ground zero.

The solo entrepreneurial route is not right for everyone, nor is franchising. It just depends on your individual situation, your personality, and the skills you bring to the table. Which is better really depends on you: your goals, your talents, and your need for guidance vs. your need for independence.

A Round Peg in a Square Hole

Larry Peters was a warehouse supervisor for Macy's Department store. He got fed up with the bureaucracy of a large retailer in a traditional corporate structure, and became convinced that he could operate the warehouse division better than any of his supervisors. He was constantly challenging the system. Many times his suggestions were good. Sometimes, however, they just caused dissension within his department.

Finally, he had an opportunity to take an early retirement as

Franchising

If a franchisor has a "franchise sales department," and if its sales personnel are paid exclusively on commission, there will most likely be problems caused by awarding to franchisees who are really not qualified. If the franchise sales personnel are paid on commission, their incentive is not on qualifying, interviewing, and selecting the right candidates for the franchise system. They are focused on earning commissions.

In performing due diligence when looking at franchise systems, it is a good idea to find out how the franchise development staff is compensated. If the franchise development compensation system is exclusively based on commission, be careful. A franchisor with a strong sense of professionalism compensates its franchise development staff on a base salary with a bonus for finding and interviewing qualified franchise candidates. Their franchise development departments also focus on interviewing franchise candidates, carefully exploring their qualifications, their personalities, and their capitalization. They concentrate particularly on how well the candidates will be able to execute the operating system, the marketing system, and the other systems of the franchise. The relationship between a franchisor and its franchisees is a long-term partnership. Both will need to work together to build the brand in order to gain an edge over the competition.

the result of an employee buyout that was part of the company's downsizing plan. He jumped at the chance to get out.

Larry and a partner decided to acquire a franchise. They had never been in their own business before and figured that a franchise with a proven track record would be a safe path to follow. They acquired the franchise rights and launched into business with the steadfast enthusiasm of typical new entrepreneurs.

But during the qualification process, the franchisor's marketing department did not do an adequate job of explaining the franchise relationship to Larry and his partner. In fact, the franchisor employed a franchise salesman to "sell" franchisees.

When "selling" the franchise to Larry and his partner, the salesman was more concerned with making the sale than qualifying his applicants. The franchise salesman was not the least bit interested in exploring their personalities and fit for the business. He did not explain what a franchise licensing agreement is, what the royalties are for, and how to perform successfully in this particular franchise system.

The salesman focused on how much money Larry and his partner had available for acquiring the franchise and when they could get started. He implied (but did not directly say or promise) the level of profit they could expect. Larry and his partner "bought" the franchise license and were under the unspoken impression that the operations and marketing support they would be receiving from the franchisor was paid for by the royalties.

In fact, they erroneously assumed that they owned their franchise. Well, if you own a franchise you can do anything that you want with it—I mean you "own it," right? Because the sales person did not fully explain the franchise relationship, there was no basis for a long-term profitable relationship between franchisor and franchisee. But what the heck, the salesman got his commission, and isn't that what's most important?

Everything went well for Larry and his partner during the first year. In the early stage of launching their new venture, they knew very little about the business and relied on the franchisor and the other franchisees for a lot of support. They were on the phone many times each day getting their questions answered about every aspect of the business. During their first year of asking questions constantly and being given all the support they requested, Larry and his partner were as happy as pigs in mud. They were getting a good deal. The royalties they were paying could not even begin to cover the cost of the support they were being given.

After the first year in the business, however, they had gotten their feet on the ground. They now had a good working knowledge of the business, so their rate of support calls fell to a few per quarter.

Now that they felt like they understood the business, they began changing the franchisor's operating, marketing, and advertising systems. Since they had never been educated about licensing, branding, and the value of consistency in the operating system, they felt they could change things at will. After all, they owned their franchise, and if you own the franchise you can do anything with it you want. I mean, you own it—right?

They also began to resent sending in their royalties because the franchisor was not telling them anything new. They believed they were not getting their money's worth. They were not asking for, or getting, a lot of support. So they were in the mode of constantly complaining about the money they paid in royalties.

They also began to dispute with the marketing association (a group of franchisees that form a cooperative to pool their marketing dollars) and its handling of the cooperative marketing funds. They felt they could spend the money better in their own area instead of cooperatively advertising as a group on a regional basis. They did not understand or care about the concept of branding and how powerful a strategy this can be over the long term. They wanted immediate results for their marketing dollars.

The dispute with the marketing association became so severe that they refused to pay royalties to the franchisor and ceased paying their fee to the marketing association. The reason they gave for withholding their marketing and royalty fees was that they disagreed about how the money was being spent.

The dispute grew into a legal action on the part of the franchisor. The lawsuit dragged on for two years and cost both parties together more than a hundred thousand dollars. Larry and his partner lost the lawsuit, had to pay back royalties and marketing fees, and were disenfranchised. They even had to give up their business location to the franchisor.

After complying with their non-compete agreement, they moved to another market and began their own business in the same industry. Now they answered only to themselves. They do all right and are making a living, but the franchise continues to increase its market share, dominate its niche, and increase the value and the identity of the brand. The franchisor now has dozens of outlets in the area. Larry and his partner have only one. If you were to stop a hundred people on the street and give them two names to identify, one being the franchise and the other Larry's business, most people would recognize the franchise name. Nobody would recognize the name of Larry's business.

Even if they had been fully informed and understood the franchising concept, it is probable that Larry and his partner would not have been a good fit for franchising. They would have been better off to start their own business from the beginning. Why? Because of their personalities. They had a need for control, found it difficult to collaborate with others, and did not like to participate in the give-and-take of a team environment. They were round pegs in square holes. If they truly had understood what they were getting into, they could have made a choice: comply with the franchise concept and accept the restrictions and advantages, or start their own, wholly-owned business from the ground up.

Does Franchising Fit You?

If you do not like to conform to a system, or simply like to "do your own thing," then you are more suited to life as a truly independent business person.

If you like the security of implementing a system that has a track record of success and do not want to "reinvent the wheel," then franchising is a better choice. Whichever business strategy you decide upon, make sure that you have thoroughly considered your decision. A mismatch can be disastrous and expensive.

CHAPTER 9

Putting the Pieces Together

A diamond is a piece of coal that stuck to the job.

—Michael Larson

Let's assume you have found the right business, one that fits your specific situation; now what? In order to successfully become an entrepreneur and a business owner, there are some concepts that you will need to understand.

The Business Plan

Several different types of business plans can be used by entrepreneurs in formatting their businesses. They range from the "Shoot from the Hip Plan," where you mostly make it up as you go along, to the "Formal and Highly Sophisticated Business Plan."

Successful businesses have been launched on the back of cocktail napkins, brown paper bags, and sandwich wrappers. There are many businesses with folklore about this kind of launching. But these are far and away the exceptions rather than the rule.

Having a good business plan is useful. Even if you acquire an existing business, you still need to develop your own plan for the business. The type and formality of the plan depends on the scope of the business, the capital needed, and the number of employees the business will have. A typical business plan will have two primary purposes: The first will help you think out why you are in business, and how you will organize, finance, and operate your business. The second is to attract investors, if this is appropriate.

The Informal Plan

The informal business plan may consist of a simple outline of the mission of the business, the market, and the competition, plus a cash-flow summary.

This type of plan is used most frequently by consultants, home based businesses, or businesses with few employees. As long as your business is extremely simple, this kind of plan may be adequate.

The Formal Plan

For larger-scale businesses, a formal plan is essential. If you are investing a substantial amount of money, hiring a large number of employees (including a management staff), applying for financing, or trying to attract investors, a formal business plan is a key element in achieving your goals.

This kind of business plan usually has an executive summary that serves as an overview of the entire business. In addition, it includes an explanation of the business concept, mission statement, unique selling proposition, competitive advantage, source and application of funds, a cash-flow projection, and an exit strategy. The financial section of a formal plan is usually put together by financial consultants, a CPA, or investment bankers.

This is what investors, bankers, and executives want to see. Prospective funding sources need to gain an understanding of your business and its viability in a brief and concise manner. A well-written business plan can accomplish this.

The Type of Plan That's Right for You

The type of business plan you use can be at either end of the spectrum or somewhere in between. You may need advice from others to help you decide what type of plan is best suited to your business.

You may wish to talk about this with your CPA, mentor groups such as SCORE (Senior Core of Retired Executives), your attorney, or others who have their own businesses. These people will be invaluable resources for you as you begin to structure a plan. They can review the plan, provide input on redrafting it, and make suggestions about what to include. They will also have ideas about how, and to whom, you may want to present it.

If you have a background in the specific field of your new business, developing a business plan will be a lot easier than if you are inexperienced. When you are entering a new arena, you must rely on other resources and be sure that your research is based in reality, not in your fantasies.

If the business you have selected is a part of a franchise system, you will be able to tap into the resources of the franchisor and the franchisees, since the franchise system is set up to provide this information to prospective franchisees. Having a well-ordered business plan and model is, in fact, one of the key benefits of the franchise system.

It is important to note that the information provided by a franchise company is usually reliable because there are laws and regulations about what a franchisor can and cannot provide you. A franchisor must comply with these regulations. If the rules and regulations preclude a franchisor from providing you with certain information, it can usually be obtained directly from other franchisees. They are often a better source of information anyway.

If your business is not a part of a franchise system, the required information can be much more difficult to come by. There is never just one source from which to obtain everything you will need to know. The information will come from a variety of sources, including but not limited to, the Internet, industry associations, trade journals, the Chamber of Commerce, and local competitors. This is your chance to put on your Sherlock Holmes hat and search out the information necessary to build your business plan.

After you have obtained the information, you will need to compile the information into a manageable and logical format. If you are unfamiliar with the format you want to use, several software packages are available to help you prepare your business plan.

Business Plan Software and Services

Company:	Business Plan Pro
Web Site:	www.palo-alto.com
Cost:	$89.95
Company:	Business Resource Services
Web Site:	www.brs-inc.com
Cost:	$49.95-$845.00
Company:	growthink
Website:	www.growthink.com
Cost:	Quoted
Company:	SCORE
Web Site:	www.score.org
Cost:	Free
Company:	Small Business Administration
Web Site:	www.sba.gov
Cost:	Free

Keep in mind that compiling a business plan is similar to drafting a blueprint for building a house. The time required to prepare a business plan blueprint will vary depending on the complexity and scope of the business; however, most people can pull together an entire business plan in six to ten weeks.

A Used Car Often Gets More Attention

It should be mentioned at this point that most business plans prepared by entrepreneurs do not contain a provision or section about the proposed exit strategy from the business. It has always been fascinating to me that people will spend months shopping for a used car by reading periodicals, test-driving, and checking the residual values of the cars they are interested in. They will finally end by spending $10,000 to $20,000 for a good used car. Yet, these same people will invest substantially more money in starting a business and not give a fraction of the effort to determine how they will leave their businesses.

> **GOLDEN NUGGET**
>
> *If you stop to think about it, the entire reason for being in a business is to get out of it successfully.*

Finding the Money

Usually one of the key reasons for a business plan is to facilitate the financing of the business. Since many people simply do not have the ability to open up their checkbooks and write checks to fund a business, a well-designed business plan makes the process of securing financing a lot easier.

Financing for your business can come from many different sources:

A Golden Parachute or Early Retirement Buyout. This source can fund an entire business or provide a large portion of the cash necessary. An early buyout may take the form of an ongoing salary for 3, 6, 12, or even 24 months. These weekly/monthly checks allow a new entrepreneur to live off of a stable cash flow while the business is established.

Second Mortgage on Your Home. This source should be approached with care. Secondary mortgage financing is one of the least expensive sources of capital, but if your business venture should fail, you do not want to be in a position to lose your home.

Family and Friends. Family and friends may be able to lend you the initial capital needed to launch a business. This financing arrangement can be set up under favorable terms to enable lower payments in the earlier years and a higher payback in the later years. If equity is granted in lieu of a loan, no payback may be necessary at all. Of course, if you can't pay back the money, you may not be on speaking terms with people who are important in your life.

Credit Cards. I have interviewed dozens of people who have launched companies, even companies that have grown to become publicly traded on the NYSE, with their own personal credit cards.

Credit card start-up funds are usually the source of last resort after all other avenues have been exhausted. This kind of funding is expensive (with interest rates from 10% to 22%). If you can't repay the credit cards on a timely basis, your personal creditworthiness will suffer.

Owner Financing. For those of you who acquire an existing business, it is very common for the business acquisition to be financed by the new owner. Usually this takes the form of a promissory note secured by the assets of the business. Along with this, an owner/lender may request additional collateral to secure the note. This collateral may take the form of a second mortgage on a personal residence, marketable securities such as stocks and bonds, or other real or personal property.

SBA (Small Business Administration) Loan Program. The SBA has numerous loan programs. These programs are designed for the small-business person who cannot obtain traditional bank financing. The advantage of SBA financing is that the amount you can borrow can exceed 90% of the collateral used for securing the loan under certain situations. This is a higher percentage than a typical loan would offer.

To qualify for an SBA loan, however, you almost always have to have in cash at least a third of the funds to be invested in the business. If this provision and all of the other SBA required provisions are met, the SBA will fund the balance of the capital necessary to open or acquire a business. The terms and interest rate of an SBA loan are usually competitive with other loans found in the marketplace. The real advantage of an SBA loan is that it is usually amortized over a longer period of time than a traditional bank loan. A longer amortization period reduces the monthly payments.

One of the disadvantages of an SBA loan is that the fees and other costs can be substantial. Because of the mountain of paperwork required for an SBA loan, many choose to use the services of a "loan packager" to complete and submit the loan, all of which is done for a fee. These costs can be as high as 5% to 10% for smaller loans.

Equipment Leasing. Equipment leasing can help reduce the amount of capital needed to fund the business up front. Usually, depending on your credit worthiness, a first and last month payment/security deposit is all that is required to lease equipment.

If you purchase the equipment with conventional financing through a bank or other lender, you must make a down payment equal to 20%-30% of the price of the equipment. It's important to be aware that if your business is equipment intensive, leasing can be an essential part of your total financing package.

Angel Investors. In the venture capital world today, there are equity investors who bring more to the table than just cash. These are investors who have been successful in their own business endeavors and have a substantial cash base from which to offer equity investments to worthwhile businesses. Many times they also take an active part as advisors or sit on the boards of directors. Input from these successful and streetwise business people is an invaluable resource for new entrepreneurs.

Finding these investors is another matter. Sometimes they can be found on the Internet, in local angel investor associations, or through various venture capital publications, but the most common means of locating them is through personal introductions.

Combination Funding Plans. It is not unusual for someone to piece together a combination of the preceding funding techniques and programs. The danger is that so much of the required capital is financed by debt that the cash needed to service the debt eats up cash needed to grow the business. However, if you carefully put the financing package together, the danger of this can be greatly reduced.

A Little of This and a Little of That

After he had worked for a Fortune 1000 company for nearly 20 years, Carlos Garcia was looking to get into his own business. He did not have the capital to get into anything sizable, but after doing a lot of research on businesses that would fit his particular situation, he settled on a franchise. The total capital required was nearly $100,000.

He did not have the resources available to get into the business, or so he thought. With some advice from other entrepreneurs, he looked into various financing alternatives. After much hard work and research, Carlos put together the following financial package to launch his business:

Financing from the franchisor	$ 20,000
Financing from equipment leasing	$ 19,000
Financing from a second on his home	$ 28,000
Financing from family	$ 15,000
Personal funds	$ 18,000
Total	$100,000

The financing was difficult to put together, but the total debt service was structured to be modest in the earlier years, allowing him to reinvest plenty of the cash flow back into the business. As the years rolled by, he was able to replace some of the borrowing with bank loans obtained at lower interest rates. As the old saying goes, where there is a will, there is a way. In Carlos' case, he persevered until he found the way.

Anyone considering becoming an entrepreneur is going to face financial hurdles. These hurdles may include difficulty obtaining the initial financing, start-up costs that are greater than anticipated, or any number of other problems. The hurdles will discourage many people. And if you are easily discouraged, you probably should not get into your own business.

GOLDEN NUGGET

The important thing to remember is that becoming an entrepreneur is a journey, not a destination. If you have a map, know your destination, and have adequate provisions, it should be a positive, exciting journey.

Becoming an Entrepreneur Is a Process

Each step is important and prepares you for what comes next. When the time arrives to make the leap, you should have made a hundred small decisions that bring you to that point, and there will be many more decisions, big and small, that need to be made. Each decision brings you closer to your destination.

Yes, you will make poor, even terrible decisions. Some of these decisions will cost you money. But through it all, you can remain in control. You become smarter as you wend your way through the process. The satisfaction you will feel as you look back over the path you have already walked and then down the path yet to travel can only be felt by an entrepreneur. You did it *your* way.

CHAPTER 10

What Should My Business Look Like?

Genius, if you like to call it that, is the gift of work conscientiously applied. That's all it is, as I have proved myself.

—Guglielmo Marconi

No Time for Apprenticeship

In the days when Old-World trade and craft skills were handed down from father to son, the son learned a trade and skills that were rich in tradition, knowledge, and know-how. These skills were passed on from generation to generation. The apprenticeship process consisted of learning a trade on the job over several years. This process enabled Old-World tradesmen's skills to be preserved and enhanced over time.

Today, it is different. It's rare that a father passes his trade, knowledge, and know-how on to his offspring. The skills they need are learned in trade schools or colleges, or from the school of hard-knocks. And, on-the-job skills must be learned quickly.

Since most entrepreneurs do not have the opportunity of one-to-one apprenticeship under a father or a mentor, they need to fend for themselves. They have to use skills they've learned from their employment, their reading, and their life experiences. They need to take advantage of whatever resources are available, as they forge their path to success.

Key Concepts—An Overview

In order to launch an entrepreneurial business, you need to understand and apply some basic concepts of business ownership. If you do, they will save you much grief, stress, time, and money. Using trial and error and the school of hard-knocks works, but it's inefficient and expensive. Intentional study, learning from others, and attempting to implement some of the strategies you've learned will go a long way to ensure your success.

The following key concepts will make it easier for you to organize and format a business for success. These mechanisms will enhance the ability of the business to function efficiently and profitably. They are not necessarily complicated or sophisticated, but they are essential.

Key Concept: Documentation for Delegation

Establishing a start-up business means most of the routines and processes in the business need to be created and documented from scratch. It seems obvious, but many entrepreneurs try to keep everything in their heads when they should document each procedure so they can successfully delegate most of the routine duties and processes to their staffs.

The Hardest Working Man in the Business

Norman Rothman was the hardest working person in his business. Not only was he the owner; he was the chief cook and bottle washer, metaphorically speaking. He simply could do, and most of the time did, every function in the business.

He was personable, his entire staff liked him, and his business was reasonably successful. He always had more than enough customers. His customers always asked for him when they came into the store. He would end up working late most days and coming in on most weekends, just to get the orders processed and keep up with the paperwork.

Most of the time he sent his employees home on time. Even though his employees always offered to stay and help him (and they were sincere about their offers to help), he would assure them that he would just take care of the "few things" that remained to be done. Then he would knock off work for the day and go home. The problem was that he would rarely go home after the "few things" got done. Instead he would really dig in, often working past midnight.

One reason he would stay and do much of the work himself is that he wanted the work done a specific way. After going home late in the evening or after working all weekend, he always felt good about how much he had done, and the quality of effort he was putting into his business. It made him feel as if he was accomplishing something.

Everything seemed to be going along just fine. The business was growing, profits were better than they had been in years, his staff was stable, and the customers loved him. Life was good.

What more could a person ask for? On the surface, Norman had a great business and a good income. He was living the good life. He had achieved the "American Dream."

In fact, the opposite was true. He did not really have a great business. He *was* the business. The business could not operate any significant time without his being there. When he got sick and was out for the day, everything came to a grinding halt. No one knew what to do because Norman always took care of everything.

His wife finally prevailed upon him to take some time off to go skiing with the family over a long weekend, when the business was traditionally closed. While he was skiing with the family, his oldest son challenged him to a race to the bottom of the slope. Off he went, racing his son down a black diamond ski run. Half way down the slope he lost his balance and crashed into a tree.

He woke up in the Medivac helicopter on his way to the regional medical center. The next day, after surgery, he learned that he had fractured his leg, literally shattering his femur into a dozen pieces. The doctor told him that he would be immobile for at least three to four weeks.

The first thing he thought about was not being able to return to work any time soon. In most well-run businesses, this would not have been too much of a problem. Sure, productivity might suffer some, but the business would go on.

For Norman's business, this was not the case. He handled most of the key aspects, knew all the customers and their needs, and had not trained or delegated any of the important functions of the business to his staff. Everything came to a stop because he was not physically at the office.

During the next few months, business dropped off dramatically. Of course, this had a negative impact on his ability to complete several larger projects. Norman eventually returned to work and was able to build the business back up. But, it took over a year to recover financially.

One would think this experience would have taught Norman a lesson about the importance of training and delegation. In Norman's case, however, it just reinforced his belief that he had better not take any time off, and that he needed to be even more focused on his business. No more weekend ski trips for Norman or his family. Because of the manner in which Norman operated his business, everyone lost: Norman, his staff, the customers, and most importantly, his family. *Do not be, like Norman Rothman, a slave to your business.*

This kind of life style is not why most people get into their own businesses. The entire idea is not to be a slave to a career, a boss, or a company. But some personality types just cannot let go and cannot delegate. If this sounds like you, being an entrepreneur will be like a prison sentence for you.

Key Concept:
Unshackling Your Ability to Earn an Income

A number of years ago I was talking to an attorney, and we were discussing various business opportunities. He was a successful trial attorney. I asked him why he would consider leaving a successful law practice of more than 20 years to become an entrepreneur. He explained that success in his practice was based on his skill in the courtroom. He could only derive income if he were in court or working on behalf of his clients, using and applying his skill as a lawyer to generate revenue.

It was true that he could generate a lot of revenue when was working, but he still could not delegate most of his income earning function. If he took time off, the billing stopped until he got back. If he was sick, the work or trial was postponed. If he was not in the office, there was no income. He was, in a sense, a slave to his skill and talent.

He was looking at various entrepreneurial opportunities to unshackle his earning capability by building a business that would produce income without his being there. He was a bright guy who understood the power of leveraging the talents of other people and creating a system to generate income that did not depend on his physical presence.

Another reason he was considering an entrepreneurial business was that a business generally can be sold for more than a law practice can when it's time to exit. When it came time to sell his law practice, he would be forced to rely on a well-established formula in the legal profession that establishes value for practices. He could not realistically leverage any significant amount over this formula, regardless of how good he or the firm was.

Reselling a business that depends on the work of many people is generally more lucrative than a professional practice, and there is also a larger pool of potential buyers. He had asked himself: "What should I be doing during the next ten years of my life? Should I be building value in my law practice or building value in another business? Which one is going to be more lucrative?"

It's All in the Math

As he continued to discuss his reasoning with me, he explained that his logic was simple math: (X + Y) Z = $ (the formula for selling his law practice) or (A + B) C = $ (the formula for selling an entrepreneurial business). Which one would be greater? He knew that the multiple he could expect to receive on the billings of his law practice was only going to equal Z.

He had done his research on several entrepreneurially oriented businesses, and even if A + B (the revenue stream) was the same as, or less than, X + Y, he knew that the probability that C (the multiple paid on the profits of an entrepreneurial business) would be multiple times greater than Z. Hence no matter which way he sliced the pie, (A + B) C would most likely be greater than (X + Y) Z and sometimes as much as 4 - 8 times greater. The reason for this variance is because a personal-services practice is generally valued at 1 – 2 times its annual billings while an entrepreneurial business at a multiple of its earnings.

Of course, he explained, this was based on an assumption that he would be an authentic entrepreneur, and that he could operate a business successfully. Based on this logic, he made the move.

The low leverage on the resources of a professional practice or personal services business is not limited to attorneys. It's a problem that afflicts all personal-service professionals. They have a high earning capability, but their earning power is limited to the direct performance of a specific skill.

Personnel service professionals generally do not build tremendous equity in their businesses. Have you ever heard of a surgeon going public? A CPA? An attorney? They do sell their practices, which in essence is their patient or client lists plus goodwill. But the sales price is usually much less than an entrepreneurial business can command, because of the profit based on the productivity of many people.

Another advantage of an entrepreneurial business over a professional practice is the ability of organizing the business to produce income when the entrepreneur is not there in person. This creates substantial additional value. It should be one of the goals of every entrepreneur who enters into his or her own business to create a system by which all of the important aspects of the business can be delegated to someone who is usually more capable than the entrepreneur in performing that task.

Key Concept: The Importance of Systems

The personality of most entrepreneurs includes the need to be involved in the minutiae of their businesses, either operationally or conceptually. That is why they can see opportunities where others see problems. That is why others see too much competition, and they see an under-serviced niche. That is why others see a mountain too high to climb, while they focus on the making the climb. Entrepreneurs have a unique sense of perception and vision. This ability to see the hidden opportunities, as well as the vision of a business, is what makes an entrepreneur unique.

However, as we learned from Norman's story, if entrepreneurs do not delegate and, instead, remain overly involved in the details of their businesses, sooner or later, they'll face disaster.

But delegation is not enough. The foundation of successful delegation is having well-structured operating systems in place. A successful business does not have one large system, rather, it utilizes several operational, marketing, and financial systems. Each of these systems needs to be organized, documented, and implemented to ensure that the business can run efficiently, even when the entrepreneur is not present. Employees need to be trained in theses systems so that the business can survive as particular people come and go, or should there be an emergency that affects an entire department.

At a minimum, there should be an operational system, a marketing system, an accounting system, a personnel system, and, in today's world of e-commerce, an Internet or web-centric system.

Systems—A Definition

Since understanding the concept of systems is critical to successfully launching a business, it is important to define and clarify just what a system is, and why this concept is so essential.

For the purposes of this discussion, a *system* is defined as "a set of principles and procedures that, when followed, produce a predictable result." As introduced in Chapter 8, one of the best examples for gaining an understanding of systems is found in the world of franchising and the granddaddy of all successful franchised systems is McDonald's. Ray Kroc, the company's founder, was fanatical about systems. His absolute insistence that all aspects of the business be operated in the same manner in every single McDonald's restaurant throughout the world is what made the company a winner. McDonald's systematization process has become the basis for what is referred to today as Business Format franchising.

Because of Kroc's obsession with systematizing every aspect of the business, systems thinking became a virtual religion within the corporate culture at McDonald's during his tenure. Everything was systematized. No task was too big or too small to escape being a part of a documented process. Everything, from the way the restrooms were cleaned, the number of seconds it took to cook a French fry, the fact that ketchup was put on the burger before the pickles, to the mandate that Coke and not Pepsi would be in the soft drink machines—everything was formatted and systematized. Why? So that Ray Kroc would not have to be at each location to verify that a customer would experience the same level of product quality and consistency at a McDonald's in New York, in San Francisco, or in Tupelo, Mississippi.

Whether an entrepreneur is in the business of cleaning houses, providing copy services, replacing mufflers, or selling shoes, is it really any different from McDonald's? Sure, McDonald's serves fast food, but the product or the service is not the important issue. It is how well and how consistently, the business format and operating system is executed that is important.

If a business implements systems as effectively as McDonald's, isn't it logical to assume that every member of the staff could perform every aspect of the business operations? Shouldn't the same level of quality be delivered on a consistent basis in different locations? Don't customers deserve and expect this type of service in the products they buy? The answer is a resounding, "Yes!"

Without systems, quality and consistency are virtually impossible. Without systems, there is no road map in place. There is no compass to guide a staff person through the maze of procedures necessary to execute his or her duties in concert with the mission and standards of the company. There is no consistency when the employee is sick or off duty, and the task has to be done by someone else. Systems are essential.

The challenge for any new business owner is to carefully consider the different staff positions, duties, and responsibilities of each segment of the business, and to figure out how to structure a training program with thorough documentation and feedback mechanisms for implementation. This will guarantee that the quality and consistency of the product or service can be delivered by anyone, anywhere. The more effective this system planning and implementation is, and the better the staff is trained in these systems, the more successful the business is likely to be.

Key Concept: The Importance of an Accounting System

Harvey Jackson was a field rep for an airfreight company. His wife was an assistant city administrator. At the same time that Harvey was in job transition, his wife received an offer to head-up an entire municipality as the city administrator. The only problem was that it would be necessary to relocate the family in order for Harvey's wife to accept the position. Since Harvey was in career transition, they decided to accept the city administrator position and move.

Because they were moving to an entirely new part of the country, Harvey thought he might just as well consider changing careers. An opportunity came up to purchase an existing business-freight company. He had some familiarity with the industry, since he had come from the airfreight business. After long consideration and a tough round of negotiations, he acquired the company and became his own boss. Since the business had been well run by a well-organized previous owner, everything was in place. Taking over the business was a piece of cake.

Things went along just fine for a few years. But Harvey was just not an entrepreneur. He settled into a routine and operated the business as an eight-to-five job. After a number of years, he got bored and decided he wanted to sell the business.

He approached a business broker to list his company and sell it for him. The business broker gave him a list of items that he would need in order to value the company, to determine an asking price to list it, and to put together an information packet for prospective buyers.

One of the first items listed on the checklist of necessary pieces of information was the financial statement. Harvey confessed to the business broker that he had never maintained financial statements. The business broker was aghast. He was used to seeing business owners who did not keep detailed records, but he had never run across anyone who did not use *any* financial statements at all. The broker had to tell Harvey that he could not list the company without a basic financial statement.

As incredible as it seems, this is not an unusual situation for sole proprietorships. I could list numerous examples of entrepreneurs who became bankrupt because they did not have the necessary information from which to make informed business and financial decisions. They made decisions based on faulty financial information that turned out to be wrong. They seemed to believe that if they had a supply of checks in their desk drawer, there must be money in the bank. You might find these examples hard to believe, but situations like these are not at all uncommon.

> **GOLDEN NUGGET**
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> *At the height of his fame and success, Andrew Carnegie said, "Take everything I have, but leave me my best 50 men, and in 5 years I will have everything back again."*

For a business to be run successfully, financial record keeping is essential. Specifically, what follows is a list of additional financial and statistical information a business owner should maintain. Some of these may not be obvious, but they are extremely important:

1. Cash-flow statements
2. Budgets by department
3. A core list of financial ratios, including, but not limited to, aging of accounts receivable, quick ratios, *etc.*
4. All copies of financing arrangements, including rental

agreements and equipment leases.

5. Key statistical benchmarks (*e.g.*, for a sales organization it might be cost of sales leads, sales closing ratios, or the average income of a salesman).

One of the first things an entrepreneur should do is to obtain good accounting support. Depending on the size of the business, accounting support could mean a bookkeeper who collects the financial information once a week/month and then generates the monthly financial statements, or, it could mean a full-time, in-house accounting department. Regardless of the scope of the accounting function, an entrepreneur should also consult with a CPA or other financial advisor to explain what the financial information means and how to interpret it. Ignore this advice at your own risk.

Key Concept: The Importance of Your Staff

You can have the best idea in the world and fall flat on your face because you don't have the right people to implement your idea. Or you can have a mediocre idea with great people and hit a home run. Think of what you can do with a great idea *and* great people—you will not only be successful, but you can change the way business is done in your niche.

People make all of the difference. There are several key principles regarding staffing and personnel that anyone considering becoming an entrepreneur should understand:

1. *Building a team begins with the first person hired.* If you do not take proper care in selecting each member of your staff, including the first staff member, you can never expect to build the team you envisioned when you decided to get into your own business.

2. *People work for more than money.* Each person will have his or her own set of priorities in selecting whom to work for.

Salary is one important ingredient, but to most people, it is not the most important factor when selecting an employer. Work environment, employee benefits, family-friendly policies, advancement, recognition, responsibility, and being appreciated are all reasons people remain loyal to a company.

3. *Solving the employee retention problem is essential for the long-term success of any business*. If a business is able to recruit the best employees but is not able hold on to them, what has really been accomplished? Employee retention does not happen by default. It takes planning and work. It requires the efforts of the entire management team. It requires consistency. Neglect any aspect of an employee retention program and watch your business languish.

4. *You get what you pay for*. In order for any business to succeed, a company culture must be created that lends itself to retaining the best and the brightest. If this cannot be accomplished, a business will find it difficult to succeed. Value is far more important than what something costs. This is especially true with personnel decisions. Although people do work for reasons other than just the highest available paycheck, compensation is still important.

GOLDEN NUGGET

My father-in-law was a believer in the axiom, "Pay a dirt-cheap price, and you get something that is dirt-cheap." His motto was, "Buy value, not price."

Maslow's hierarchy of needs applies here. If people are not able to provide for basic needs (or whatever they consider basic), they will not focus on the job at hand. They will be preoccupied with providing for their basic needs.

Key Concept:
The Importance of the Planning Process

Everything that we have discussed in this chapter has been related to "key concepts." In order to guarantee that these key concepts are actually implemented, an entrepreneur should diligently commit to a planning process. This will ensure that important ideas and strategies get implemented in an orderly fashion and that they can be monitored and modified when necessary.

The old axiom of "planning your work and working your plan" is never more important than in an entrepreneurial environment.

The Unappreciated Staff Lowers Profits

I often hear entrepreneurs lamenting and complaining that they cannot afford to provide medical benefits for their staffs. I contend that an entrepreneur cannot afford *not* to provide medical benefits for their staffs. I would rather go without a fancy office or new equipment and provide medical benefits for my staff. Why?

Because I know that a happy work force, properly managed, will earn enough revenue for the company to pay for the cost of medical benefits. An unhappy and unappreciated staff will create high turnover, high recruiting costs, high retention costs, lower productivity, and lower profits.

Yes, things are fluid and fast paced, but don't assume they cannot be planned and managed.

Key Concept:
A Chaotic Work Environment Can Produce Results

I have observed operations that are purposefully chaotic. There is so much activity that it makes one wonder how so much ever gets done. When I was once discussing this with an entrepreneur whose office always seem chaotic, he shared with me the following entrepreneurial insight:

1. You don't get waves if you don't jump in. An entrepreneur will often just jump in and figure out how to solve the problems later. An aggressive entrepreneurial personality can do this, but it doesn't work for less organized or talented entrepreneurs.

2. When people are working at their capacities, they tend to be more creative than when working at half-speed. This can be understood by a sports analogy. An athlete can practice for years and never break a world's record, but in the heat of competition he or she can set new world marks. Why? Competition and the pressure of the moment motivate people to perform better. These conditions often foster more creative results than slower and more methodical work environments.

3. Intensity is the mother of new ideas. If there is a lot of activity, ideas about how to better process the workflow are more likely to be generated than in routine, methodical environments.

4. Employees tend to be happier when they are achieving and busy. The old saying that "the devil makes use of idle hands"

Chaos Is Good

Unplanned chaos is bad, but planned chaos is good. There should be order to the entrepreneurial madness. In fact, many businesses thrive on chaos. They recognize that chaos does not have to be random. They plan for it and maximize the benefits of what seems like disorder. The important thing to realize is that chaos can be planned and is not just a series of random, unpredictable circumstances.

is really true. Fully-engaged employees are not only happier, but much more productive, with less time to make mistakes.

Key Concept: The Tidal Wave of Change: Watch for It on the Horizon

One of the biggest dangers entrepreneurs face is to be blindsided by change because they do not see it on the horizon. If an entrepreneur is too focused on running the business and does not take time to survey the surroundings, it may be too late to avoid disaster. Why?

Because the marketplace rules. The marketplace is cruel and unforgiving. It changes quickly and often completely, with little or no warning.

> **No Plan to Anticipate Change**
>
> "Where there is no vision, the people perish" is a biblical admonition that is true more often than not in business. What happened to the video stores on Main Street, USA, for example? Most of them have faded away. Why? No plan to anticipate change. No vision to conceptualize the future. No ability to see what was lurking over the horizon. No ability to adapt to a changing business environment.

Three Businesses and How They Reacted to Dramatic Change

The Video Market. In the early days of video, video rental stores grew without restraint. They popped up in nearly every town, big and small. Most these retail outlets were small retail spaces, usually about 1,200 feet, and every location carried several thousand video titles. They were usually manned by entrepreneurs and their teenaged staffs. There was no computer tracking system, just a rudimentary manual system—sometimes just 3" x 5" cards. But business was good. Demand was high. Customers were plentiful and profits were good. Life was good for a while.

Literally overnight, Blockbuster Video arrived. Blockbuster was a large, publicly-financed company that redefined operation of the video-rental business. A Blockbuster store would span 10,000 to 15,000 square feet, carry an inventory of 10,000 video titles, and guarantee that the latest movie would be in stock or the customer could rent it for free. Blockbuster, at the height of its expansion, was opening nearly a thousand stores a year. The second wave of change that sealed the fate of the remaining neighborhood video stores, and is now beginning to take a toll on Blockbusters stores, was Netflix.com and new services such as video-on-demand from local cable TV providers.

GOLDEN NUGGET

In business, nothing lasts forever.

Yogurt Became a Commodity. Rapidly changing markets were not limited only to the video business. The yogurt business niche suffered a similar fate. In the 1980s, both independent and franchised yogurt businesses were popping up like wildfire. At the height of this fad, there were nearly 20,000 retail yogurt shops nationwide.

The problem was that there is nothing proprietary about yogurt. Most of the yogurt stores were simply retail shells with yogurt machines. No unique environment or ambiance was created, just a place for selling a health-oriented dessert. Soon every Baskin & Robbins, 7-11, gas station mini-market, grocery store, McDonald's, and fast food restaurant had a yogurt machine. The fad crashed big time.

No plan, no marketing system, no forethought, no execution, no vision.

From its heyday, when there were thousands of yogurt stores, to today, when there are a lot fewer, yogurt shops have nearly disappeared from the landscape. They've gone to the great business graveyard in the sky, and along with them, the wrecked financial dreams of unprepared entrepreneurs.

Certainly, many of these yogurt stores would have evolved into other incarnations had their market positions and concepts been thoughtfully researched and developed. They would have analyzed their marketing data and may have seen the market changing. They might have been able to react instead of being blindsided.

Only one national chain had the vision and the ability to adjust. TCBY had a plan, a unique product, and knowledgeable management. They lost thousands of stores, but repositioned themselves in the marketplace and survived as a viable company.

Each of these businesses had potential. Each business addressed the marketplace differently. And, as you can see by their examples, responding to changes in the marketplace, rather that muddling around and reacting desperately, is critical to your long-term success.

Another Commodity Product with a Different Strategy. Starbuck's is just a coffee shop, right? I don't think anyone is so naïve as to claim that Starbucks is just another place to get a good cup of coffee. Starbucks thoughtfully put together its concept and focused on building a new and different culture around the experience of having a latte. The strategy was not to focus on the product. Instead, the company created and refined the experience of consuming its product. Yogurt shops focused on their product. Starbucks focuses on the experience.

Key Concept: Crashing Through the B/E (Break-even) Barrier

Let's assume for the moment that you have done all of the right things in launching your business and that you have obtained enough customers to crash through the B/E Barrier, sometimes called the Break-even Point.

Only those of us who have actually done this can really appreciate the satisfaction of sitting in your office, analyzing your financial statements, and realizing that your company is profitable.

One of the most important concepts to understand in your quest to crash through the B/E Barrier is getting the marketing strategy right. The next chapter provides information about how to do this right the first time.

PART

3

UNDERSTANDING THE BASICS

In 1911, two expeditions set out for the South Pole, one led by a Norwegian, Roald Amundsen, and the other by an Englishman, Robert Falcon Scott. Both expeditions were adequately financed. Both leaders had extensive experience in polar exploration. So why did Amundsen succeed and Scott fail?

Amundsen knew the value of dogs in the Antarctic and used them; Scott chose to use Siberian ponies, which turned out to be unsuited to the climate and the terrain. When the ponies died from cold and lack of food, Scott's men had to do the hauling. Scott relied on mechanized tractors to pull hay for the horses and equipment for the men. The motors failed in the cold. Amundsen had a small, experienced group; Scott relied on cronies with whom he felt comfortable. Amundsen led through an understanding of his men and delegated based on skill sets and personalities; Scott was an autocrat who ruled through a strict chain of command. He made all the decisions, and they turned out to be poor ones.

Amundsen reached the South Pole in December of

1911; Scott reached it five weeks later in January of 1912. Amundsen returned safely with all his men. Scott died with a small group of companions on the return trip. What differentiated these two expeditions was not the fact that Amundsen was first to the Pole; rather, it was the simplicity of his basic planning and execution, his understanding of the variables, and his leadership style.

Most businesses fail because they begin without a clear understanding of business fundamentals, not because they are built on bad ideas. This section will help you avoid the pitfalls that cause many good business ideas to fail.

CHAPTER 11

It's All About Marketing

If perception isn't everything, it should be.

—Marvin L. Storm

I can't place enough emphasis on the importance of marketing in an entrepreneurial business. If a marketing plan is properly implemented, a business has a fighting chance of survival, even if everything else in the business is questionable. In the final analysis, marketing determines what the customer thinks about your business. From the manner in which the phone is answered, to the delivery of the final product or service, it is all about marketing. Marketing controls perception.

GOLDEN NUGGET

A good marketing plan, effectively implemented covers up a host of sins.

Key Concept: The Importance of Marketing

The credo of many successful entrepreneurs is "Market or Die." What is marketing? Some people think of marketing simply as advertising. For the purposes of this discussion, marketing is the persona of a business. It incorporates everything that creates the image and essence of the business.

It is the style of the advertising message; it is the advertising message itself; it is the decor of the location; it is the greeting on your voice mail; it is how your staff is dressed; it is the business cards and stationary; it is the smile on your staff's faces; it is the packaging of your product; it is how complaints are resolved; it is the philosophy that determines how your employees and customers are treated. At it's core, marketing is about how your customers perceive your business.

Key Concept: Steps in Developing a Marketing Plan

There are three steps in marketing that every business should follow.

- Determine the marketing strategy.
- Design a formal marketing plan that includes every aspect of the business.
- Implement the marketing plan.

Each of these steps is important and difficult to accomplish. Determining the marketing strategy might seem easy, but it is complicated because there are many key data points and other factors that must be assessed. These include, but are not limited to, competition, pricing, customers, and budget.

In developing a market plan, you will need to answer the following questions:

- What does the business do?
- Is the business in a direct advertising niche?
- Does the business grow by networking and referrals?
- Does the business grow through strategic alliances?
- Does the business grow because of the personality of the entrepreneur?

These and other questions help determine what type of marketing plan should be developed.

Designing an effective marketing plan may require the help of professionals outside the firm. Regardless of who is involved in its creation, the plan should be a formally written document that is reviewed and updated often. If a marketing plan is well done, it should point the way for a business to dominate its niche. If it is successfully implemented, you can expect success.

A Marketing Strategy That Was Too Effective

Surprisingly, some marketing plans are too successful, and that causes other problems. A home-services company, for example, developed a marketing strategy that promoted the use of retired, skilled workers to provide various types of small home repair services by using the slogan "Retired Craftsman." The strategy was designed to appeal to a homeowner's perception that repair-service people must be reliable and trustworthy, and that these characteristics could be met by senior craftsmen who would do quality work at a fair price.

The entire marketing strategy was based on the availability of enough retired craftsmen to perform small home repairs. After the marketing plan was implemented, the increase in work requests outstripped the ability of the company to find enough retired craftsmen to meet the consumer demand. The company quickly changed its marketing slogan to read, "Retired Craftsman and *Other Experts*."

It was important not to dilute the effectiveness of the phrase "Retired Craftsman." When a customer called to place an order for work to be done in his or her home, the initial phone presentation was modified to prepare the customer for the possible arrival of a younger person. The order taker did this by explaining that the company did not have enough "Retired Craftsmen" but that there were "Other Experts," who all had at least 10 years of experience and were insured and bonded.

The quickness with which the company repositioned its marketing strategy exemplifies just how fluid and responsive a marketing strategy must be. Today, this company, due in part to its ability to adapt a unique marketing strategy, is one of the largest home-services franchises in the world.

Key Concept: The Cost of Obtaining the Customer is Not Always So Obvious

The importance of getting customers might seem obvious, but the value of a customer is overlooked by many entrepreneurs. Let me explain.

The acquisition cost of a single customer in today's high-priced media market is greater than ever, and it isn't getting any cheaper. Depending on the business, it can cost from a few dollars to many hundreds of dollars—and in some businesses, thousands of dollars—to create a customer. Let me give you an example.

A business providing a service to the residential real estate market uses direct-mail and newspaper advertising to solicit new customers. The business is located in a large metropolitan area, so direct-mail and newspaper advertising are very expensive.

The cost for one month's worth of advertising is $12,000, direct mail accounts for $8,250, and the local newspaper accounts for $3,750. There were 103 leads from the newspaper and 266 from direct mail. The cost for each media lead is computed as follows:

It appears that the better advertising medium for this business

Cost per Inquiry Comparison

A Response Source	B Cost	C Inquiries	Cost Per Inquiry
Newspaper	$3,750	103	$36.41 (B/C)
Direct Mail	$8,250	266	$31.02 (B/C)

is direct mail, since the cost per lead is lower: $31.02 versus $36.41. Many entrepreneurs, if they track their advertising at all, stop their analysis here. However, further digging reveals some surprising facts and statistics. The analysis of sales per inquiry tells a different story. Let's look and see why.

Newspapers were 2.55 times (a sales ratio of 8.7/3.4) more likely

Sales Ratio Comparison

A	B	C	
Response Source	**Revenue***	**Cost of Ads**	**Sales to Ad Cost Ratio**
Newspaper	$32,750	$3,750	8.7/1 (B/C)
Direct Mail	$28,250	$8,250	3.4/1 (B/C)

*Total sales revenue from leads generated from advertising

to produce a sale per dollar spent than direct mail. Even though more inquires came from direct mail, the respondents were less likely to be buyers of the home-related services. Perhaps the direct mail respondents were coupon clippers, and the newspaper readers had paid for a subscription and were actively looking to use the service, instead of just opening unsolicited direct mail.

Based on a cost-per-new-customer comparison, the cost to

Comparison Cost of a New Customer

A	B	C	
Response Source	**Ad Cost**	**Number of New Customers**	**Cost Per Customer**
Newspaper	$3,750	25	$150 (B/C)
Direct Mail	$8,250	30	$275 (B/C)

acquire a new customer is $150 for newspaper vs. $275 for direct mail. Again, we can see the same premise: a better customer response comes from a paid subscription versus a person receiving a coupon mailer.

Looking at this data in another way, how many customers did it take to generate a sales dollar? The facts show that there is a higher value-per-customer with newspaper than with direct mail.

The reason these statistics are so important is that in today's advertising environment there is a lot of clutter. It is expensive to generate enough advertising frequency to make an advertisement stand out. Many would-be entrepreneurs fail because they do not understand the importance of a fully integrated marketing plan that includes, not only the creative side of advertising, but also: 1. The importance of targeting an audience, 2. The results that are eventually produced, and 3. The cost of these results.

Revenue from Each Customer

A	B	C	
Response Source	**Total Revenue***	**Number of Customers**	**Revenue Per Customer**
Newspaper	$32,750	25	$1,310 (B/C)
Direct Mail	$28,250	30	$941 (B/C)

*Total sales revenue from leads generated from advertising

With the emergence of pay-per-click advertising pioneered by companies like Google, there are many more alternatives for an entrepreneur to spend hard-earned advertising dollars. Having a good system to capture data in a marketing program for detailed analysis is crucial for long-term survival in business today.

If a marketing strategy is effective in attracting a significant number of the right customers at a reasonable cost, you can achieve the critical break-even point before you run out of those precious advertising dollars. When this break-even happens, it is magic, and great businesses are created as a result

Key Concept: Lifetime Value of a Customer

The concept of the "lifetime value of a customer" is extremely important to understand. It is not enough to get customers; the key is to keep them coming back to do business with you again and again.

Remember the preceding discussion regarding the cost of acquiring a single customer and the revenue generated? If you recall, the cost to acquire a new customer was $150 for newspaper ads versus $275 for direct mail, and the revenue generated by a customer was $1,310 from newspaper ads versus $941 from direct mail. Using these two statistics, we can begin to understand how the cost of acquiring a new customer can impact profitability. Now let's insert another factor into the equation.

GOLDEN NUGGET

It is not enough to have the money to advertise; it is equally important to have the right message delivered to the right customers, at the right time, and in the right way.

If we assume that the revenue generated from a new customer is $1,310, and the cost to acquire that customer was $150, then the net revenue generated before other direct and overhead expenses (after advertising cost) is $1,160 ($1,310 less $150). Let's assume that this customer orders the product or service in the future, for argument's sake, say once every year.

The second year, the net revenue from that customer has increased to $1,310 ($1,300 less $0—no deduction for advertising cost). And, it's the same for the next five years. Now the value of that customer has increased to $7,710, computed as follows:

The above computation illustrates that the lifetime value of a customer can be many thousands of dollars. And not only is there a

Revenue from Reorders

Revenue	Cost per Customer	Less Ad	Net Revenue per Customer
Original Order	$1,310	$150	$1,160
1st Reorder	$1,310	$0	$1,310
2nd Reorder	$1,310	$0	$1,310
3rd Reorder	$1,310	$0	$1,310
4th Reorder	$1,310	$0	$1,310
5th Reorder	$1,310	$0	$1,310
Total			$7,710

direct revenue impact from each customer, but we can also assume that a satisfied customer will refer many more customers to you. Referrals generally do not cost the company *any* direct marketing or advertising cost, so the lifetime value of a referral customer increases exponentially. I have seen situations where one customer has made an entire business successful.

Key Concept: The Power of a Satisfied Customer

A young retailer named Ellen Dewitt was a women's apparel buyer at a national department store chain. Leaving the corporate world to become an entrepreneur, she opened a small, exclusive dress boutique. As she slowly began to build her clientele, she was careful to provide unparalleled service to all the women who came into her store. One day, while she was short-handed in the store, she was working the sales floor waiting on customers with her staff.

Ellen noticed an older lady come into the store. Since she was busy with another customer, she simply watched as the lady walked around looking at various items in the store. After Ellen finished with her customer, she approached the lady and politely asked if she could be of any assistance.

The woman did not look overly "well to do" but was formal and dignified. The woman explained that she was looking for a pair of white gloves and described the gloves she was trying to locate. Ellen did not have the gloves the woman was looking for in the store, but instead of trying to up-sell the woman on a more expensive pair, she offered to special order the gloves for her.

A special order can be time consuming and a real nuisance, but Ellen did it anyway. When the specially ordered gloves arrived at the store, Ellen dutifully called the woman. The woman came in, picked up the gloves, and thanked her for her trouble but did not buy anything else in the store.

Several weeks later, several women showed up at Ellen's store and purchased several very expensive dresses. When she inquired how they had heard of her store, they said that a Mrs. Hammersmith had referred them to her. Mrs. Hammersmith? The name sounded familiar, but Ellen could not place it.

The Golden Question: *How Did You Find Out About Us?*

Finding out where your customers heard about you is one of the golden rules of marketing. Without this information, you are like a ship in an endless journey into oblivion.

That night while driving home, Mrs. Hammersmith's name jumped out at her. The glove lady! Over the next six months, more than 40 women started frequenting Ellen's store, purchasing tens of thousands of dollars of merchandise. Special ordering a pair of gloves did not make Ellen a lot of money. In fact, she lost money on that transaction, but the value of one satisfied customer was worth far more than the time and money invested.

This example illustrates the value of customer service. The lifetime value of one satisfied customer can multiply into dozens of new customers, which in turn can multiply into hundreds of thousands of customers.

Key Concept:
The Flip Side of the Coin—2 versus 10

Of course, there is an even bigger multiplication factor in an *unsatisfied* customer. It is often said, "A satisfied customer tells two people, on average, about his or her experience; an unhappy customer tells ten people." A valuable statistic to keep in mind.

Chapter 12

Why Start-Up Businesses Fail

No horse gets anywhere until he is harnessed. No steam or gas ever drives anything until it is confined. No Niagara is ever turned into light and power until it is funneled. No life ever grows great until it is focused, dedicated, disciplined.

—Henry Emerson Fosdick

A building contractor would never attempt to construct a large commercial building without a full set of architectural plans. Although building a business is much more fluid, a blueprint is also essential. Without it, an entrepreneur risks being sidetracked, which can result in a quick and painful end.

Not All Entrepreneurs Succeed

Those who fail usually make similar mistakes. Since the same critical elements are present in most failures, an entrepreneur should consider those elements in advance to avoid making the obvious mistakes.

In growing a business, mistakes and errors will be made. However, many of these mistakes and errors are preventable if they are addressed early in the development of the business. If they are not addressed, they become nails in your business' coffin. Let's look at some of the errors and learn from them, so that you will not have to learn the hard way.

Nail in the Coffin #1: Poor Location

Those entrepreneurs who are in businesses where location is critical must do their homework when selecting their site. All too often, a newly-minted entrepreneur falls in love with a location because it's attractive, available at the right price, near home, or for some other reason that is not germane to the business.

Depending on the type of business, a good location should have most, if not all, of the following elements: the right area demographics, visibility, easy access, operational functionality, high foot traffic, complementary businesses located nearby, and adequate parking. If any one of these elements is missing, the risk of failure increases dramatically.

GOLDEN NUGGET

History repeats itself. This is never truer than in the world of the entrepreneur.

Today, with the technology available to assist in site selection, you are foolish not to use it. Companies like MapInfo, a demographic software analysis firm, have sophisticated software models with lifestyle segmentation and geomarket analysis tools that can pinpoint and profile customers who live near any specific site. Software algorithms can easily factor in a diverse set of parameters to sort through the complex matrix of a successful location. This information is so precise that it can be graphically displayed on color maps with demographic detail down to 1/16 of a square mile. The information is derived from the U.S. Census and is highly reliable.

Using specialized software to provide location intelligence can reduce the risk of selecting a location that does not have all of the critical factors of success. The old method, driving by a location, is helpful, but it should not be the sole basis for site selection as it was a few decades ago. However, many entrepreneurs still rely exclusively on their instincts when choosing a site. This method is as old fashioned and unreliable as using a divining stick to drill a well for water. As is true for a divining stick, you get lucky every once in a while.

The drive-by process, or any other simple process that unsophisticated entrepreneurs use for site selection will limit choice of a location to one or two elements. These entrepreneurs select locations based on gut feeling and may justify their decision by saying they don't have enough time to do a more complete investigation.

There is *one* factor in particular that often dominates the decision process and can negate the entire independent analysis process. What is this factor? It's the rent payment. A lower rental price per square foot will often turn out to be the main factor in the decision making process. The fact is, the cost of rent is often the *least* important factor. In many cases, high rent can even be among the factors that ensure success, while a lower rent can lead to certain failure.

GOLDEN NUGGET

High rent is one of the key elements of a great location, but that does not mean that all high rent locations are good.

The Wrong Location Usually Has Affordable Rent

Wayne Beagleman was a successful manager within corporate America. But the time had come for him to "do his own thing." After deciding to start a retail business, one of his first tasks was to select a location. Since a retail business requires a good location, he felt this should be his first priority. But he also had several personal conditions he wanted to include in his selection process. The following were some of the criteria he used to locate his business:

- *The commute.* The site could not be more than 20 minutes from his residence. He had spent too many years commuting to start doing it again. Proximity to where you live is a valid concern, but that alone is not a reliable indicator of a good location. It might be used as a tiebreaker, but it should not be one of the critical elements in selecting a site.
- *Rent.* It had to be affordable. The location has to be the best in town, but with an affordable rent. Yeah, right. The scenario where you find a great location at the cheapest rate will happen only in the Land of Oz when the landlord is the "Wizard of Oz" himself.
- *Size.* There had to be enough space to adequately display his merchandise, but not so much space that it would drive up the rental payments. Getting a space with "just" enough room can be an expensive and shortsighted decision. If the business is successful and you have to relocate because you outgrow your location three months after opening, getting out of a long-term lease, plus the cost of relocation, can be crushing to a new business.
- *Charm.* The ideal location would be a mixture of old-world charm and high-impact visibility. Sounds like another location along the yellow brick road.

Each of the items on Wayne's list might be important, but all of them are secondary considerations when considering a successful location. Let's look at the correct decision matrix, and the reasons for each:

- *Visibility and traffic.* Retail businesses need visibility and significant vehicle and/or foot traffic. Wayne should use a demographic marketing firm that would profile his targeted customer base by using lifestyle segmentation and demographic trend projections to select a location. After conducting a detailed demographic market analysis, the firm could compile the traffic count of every retail strip center in the area and give Wayne a list of the available locations that fall within these parameters. He could then take the top three or four available sites and talk to all of the local merchants about their foot traffic. Then, he would need to verify their claims by sitting and counting people at various times of the day, on different days during the week.

- *Accessibility*. It is critical that your customers can get to your business easily. Talking to neighboring merchants about the difficulties they may have experienced with their location over the years will help you determine how accessible the location is. Here are some things that might come up in a chat with the local merchants: planned construction projects, re-routing of traffic because of community no-growth initiatives, special city events that restrict traffic for weeks at a time, and difficult tenants with high parking demands. Become a Sherlock Holmes on steroids when sleuthing a new location.
- *Rent*. Although the cost of rent is important, do not expect to pay low rent for a prime location unless you married the landlord's daughter/son. Negotiate other terms in the lease that will help offset high rental payments.
- *Picking your neighbors*. Sometimes one of the biggest factors in success is locating your business near complimentary businesses that attract a similar type of customer. This can help your business grow by providing a steady stream of walk-by customers. Examples are many: a bagel shop near a Starbuck's Coffee House, a frame shop near an art gallery, a

hair salon near a nail salon, a Baskin & Robbins near a deli, or a pharmacy near a medical office. These businesses are complementary and enhance each other, respectively.

Each of the above listed factors would acquaint Wayne with the atmosphere, the mood, and the ebb and flow of the locations he was considering. He would then begin to get a feel for each of the locations. Compiling all of this information would give him the ability to formulate a best–to-worst list of available locations. Only then should he take in account his original list of criteria.

What Wayne Did Instead

Wayne found a small shopping area where he wanted to locate his business. The location was away from the main shopping area of the town. It was not easily visible from the street. There was little parking. There was virtually no foot traffic. There were no compatible businesses nearby. Access to the location was difficult, and he did not conduct a demographic analysis.

The building was charming, however, because the landlord lived above the retail shops and spent a lot of time fixing up the place. For example, it had a rustic brick façade. Water fountains were interspersed throughout the landscaping, and there was an elaborate garden that blended in with the rustic decor.

The location was in the community where Wayne wanted to be; the commute was acceptable; and above all the rent was right. Wayne made his choice using his own decision matrix, not the decision matrix most experienced entrepreneurs would use. According to his reckoning, he had found the perfect location.

Wayne asked me for my input prior to his signing the lease. I looked at his location; then I drove around the area. There was another location about a mile away that was similar in size. It had high visibility, easy access, and a parking lot right in front of the space. It was in a new shopping center with high-foot traffic generated by tenants who were compatible with his business and a monster vehicular-traffic count. But the rent was 80% higher than the first location. I did not do a formal demographic segmentation analysis, but I was sure the area would fit the customer profile he was targeting.

I met with Wayne to discuss the other location. The first comment he made was that he had already looked at this location and that the rent was too high. I made a suggestion that he look at the extra rent as a part of his advertising budget because the traffic count was at least 15 times higher than the location he liked. Virtually everyone in the community drove past this location every day, since the road in front of the space was on the main access road to the area.

Wayne listened to my logic, although he didn't necessarily agree with me. The next day he signed a five-year lease with two five-year options on the location he liked. Now Wayne had a charming spot that only he could appreciate. Very few people noticed his location because few drove by it. If they had wanted to stop after driving by, there was little parking. The access was difficult. But none of this seemed to matter to Wayne because the rent was right.

With all the enthusiasm of a new entrepreneur, Wayne opened his location. He spent substantial money on advertising, more than he had planned. The business *did* grow. Once he got people into his store, he usually made long-term customers out of them. However, there were just not enough of them. Other competitive businesses opened in the area, making it a lot more difficult to attract customers to his location.

To make a long story short, Wayne's business did not survive to the first lease extension. Why did the business fail? There may have been several other reasons, but without a doubt, his location was a key factor.

Nail in the Coffin #2: Hire for Capability, not Salary

A number of years ago when Michael Jordan was still playing basketball, I read an article about him in the sports page. He had just signed a one-year contract with the Chicago Bulls for $35 million dollars. The article posed the question, "Was he worth that much?" The article listed the pros and cons. The bottom line was that with Michael playing on the team, it won championships and brought fans to the arena. Even though his salary was high, the results of having him on the team were proportionally higher. Conclusion: he was worth it.

"Steady as She Goes" Does Not Put Money in the Bank

Ed Sanker was a manager of a community-based retail business. He was hardworking, reliable, and trustworthy. Although he was not a superstar manager, he worked his business faithfully. The sales volume at Ed's location was moderate, as were the profits. There had been no significant increases or decreases in store sales for five years, even though the area was booming economically.

The redeeming factor was that Ed was not an expensive employee. His salary was among the lowest of all managers in the company, and he was one of its most reliable managers. He never missed a day of work, was never late, and never called in sick. He was "Steady Eddie."

Compensation Is Key

It is no secret that a business is only as good as its employees. Don't be penny wise and pound foolish with your staff. Recruit wisely and pay aggressively; use a portion of the company's profits to fund a incentive-based compensation package.

Circumstances in the company changed, however, and there was a new focus on sales growth and profitability. Ed was replaced with a new manager. The new manager's salary was 40% higher than Ed's. Because of the new manager's higher salary, the location lost money for a few months. One of the provisions of the new manager's total compensation package was a lucrative profit-sharing clause. The profit-sharing clause provided that the new manager would make even more money if he boosted sales and profits.

In less than a year, the store sales increased 78% and profitability soared. At the end of the first year, even though the new manager was paid nearly twice (after profit-sharing was included) as much as "Steady Eddie," the store was three times more profitable than in the prior year. The key? Hiring the right personnel.

Nail in the Coffin #3: Undercapitalization

Any banker will tell you that one of the key factors in the failure of a new business is *undercapitalization*. This is defined as underestimating the amount of capital needed to adequately fund both the start-up phase and the ongoing operations of a business.

A Day Late and a Dollar Short

Stan Keys launched his first business with more enthusiasm than money. He capitalized his business with a loan on his credit cards, some money from friends, and a small second mortgage on his home. He figured the business would be profitable within six months and the extra cash flow generated would cover his credit card and mortgage payments. His friends had agreed to wait two years before being repaid on their loans. Stan felt that paying back his friends would be no problem. Certainly, in two years he would be doing well enough to pay them off with interest. He even planned on paying them a little bonus for their faith in him. After all, his business was a no-miss proposition.

To launch his business properly, Stan knew he would be required to do a lot of advertising. Advertising is expensive.

Running one or two advertisements does not constitute an advertising program, but that is what Stan had counted on. He funded his total advertising budget with enough to carry him for three months. Sales did grow, just not to the level he had anticipated. Every week sales were better, but at the end of the three months he was out of advertising funds. He could not afford to continue as aggressively as needed. When the advertising was cut back, the sales growth decreased too.

GOLDEN NUGGET

Advertising is not a one-shot process. A good advertising program should be implemented over a long period of time with a provision for frequency to build up brand recognition.

Within in a year, Stan had his family working in the business. To further cut expenses, he reduced the advertising budget even further. Within a few more months he had to take a job and was running the business on a part-time basis.

If Stan had planned to have advertising funds available for six months to a year, there is little doubt that he would have succeeded. The sales growth was there, but the ability to continue advertising was not.

There *are* stories of businesses that were started on a shoestring and succeeded. These shoestring operations will continue to succeed. Unfortunately, there are 50 failures for each success you read about, and, in most cases, undercapitalization is one of the main reasons.

Nail in the Coffin #4: Over-Negotiating

A number of years ago I was talking to an entrepreneur who had been successful in many different business endeavors. We got into a discussion about negotiating strategies. He made a comment that really had an impact on me. He said that if a contract is negotiated in such a manner that the negotiator is the only one who wins, then it is a bad contract. It will hurt you in the long term. He shared the following experience with me.

When he was getting started in business, he was tenacious in all of his contract negotiations. He would squeeze every advantage out of a negotiation. He always got the upper hand. In fact, one contract he negotiated with a supplier was so skillfully drafted that the supplier was in default the moment they executed it. He clearly had the advantage. He felt very proud of himself for being such a tough negotiator and for the strategic advantage he always demonstrated in contract negotiations.

He had made a substantial financial investment based on this contract. The commitment the supplier made in the contract was to deliver a specific amount of a product within a set time frame. Because my friend had so aggressively negotiated the price to be paid for the supplier's product, the supplier filled other, more profitable commitments before filling my friend's aggressively negotiated contract. The delays caused by the late deliveries prevented my friend from fulfilling his obligations to deliver goods to his customers. He lost his entire investment. True, he had ironclad contract provisions to protect him against such an event. But enforcing these provisions in the contract through litigation with his supplier would most likely put the suppler out of business. If the supplier had gone out of business, there would be nothing to gain. If the supplier could manage to stay in business, he might be able to get part of his investment back.

As he related this experience, he counseled me that every business relationship and contractual agreement should be profitable for both parties. If both parties are making money, then the relationship will be long-term with enough profits for everyone. In one-sided relationships, the party with the advantage may make some money in the short term, but the relationship will rarely be profitable over the long haul.

In terms of market capitalization, if you become familiar with the negotiating philosophy McDonald's uses, one thing you will learn is that vendor relationships are vitally important. The legendary Ray Kroc always made sure each contract he entered into was fair and that his vendors made money. If his vendors were making money, he reasoned, they could afford to provide him with a quality product and great service. He also figured that if there were supply problems, McDonald's would always come first. And if McDonald's came first, it could always deliver the best product to its customers.

> **GOLDEN NUGGET**
>
> *Sometimes new entrepreneurs overlook the importance of quality vendor relationships. It's obvious the price paid for supplies and materials is important, but so is the service received from your vendors. Price is a factor, but it is not the only factor.*

The results of his philosophy have been proven many times. For example, when there was a lettuce or tomato shortage, McDonald's always managed to receive timely delivery of adequate produce. Sure, the size of the McDonald's account may have helped, but a major element was that its vendors were making a fair profit and didn't have the fear of losing money.

Nail in the Coffin #5: No Relationship with a Banker

It is next to impossible for a new start-up business to get a loan from the local bank. Unless your brother-in-law is the bank president, your chances of getting a loan are nil. Perhaps, if you have twice the collateral needed to secure the loan you want, you may actually get the loan. But if you had that much collateral, you probably wouldn't need the money in the first place.

GOLDEN NUGGET

Get to know your banker as a person. After all, real people make loan approval decisions.

Even if an entrepreneur does not need a bank loan, this should not preclude him or her from establishing a relationship with the local banker. There will be a time when the need for a banking relationship will be important.

When opening up a business, entrepreneurs should go to the branch managers of the banks they will be doing business with and introduce themselves. When a branch managers changes, as they do with regularity these days, get to know the new one. Let the branch manager know your progress as your business expands and grows. If you are doing business with a larger bank, get to know the people in the commercial loan department. Try to finance some small equipment acquisitions and make payments on time. Borrow

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My father used to say, "Never try to borrow money when you need it. Always borrow money when you don't need it and then repay it promptly. When the time comes that you need a loan, your lender is your friend because he trusts you. Then you can borrow the money you need."

I don't know if this is true in all cases, but it drives home the point that it's dangerous to wait until the need to borrow money is acute.

money personally—perhaps for a car—and pay the loan off early. Make it a point to ask for advice from your banker on small business financing decisions. Build a relationship and a rapport.

When the time comes that you need expansion capital, inventory financing, equipment leasing, or working capital, you will not be a stranger to the banker.

Nail in the Coffin #6: An Inadequately-Trained and Under-Compensated Staff

In his book, *Swimming with the Sharks*, Harvey McKay relates how important employees are to a company. The philosophy he uses in The McKay Envelope Company is that the most important employees are the ones who have the most contact with customers.

One of the most important staff positions in The McKay Envelope Company is that of the receptionist. This person is one of the most interviewed and carefully chosen people in the company. The receptionist is very well compensated and is given a lot of recognition and responsibility.

In most companies the opposite is true. The receptionist is one of the lowest paid staff members in the company, and many times this position is filled by the first candidate interviewed.

Who in your company will be the most visible and have the most interaction with your customers? In a restaurant, it's the wait staff. In a maid service, it's the maids. In a hotel, it's the front desk personnel. In an advertising agency, it's the account reps. In a gas station, it's the cashiers. In a grocery store, it's the clerks. In each of these situations, the people providing the service and having the most interaction

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In many businesses, the entrepreneur places the entire future success of his business in the hands of the lowest-paid and least-trained people.

with the customers are generally the lowest paid employees in the company, and usually have the least amount of training. What are the chances that these people will provide outstanding customer service and leave your customers with a positive impression of the company?

A better strategy is to pay slightly higher than the market rates and grossly over train your staff, focusing on providing outstanding service. The long-term results will more than pay for the additional expense of compensation and training.

Nail in the Coffin #7: No Internet or Social Media Strategy

A discussion on critical errors made in running a small business would not be compete without addressing Internet strategies. As recently as five or six years ago, few would have included this topic in such a discussion. Yet, in the immediate future the Internet will have as much impact as any single factor on the way business will be done.

> **GOLDEN NUGGET**
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> *An Internet strategy does not a business make. An effective Internet strategy will fashion the Internet to serve as a business tool in the same way that the telephone, fax, or e-mail is a business tool.*

The Internet has caused a revolutionary paradigm shift of epic proportions. No one knows yet how pervasive its influence is ultimately going to be. In the next few years, those businesses not already impacted significantly by the Internet will undoubtedly be dramatically affected. Entire industries will be rendered irrelevant. New Internet and Social Media companies, emerging at this very moment, will replace well-established companies that do not change their exiting Internet strategy to address new competitive paradigms. Everyone will be affected, so standing on the sidelines will only hasten your demise.

Is the Internet a part of your business plan? Is it a part of how you will communicate with your vendors, customers, and employees? Not having an Internet strategy can be suicide to a new business. Entrepreneurs cannot ignore the pervasive power of the Internet.

Nail in the Coffin #8: No Intranet Strategy

A still-emerging segment of the Internet world is the existence of intranets and extranets within companies.

By definition, an *intranet* is a private, secure Internet-like system targeted at a specific internal group, usually employees. An intranet can serve as a medium for all kinds of communications with employees. It is especially useful when there are multiple locations in your company. It can be used to post employee manuals and newsletters, e-mail, bulletin boards, discussion groups, and personnel records. Most large companies have intranets already, but they are a wave of the future even for smaller companies. Currently, there is a real surge in mid-sized, and even smaller, companies becoming wired for this method of managing information flow.

An *extranet* is a private network for key vendors, clients, and special interest parties outside the company. Customers, for

The Internet Changes Everything

There is not a business on the planet that will not be affected in one manner or another by the Internet. Businesses, large and small have gone the way of the dinosaur, and will continue to do so if they fail to adapt to the world of e-commerce.

The Internet is the new frontier, just as the printing press, steam engine, automobile, and airplane were in past eras. Amazing as it may seem, the Internet is going to have just as great an impact on our lives as any of these past innovations, and perhaps even more.

example, can use the extranet to order directly from your company. In some cases, your inventory system can be integrated directly into the extranet of a vendor, and ordering can take place almost automatically. Communication via an extranet can be more efficient than telephoning or faxing, and some serious money can be saved.

An entrepreneur who is not considering the Internet, intranets, or extranets as a part of his or her business plan will find it increasingly difficult to be competitive in the future.

Nail in the Coffin #9: Penny-Wise and Pound-Foolish

There is an old proverb: "He who wastes money is foolish. He who is too thrifty is the greater fool." Stop and consider what this proverb is saying: being too liberal in your spending habits makes you a fool. The implication is that you will be wasting some money. Not good. But the greater fool is the person who does not spend enough. Why would a tightwad be the greater fool?

My father taught me a lesson about being penny-wise and pound-foolish. In the small town in South Dakota where I grew up, everyone pretty much knew everyone else, as well as a lot of their personal business. Our family had a friend who was known for his frugality. Tragically, he was killed while riding a motor scooter. The accident was caused be a blowout in the front tire. Although the low quality of the front tire was never identified as the reason for the blowout, my father knew our friend always purchased the cheapest variety of everything. My father commented, "He paid a dear price for buying cheap tires." Whether or not the quality of the tires was the reason for the blowout, his cheapness made a big impression on me. To this day I do not buy cheap tires.

Whether it is how much you pay your employees, how much you invest in your location, how much you reward performance, or the quality of the tires on company vehicles, being too thrifty can be more expensive than you imagine.

Nail in the Coffin #10: Value, Not Price

As we all do, I learned a lot from my parents. One of the most important parental teachings was that I should look for value, not price.

A seemingly insignificant experience taught me a concept that has both saved me money and made me a lot of money over the years. When I was a kid, I would often go shopping with my mother. During one such shopping trip, she picked out some paper towels. Knowing that she was price conscious, I mentioned to her that the paper towels she had selected were a lot more expensive than the towels on the next shelf. She pointed out that the brand she had selected was twice the length of the cheaper brand, and if I figured it out, it was less expensive per foot than the seemingly cheaper brand.

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You can still save money by buying wisely, not cheaply.

I have never forgotten that simple but powerful lesson. I have used the same logic to make purchasing decisions involving a lot more money than a package of paper towels. Rarely will the logic of value over price fail you.

Sure, Software is Important, But So Is the Hardware

Benny Wolfe was an entrepreneur who opened up an automotive parts distribution business. This kind of business is capital intensive and requires a high degree of inventory management. For this reason, computers and software are critical. In setting up his business, Benny was considering acquiring his computers from a local outfit that fabricated PC computers. He realized there would be very little field, technical, or repair support offered on these computers, but he had convinced himself that since PC computers were commodity items these days, one was as good as another. By purchasing locally-made PCs, he managed to save thousands of dollars on the hardware alone.

After he had installed the computers and tested them, everything seemed to be working fine. Seven months into his business, he had his system fine-tuned. His entire inventory system was honed to precision, and his customer database and billing information were all on the system. He was quite proud of himself.

GOLDEN NUGGET

I've heard it said that, "The only thing better than learning from your own mistakes is learning from other people's mistakes."

Then disaster hit. His system began to crash several times a week. He was always able to reboot and get the system back online, but he was unaware that each time the computers crashed, large blocks of data were being wiped out. When he finally realized what was happening, he called his computer software people. They were from a top-rated company and arrived at his location within a few hours. But they had to spend two days troubleshooting the software. They concluded that the problem was hardware related. Benny called his hardware vendor, but the vendor was not quite so responsive. They asked him to bring his computers into their facilities. He really couldn't do that, so he ended up hiring a high-priced computer technician who spent several days troubleshooting the entire system.

The consultant located a faulty backup drive that was not interfacing with the other hardware devices and was causing the data corruption. What initially seemed to be the saving of a few thousand dollars on computer hardware turned out to cost tens of thousands of dollars in downtime, data re-entry, and extra technical consulting to find and fix the problem.

The point of Benny's experience is that a smart entrepreneur will look for value, not just price. Never try to be cheap when it comes to the key elements of your business. It rarely works out that you actually save any money.

School of Hard Knocks! Is There a Better Way to Learn?

This book, and especially this chapter, is intended to help you learn from the experiences of others, so that you do not have to learn all the lessons of entrepreneurship the hard way.

Will you eliminate all of your mistakes? Not likely. You will still have plenty of learning opportunities from the mistakes you make. But if you pay attention, the ones you do make will not be the same ones I have discussed in this chapter.

CHAPTER 13

The Life Cycle of a Business

It's great to arrive, but the trip's almost always most of the fun.

—MALCOLM FORBES

Did you know that the only company still in existence today that was included in the original Dow Jones Industrial Average (DJIA, more commonly known as the DOW) is General Electric? All of the other companies have come and gone. Some went out of business, some were bought out, and some were merged with other companies. The one thing these companies had in common is that they all had a life cycle. Even General Electric has a life cycle. In GE's case, the life cycle has been less radical and more evolutionary than most.

Very few businesses survive forever in their original incarnations. Some businesses are passed on to family members or partners. Some become publicly traded and are administered by professional managers. All businesses—large and small—change, expand, contract, innovate, head down dead-end paths, make bad decisions on products and services, and evolve through "the business life cycle."

The life cycle of an entrepreneurial business is definable, and it has unique characteristics. What are those characteristics and what can be done to survive each transition and progress into the next phase?

Every company goes through a start-up. But not all of them make it to the next level.

The Birth: Start-Up Stage

The start-up stage has been discussed in several sections of this book. It is the phase most fraught with risk and it is the most exciting. It is also where most of the strategic mistakes are made that can inhibit a business in later years.

Often the start-up is the phase that ages an entrepreneur before his or her time, produces ulcers, wrecks marriages, destroys net worth, and grays the hair. Yet, in spite of all of these perils, the start-up phase can be the most rewarding because the success achieved here directly parallels the effort, knowledge, skill, and inspiration of the entrepreneur. There's nothing quite like it. The closest experience may be the parenting of children. Both experiences have their pitfalls and their rewards.

Despite all of the challenges, entrepreneurs rarely start only one business over the course of their careers. They tend to do it again and again. This passion is not only a reflection of the entrepreneur's personality, it's also a function of the great satisfaction that can come with start-ups. Practice and repetition makes the start-up phase easier the second and third time around.

The Adolescence Stage and the Burn Out Syndrome

Businesses do not remain start-ups forever. Companies grow up. They may not always grow into successful companies, but they do grow up. Ideally, during the maturation process there is revenue growth, personnel improvement, product/service development, improved system development, and profit growth. None of these improvements and enhancements, however, are a given as the business passes through its life cycle. There are potholes in the road, and the business must survive these in order to realize the improvements.

The Downward Spiral of Operational Cutbacks

Jake Holmes was a store manager for a major drug store chain. During the early 1990's he was downsized and decided to give the world of self-employment a try. Coming from a retail environment, he felt he had the skills he needed to be successful.

He acquired a single retail outlet and had a definitive business plan. After all, he had run a retail outlet with more than 150 employees, had managed budgets, and had dealt with a multitude of business-related issues on a daily basis. Running a small retail outlet would be a snap.

He took over the business with just three employees. He had been mentored by some friends who preceded him into entrepreneurship. They had advised him that marketing was critical to the growth and success of his business. He assured his mentors that he understood how important marketing was to his new business, and he embarked on the start-up phase with plenty of optimism and a marketing plan to implement.

Normally the start-up phase of a business should last no longer than 12-18 months. Let's check back with Jake at year two. Jake now had two employees. After an initial first year, there was substantial sales growth, but his marketing plan had been shelved. He was so busy working in the business he didn't have time to execute the plan. And as soon as he ceased his marketing efforts, sales flattened out.

When sales leveled off, instead of returning to the marketing plan, he laid off another employee. The proper strategy would have been to hire another employee so he could spend his time marketing.

Why didn't he do that? He wanted to save money for marketing. This began one of those vicious cycles: "I need more money for marketing, so I will cut back on operational expenses." This approach led to lower sales and more cutbacks.

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The marketing paradox: Which comes first? The money spent on marketing or the sales from marketing that will be used to fund more marketing? You have to find a balance. Whatever you do, don't put your marketing plan on the shelf. Once you do that, the nose of the plane is pointed directly at the ground.

Instead of focusing on marketing, Jake's solution was to work longer hours to generate extra money. Now that he was working longer hours, he began to burn out and lose interest in the business. Things had become routine and boring. Without the corporate goals and pressure from upper management he had experienced in his old job, the motivation to follow his marketing plan gave way to the daily routine.

Fast forward to year four. Jake now was down to one part-time employee and himself. The rut had become a canyon. By year five, Jake decided to sell his business. Why?

He burnt himself out. He had become overworked and tired. With no backup staff, he had to work every day. No days off. No vacations or long weekends off, hence no enthusiasm for the business. Jake had bought himself a job, not a business.

Where did the downward spiral of the business begin? It all began when he failed to implement and carry through on his marketing plan and tried to rectify the problem by putting in more hours himself. This is a common and often repeated error in launching a new business.

After Burners, or Burn Out

The flip side of the coin is Tim Alderson. Tim was an engineer by profession. Shortly after September 11, 2001, he was downsized. He purchased a business similar to our friend Jake's. But the story plays out a little differently.

After acquiring his original location, he hired a manager. He and his small staff marketed the business relentlessly during the start-up phase. As the business entered its adolescence stage (around the 18th month), Tim acquired a second location. Less than two years later he opened up a third location. A short time later he opened a central processing facility to service his retail outlets.

> **GOLDEN NUGGET**
>
> *The most effective use of an entrepreneur's time is to work on the business, not in it.*

Even though Tim worked longer hours, devoted more of his free time to his business, and took more risks than Jake, he did not burnout. Instead he was energized by the business adventure. This served to engage his after burners. Because he was able to execute a marketing strategy to grow his business and was willing to step out of the drudgery of the day-to-day operation, he was able to see the big picture and grow the business. He spent his time managing the business, rather than working as an employee and having the business manage him.

Same Business, Different Results

Just like kids, businesses have good and bad parents. The preceding are striking examples of how two similar businesses can be so different, depending on how they are managed. These two businesses existed in the same industry and in a similar geographical

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Attitude is the alpha and omega of entrepreneurship.

area. They employed the same number of people (at least in the start-up phase), and had the same revenue potential. In fact, an argument could be made that Jake's market had more revenue potential than Tim's. But the results were so different. Why? Attitude, understanding, and execution!

Attitude, understanding, and execution play a major role in

Attitude is Everything

Take the word "attitude." Assign to each letter in the word the numerical position of that letter in the alphabet. Thus, if "A" is the first letter in the alphabet, its numerical position is "1." The first "T" in attitude occupies the 20th position in the alphabet. The letter "I" is the 9th position in the alphabet. Are you following me? Now let's continue. Fill in the numerical positions of "U," "D," and "E." When you are done, add up the column and what is the sum total of all of the numbers added together?

A = 1
T = 20
T= 20
I = 9
T = 20
U =
D =
E =
____
Total =

Attitude is everything. It is 100% of the formula for success. Without the right attitude, an entrepreneur will only accomplish a fraction of his or her potential.

Where is the Horse?

A story is told of twin boys. One boy is a pessimist. No matter what his parents do for him, he finds fault with it. His brother is just the opposite. He finds something positive about everything, no matter how bad the circumstances. The boys' parents become concerned that their optimistic son is too optimistic for his own good. They feel he needs to experience some setbacks in his life to get a more realistic attitude.

On the twins' birthday, they give the pessimistic son a brand-new bicycle, a new stereo, and a big birthday party, inviting all of his friends. His reaction is that the bicycle is the wrong color, the stereo doesn't have large enough speakers, and besides, no girls were invited to his party.

The optimistic son is given a pile of horse manure. His parents walk him out to the back yard to show him his present. As the boy stands there looking at the pile of manure, the parents think, "Finally, he is experiencing disappointment. This is going to be good for him." All of a sudden a smile comes over his face, and he runs over to the pile of manure and starts digging as fast as he can with his bare hands. His parents are horrified and ask in amazement, "What in the world are you doing?"

"Where there's horse manure, there must be a pony!" he replies excitedly.

the success of any business. A major divergence between Jake and Tim was their differing attitudes about marketing. In each situation, most of the other factors were similar. I am convinced that you could place each in the other's location, and within a few years the fortunes of their respective businesses would change. Jake's old struggling business, now run by Tim, would have doubled in size, sales, and profits. Jim's old business, now run by Jake, would be struggling.

Growth: The Young-Adult Stage

When an entrepreneur figures out how to execute most of the functions of a business effectively, profitability follows. Generally, a maturing business has begun to expand in size and product/service lines. This stage of development classifies a company as mature and entering its adulthood.

As with adult humans, maturity in a business can bring a host of problems. In business, these problems concern accounting, personnel, banking, inventory, competition, working capital, and cash-flow issues. As these issues begin to manifest themselves, the ability to deal with them properly becomes critical. Remember that the age of a business is no guarantee of its stability. *A company's transition to maturity is not always successful.*

The skills and talent required to jump-start a new company are unique to the early stages of its growth. Those skills are different from the ones required to manage a growing and maturing company. The entrepreneurial personality may or may not be able to transition to an environment that requires professional management.

From Pong to Failure

Back in the birth of the computer industry, Atari exploded onto the computer scene with a game called "Pong." The company

Different Skills

Entrepreneurs who operate companies of all sizes face the same basic challenges. The scale may be different, but the issues are the same. The skills required to manage each stage of later growth are different from the ones necessary to launch a business.

was tremendously successful. Noel Bushnell was an innovator extraordinaire. But Atari turned out to be a "flash in the pan" computer company. The skills that successfully launched the company did not translate into an ability to nurture it through the life cycle to maturity. I am sure we could debate why Atari and companies like it do not make it to adulthood, but we would probably agree that the changing needs of the company were not met by the founding entrepreneur's abilities.

Maturity: The Middle-Aged Stage

Baby boomers can relate to this stage of life. Middle age is often accompanied by a flabby physique. When a person reaches this phase of life, he or she is less likely to stay in shape. Life tends to become routine.

Not surprisingly, the problems experienced in middle-age are much the same for a business. The business has its customer base and its staff (who at times are not any older than teenagers and Generation X and Y), but the business has become routine and is flabby and out of shape. All issues begin to look similar to those that have been faced before. There seems to be nothing new under the sun. "So what?" is a question that employees ask when faced with something new. These symptoms create the right environment for a mid-life crisis.

GOLDEN NUGGET

The important issue is not what happens during the growth and maturation process of a business, because all companies have their share of big and small problems. It is how these problems are managed.

But the fact is that all of the issues that arise in the middle age of a business can be dealt with successfully. They are even a necessary part of building a truly successful company.

It is important to understand that problems are an inevitable part of any entrepreneurial enterprise and arise in the normal course of doing business. If the entrepreneur deals with the problems in an appropriate manner, the business will flourish. If the entrepreneur can solve the problems internally, all the better. However, if solving some problems is beyond the ability or talent of the entrepreneur, solutions may be required from those smarter, brighter, and more capable.

A successful entrepreneur has the flexibility to manage a business in this manner, allowing it to survive and prosper as it matures by calling on the talents and ideas of others.

The "Golden Years?"

If a business survives its mid-life crisis, the years of maturity will be either the golden years of a business or the precursor to its death.

Rob Bradley was the founder of a franchise company. He and his partner had literally created a new category of business in the franchise community. Their company was unique. It capitalized on a series of changes in the business climate that enabled them to group a set of services together. Being able to offer these services as a unit put them into a position of market leadership.

The business plan was so skillfully executed that from the very early start-up phase, the company dominated its industry. Growth was exponential as the company entered its adolescence phase. Within the first five years, the company had nearly four hundred locations throughout the country and a few locations internationally. Life was good.

Then the mid-life phase of the cycle set in. The drive that had put the company on top of its game was gone. Profits were outstanding, the business was stable, and the franchisees were generally happy. Rob and his partner, both nearing their 60s, were closing in on their retirement.

During the next few years, Rob and his partner literally became entrepreneurial couch potatoes. They began taking long vacations and spending less time in the office. Product and concept development slowed down, and they left their entrepreneurial spirit hung up in the closet. The world began to pass the company by.

After being in business together for so long, Rob and his partner had developed different goals. This caused a rift that grew until Rob determined that he wanted control of the company. He decided to borrow a large sum of money to buy out his partner. In the business sense, this was a divorce. The only loan that Rob could obtain had a high interest rate and restrictive loan covenants; it required that Rob pledge his stock in the company to collateralize the loan.

In your personal life, if your physique is allowed to go to seed over a period of time and a tremendous amount of physical stress

Entrepreneurial Couch Potatoes

Entrepreneurial Couch Potatoes (often referred to as "Co-toes") are those who, after achieving initial success, downshift their activities to idle. The Entrepreneurial Law of Inertia takes over. The Entrepreneurial Law of Inertia states that an entrepreneurial body cannot remain stationary—it is either moving forward or backward. A Co-toe interacts with the Entrepreneurial Law of Inertia, creating the impact of entrepreneurship in reverse.

is then placed on it, the result may be a massive heart attack. In a business sense, this is exactly what happened to Rob's company. With the increased debt load caused by a high interest rate and restrictive covenants on the buyout loan, the company began experiencing serious cash flow problems. In a little less than two years, the company had a massive cash-flow "heart attack," and the lender was forced to foreclose on the company stock held as collateral. Rob lost his company. A once solid and niche-dominant company had completed its life cycle in the least favorable way:

death from foreclosure.

The aging metaphors used here to dramatize the life cycle of a business may seem simplistic and elementary, but they have a striking correlation with reality. If you stop to think about it, life itself is not all that complicated. It can be viewed as a series of events linked together by small decisions, all of which create a life. As we personally pass through our own life cycles, we learn and grow. Most of the time we survive our mistakes.

A business is not all that complicated either. A successful or unsuccessful business is just a series of small day-to-day decisions that, linked together with events, create either a successful or an unsuccessful business. The key to running a successful business is to understand the process, the flow, and the rules of engagement.

Old Age: The Decline Stage: Resurrection, Reinvention—Necessity or Evolution?

No business lives forever. But companies have the ability to resurrect or reinvent themselves and continue in an evolved state.

There are three types of reinvention. One type is reinvention out of necessity. This occurs when a business has blown it, or is in the process of blowing it. Somewhere along the line a turn in the road was missed or someone was asleep at the wheel, allowing a competitor to steal market share right out from under the company before anyone realized what had happened. Whatever the situation, the company finds itself in dire straights. A complete makeover (a reinvention) of the company may be necessary.

A second type of reinvention happens through planning. It occurs in companies where change is the norm, and where a culture of adaptation has been installed.

The third type of reinvention is planned creative destruction. If planned creative destruction is a part of the company culture, as it is at Apple Computer or GE, top management forces all levels of management to destroy business models and products internally before the competition does. The reinvention process is planned and controlled versus being blind-sided by an innovative newcomer.

There are many examples of large national-brand companies that have gone, or currently are going, through the reinvention process. You may be familiar with some of these companies. Some had to do it and some planned to do it. Here are some reinvention success stories.

HoJo Became a NoGo

Howard Johnson hotels, the HoJos of the 1950s, were far and away the national leader in the hospitality business. The company dominated the roadside-lodging niche created by the newly constructed interstate highway system of the Eisenhower administration.

There were no Marriotts, no Hyatts, and no Hiltons to serve motorists who traveled. Howard Johnson hotels seemed to be everywhere and dominated the hospitality market. It was a chain of convenient, inexpensive hotels, motels, and restaurants that offered modest comfort at a reasonable price. Today, many people may have heard of Howard Johnson's hotels, but few, very few have stayed in one. In the last several years, new management has begun to reposition the Howard Johnson hotel chain—the reinvention process has begun.

Recently, I attended a business symposium and heard about Howard Johnson's turnaround efforts from its president. Late one night several weeks later, I pulled into St. Petersburg, Florida and drove past a Howard Johnson hotel. But, based on the speech I had heard a few weeks earlier, I decided to go back and pull in. To my surprise, it was a pleasant stay in a mid-range hotel. Maybe the company will be able to reposition itself in the next decade or maybe it won't, but it seems to be on the right track.

A&W Loses the "In" in Drive-In

A&W Drive-Ins were the craze in the 1950s and 60s. They were the dominant force in the fast-food restaurant business throughout the country. When I was young, A&W was one of the "In" places to go in my hometown, just as it was in thousands of small communities across the country.

In the 1960s and 1970s, competition in the form of McDonald's, Burger King, Wendy's, Kentucky Fried Chicken, and Taco Bell figuratively ate A&W's lunch. In the 1990's, the chain was down to less than 600 locations from a peak of nearly 5,000 in the 60s.

New management arrived on the scene a decade ago. With aggressive upgrading of its locations and an aggressive relaunching of its franchise program, A&W expects to have nearly 1,200 units throughout the county in the next decade. Most of the existing locations will be completely retrofitted with a new and updated motif. A new co-branding strategy in which A&W partners with other fast food outlets in non-traditional locations, such as service stations, are a part of this new growth strategy. A&W still has strong brand-name recognition, and with a new decor package, aggressive purchasing cooperatives, skillful management, and high standards in recruiting new franchisees, A&W is becoming a resurrected and repositioned company.

The Worm in the Apple

Apple Computer's history reads like a good TV soap opera. A visionary and energetic founder builds a successful company and hires an experienced CEO to manage the company and mentor its young chairman. The mentor then ousts its chairman founder, and the founder starts or acquires several new companies, one of which is Pixar, which produces the animated movie hits: *Toy Story, Monsters, Inc., Finding Nemo, The Incredibles* and, most recently, *Cars, Wall-e, Up*, and many more to come. Pixar is purchased by Disney, and the CEO becomes a board member of Disney. The mentor CEO proceeds to run Apple Computer into the ground. The company flounders, the mentor CEO jumps ship, and the founder returns to Apple as interim CEO. He eventually becomes the permanent CEO, injecting new energy and vision into the company. Within months of his return, Apple Computer makes its first profit in years. Less than a year after his return, the founder introduces the iMac. The iMac is a huge success, and the company continues to put together quarter after quarter of profitable operations. Within a few years this visionary CEO invents a new categories of products: the iPod and iPhone. He commercializes downloadable music. Now the former mentor is but a distant memory in the business annals of Apple, and the founder, visionary, interim CEO (now full-time CEO) continues to innovate new and exciting products for Apple, his first true love.

Apple Computer is not the only company that has been destroyed by outsiders who do not understand the personality of a company and end up running it into the ground. Sometimes companies can be resurrected, and sometimes they cannot.

Maid Service Soiled by Corporate Conglomerate

An entrepreneur begins a regionally-franchised maid service that is acquired by a national home products conglomerate. In less than two years the entire franchise system is in disarray. The large conglomerate's management style is not accepted by the franchisees, who had been accustomed to personalized attention from their founder.

The founder reacquires the business, and in the ensuing years builds one of the premier service-oriented franchise companies in the country, winning numerous industry awards and recognition along the way. In this case, the second incarnation was better than the first.

The important thing to realize is that companies stumble for any number of reasons, but they can pick themselves up and become even better in their second and sometimes third incarnations.

Stand Still and Get Run Over

Sony is different from any of the companies described above. At Sony, reinvention is a part of the company culture and not something done out of necessity. It's required as a part of every department's goals.

Sony started with a single product—a simple and inexpensive transistor radio. Virtually all of its income was derived from this product. Many one-product companies never get past this one-product stage.

Sony however, pushed into TV, and TV became the major revenue generator for the company. As the market for TVs became competitive and began to mature, Sony invested large amounts of capital into the new VCR technology. It became one of the dominant forces there, even though they bet on the Beta video format, which they had invented. After realizing where the market was headed and scrapping the Beta format in favor of VHS, Sony retained its dominance in the VCR market segment. Then, as the market began to mature, VCRs became a commodity item.

About the time the VCR market was leveling off, out of the R&D department emerged a funny little portable recorder that no one gave much thought to. The chairman of Sony knew better. He had done his research and had an instinctive feel for a good product. The product was launched, and a new market segment in consumer electronics had been born: the Sony Walkman.

Technology continued to make strides in the miniaturization of components. This technology yielded the new music format of the DVD and the DVD player. Sony is attempting to set the standard in this new DVD format, not wanting to repeat its failure with the Betamax format in VCRs. Now it is a leader in the DVD market with aggressive plans to dominate other digital markets.

Next up? Recently, Sony has stumbled. As a result, it has recruited a new CEO from America (a first for a Japanese company)

The Life Cycle

Each stage of the business life cycle has its life counterpart. Birth: Start-Up Stage. Growth: Adolescence and Young Adult Stage. Maturity: Middle-Aged Stage. Old Age: Decline, Death or Resurrection. It is important to remember that each of these stages is a part of the natural life cycle of any business.

to reinvent and reposition the company. I don't know if they will be successful or not. There is a good chance they will be. Why? Because the reinvention process is a part of the company's culture. It is the way things are done at Sony.

What we can learn from Sony and Apple is that change and reinvention is a way of life, rather than only a necessary response to catastrophic events. In today's hyper-evolving economy, dynamic business like Apple and Sony are the ones that will survive into mid-century.

Your Business Life Cycle Should Not Be an Exercycle

As we have stated, every company has a business life cycle. What will yours be? Will you get out of the start-up phase? Or will you be peddling in place on a stationary exercycle? Will your company become lazy and flabby as it matures? Will your company die a messy, painful death? Or will you exit gracefully and ascend to your financial heaven? Will you have to reinvent yourself along the way? Will you have to resurrect yourself?

As the different phases of a business life cycle manifest themselves, always be ready to recognize them, understand them, and act upon each one. What seems to be a difficult transition for you and your company can lead to higher levels success if you are able to maximize the opportunities presented in each phase.

After all, your company only lives once. Or does it?

PART 4

ENVISIONING JOURNEY'S END

It is in the nature of the true adventurer to pursue the journey. Being out on the expedition brings forth skill, daring, and love of life. When one destination is achieved, another appears on the horizon.

One of the greatest adventurers of the 19th century was Sir Richard Burton (not the actor). Burton, an Anglo-Irish explorer, spent his youth in France. As part of the British army in India, he learned Hindustani and other native Indian languages well enough to blend with several of the complex cultures of the subcontinent. He then learned Arabic and, disguised as an Egyptian, became one of the first Europeans to make the dangerous journey to Mecca with Muslim pilgrims.

His most famous journey was an attempt to find the source of the Nile. In the process, he traveled across vast stretches of Africa, and although he never found the actual source, this and many later explorations helped open sub-Saharan Africa to European understanding. By his final journey, he had traveled uncharted country and learned to speak more than 30 languages and many dialects never before encountered by a European.

To Burton and to most other bold adventurers, the immediate goal is important. They concentrate everything on it. But they never see themselves in complete retirement at journey's end. The end of each adventure leads to the beginning of another. So it is with the true entrepreneur.

CHAPTER 14

Planning Your Exit Before Opening the Doors of Your Business

> *The beginnings and endings of all human undertakings are untidy, the building of a house, the writing of a novel, the demolition of a bridge, and, eminently, the finish of a voyage.*
>
> —John Galsworthy

A number of years ago, I read an article in a newspaper about a convicted burglar. In a plea bargain arrangement, he was cooperating with the police in exchange for a reduced prison sentence. He told the police about the techniques he had used in his 20 years as a successful thief. He got caught only because his girlfriend turned him in for the $20,000 reward.

The one thing that stood out in my mind from this article was that the thief planned his escape before he did anything else. Not just one escape route, either. There had to be several, each one completely planned and understood before any of the details of the robbery fell into place.

If a particular residence had escape routes that were too restrictive, he simply didn't consider the home a viable target. There were plenty of other houses where getting out would be easy. His golden rule was that he would never target a building where the escape wasn't straightforward, no matter how enticing the booty promised to be.

I have always found it fascinating to talk with entrepreneurs about how they plan to get out of their businesses when the time is right. Most of the time, they stare blankly or shrug their shoulders. They haven't thought it through. After thinking about it for a few minutes, they say, "When the time comes, I will just sell the business."

If our friend, the burglar, had adopted a similar attitude ("If I ever get cornered while burglarizing a home, I'll just escape"), he probably would have landed in jail a lot sooner.

The exit strategy is one of the most critical elements that entrepreneurs do not adequately consider before launching or buying a business.

Jump! Oops, I Forgot My Parachute

Why is an exit strategy so important to the entrepreneur? The above example of the burglar is not meant to imply that an entrepreneur needs to have an *emergency* exit strategy. But it demonstrates that there should be a carefully considered plan for getting out of a business when the time is right. The purpose of such a strategy is to have a plan on hand that maximizes the value of the business when the time arrives. It also helps the entrepreneur in planning and structuring the business all along so that exiting is profitable and painless, long before the time arrives for departure.

If you stop to think about it, there are only four scenarios that will allow someone to exit his or her business. *Only* four:

1. An entrepreneur can live forever and operate a business

across eons of time. Not a likely possibility.

2. An entrepreneur can pass the business along to partners, employees, or family members. This is a possibility, but it doesn't happen frequently. If passing the business on to someone else is going to be the exit strategy, it should be well thought out, documented, and funded, so that the entrepreneur can provide for a successful transition. This particular strategy can be quite rewarding because an entrepreneur will be able to see his or her creation perpetuated into the future, and all of the hard work result in benefiting the family, or others, who were involved in building the business.
3. An entrepreneur can go bankrupt or close the business. Not particularly enticing alternatives.
4. And finally, an entrepreneur can sell his or her business to an outside third party. This is the most likely scenario.

Since these are the only four options, it makes sense to plan for the exit strategy that will most closely fit your situation, goals, and objectives. If there is no forward planning, the time will inevitably come, either by choice or not, with or without your control, when an exit will need to be made.

When a well thought out exit strategy is in place, the transition out of a business is not only smooth, but the ongoing operations and management of the business are established in a completely different way from a business that is operated with no formal exit strategy in place. Why?

Because without a destination in mind, there is little reason or purpose in operating a business except to make money. Without a purpose and direction, making money is a hollow activity and a poor motivator. And without strong motivation and direction, businesses can and do languish.

I have yet to hear anyone disagree with the wisdom or logic of this principle, but amazingly, most entrepreneurs, even when they understand the concept, rarely put a formal exit strategy in place before they launch their businesses. The most frequent excuse I hear is there are just too many things going on in the frenzy of researching, planning, and opening a business to worry about what will happen five or ten years down the road. However, if an entrepreneur *does* plan the exit strategy properly, the results can be very satisfying and rewarding.

Smart as a Fox

Brian Fox purchased a business with a five-year plan in mind. He wanted to have one last run at building some equity for his retirement. He scouted out numerous business opportunities and decided on a business-to-business-oriented operation.

After acquiring the business, he set out to build up the customer base, opened a downtown location, invested a substantial amount in the leasehold improvements to make the location a first class outlet, became a member of the Chamber of Commerce and the Convention Bureau as well as other trade groups, and devoted an inordinate amount of time to training his staff. All of this was done with the overall goal in mind of selling his business at or near its profitability peak, five to six years down the road.

As the business was built, other opportunities came his way. He acted on some, but most of these opportunities were allowed to simply remain in the "it's interesting, but not for me" category.

Why would he let good money-making opportunities pass by? Because he had the big picture in mind. The opportunities he did take advantage of fit into his overall plan and enhanced the value of his existing business. When it came time to pull the trigger on implementing his exit strategy, he didn't want anything in the way of his smooth transition. The "interesting, but not for me" opportunities simply did not get consideration. Even though they might have made a lot of money, they would have made it more difficult to leave when he wanted to.

As the fifth year approached, Brian listed the business for sale. From the time the business had opened its doors, records had been meticulously compiled. Financial records were updated monthly and filed away in a three-ring binder. Advertising statistics were logged daily and summarized monthly. The advertisements he had used were copied and filed by month. A complete computerized database and customer history of each client was updated and saved. Well-documented employee files were maintained. Operational forms were catalogued. Operational marketing and personnel manuals were continually updated. A copy of his business plan was continually revised and updated annually. And all of his banking, tax records, and returns were filed by month and year.

All of the necessary information was ready in a professional format, so that a prospective buyer would be able to make an informed decision. The information would allow the buyer to understand the business, know how it had been built, and know what had worked and what had not—so he or she would not have to make the same mistakes. Most important, however, was that the information was available to establish the *value* of the business.

Brian asked top dollar for his company and got it. The new buyer had the advantage of having a lot of information at his disposal from which to make an informed decision, knowing what the business was worth, and how he would fit into it.

The new buyer commented that he had looked at other businesses, and it seemed to him as if most other sellers had skeletons in their closets. It had been difficult to determine if those businesses were worth the prices the sellers had been asking.

When Brian presented the information that had been methodically compiled over the years to his buyer, the sheer volume of the material was a little overwhelming. But once the buyer had time to review the complete package, he found it refreshing. This served to build a high degree of trust and confidence about how the business worked and what the potential might be in the future. When it came to negotiating the purchase price, very little discussion was necessary. All of the data that had been compiled over the years created the high degree of confidence the buyer needed to make a quick decision.

The last time I talked to Brian, he was enjoying retirement in the Colorado Rockies and looking at another business venture to keep him active in his retirement years. Is there any doubt in your mind that he will have an exit plan for that business too?

Was Brian smart in the way he planned his exit from the business? I would say he was as smart as a fox. Now let's look at a similar business without a planned exit strategy.

Claude Lainer was an engineer. He was a victim of downsizing when the entire defense industry in Southern California underwent tremendous retraction. After being out of work for sometime, he moved to Seattle, Washington, and opened up a business.

He launched the business with a great deal of enthusiasm, but did not give consideration to how and when he would get out. If you had asked him why, he would probably have answered: "I was in a hurry to get the business into a profitable position and needed to start generating an income as soon as possible, since I had been without an income for seven months. I just didn't have the time to think about an exit strategy."

He worked the business hard. His wife helped, and they seemed to be doing well. The years rolled by. After working year after year in the business, they began to lose the vision and enthusiasm they had experienced in the beginning. The day-to-day routine had turned owning their own business into a mere job. Without the vision and enthusiasm they had once possessed, they let the marketing side of the business slide, and the customer base decreased predictably.

They took their eyes off the basics of running the business, and profits began to shrink.

As sales continued to plummet and profits evaporated, they decided they needed to sell the business, so they put it up for sale. There was no forethought given to providing the right information to prospective buyers. They were just trying to make ends meet. After eight months of trying to sell the business and having dozens of prospective buyers come by, look, and walk away, they got depressed.

The business broker pleaded with them to put together the necessary information package to show buyers. Claude repeatedly

Tired Horse Syndrome

In the absence of an exit plan, I've noticed the existence of a phenomenon I call the "Tired Horse Syndrome" (THS). You get THS when you trudge aimlessly forward with no destination in sight. Pioneers who traversed the Great Plains a century and half ago found that if their oxen and horses were well fed, rested, and cared for, they were able to get a few more miles out of their beasts each day. Knowing how long the journey was helped them plan their daily distance and allowed them to carry appropriate provisions. If they had driven their animals relentlessly day after day, without pacing themselves for the whole journey, neither they nor their animals would have made it to the end.

Entrepreneurs experience THS when they get into an unvarying rut. The monotony of the daily grind with no end in sight gradually wears them down. After awhile, they loose their enthusiasm and vision. Like the horses on the Great Plains, they slow down and eventually wear out.

This is what happened to Claude. Brian knew where he was going and was able to pace himself for a defined period of time. Claude never knew when the journey would end. Consequently, Brian was able to keep his focus and finish strong. Claude, on the other hand, just wore out.

As an entrepreneur, are you going to be afflicted with THS?

gave the excuse that the information was available, but it was too difficult to compile. Besides, he had a business to run too, and when was he going to find time to compile all of that meaningless information? Prospective buyers could look at his tax returns to see the amount of business he was doing. That should be enough for them.

In the end, he never did get around to putting a detailed packet together to show prospective buyers. After eleven months, Brian and his wife allowed their lease to expire and closed the doors of the business forever, never getting a dime out of their investment.

If they had approached the business like Mr. Fox, they most likely would have been able to sell profitably. They would have had the data available for interested buyers. Data and information are powerful tools for selling anything.

I knew both of these men. They were equally talented. They opened their companies with equivalent capitalization and with similar enthusiasm. They operated in similar markets and in the same type of industry, but they ended up with dramatically different results. The reasons are not too difficult to understand. One had an exit plan; the other did not. It is as simple as that.

There is a moral to these two stories: The presence or absence of data and information, combined with a well-defined exit strategy, can make or break a business.

Timing Is Important in an Exit Strategy

In the preceding two situations, one entrepreneur had a definitive exit strategy with a five-year time frame, and the other entrepreneur did not have a time frame at all. Timing is important in an exit strategy. But there is no prescribed length of time after which to exit from a business. You have to plan it with the realities of the business in mind.

The following example demonstrates another exit strategy with a much longer operating time frame. See how the decisions this entrepreneur made were affected by a larger time window.

Warner Tuttle decided to become a business owner because his father had built several successful companies, and he figured he had those same entrepreneurial genes. He admired what his father had accomplished and wanted to have the same degree of freedom and career satisfaction his father had enjoyed.

After looking around for the right opportunity, Warner acquired a franchise. Since he was only in his early 30s, his business plan called for a 10- to15-year operating window. The type of advertising he employed, the staff he hired, and the money he invested in the infrastructure of the business were functions of the time window he had in mind.

Most of the profits were poured back into the business to enable it to open other markets, to acquire additional franchise territories, to recruit a general manager to help expand into the new geographical locations, and to invest in a computerized system to enhance customer service. Every decision Warner made involved building the value of his business and increasing its name familiarity in the community.

The decisions Warner made were different from the decisions Brian Fox made because their exit windows were different. Brian would pass on certain business opportunities because his exit strategy would kick in after only five years. But Warner acted on these same opportunities because his operating time frame was much longer.

GOLDEN NUGGET

Decisions made in running a business are much easier if you know where you are headed, how you are going to get there, and when you plan to arrive.

Success is not determined by the amount of money you sell your business for, but by whether this amount meets your pre-set objectives.

Will Warner be as successful as Brian when it's time to exit from his business? Most likely, he will. Will Warner build a larger business than Brian did? Without a doubt. Does that mean that Warner is more successful than Brian? No. It means that each of them will achieve what they planned to achieve.

Brian's operating window was five years. Warner's is 10 to 15 years. Some entrepreneurs have longer time frames and some have shorter. The important lesson is that smart entrepreneurs have a time frame for operation and an exit strategy in place before they get started in business.

A Means to an End

Knowing when to sell or retire from the business is not the only reason it's important to have an exit strategy in place.

Nothing can be more harmful to a business than not knowing where you are going and why. How much fun is it going to be to take a vacation with your family if, when the day arrives and everyone is loaded into the car, someone asks, "Where are we going?" and you reply, "I don't know, but we're going to have a lot of fun." Your son asks, "When are we going to get there?"

"I don't know, but boy are we going to have a lot of fun," you assure him.

What are the chances that this vacation is going to be a lot of fun? Heck, half of the fun of a vacation is the anticipation, the planning of the trip, and the ride on the way to the destination.

What Are You Building?

The story is told of three men who are laying bricks. When the first man is asked what is he doing he replies, "I am laying bricks." When the second man is asked the same questions, he replies, "I am building a wall." The third is asked what he is doing, and he says, "I am building a cathedral."

Which of these men is going to do a better job and enjoy his work more?

This situation is similar to launching and growing a business. Much of the fun is creating the business, operating it, growing it, and nursing it along into maturity. It is the journey, not the arrival that provides the meaning and the fun. Even so, whether you like it or not, there will come a time to leave it behind.

GOLDEN NUGGET

Operating a business is a means to an end. But the exit strategy should not be the end in itself. If it is, the probability of arriving at the end successfully is greatly reduced.

Light at the End of the Tunnel

If you know your purpose and reasons for doing something, it becomes easier to do. The quality of your work and the satisfaction derived from your job will be much greater than if you don't know what you are trying to achieve in the end. Examples of this are everywhere. Where there is purpose and predictability, there is meaning.

This fact was demonstrated in Pavlov's experiment in which he connected electrodes to two sets of dogs. One group of dogs was shocked at timed intervals. The other set of dogs was shocked at random. The randomly shocked dogs got ulcers and were nervous all the time. The dogs that were shocked on a regular and predictable basis adapted to their environment and went on with their lives. Pavlov's results reinforce my theory that knowing where you

Exit Strategy Defined

If an entrepreneur knows when he or she is planning to exit, the operating results will be better than if no exit plan exists. A definitive exit strategy enhances the emotional, physical, and mental health of the entrepreneur, as well as the bottom line of the business.

are going is critical to the overall success of your business venture. In fact, *it is* just as important, and in some situations more important, than the environment in which a business operates.

Burnout Prevention

Another reason for having an exit strategy is to prevent entrepreneurial burnout, which is among the most common reasons for business failure. There are two primary reasons burnout occurs.

The first reason is that many entrepreneurs display workaholic personality traits. It is part of their genetic make up. But you do not have to be a workaholic to be a successful entrepreneur. In fact, you are more likely to be successful if you work hard but also have other interests to balance out your life.

However, there will be times when long hours will be required. You should expect it. If you cannot accept these demands on your time, you should probably continue doing what you're already doing.

Burnout occurs when anyone, even an entrepreneur, begins to put in gruelingly long hours on a continuous basis. An entrepreneur gets into the continuous long-hours rut through not having a solid business plan, an exit strategy, or the ability to focus on the long-term goals of the business. Burnout comes from focusing on short horizons.

> **GOLDEN NUGGET**
>
> *Working hard is not the path to success. Working smart is.*

The second major cause of burnout is making decisions with an immediate, short-term objective in mind, without regard for the long-term impacts of those decisions. Without a sense of direction, it's easy to focus only on what's happening today. The cycle gets started with the rationalization, "It's only this time. Next time I will do it differently." The one-time decision turns into many daily decisions. The days turn into weeks, weeks into months, months into years, and, before you know it, you have created an operating system based on a reactive instead of a proactive mode. This creates a lot of stress and eventual burnout.

A PhD was Not So Smart After All

Sally was a PhD. She worked for IBM and was part of the massive downsizing during the early 1990s. Her family was from India and had always been merchants. She decided to follow family tradition and get into her own business. Money was not all that plentiful, so she watched her dollars very closely.

When she launched her business, she had no long-term plan in place and certainly no exit strategy. She became so fixated on the monthly expenses that she focused entirely on making sure that she economized on everything. In order to save money on staffing, she hired the least expensive workers she could get and then overworked them. Her employees rarely worked for her very long. Consequently, because of so much employee turnover, she ended up working longer and longer hours herself.

She did not mind the long hours at first because she was keeping the expenses in line. But before she knew it, the long hours began to take a toll on her ability to service her best customers.

It's an old story. The harder she worked, the more myopic she became. Her customers were neglected. Sales dropped. In order to compensate for the lost revenue, she worked even harder to reduce expenses. Eventually, she was blindly going through the motions and was practically numb from the long hours she worked. She had reached burnout.

Once a ship starts taking on water, the ship will sink if the leak isn't fixed. Sally's business died because her problems could not be resolved. Her short-term decisions sank the ship. If she had known what her long-term plan was, where she was heading, and where she wanted her business to be in five or ten years, many of her decisions would have been different.

She probably would have made decisions that were painful in the short term but beneficial in the long term. She could have made strategic decisions, such as hiring quality employees and paying them higher-than-average wages to ensure stability and reduce turnover. This would have helped her achieve the long-term goal of unparalleled customer service, even when she was not personally in the shop.

Employing a different strategy would have protected her from the long hours, and the consequent burnout. She still might have gone out of business, but it wouldn't have been because she went bankrupt. It would have been because she profitably sold the business.

Why the Big Deal?

I have made a big deal about the exit strategy because I feel so strongly that without a business plan and a well-thought-out exit strategy, a business is unlikely to be successful. Although it's not *that* difficult to plan for the future, according to a recent survey, most entrepreneurs don't do it. Willard & Shullman Group, Ltd., a marketing research firm in Greenwich, CT, questioned more than 500 businesses with fewer than 500 employees. Only 13% put an annual budget in writing; only 14% have an annual business plan in writing; only 12% have a long-range strategic plan in writing; and less than 10% have an exit strategy or succession plan.

It's not hard to decide what your goals are, if you take the time to think about it. Plans will change, objectives will change, and the business plan and exit strategy will need to change too. The important thing is to have a working document and strategy in place that can be changed, modified, and amended when necessary. If you select the entrepreneurial life — ignore this kind of planning at your own risk.

Chapter 15

Selling the Business Profitably

My interest is in the future because I am going to spend the rest of my life there.

—Charles Kettering

What to do When the Time Arrives

Winning the World Series is the measure of success in baseball. To an entrepreneur, success is making some money, having fun along the way, and exiting from the business with a profit.

When you sell a business, there is a surprising amount of satisfaction in watching a new owner continue to grow it. It's like having a child leave home, graduate from college, find a job, get married, and start a family. The pride an entrepreneur takes in passing along all of the hard-earned accomplishment and seeing his or her creation grow is very satisfying. And if the business is sold for the right price, at the right time, and under the right circumstances, it doesn't hurt the old bank account either.

Orchestrating an exit from the business, knowing when to do it, and understanding what to do along the way is the culmination of the art of entrepreneurship. Needless to say, success does not happen by chance. It occurs because of forethought, planning, and efficient execution.

In the preceding chapter, I devoted a lot of time to explaining the reasons for having an exit strategy in place prior to actually selling the business. Now it's time to discuss the actual process of getting a business ready for sale and then selling it.

Knowing When to Hold Them and When to Fold Them

Timing is everything in selling a business. There is a right time and a wrong time to sell just about anything. Whether the sale involves stocks, bonds, cars, real estate, or almost anything you can think of, selling at the right time greatly enhances your profits from the sale.

It may seem obvious that an entrepreneur who is considering selling a business should give serious consideration to when to sell. But, it's a more difficult problem than it first appears. When an entrepreneur has planned an exit strategy and is ready to sell, the projected exit date may or may not turn out to be a good time to sell. In order to maximize the sale price of the business, it's extremely important to be ready, as well as flexible, when the time arrives. Getting the best price for a business requires that the entrepreneur:

- Be ready to act quickly. When a buyer shows interest in purchasing the business, be ready to respond. Don't be wishy-washy. Be decisive.
- Have the necessary financial information ready to be presented in a professional format.
- Develop the information for a due-diligence package as part of the operating structure of the business. Putting together a complete due-diligence package from scratch is a monumental task, requiring dozens if not hundreds of man-hours and an incredible amount of research and compilation. Compiling the due-diligence packet as a part of operating the

business creates detail and accuracy, providing more reliable and believable data than does a hurried project.

- Be prepared to show the buyer the business. Allow him or her to meet the staff, and provide open access to your professional advisors.

The Due-Diligence Kit

Having a complete set of due-diligence documents for the buyer to review is one of the things completely within an entrepreneur's control. The following is a checklist of some of the documents that can be included in your kit:

- ☑ A binder of all monthly, quarterly, and annual financial statements
- ☑ Federal and state income returns
- ☑ Sales tax returns
- ☑ Corporate minutes and incorporation or partnership documents
- ☑ Real estate leases, equipment leases, and loan documents
- ☑ All canceled checks. This is best done with a binder showing all copies of reconciled bank statements with the actual checks available for review, if necessary
- ☑ An advertising binder, complete with a copy of the advertisements used, including yellow page ads, newspaper, flyers, coupons, brochures, the ad schedules, copies of publication used, *etc.*
- ☑ Statistical information on marketing results, including but not limited to: cost of all advertising, cost of each sale, cost of each lead, and graphs and charts mapping the marketing data
- ☑ Copy of the marketing plan with annual updates, if any

☑ Copy of the business plan, with annual updates, if any

☑ Copy of all personnel files, in summary form

☑ The database of all customers, in summary form

☑ List of all assets, acquisition dates, and cost

☑ Sales, graphically displayed

☑ Data on the competition

☑ Operations, personnel, and marketing manuals

Most of the items on the preceding list should be compiled on a perpetual basis, *beginning* the day you open for business. I have seen extremes from good to bad. On the good side, I have seen binders of due-diligence information that chart and chronicle every detail of the business from day one. On the not so good side, I have seen whatever due-diligence material was available presented in a shoebox (granted it was a Florsheim shoebox, but it was still a shoebox).

The confidence level a buyer has in a well-packaged and documented due-diligence information kit cannot be underestimated. It can make as much as a 25% to 40% (or more) difference in the selling price of the business!

Since most entrepreneurs are not in the habit of packaging a business for sale, the process can be intimidating.. To emphasize the importance of compiling this information, let's look at the process of selling a pre-owned car and draw some valid comparisons with selling a business.

Buying a Car

Some time ago I was in the market for a pre-owned car. I did not want to buy from a dealer, since cars sold by a dealer are usually more expensive. I did not need the car immediately, so I was able to take my time to shop the market and become familiar with what was available. In the process of looking at cars, I dealt with three sellers, and I developed definite perceptions about the value of each of their cars.

Car 1: I met the gentleman who owned the car on a Saturday morning. He had not washed the car and was in a hurry. He told me why he was selling and how long he had owned the car. He allowed to me to test drive the car briefly as he road along. Since he was in a hurry, he offered to cut the price if I could take the car within the next week. "I will give you a good deal because I need the cash," was his sales pitch.

I passed on his offer. I just didn't feel comfortable with the person who was selling the car. I got the impression that he wasn't giving me the whole story.

Car 2: I met this seller after work. The car was washed and cleaned to near showroom condition. The seller was very polite, cordial, and responsive to the various questions I asked. I test drove the car, and it seemed to be everything I had in mind. When I asked for any maintenance records he might have available, he indicated that maintenance was done on a regular basis, but he hadn't retained the records. The mileage, however, was within my comfort zone, the body was well maintained, and the price was fair. But I had one more car to see before I could make a decision.

Car 3: I met Judy at her home early in the evening. She showed me her car and was really enthusiastic about how great a car it had been. The car was immaculate. She offered to let me drive it as much as I wanted.

I asked her about the maintenance records, and she brought out her files. She had the original purchase documents, loan documents, mileage logs, all of the service records, and all of the work that had been performed on the car. Her files included a detailed service/work log, receipts for the replacement of tires, together with her tire rotation dates (with miles noted in the margins), and even receipts from all of her car washes.

Not only did the mileage, price, and color fit what I was looking for, but I also had a lot of confidence that the car had been well maintained. I told Judy that I wanted the car and offered her $500 under what she was asking, which was at mid-blue book. She said she wouldn't take my offer, but thanked me for my time. I caved in and paid her asking price.

Why did I pay the asking price on Judy's car? Because of the confidence I had in her maintenance records. I felt I was getting a fair deal and a well-maintained car.

Likewise, a well-organized due-diligence kit will serve the same purpose as Judy's maintenance logs and receipts. The process of acquiring a business is not so different from buying a car. Sure, the dollar amounts are bigger and the due diligence is substantially more technical, but when it comes down to making a decision, the same emotional factors apply. The question the prospective buyer has is, "How much confidence do I have in the value of the business, and how accurate and convincing is the information that has been provided in establishing the value and asking price?" A complete due-diligence packet will go a long way toward establishing confidence and validating the value and sales price of the business.

Yeast in the Bread

One of the essential ingredients required to bake bread is yeast, which acts to make the bread rise. To increase the value of a business, there are a number of key factors that act like yeast, as a catalyst to increase the value of a business. Without these factors, a business may grow, but the value is not enhanced when these elements are not an integral part of the business. Keep increasing sales. This sounds obvious, but as you can see from the entrepreneurial experiences discussed in this book, the simplest things can be difficult to achieve. My experience has been that if there is a business plan with a strong marketing element in place and an exit strategy identified, maintaining an increasing sales curve is easier to achieve. Why?

Again back to the basics. When you focus on an outcome, you increase the chances of attaining it. Focusing on sales growth and making it a priority in business planning makes it more likely the business will be a success. If sales are flat, or decreasing, prospective buyers will not pay a premium for the business. In fact, getting your asking price will be difficult. In many cases, selling at a loss may be a seller's only choice if the right preparations have not been made before offering the business for sale.

Sometimes the buyer is a sophisticated entrepreneur who acquires businesses on a frequent basis. Sometimes such an entrepreneur is "bottom fishing." Bottom-fishing entrepreneurs look for distressed businesses that are temporarily in the depression of a sales cycle. The disadvantage in dealing with this type of buyer is that they are ruthless negotiators, usually offering restrictive terms and a rock bottom price. They can usually act quickly, and will be professional, although firm, in their dealings with the seller of a business. Getting top dollar for the business is not only a function of good management and a complete due-diligence packet, but also a function of good timing. Remember the story of Goldilocks and her sampling of the three bears' porridge: "Oh, this porridge is too cold," "Oh, this porridge is too hot," and finally, "Aaahh, this porridge is just right!" Timing is about selling when the time is "just right." Even having maximized the sales curve, profits, and market position, it's still challenging to decide on the right time to exit a business. Knowing how to time selling a business and then knowing when that time has arrived is all part of the art of entrepreneurship.

The right timing will include factors such as the predetermined target date, the likelihood of maintaining the existing sales growth, staffing, competition, new product developments in your industry, other opportunities you may have, and your energy and level of enthusiasm for continuing the business—do you still have it? When all of these factors are considered, if the time is right, the picture should become very clear.

Timing is All Important

Joe Sampson had operated his business for 12 years. His sales had been growing steadily, but the rate of increase was beginning to slow substantially. He had a blue-chip client base and an outstanding staff. There was no significant competition in the marketplace, but he had noticed some new entrants in the last few months. Generally, however, things were going pretty well.

Joe was one of those entrepreneurs who actually did have an exit strategy. He had passed the intended time of exit two years earlier. His original target had been ten years. The reason he did not pursue selling his business at the ten-year mark was that there wasn't any other business that interested him. Since he liked running his company, he thought he might as well continue.

Out of the blue he received an unsolicited offer to buy his company at an attractive price. After carefully considering the offer, he turned it down. He simply did not have an interesting alternative in mind.

Less than a year later, Joe's business took a big dip. Competition was encroaching on his sales big time. Sales were down 30%. Two key employees had left, and he had lost several large clients to the competition. Joe listed his business for sale with a business broker, but after six months he had only one offer, at 40% *less* than the unsolicited offer he had received a year earlier.

Timing is everything. Joe had developed an exit plan, but failed to execute it when he should have. When was that? Maybe not exactly at the ten-year mark, but certainly when he received an offer that told him the market was right.

Structuring the right financial terms for both buyer and seller is another critical element in selling a business. In most situations, getting an all-cash offer is better than owner financing. “Carrying paper” as it is known in the industry (perhaps better known as “owner financing”), is a type of financing vehicle that can be very risky. Why?

Unless there is additional collateral securing the loan, the primary collateral is the assets of the business. In many businesses, especially service-oriented businesses, there are not many assets other than the customer database and the goodwill. If the new owner mismanages the business after buying it, the collateral securing the loan may decrease in value significantly. This is a big problem if the seller has to repossess the business from a buyer in default.

Bleeding the Business for Its Cash

Ashley and June Benning owned a commercial printing business and had operated it as a family business for nearly 25 years. The entire family had worked in the business at one time or another, and so had many of their friends and relatives. The business provided a good living and was very successful.

As the time came to retire, the Bennings decided to sell their business. They found a buyer. But the buyer didn’t have the cash for a substantial down payment, nor other assets to collateralize a note to buy the business.

After lengthy negotiations, the Bennings agreed to carry a substantial portion of the sales price under an “owner financing” agreement. They did not mind taking the promissory note payments over an extended term because they did not need the money immediately. The interest rate was good, and besides, the long-term payout would spread their tax liability out over a period of years. The tax consideration, getting their asking price, and an above-market interest rate clinched the deal.

The terms of the “owner-financed” promissory note provided that there would be no payments for six months so the buyer could reinvest in the business to build up sales. After the six months, the buyer would make monthly promissory note payments for five years, with a balloon payment (the balance due) at the fifth year.

The only collateral securing the promissory note was the assets of the business. Because the equipment was mostly leased, the assets were primarily the commercial customer database and the goodwill from more than 25 years of outstanding customer service.

The small down payment provided the funds for the Bennings to relocate to Arizona and get settled. The monthly payments that were to begin in the seventh month would provide them with a nice monthly income.

Sounds great, right?

What happened next was a nightmare for the Bennings. After closing escrow, they took their small down payment and moved to Arizona from their longtime home in California. The six months of no payments passed quickly. When the seventh month arrived and there was no check in the mail, the Bennings contacted the buyer. He gave them excuses about why he had not sent the check and assured them that he would make a double payment on the first of the following month, the eighth month. The Bennings felt little comfort at the answers they received, but at least a double payment would be received at the first of the next month. The first of the following month came and went. No check.

To make a long story short, the new buyer had simply drained the business of all its cash. He had done this by running up large trade accounts, not paying the monthly lease payments on the equipment, not paying rent, neglecting to make withholding and sales tax deposits, and finally not making the payroll the last two pay periods. Where did all of the cash from the business go? Into the buyer's pocket.

Whether it was planned or not, the buyer had run the business hopelessly into the ground by not paying expenses and withdrawing large chunks of cash. Finally, when the employees began quitting, the equipment began to be repossessed. The Bennings' attorney began calling the print shop, but the buyer simply disappeared, leaving the business in a mess.

The Bennings' only choice was to repossess and take over operations. When they decided to repossess, however, they knew they would have to rebuild the business virtually from scratch. That would take an injection of working capital and a lot of time. They had sold their home, had relocated their family to Arizona, and had spent the down payment from the sale of the business on relocation and living expenses.

GOLDEN NUGGET

"Owner financing" without additional collateral may eventually lead you to ask, "What was I thinking?"

They did not have the capital to rebuild the business, and even though the company under the Bennings' ownership had been a good credit risk, the printing and copy equipment had been repossessed, the landlord wanted the back rent to allow them to retain the location, and the vendors were unlikely to extend much additional credit.

The sad conclusion to this story was told by the sign in the window: *Closed.*

CHAPTER 16

Your First Business Should Not Be Your Last

Successful people keep moving.

—CONRAD HILTON

Act II; Scene One: Once the Bug Bites, It's Hard to Get Rid of the Itch

Once someone gets the entrepreneurial bug, it's rare that he or she simply quits being an entrepreneur. Like an explorer who barely finishes an adventure before planning a new one, entrepreneurs find that the lifestyle has become a part of being alive. They see opportunities all around them.

When an entrepreneur has successfully exited a business, by selling it or gifting the business to the next generation, there may be a period of rest and relaxation. But the urge to get involved again usually begins to grow.

This situation reminds me of Michael Jordan and his brief sidetrack into professional baseball. In an interview held after his first retirement, he was asked about his reasons for leaving professional basketball. He stated he felt he had accomplished everything he set out to accomplish and that the challenge was no longer there. Baseball presented a new challenge, and he made an attempt to build another career there. Slowly, however, the yearning to do what he did best returned. As we all know, he returned to basketball and again brought world championships to the Chicago Bulls.

It's often the same with entrepreneurs. They leave the game for a while, and then the yearning for a new challenge returns. They are good at what they do. They miss the daily challenges. They want to get back in the game, if not for financial reasons, for the rush of creating and building something. And unlike starting a career in professional sports, you're never too old to start a business.

It may be hard for those with a traditional employee mentality (those who live to retire) to understand the motivations of an entrepreneur. But the fact remains that entrepreneurs are a breed of individuals who thrive on challenge and desire to sail their own ships in the seas of their choice, to the destinations they select.

Act II; Scene Two: The Next Business

The real advantage an entrepreneur has in starting or buying another business, after successfully operating and selling a business, is that he or she has walked down the path before. The learning curve is much shorter. The contacts, such as the CPA, attorney, banker, vendors, and sometimes, even employees and other business associates, are already in place. The ability for a fast start in a new business is there for the taking. With all of these items in place, it's possible to turn a profit much earlier in the business cycle than it was the first time around.

If there wasn't a non-compete clause in the sales agreement of the business that was sold, many an entrepreneur jumps right back into the same type of business. Others choose entirely new business endeavors. Either way, they do it for the challenge and the thrill and, in a sense, as a way to fulfill their destiny.

Find a Niche and Stay with It

James Stone was an entrepreneurial type. During his college years he started several businesses. One such venture began in his economics class. The economics professor gave only two exams during the entire semester, the midterm and the final, with no assigned homework. You can imagine how new freshman students flourished in this type of environment.

Near the middle of the first term, the economics professor announced that the material covered in the three books assigned as extra reading would be the subject of the majority of the midterm exam. The class went into immediate panic. Virtually no one had read the extra reading assignments.

While others were in a panic mode, James sprang into action. He was about to make lemonade out of lemons. He sequestered himself in the library, outlined two of the three books, and paid a speed-reader to outline the third book. Then he went to the administrative offices and got a copy of every name and address of the three hundred students who were enrolled in the economics class.

He designed a flyer that advertised the detailed outlines for each of the three books, promising an easy way to get the real meat of every chapter without reading the books. Since it was virtually impossible for most of the class to read and learn all of the concepts in time for the midterm exam, he figured his flyer, promising a shortcut, would work. It was a sound marketing strategy.

He addressed and mailed a cover letter together with the flyer to every student, explaining how the outlines were prepared by an "A-student" and how to purchase the detailed outlines. He promised everything in the flyer, except a money back guarantee.

The flyer arrived four days prior to the midterm. In panic, nearly two thirds of the class ordered the outlines. Many of the others were borrowing the outlines from those who had purchased them. He sold each outline for $7.95, or all three for $20.00. Not only did he get a good grade on the mid-term, he made several thousand dollars after expenses.

His next venture was a maid service cleaning single men's apartments. During a visit to a friend's apartment, he noticed that the entire apartment was in shambles. He commented to his friend, "You need a maid!" His friend said, "Yep, and we could afford one if we all pitched in to pay her."

Within two days, James had hired two drop-dead gorgeous coeds to sell maid services door-to-door in his friends' apartment buildings. He was less particular about the looks of the coeds he hired to clean the apartments. The business was so successful, he nearly flunked out of his accounting class because he did not have time to do the homework.

There were several other businesses along the way, but he had a clear career path in mind. He planned to graduate with a degree in accounting (primarily because of his experience with trying to manage the cash flow in his maids business), enter the world of public accounting, get a good grounding in the financial aspects of business, return to get his MBA, and then conquer the world as an entrepreneur.

After graduating, he found that the accountant's daily grind just did not fit his personality. Surprise, surprise. Little did he know when he was selecting his major that most entrepreneurs do not have the patience to be good accountants. Within a few years of beginning his accounting career, he left the world of accounting and entered into a partnership with a friend to start their own business. After ten years in a partnership, he launched his own company. Although he has started and sold several companies, he can never stay away from new businesses for very long. Nowadays, he finds himself actively involved in three separate companies and has a full management staff in place.

When you ask him how he got involved in businesses that were so varied, he replies that the experience gained in operating each business gave him leverage to jump-start the next venture. In essence, he was able to greatly reduce the time and money it took to go from start-up to break-even.

It's during the cash-intensive period, which is usually during the start-up phase, that many businesses make it or break it. In James' case, this risk was reduced substantially. The bottom line with James is that he loves to do what he is doing, he is good at it, and he uses all of his prior business experience to leverage each next venture.

You Can Do It Too

You may not operate two, three, or four businesses, but when you have successfully operated one business, you are short-changing yourself if you do not apply the vast knowledge base you have accumulated to your next venture.

Even if you have failed in a prior business venture, and in some cases *especially* if you have failed, the next business is usually more successful. Why?

The ability to short-cut many of the mistakes you have already made creates a much shorter profit curve. Personnel mistakes are fewer, financial monitoring of the business is more consistent, and the sales and marketing activities of the new business are more focused and targeted. All these factors create a fertile growth environment for another business success. Plan to go for it!

EPILOGUE

IT'S THE JOURNEY, NOT THE DESTINATION

A journey of a thousand miles must begin with the first step.

—Lao Tzu

Transitioning from employee to entrepreneur is a journey, not a destination. It's a quest to find out who you are and whether you are an entrepreneur at heart. If you are, then the thoughts and processes in this book will give you a road map to help you make the journey a success.

Remember that you are at the wheel and in command. Most car accidents are preventable, and so are most business failures. It takes a well-maintained car, a careful and knowledgeable driver, and a good road map to complete a trip successfully. When you get into your own business as an entrepreneur, remember that it takes a well-maintained staff, careful and knowledgeable management, and a good business plan to acquire, operate, and exit a business successfully.

There will be many twists and turns, and a few potholes along the way. But, as you make this journey, look out the windows and you will see others shackled to their daily routines. You will feel liberated because you're on your own bold adventure, not someone else's.

One final comment: Recent times have been challenging economically, to say the least. The sub-prime crisis has precipitated massive government bailouts and restrictive credit markets which in turn have caused many would-be-entrepreneurs to think that it is too risky to go into business at this time.

There are certainly things that need to be considered before making a decision to become an entrepreneur during a difficult economic environment; however, it may be just the right time to go into business. In challenging economic times, weaker competitors go out of business, which means there are more talented people available, costs are lower, and customers are more likely to look for superior service or value. Never, never allow the media - which makes things seem more ominous than they really are - discourage you from considering entrepreneurship.

When making a decision about going into your own business, whether in an expansionary or recessionary economic climate, there are five things to consider:

1. Does the customer need your product or service?
2. Does your business model differentiate your product or service from your competitors?
3. Can you recruit the right employees at a fair and reasonable price?
4. Do you have enough capital?
5. Are you willing to work as hard for yourself as you do for your current boss or company?

If you can answer these questions in the affirmative, then do not allow friends, the economy, procrastination, or fear of the unknown deter you from embarking on a journey that will make your dreams of personal and financial independence a reality.

Good luck on your journey!