

5 Steps to Starting a Successful Business

The Entrepreneur's Handbook



The Five-Step Method To A Successful Start-Up.

INSIDER SECRETS BY REAL ENTREPRENEURS.

By Frank Rolfe and Dave Reynolds

A Product of www.StartThis.com

The Truth Starts Here

INTRODUCTION

There is no better use of your time than to start a business. And there is no investment that can have a higher yield, or have as good a chance of having a higher yield. All of the great fortunes in the United States – all of them – came from somebody taking an idea and creating a start-up business. Very few have ever got to the top of the wealth charts by holding a regular job, no matter how fancy the title. They all got there by following the five steps shown in this book, and being fortunate enough to hit a home-run on their business model or execution of it.

You are never too old or too young to engage in a start-up. Ray Croc was in his 50s when he started McDonalds. And there are scores of successful entrepreneurs in their early teens. And you can never be too poor to start one – many of the greatest start-ups in history began on virtually no money. Indeed, there is not one possible reason why you can't be a successful start-up entrepreneur.

All it takes is the knowledge of what to do and the guts to get it started and the motivation to see it through.

If you're reading this book, then you obviously want to start a business. But what would you say if I told you that you can start a business with virtually no risk of failure? Well, you can. One of the points of this book is to tell you how to constantly hedge your bets and virtually eliminate failure. That's not to say that you can't start a business and have it take off and flourish. That can happen all the time. But if you follow the methodology shown in this book, you will not appear a failure to your friends and family, nor will you be emotionally scarred or financially ruined. The best start-ups have virtually no downside and infinite upside.

We have distilled all the millions of bits of information that come from starting and running a start-up into five basic concepts. These are the most important points that you need to constantly think about. As long as you think of nothing but these five points, your start-up has its best chance of success, and its best hedge against failure.

There is nothing more thrilling and exhilarating than a good start-up. So let's start the adventure together right now.

A WINNING BUSINESS MODEL

What is a winning business model? And how do you get one? A winning business model is one that has a very good likelihood of being successful on many fronts. And your odds of success are completely contingent on how good a model you construct. A below-average person can make a raging success with a great business model, but the greatest business man in the world will do nothing but fail with a faulty business model. So how do you find a great business model?

Exercise – think about the best and worst business models you have seen or heard about.

You start off by deciding what you're best skills are. What are you really good at?

In American society, we spend too much time focusing on what our weaknesses are, and then trying to improve them.

For example, in school, the first thing your parents and teachers would comment on is what subjects you did poorly in and how you would improve on them. They might hire you a tutor. But did you ever hear of someone hiring their kid a tutor to make them even stronger in their *good* subjects? If you are trying to develop a good businessman, that might not be a bad idea. We're in a highly competitive society, and you need at least one super-talent to excel. Are you a great speaker? Are you a great salesman? Are you good with numbers? Do you enjoy interacting with people? Before you can create a great business model, you have to learn more about yourself, and what your strengths and interests truly are. Your start-up has the best chance of success if it plays to your strengths, whatever they may be. The majority of start-ups in the U.S. are related, in some way, to the person's existing career, so that is a great segment to initially focus on (but never do so at the risk of losing your day job). Perhaps there is some underserved niche of your existing industry, or some potential improvement in the way something is done, that you could build a start-up around – without being in competition with, or visible to, your current employer.

Once you have figured these out, your next goal is to figure out how these strengths relate to existing business models. The best way to do this is to take the yellow pages, and go through every business type, one after the other, and see which ones appeal to you and would fit in with your strengths. Make a list of these types of businesses that interest you and you feel comfortable that you could excel in. Augment this list by going through massive lists of franchise opportunities and seeing which ones appeal to you, and match to your strengths. Remember that you do not have to choose one of these business types – you may start-up some unique niche or a subset of these – but there are only so many basic industries out there to start with. And, except for technological revolutions, such as the internet, this list is pretty static.

Then take that list and think about which of these basic industries have a bright future in relation to the future trends of America. These trends include:

Growing Older

The number of individuals growing older is currently expanding as the baby boomer generation is beginning to reach their 50's and 60's. Some of the business categories that will be especially attractive due to the aging population include health care and personal services for the elderly, such as geriatrics, financial planners, and insurance brokers. They also include such items as tour guides, retirement counseling and adult day care. Other growth areas might be pet services, and food delivery.

The Great Migration

As our population grows older, it is projected that it will migrate to the south and Midwest in large numbers. This opens up two trends. One is in moving services. The other is in home services such as cleaning services, remodeling and landscaping, as well as realtors.

Technological and Internet Age

As new technology comes to the market, it opens up many business opportunities. Specialty technicians will be needed to teach and fix it. There are opportunities to sell things on Craig list and eBay. There is demand to create and service websites. One of the most important opportunities is the ability to reach millions of people with your goods and services without having to have a brick-and-mortar store front. You can now run a huge business from a laptop in a Starbucks.

Globalization of the Economy

There are many fresh opportunities as a result of this trend. One is the ability to sell your merchandise and service all over the world. The other is the ability to sell goods and services from all over the world to customers in the U.S. An example of this has been the shift in a lot of services to foreign countries. If you call for information on a product, you are often actually talking to someone in Scotland or India or anyplace but the U.S. This is a wide open territory for new services and products.

Rise in Self-Employed

Just like you, more and more people are choosing to add self-employment as their second job, or making their total income from self-employed sources. As a result, there is an enormous market growing for products and services that these

individuals need. Executive suites, freelance typists, computer service technicians – anything that serves this group is becoming more in demand.

Going Green

The rise in the cost of energy (gas and electric) and technological advancements have caused individuals to seek out alternative energy sources to operate their homes and businesses. This trend will fuel opportunities in creating alternative energy, marketing it, installing it, and servicing it. There are new “green” ideas coming up every day. And they extend beyond fuel into all types of conservation.

Security

Following the attacks on the World Trade Center on September 11, 2001, individuals and businesses have become more worried about security. This includes computer security issues such as computer viruses and internet theft of identity. All types of opportunities are popping up including security designers, agents, investigators, and device manufacturers. As criminals continue to improvise, new opportunities arise.

Education

The United States continues to spend more money on education than any country in the world. Parents are willing to invest in their kids and companies are willing to invest in the education of their workers. Tutoring, coaching for tests such as the SATs, continuing education – the opportunities are endless, and growing.

Growing Demand for Health Care

I know we already mentioned this under “aging”, but it is so important we thought we’d reinforce it again. It also includes dieting, personal training – many things that are not necessarily “aging” related. A quick examination of the subject on the internet will reveal literally thousands of start-up ideas.

Growing Demand for Luxury Items

You have probably read about the growing appetite for ever more expensive goods and services. Opportunities are there in such services as valet, personal assistants, maid and nanny placement, as well as upper end retail and consignment via the internet. And this trend is global and includes many newly affluent nations.

Have you spotted any additional trends on your own? If you read a newspaper or any news source on the internet, you may have already identified other growth areas. If so, add them to the list.

Do any of these trends overlap with your list of interesting businesses? If so, that's a good start at a great business model. Nothing pushes a business to a higher level than being on the right side of a trend (of course, nothing can kill a business faster than being on the wrong side of a trend – look at the effect of the advent of automobiles on the buggy business). Most of the largest fortunes in the U.S. came from somebody getting very lucky with their start-up and riding a massive trend. For example, Apple caught the personal computer trend. Ross Perot hit the data processing trend. Ray Croc hit the fast-food trend. Wal-Mart hit the trend for discount shopping. Even an average business model can soar to unbelievable heights if it catches a big trend. Case in point are the many dotcom millionaires who had horrible business plans (just look how they ended up) but cashed in on a massive trend.

Once you have an idea, or ideas, of businesses that interest you, it is time to give some hard thought to other attributes of each of these businesses and how they relate to you as a person. The first is how much money you have to invest, or want to invest, in your start-up. Always remember that the less you invest in a start-up, the less you stand to lose if things go bad. Only a fool wants to risk their life savings on something as speculative as a start-up. And many well-seasoned and wealthy entrepreneurs will still only invest modest sums in start-ups – it's just too risky. Apple computer started on \$1,300, and the largest individual investor in it had only \$91,000 at risk even several years into the venture. The concept of risk mitigation – minimizing the worst that can go wrong – is an important part of any successful business model. If you want to hedge your bets on failure, then put only small, affordable amounts into your start-up. Let's look at two examples of how different businesses require different capital commitments.

The first would be a business model of opening a restaurant. To do so, you would have to buy or rent a building, buy kitchen equipment, tables and chairs, and do massive amounts of finish out. Before you sell your first dinner, you might have to invest \$100,000 to \$500,000 in the start-up. And what if it fails, as start-ups tend to do? Then you could not only lose all your money, but, if you borrowed the money, you could end up deeply in debt and be forced into bankruptcy.

A better plan is to stick with business models that allow you to “add another wing on the motel” – in other words, to expand in a manageable fashion whenever your business grows enough to warrant it, but without risking a whole lot of infrastructure on the front end. Never listen to people who try and tell you that “real” businesses require huge risks and initial investments. These individuals are not in tune with the history of most great business models in U.S. history. Most of the brands we know today, from Coca-Cola, which had an original goal of selling 25 drinks per day, to EDS, which began by selling excess data space on other people's computers at night, began on a shoestring and increased their risk as growth warranted it. You know why so many famous businesses started on the

cheap – because they have a better chance of surviving to grow into huge businesses!

Once you have decided how much you want to invest in your start-up, you must analyze the proposed investment in every business model to see if it is in keeping with your goals. Be sure to look at the realistic “total cost in” – all the costs added together – as opposed to only the initial up-front cost. For example, some businesses may have a negative cash flow initially until the sales build up, which needs to be budgeted for as a cash contribution, even though it comes after the start-up commences. The worst business model is one that sets you up for problems before it even gets started.

The next criteria you have to decide on before beginning the process of looking at different business models is how much time you want to spend on your start-up. If your day job takes up all of your time during the week, and you only want to spend weekend time on your start-up, then you will want to choose a business model where you only transact business on Saturdays and Sundays. For example, an auto detailing business could be built around going out to client’s houses and working on-site on only Saturdays and Sundays. If, however, you want to work seven days a week, you might look at business models that require more hours of operation, such as a tutor. It’s important to remember that, over time, businesses tend to morph around the schedule of their creator, and your start-up may end up fitting in exactly with your free time, and can be increased and decreased as your time dictates. Often you will adjust your start-up time investment as events in your life and schedule change. You have to remain flexible and not be too rigid or perfectionist in your initial commitments because things are always changing over time.

Once you have a handle on:

- what your strengths are
- what type of businesses play to your strengths and interests
- how much money you want to invest/risk in your start-up
- how much time you want to devote to your start-up

It’s time to start looking at specific opportunities.

It’s been said that it is just as important to acknowledge what is *not* an opportunity, as to pick out what *is* an opportunity. In other words, you need to move quickly through all the thousands of start-up concepts out there and identify a small grouping that might meet your needs. If you waste time thinking about bad opportunities, it takes away from the time that can be spent evaluating good opportunities.

So how do you come up with the ideas to evaluate? There are several sources:

- **Websites such as www.StartThis.com.** There are probably ten sites that have a significant number of ideas to think about.
- **Magazines that have lists of start-up ideas.** Some of these magazines appear pretty goofy on the surface, but they can contain some decent ideas. You can find these at most bookstores in the business magazine section.
- **Lists of franchises for sale.** You may not want to buy a franchise, as they are very expensive and do not have many advantages over a start-up, but you can get a lot of good ideas to implement into your own business.
- **Lists of businesses for sale.** You can get access to literally thousands of businesses for sale through business brokers, such as VR Business Brokers. Many of these lists can be found on the internet. You can also get printed lists from the individual brokers. You may laugh at the valuations that some of these businesses are asking. Remember, you are not out to buy a business (although at the right, price you might be a player). You are trying to look for great start-up ideas.
- **Things that are already in your head, or things you may think of tomorrow.** Your brain is a very sophisticated tool that can process millions of bits of information. It may already contain your best start-up idea.

Between these five sources, you should literally have a thousand start-up ideas to ponder. Your goal should be to distill this list down to about 10 great ideas that you feel enthusiastic about. That's about 1% of the sampling – so you can be pretty picky. Do not second guess yourself – include a couple potentially goofy ideas that interest you. And think “outside the box” so that you don't put limitations on your creativity. You can only start-up a finite amount of ideas, so you don't want to miss out on any great ones. Never forget that some of the greatest start-ups in history sounded pretty goofy at the time (do you think people thought Steve Jobs was crazy building a personal computing device in his garage out of spare parts?).

Once you have narrowed your list down to about 10 potential winners, it's time to do some initial, quick evaluations to trim the list down farther.

Do they really play into your strengths? Think about how much money it would take to start each one – is it in your budget? What about the amount of hours per week and the hours you would conduct business? Do they tie to a fundamental trend in the economy? Your list should narrow to about three or four possibilities.

With these last three or four, you are going to need to do some greater diligence. A good initial step is to see if there are any other similar businesses in your area. While competition is a part of American business, the less of it you have to contend with, the better. If there is a similar business, then how is it doing? What do they charge? How strong a competitor would they be? And if there is no similar business in existence in your market, why? Is there no demand for this type of business in your area? For example, there is probably little demand for snow plows in Hawaii. And if there are similar businesses in existence, it is worthwhile to call them and interview them to see if the business is all that you think it is. While many business owners will not talk to you as a potential competitor, often they will, and the input can be invaluable.

Another good source of input is from a “mentor” or “mentors”. These are individuals who like you and want you to succeed. They are normally older than you, but not always. They are traditionally businessmen who have had some degree of experience, and success, in starting their own businesses. They can give you excellent feedback on whether your ideas are sound or nutty, and can also give you some great “common sense” reviews of your execution strategy. If they have never owned a similar business to the one that you are starting, they may still have some terrific insight based on the general skills of starting and running a business. If there are one or several “mentors” that you can think of, definitely get them in the loop early on.

Once you have culled the weaker opportunities, and feel the remaining ones are strong enough to be worthy of further investigation, it's time to build some thumbnail business plans. The goal is to do some initial measuring of potential income, risk and required investment.

Here's how to do a correct initial thumbnail sketch of a business opportunity. First, you need some assumptions (your best guess of what is accurate) on:

- The price you are going to sell your product or service at.
- The quantity of sales you can make in a month or year.
- Your cost of providing the good or service you are selling.
- Your “overhead” costs, such as rent, utilities, etc.
- The amount of money you need to start-up the business to make that first sale.
- The amount of negative cash flow that the business will generate before it turns a profit.

This formula will immediately show you how some businesses that sound good start to look really bad on paper. Here's a real-life example.

A woman came to me who wanted to start an art school for children. I was curious to see what would happen, and also thought it would be good for our small town, so I loaned her \$3,000, which was all that was needed to rent the

building, buy the tables and chairs, do some finish out, build a sign, run a newspaper ad, and open up for business. Here was how her thumbnail business plan looked:

- The price for lessons was going to be \$40 per month for 4 classes (\$10 per class).
- The quantity was going to be five classes with 10 students per class, so total revenue was to be $10 \times 5 \times \$10 \times 52 = \$26,000$ per year.
- She was going to pay teachers \$20 per hour to teach, so her cost of the classes was $\$20 \times 5 \times 52 = \$5,200$. The art supplies cost \$2 per student per class, which meant $\$2 \times 10 \times 5 \times 52 = \$5,200$.
- Her overhead was \$200 per month in rent and \$100 per month in utilities.
- The initial capital needed was \$3,000.
- There was believed to be no negative cash flow.

Based on these assumptions, she would earn \$12,000 per year as owner of the art school. Not a bad return on a very part-time start-up.

This thumbnail yielded a lot of important data. It showed what it would cost to get in the business, as well as what kind of income it could generate. It showed a quick, general plan to make a reasonable return based on some fairly vague, but possible, assumptions.

Let's assume, however, that in building the quick thumbnail, the numbers had been only 4 students per class paying \$5 per class, and that the cost of art supplies was \$3 per class per student. Now that's a very different scenario! But until you lay it out on paper, it might sound like a good business. That's why any idea worth pursuing must first pass a thumbnail sketch review, to see if it is really as good as it sounds. Not that the thumbnail is anything more than a quick guideline to performance. But it definitely helps toss out the bad ideas quickly.

You should do an accurate thumbnail analysis for any idea that has survived this far. Often, just the thought process required to come up with the assumptions will make apparent the fundamental flaws. I've carried around some start-up ideas that, once I lay them out on paper later, were completely stupid and I quickly forgot about them.

At this point, the remaining business models have survived a lot of scrutiny. So it's time to write some full-scale business plans, to see which of these is worthy of consideration as a real start-up business.

Start Here

How to Write a Winning Business Plan

The purpose of a business plan is to tell the story of the business you are creating. It should show what the opportunity is, how you are going to seize the opportunity, what the financial cost and returns are going to be and what the risks are and how you will address them. It should also contain a biography on yourself, pointing out what your experience and skills are to lead such an endeavor. It is the roadmap for you, your investors, your mentors – everyone who will be involved in the start-up. The more detailed and complete it is, just like a roadmap, the better the odds that you will arrive at your target destination.

There was a period in the 1990s, during the dot-com era, in which entrepreneurs bragged that they wrote their business plans on the back of napkins. Well, you can see how well that turned out for everyone. There is no substitute for a well-thought out business plan, and only a fool would get involved in a business that did not have a detailed plan of attack. That would be like Eisenhower throwing together the Invasion of Normandy a couple of hours before the event. Sure, it might luck out and work, but more than likely it would lead to total annihilation.

Another misconception is that a business plan is only written when you are trying to raise capital or apply for a loan. Even a business that costs \$100 to start should have a complete business plan. *You* are the key beneficiary of the plan. It is for *your* daily use; to create questions, plan scenarios, compare assumptions to new information, etc. If you never meet with one additional human being regarding your enterprise, you should still have a terrific, written plan just for your purposes.

The Parts of a Business Plan

Great business plans share the same essential parts.

- **Cover**

This first item should not be taken lightly. A professional report needs a professional cover. Don't just use one of your kid's high-school report covers. Go buy a good report cover at Office Depot or Kinkos – one that costs at least \$5. It should be black or navy blue in color. Ask their staff if you need help. People associate strong covers with strong businesses. And if you go forward, it's going to get a lot of use and abuse – from you reading and re-reading it constantly.

- **Title Page**

This page should have your proposed business name, a tag line (a slogan describing what you plan to do in a catchy way; for example, Federal Express' tag line is "when it absolutely, positively, has to be there overnight.") your name, address, email and phone number, and the date. It should also include this paragraph on the bottom of the page:

“ The components of this business plan have been submitted on a confidential basis.

It may not be reproduced, stored or copied in any form. By accepting delivery of this plan, the recipient agrees to maintain its confidentiality and return it upon request.

Do not copy, fax, reproduce or distribute without permission”

That’s a pretty standard warning which means “keep it private”.

- **Table of Contents**

No surprise here, this is a listing of everything in the plan, and what page it is on.

- **Executive Summary**

This should be a concise, compelling explanation of what you are trying to accomplish. It should be broad-brush and have some sizzle to it, if you are trying to capture investors or lenders. Even if it is only for your purposes, it should motivate you with excitement and what the financial rewards might be, as well as a strong focus.

- **Industry, Customer and Competitor Analysis**

You review these segments, to give a snapshot of what else is being offered out there, and how you will fit in and compete with these offerings. Industry analysis would be a discussion of trends and what the current state of the industry is. Customer analysis would be a review of what the target customer and their needs are, as well as their budget. Competitor analysis would be a discussion of who you would be competing against, how much they charge, how fast they can produce it, how profitable they are, and what their weaknesses are.

- **Company and Product Description**

This is your opportunity to explain exactly what you plan on selling. It should be pretty detailed, especially on what makes your product or service different from the others out there.

- **Marketing Plan**

This outlines how you are going to take advantage of the potential for your business. The plan should include:

- Target Market Strategy
- Product/Service Strategy

- Pricing Strategy
- Distribution Strategy
- Advertising and Promotion
- Sales Strategy
- Sales and Marketing Forecasts

Operations Plan

This section tells the story of how you are going to produce and deliver your goods and services, as well as future refinement of them. This includes:

- Operations Strategy
- Scope of Operations
- On-going Operations

Development Plan

This gives a timetable of how long it will take you to get the business up and running. Subsections of this include:

- Development Strategy
- Development Time Line

Team

This is a roster of who is going to be a part of the business.

- Team Bios and Roles
- Advisory Boards, Board of Directors, Strategic Partners and External Members
- Compensation and Ownership

Critical Risks

This is a summary of what the risks are that would derail you achieving your goals. They should include:

- Market Interest and Growth Potential
- Competitive Actions and Retaliation
- Time and Cost to Development
- Operating Expenses
- Availability and Timing of Financing

Offering

This is the section that describes the capital required to start the business, as well as operate it until it cash flows positive. This should include a sources and uses schedule.

Financial Plan

This is where you lay out all of your financial projections. This should include a projected income statement, as well as a cash-flow statement and a balance sheet.

Conclusion

If the Business Plan is a story, then here is where you tell the happy ending. Just as the Executive Summary creates the first impression, the Conclusion leaves the last impression.

A well written and thought-out Business Plan is a roadmap to success. But while it is in its creation phase, it may become apparent that there are assumptions you made that are incorrect, or even complete elements of cost that you completely forgot. Even the most seasoned business veteran can make enormous mistakes in judgement until a Business Plan has been fully reviewed and completed. Even then, mistakes can happen. Just look at the Krispy Kreme expansion, as well as New Coke, Snapple, Wang Computer – the list is almost endless.

These are the four most common mistakes in a Business Plan:

- Overestimating revenue. It always sounds easier to hit those sales figures than it really is.
- Underestimating expenses. Again, there are always more costs than you anticipate.
- Underestimating the timing of revenue. What you think will be possible in three months often takes six.
- Overestimating the timing, amount and terms of financing. Getting a loan is always harder than you think.

Are these the only mistakes that can happen? Certainly not. Every inch of your plan is subject to being wrong. However, you can't just obsess on what you are missing so that you never have the courage to move forward. The key is to remain flexible at all times and to make constant revisions to the plan as you find your reality has changed. But, at the same time, you must be ready to abandon any business plan that suddenly appears weak to you. Never become so emotionally invested in any deal that you wouldn't shut it down at the drop of a

hat, or sell it for a good price. Your commitment to your family is non-negotiable, but your commitment to a business plan is always subject to change.

Knowing when to abandon a business model -- when to acknowledge that something is not an opportunity -- is as important as knowing when you've spotted a winner. To pursue a start-up that has no future is a total waste of time and money. It saps you of the resources you need to attack real opportunities

The Beauty of Low Cost Start-Ups

Many people have the incorrect motto of "you have to spend money to make money". This suggests that there is some type of formula whereby the more you spend, the more you make. In reality, some of the greatest start-ups of all time have been started on almost nothing, and then grown using internal cash flow. Some notable examples:

- the Joe Boxer brand was started on \$100
- Walt Disney began on \$290
- Jet and Ebony magazines were started with \$500
- \$100 was used to start Estee Lauder cosmetics

If you have only \$100 in capital to start your business, don't despair. You have all the money you need! We have a list of 50 great start-ups that cost less than \$1,000 on our site www.StartThis.com., all of which he hand-picked from the hundreds of ideas that have been circulated out there (many of which are awful), or that we have done diligence on ourselves.

How To Obtain a Loan

Having no debt is always better than having debt. However, not all opportunities can be paid out of your own pocket. If you have a business plan that requires obtaining a loan, and you are 100% sure it's a winner, and you are willing to risk having to pay that loan back in full if the business bombs, out of your own pocket, then you are ready to look at financing options. BOOT CAMP

Many people underestimate the difficulty in getting a loan. It's really hard work. Way harder than you expect. Because there is nobody more skeptical of your business plan than a lender. They will immediately make you question if you really want them on board. So what are your options?

When borrowing money, there are several different options, each with their own benefits and disadvantages.

- **Friends and Family Members**

These are folks that are willing to give you the benefit of the doubt if they don't really understand or believe in your business plan. Unfortunately, they are also not professional lenders, so they may not understand the realities of making business loans, such as the fact that they can fail, and that they can't just get their money back immediately until the note comes due. They often are happy with a lower interest rate than your other options, as they don't fully understand the risk/reward relationship on yield, and are comparing the rate to what they can get on a CD. And, of course, they really just want to help you out. The biggest disadvantage is the guilt and shame you will feel if you default. Don't even think of borrowing in this manner unless you are 100% confident that you can get them fully repaid. Another big disadvantage is that they seldom give you intelligent criticism of your business plan, like a bank would. Many of the dumbest start-ups in history began from a rich relative's loan on a stupid business plan (that explains that shop that only sells fly fishing apparel, or world cup soccer flags). You actually *want* criticism of your plan. If you are going to borrow from friends or relatives, you might first want to pitch your deal to a bank, just to get a good, free critique.

- **Private Investors**

These can be individuals, or even private equity groups, who are experienced investors. As they are not novices, they realize that there is a fair risk of failure in any start-up, *and* demand terms that reflect this risk and protect their interests. They will normally want to see a total return of 20% per year or more, with a preferred return of 12% or more on their money and an equity stake in the business (or a percentage of the total profit). On top of that, they will effectively want the option to take control to make sure that they can get rid of you and get a work-out professional involved to recoup their funds if it comes to that. Normally, there is no personal guarantee or other impact on you if the business fails, which is a huge advantage on very risky endeavors.

Clearly, these are pretty steep terms. As a result, you would only want to take this path if your business model is capable of spectacular returns that leave plenty of profit for you after you satisfy the private investor, as well as sizable risk that you escape in the event of failure.

- **Banks**

The term "banks" includes savings and loans, credit unions, and any other type of lender who makes business loans. These are straight-up arrangements – you get a sum of money in return for a personal guarantee of repayment and security interest in other collateral, and you pay them a monthly amount of principal and interest for a set number of years. They see you as a customer, but have no other loyalty to you except as that. If you do not meet the terms of the loan, they have the right (and will act on it) to call your note due and payable and put you out of business. The advantages of borrowing from a bank are that they are,

except for friends and family members, your lowest cost of funds. And your relationship is very formal and structured. If you get unhappy with them, you can refinance the loan and get them out of your life.

Another big advantage is that, in the event of failure, you really don't care about their feelings, as your relationship is pretty cold and mathematical.

- **Credit Cards**

These are an off-shoot of bank lending, as most credit card issuers are banks, but they are an entirely different type of loan. They have an incredibly high interest rate – 30% or so – but you don't have to go before any type of committee to get approval for your venture. Instead, you just draw down on them and put it in your checking account. Many, many entrepreneurs have used this method (ourselves included, to the tune of about \$100,000 each). Was it insane? No, we knew that no bank would believe in our start-ups and it was the only option we had. It was a calculated risk. It's also possibly the only loan that you can readily renegotiate the balance on in the event of total failure. Most credit cards are willing to discuss reducing the balance in return for regular payments in the event you default (that's what "credit counseling services" are designed to do).

And, even more than the banks, in the event of failure, you could care less about their feelings toward you. They charge 30% interest – so "screw them" is the general philosophy.

The Necessity of Remaining Flexible

Never take your business model *too* seriously. Some of the greatest U.S. businesses ended up being off-shoots of their original plan. Polaroid Corporation was founded based on the application of using polarized light to prevent the blinding glare of on-coming headlights. That did not work out as planned, but when the company changed the use of that technology into the creation of instant photography, the Polaroid Camera became one of the hottest selling items in history. Many of these changes occur when you start selling your goods and services and learn the real needs of the market. You need to stay constantly vigilant for better uses of your concept. Another great example is Pixar, the computer animation company founded by Steve Jobs. Although the technology and skill set was great, the company posted losses for years until it veered into making complete animated movies, such as Toy Story. In the end, it's market value was on par with Disney.

Your goal is to build a winning business. If that means throwing your existing business model in the trash can to jump onto a more profitable one, then don't think twice about it. Similarly, if you find any faults in your reasoning on your plan, or made any mistaken estimates, then make the adjustments immediately – don't

cling to the plan like it will lead you to success despite the clear indications that the plan is flawed. Successful entrepreneurs always remain flexible and seize a better opportunity. It is not defeat to acknowledge that your business plan is wrong, just a call to action to make the necessary modifications and press on.

SELL, SELL, SELL

This needs to become your mantra if you want to succeed with your start-up. Great sales and revenue can mask a multitude of weaknesses, but without sales, your business will fail no matter what other good things you do. Why is this chapter title so simple? Because you need to absolutely immerse yourself in all forms of salesmanship to prosper – you need to eat, drink, breath and sleep the product or service you are selling. You need to be so enthusiastic that you can deliver the sales pitch 100 times per day and never get tired of it. You need to spread the gospel like there's no tomorrow. Because there won't be a tomorrow if your product or service does not sell.

Many Civil War generals had a similar philosophy on success. They believed that you had the best chance of winning if you put your bayonet on your rifle and ran at the enemy screaming. You need to adopt that philosophy.

Let's start with the micro part of sales and then move on to the macro.

Successful sales begin with a lot of research to position your product or service for the best chance of winning. Hopefully, you properly analyzed things during the diligence phase of building your winning business model. I'm going to assume that you have already done enough of your homework to have concocted a desirable enough product or service that people do want to buy it.

If so, then how do you price it? Even the most desirable TV or bed or pet sitting service will fail if the price is too high. Equally damaging is the missed opportunity if the price is too low. So how do you determine what the right price should be? There are two answers. The first can be found in what the competition is charging (assuming that there is competition for what you are doing). When you are starting out with a new business, it is definitely a plus to be able to be priced a little cheaper than your competition to improve the odds of making a sale. The only exception to this is when you are offering a more premium product or service – *and one that the customer perceives as premium*. Here's an example.

You're starting up a steakhouse. And your baked potato costs \$5 more than any other baked potato in the world because it is organically grown and hand picked by the most discriminating farmers. But to your customer, a potato is a potato so they will not be willing to pay an extra \$5. To charge a premium, your customer has to understand and appreciate that the product or service is worth more. In this case, you'd have to educate the customer and sell them on the fact that it is a much better potato. This can be a very time-consuming proposition and require significant marketing expense. When you are starting up something new, stick with more simple sales strategies like "we're a little cheaper" or offer something that is clearly significantly better that is immediately appreciated by the customer. An example is Starbucks, who can command more for their coffee because it immediately tastes better (although new studies are disagreeing with this, and their sales are suffering).

The other part of pricing is figuring out what you *have* to charge to make your profit goals. In your business model, you used certain assumptions for revenue. You must stick to these assumptions. In a start-up, you will often be tempted to accept a lower price just to make a sale. For example, your car detailing price is \$100, but you'll take \$50 if offered to make a sale. And you convince yourself that it will be O.K. because you'll charge \$100 the next time. Let's look at how stupid that idea is. How are you going to charge \$100 to that same guy if you charged \$50 before. The only way you can do that is to have an advertised new customer special of 50% to get them to sample your wares. But if you just start taking whatever you get offered, with no firm pricing model, guess what happens to your business model? That's right – it gets quickly ruined. There is nothing wrong with being a little negotiable when you start-up. But you have to stay close to your model. If you sell like a maniac and nobody will pay your required price to make your model work, you should immediately consider if your model was fatally flawed and potentially shut the start-up down, or cut costs to re-tool the model. If you need to have revenue of \$1,000 per month to make the profit worthy of investing your time, and you keep cutting deals so that the revenue is \$500 month after month, there is clearly a problem. Here's a real-life example. There's a small restaurant in my town that has to sell 25 lunches a day at \$10 per lunch to break even and afford the owner the ability to pay the mortgage and costs and have some quality of life (she lives above the restaurant). If she started cutting her prices down to \$5 a lunch, she'd have to sell 50 per day. And if she only sold 10 per day, she'd have to charge \$25 per lunch. If she does not hit her revenue target after a short period of time, she'll have to close down, or come up with a new business model. Your business model has created a line in the sand you can't cross. You must fight hand-to-hand to hit your numbers to keep your business alive. And that bare minimum should create your pricing for you.

Once you have a price determined, it's time to start building your sales machine. You need to think like a big company on marketing, even if you are the only employee. The first step is to create professional sales materials. That begins with your company name and logo. Big companies spend thousands of dollars on

such things, but you don't have a fraction of that. You are going to have to resort to some creative thinking, possibly some friends with marketing experience, and consumer testing. Every part of your sales and marketing should be consumer tested, just like the big guys. Do you think Nestle launches a new product or package or name without extensive market testing? Absolutely not. And neither should you! Your start-up's name should reflect the essence of your business and should be easy to pronounce, easy to remember, and professional in quality. Think of the names of the companies that you respect. McDonald's, Exxon, Wendy's, Xerox. What do they all have in common. A single, simple name. Here's what you don't want. A name like "First Settlement Country Antique Store". Who could remember that? A better name would be "Settler's Antiques". It has the same basic meaning, but is simple and easy to remember. Or how about "Jim's Cowboy Up Western Wear". That's right, it should be "Jim's Western Wear" or "Cowboy Up Western Wear", or maybe even "Cowboy Jim's Western Wear". Which is the best? That's not for you to decide. You have to let your customers decide it. But you don't have any customers yet, right? So you have to build a panel of folks who might be customers and get their input. It is imperative that your test group be comprised only of people who have the characteristics of your real potential customers. You cannot include, for example, the guy who sacks groceries or the pizza delivery guy – unless that is your target customer. A simple marketing study would be to put all of the proposed names on separate sheets of paper, and ask your "panel" (individually, not collectively – you don't want anyone to influence their decision) which of these names they would be most likely to buy their western wear at. You will soon see a trend towards one name that is the clear winner. This is the name you should go with. What if you hate it? Your opinion does not matter. You are trying to sell, sell, sell. You have got to go with the option that will increase sales.

Once you have a winning name for your business, you need to come up with a solid mailing address. I am a big fan of P.O. Boxes. First of all, P.O. Boxes are great equalizers of self-image with big, established businesses, since most big companies use P.O. Boxes as opposed to street addresses – and you can have the exact same thing for about \$60 per year. Secondly, P.O. Boxes allow you to freely move your business location around, or shut it down entirely, without having to reprint stationary or lose your mail. A start-up will occupy many office venues as it grows, from your coffee table to a huge warehouse, and a P.O. Box allows you to move freely without problems.

For most start-ups, the best phone number you can use on your literature is your cell number. If it rings during your day job, you can just let it go into voicemail. Otherwise, you have 100% instant customer response. When you are starting a business, nothing kills a sale faster than the customer's inability to reach you – they will often just move to the next competitor on the list. And the caller I.D. on most cell phones gives you a head start on your sales pitch. You can also add your email address, which should be completely separate from your day-job email address. If you feel you must add a fax line, you can add a fax machine to

your home phone number for a nominal price, plus a switching device that diverts to the fax all incoming fax signals. The downside of this is that you may get frequent calls to your home line that drive you nuts. Or, if you are more technology savvy, you can set it up where faxes go to your email. Since most people send emails with a scanner instead of a fax, you can probably avoid the entire fax machine concept altogether. If you ever *have* to send or receive a fax, you can do that through your local Office Depot or Kinkos.

Now that you have a winning name, and an address and phone number, I would have some professional quality stationary (letterhead, envelope, and business card) printed. You can get this at any Kinkos or similar establishment. Take their advice on styles and paper stocks. Don't buy the 1,000 business cards for \$20 specials. They make you look like a total amateur and are bad for sales.

Some people equate having a logo with sales success. I disagree with this theory. For most large companies even, a logo is a supreme ego trip with little mathematical evidence of sales increase. For a start-up, nobody is going to buy or not buy from you based on your logo. If you are going to have a lot of trucks, you might want to come up with some type of inexpensive logo just to make your vehicles look better. You can find people who do logos on the internet for about \$100 to \$200. But don't spend thousands with a graphic designer. It will have no impact on your bottom line. Remember that it takes a ton of advertising to build a brand around your logo –and that is not how you want to spend your cash.

The final sales tools you need are your sales materials. This would be a brochure, or even a flyer, that explains your product or service to the customer and asks them to buy from you, as well as your contact information. To come up with effective sales materials, you need to distill the top two or three reasons someone should buy from you, and focus on those. And once you have written what you feel is a great sales tool, expose it to the same consumer testing, and see what results you get. You need terrific sales materials to make things happen. Without great sales materials, all of your work to date might be thrown down the drain.

Equally as important as professional sales materials is a professional-sounding office environment. Many a sales call was ruined by unprofessional background noise that is a give away that you are not a well-run business (and are calling from your living room). The background noises that do the most damage to your image are dogs barking, children crying, laughing and playing, appliance noises like buzzers, television, radio – really just about any sound other than what you would expect to hear in a real office. The correct background noise in an office is complete quiet. If you are working around kids, segment off a room away from the sounds of life, and use that as your official call center. If your kids are older, explain to them that when you are in that room, they must not come in and make noise. When you are communicating via email, of course, noise is not an issue.

A final tool that you should consider, based on your product, is the ability to accept credit cards. If you are selling a product or service that is \$20 or under, then it is probably not essential that you accept anything other than cash. But if your business is based on a product or service that costs considerably more, it may be vital that you accept MasterCard and Visa. This is not as difficult to accomplish as it sounds. All you have to do is get a hold of one of the many companies that handle “merchant services” – the ability for merchants to accept credit cards. You will have to fill out some forms and set up some accounts, but once you have completed this work, it virtually lasts forever. If you really look around, you will see that even vendors in flea markets have MasterCard and Visa capability – so it can’t be that hard to obtain! You should initially only sign up for the least expensive option. Never make a commitment to something until you have tested it and know that it works. It is possible that your customers will not use credit cards much, and you will find that you don’t need to offer that service after all. So keep it cheap and the commitment short. Accepting MasterCard and Visa is not free. You have to pay a monthly fee, plus a percentage of the sale. The percentage is not much, but the monthly fee is. If your credit card purchases do not warrant the monthly fee, then cancel the service immediately. For example, if it costs you \$100 per month in fees, then selling \$100 of products or services is not going to warrant that cost – you have to look at the total profit. If you make \$10 per item on a \$40 sale, then you would have to sell \$400 to make back that \$100 fee. And even then, you are only breaking even. You also need to think about if those customers would have paid in cash in the event that you had not offered to accept a credit card in the first place. So much of this has to do with the dollar amount of your product or service, as well as the demographics of your customer base. So watch the credit card revenue closely and make sure at all times that it is paying for itself. Another alternative to credit cards is to accept checks. That’s a free option. However, you run the risk with checks that they will be denied as insufficient funds, or even a non-existent account. However, you need to analyze this factually. If you avoid \$100 per month in credit card charges by accepting checks, and in a given year you receive four bad checks totaling \$400, then you are \$800 ahead by accepting checks rather than MasterCard and Visa (\$1,200 in annual fees (not even counting the percentage of the sale they take, too) saved less \$400 in losses). Contrary to urban legend, the laws against bad checks are so severe that most people would not even consider passing a bad check. Probably the biggest motivator for accepting MasterCard and Visa is the fact that customers can buy now and pay later – a lot later. If you are selling something for \$600, a customer who can buy that item with a credit card knows they can make minimum payments of maybe \$15 per month on that charge. However, if they write a check, it will come out of their account immediately. So really, the real reason to accept charge cards is to motivate the buyer to feel they can afford to make the purchase – not the security of a charge over a check. Remember that credit card purchases can also be disputed, which checks cannot.

How To Sell Your Product or Service

Sales are a volume business. It is important that you try many different avenues to sell at the same time. The more volume of sales exposure you unleash, the higher your sales should be. And you never really know what will work until you try it. Even the largest businesses know it is a crap shoot when they launch a new product and go out to try and sell it. Look at New Coke as the perfect example. If a company as large as Coke can blow it after millions of dollars of testing, then clearly it can happen to you. Don't over-examine your plan. The best thing to do is to try everything simultaneously, and then re-adjust and put more focus on the things that are working and shut down the things that aren't. For example, if one certain newspaper ad is pulling for you and selling your product well, then you should pull money away from your other advertising and put more into that newspaper. And then when it starts to slow down, reduce your expenditure and put it into the second best selling vehicle.

The Different Ways To Sell

- **Newspaper Advertising**

Although newspapers get a lot of bad press these days, with people saying that the internet will kill them off soon, they still reach a lot of people. Most big city newspapers still have circulations of 1,000,000 or more readers. Small ads in the newspaper, if the right product or service, can be very successful. Make sure to not commit more than one weekend up or up to 10 days and see if it works before you put a lot of money into it. One benefit to newspaper advertising is that it lets you refine your market down to a certain heading in the ad section, as opposed to others which just blasts your message out indiscriminately.

- **Yellow Page Advertising**

The great benefit of yellow page advertising is that it is so tightly targeted. It is the "go to" source for a specific niche. For example, if you need a clock repair shop, you get out the yellow pages and look under "clock repair". There is very little waste. Equally important, it is almost point of purchase – they are calling you because they are just about to buy the product or service. The only problem, as you can already guess, with yellow page advertising is that the internet, and specifically Google, are really hurting its audience. But it is still a dominant force and worth the investment. Another problem is that you can only sign up for yellow pages on a 1 year term. So if you decide to try it, make sure and get a very inexpensive ad (just being in the section is sufficient; no display ads) and that way if it does not work, you won't be too distressed.

- **Internet Presence**

In today's world, having an internet presence is a must. You need your own website and the ability for customers to find you in a search engine, such as Google. You will probably have to find a friend to help you build the site or, lacking that, pay someone. You will also need to write articles and link to other sites in your quest to get to the top of Google and the other search engines.
BOOT CAMP

- **Banner Ads, Pay-Per-Click, and Internet Listings**

The internet is one of the most exciting sales tools in existence. It allows you to reach an extremely tight niche with blistering volume. It definitely should be a part of any advertising program. BOOT CAMP

- **Direct Mail**

This can be an extremely effective type of marketing. You essentially write a form letter describing what you offer the customer, and how to contact you. You then mail this letter to all of your prospective customers. There are two options here. You can either put together and type the list yourself, or you can use a bulk mail company. In that case, they will put together the list for you based on zip code, and print and ship the order. Figure on about \$1 per letter if you hire it done

- **Email Blasts**

This is the same as direct mail, only using email to deliver your message.

- **Hand Distribute Flyers**

Another version of direct mail is to print off a bunch of flyers and put them in mailboxes, or under windshield wipers or on door knobs. This saves the mailing expense, and many people are more prone to read something that is "in their face" like that.

- **Leave Stacks of Flyers Where Customers Shop**

If a business is agreeable, leave a stack of flyers for people to pick up. Sometimes even grocery stores will allow you to distribute your information this way.

- **Newsletters**

This is a very passive, soft-sell form of advertising. It works well with a clientele that does not respond well to traditional hard-sale techniques. It is relatively inexpensive, and allows you to tightly target your subject market. It also makes you look like an authority, and gives you tremendous awareness through incessant repetition.

- **Signs**

Many a business has been made through an effective, well-located sign. If your business has the potential to have a sign visible by pedestrian or vehicular traffic, take that opportunity. As with your marketing materials, make sure the sign is professional quality and easy to read. If your business cannot have a sign out front, then consider “bandit” signs – small signs that you hammer into the ground, or even staple to telephone poles in desirable areas. Make sure not to violate any laws when placing them, however.

- **Give Speeches**

There is no greater sales tool than to give talks on your industry. You come off as an expert in your field, and after the speech, many people will ask you more questions and, ultimately, become customers. Many groups are always looking for speakers, if you will only ask. BOOT CAMP

- **Telemarketing**

This involves phoning your most likely customers and seeing if they will give you a try. This is significantly less scary than cold calling in person, as you are hiding behind a phone in case of rejection. The key is volume – don't place a couple calls and give up. You need to place hundreds. BOOT CAMP

- **Cold Calling**

The most feared way of selling, this involves walking into the office of your top prospective customers and giving them your sales pitch without an appointment. It is very scary at first, and can lead to some awkward moments – but it has a very high rate of return, with the right product. BOOT CAMP

- **References from Existing Customers**

Once you have some customers, try and see if they can give you referrals of other possible candidates. It's free and often highly productive. You can also institute a referral fee program that rewards these people with a discount.

- **Volunteering**

Giving of your time and money is a great way to promote your business and get immediate publicity. For example, an orthopedist can volunteer to act as trainer for the football team. Or you can sponsor a softball team. Good deeds can have a positive impact. But be sure and pick ones that are well publicized. Doing things anonymously, while good for the spirit, may be bad for the pocketbook.

- **Guerrilla Marketing**

Dressing up in a giant chicken outfit and dancing around in front of your store is only one form of guerrilla marketing. It is very inexpensive, breakthrough advertising. The purpose is to rise above the clutter of all the other ads out there and do something daringly unique and memorable.

- **Public Relations**

Public relations is a subset unto itself. It can be highly complex. However, every owner should have a public relations plan, even if it is extremely simple.

Public relations is the art of advertising and marketing your business with a small investment – you try and get all of your publicity for free. For example, a simple mention of your product on a mass-market show such as Oprah can result in millions of sales, even though you do not spend one dollar in advertising on the show. So how do you get these free mentions and plugs?

There is a lot of strategy to successful public relations. The overall concept is to make your business known to the media in a manner that would attract their attention and make them write articles and mentions about it. If your business is not that unusual or exciting, you can create publicity-worthy mentions by doing some charitable thing with it, like donating some of it to the needy, etc.

A good public relations plan will include a complete list of all the websites, magazines, newspapers, radio stations, and television stations that you would like to be in, and then systematically learning what it would take to get in each one. There are services that do this for you where you only pay for each article and mention garnered. The problem is that these services can be very expensive. Initially, you should try to do it all yourself, to both save money and to learn how it works.

Repeat Customers

One of the most important ways to build revenue with your start-up is to create “repeat customers”. Every time you make a repeat sale, that saves you from making a new sale to reach your budget. And repeat sales are easier to make than new sales, because the customer already knows your product or service and the pricing, so it takes a lot less work to convince them to buy. All successful businesses in the U.S. were built on the basis of repeat sales. So how do you get customers to buy from you again and again?

- **Keep them happy**

The Golden Rule applies to all business. “Treat them as you would want to be treated”. There is no reason or excuse to have unhappy customers. Ever. This

does not mean that you will not occasionally get customers whose expectations were not met. If you advertise that you are the low cost airline, such as Southwest, and somebody complains that the legroom was not huge and there were no in-flight meals, that will happen since not all customers pay attention and some are not rocket-scientists on applying what they are told to reality. But what is important is what you do after the complaint is made. Studies have shown that if you have an unhappy customer and make them happy, they will be more loyal to you than a customer who has never been unhappy. So there is really no excuse to lose customers.

- **Be on their team**

Successful businessmen don't think of their customers as simply income units. They are constantly thinking of them as their employers and benefactors. Once you have assumed that your customers' best interests are your best interests, then you make yourself indispensable to them. When you find yourself thinking "what can I do to help my customer reach their goals" then you are on the path to total customer satisfaction. And satisfaction equals retention. The owner of the largest roofing supply company in the U.S. credits his success to constantly climbing up on roofs and sitting with roofers to discuss the products and what they would like to see made differently. It's that kind of dedication that transforms a customer into a team member.

- **Listen to what they are saying**

Even if you think like the customer and bend over backward to please them, you can still lose the game if you do not listen to what they are saying. Because you may position your business in such a manner that it no longer addresses the market, and you will soon find your entire business niche has abandoned you.

A good example is the U.S. auto industry. Since the highest profit cars were the heaviest and most gas-guzzling, the leaders of the industry ignored the obvious consumer trends for cars with greater fuel economy. So even though they maintained a loyal following of customers who bought Lincoln Town Cars and SUVs, they missed out on a huge shift in the industry that has nearly bankrupted them.

Many of the manufacturers of buggy whips had a very happy client base – but then the base disappeared. If they had only listened to their customers' questions and tastes among automobiles, they might have had the chance to retrofit their business into steering wheels, or sell it before anyone else figured it out.

Listen to your customers and hear not only what you want to hear, but what they are really telling you. If you want nothing but accolades, you better have a large nest egg to fall back on.

Never Over-Promise and Under-Deliver

Nothing can kill your sales faster than building far greater expectations for your product than what you can deliver on. Psychology defines disappointment as events not turning out as expected. If someone thinks they did well on their science test, and then makes a D, it is the disappointment that is as damaging as the grade. If they thought they made a D, and they did, there is no disappointment, only regret for their own actions.

You are constantly, when you are selling, creating customer expectations. Even though you are trying desperately to make the sale, you must resist the urge to “inflate” your product beyond what it truly is. Recently, friends of ours told us of a restaurant, which they claimed had the best food in the city. So we made reservations for our anniversary, and arrived expecting something spectacular. Although the food was fine, it was no better than most any other restaurant. So we were truly disappointed, even though it would have been a fine experience if it was not for the stratospheric build-up.

When you sell your product or service, be sure to be honest. Always. The damage you can do by over-promising is enormous, and one unhappy customer can spread the word to many more. Often, the only way to solve the unhappy customer is through a refund – which defeats the whole purpose of the sale to begin with.

Another way to do a lot of damage to your business is to over-promise the timing of the customer’s receipt of the product or service. You see this problem every day. At least once a week I get disappointed like that. I’ll go to the cleaners and they’ll say “I’m sorry, we’re behind – it will be ready tomorrow” or I’ll get in the drive-thru line at some fast food restaurant and sit there for a half-hour, when I expected to get it in five minutes.

Whenever you sell something, make sure you have a factual handle on when it will be ready. Have accurate handles on time, and be the master of them. Some businessmen even throw out the idea of over-estimating how long it will take to deliver – and then shocking the customer with your rapid speed. The only problem with that strategy is that your delivery time could blow the sale, so it’s kind of risky.

You will sometimes hear the expression “under-promise and over-deliver” which means, quite simply, to always deliver to your customer more than they expected so that they are never disappointed. I would add the addition, however, “as long as it does not blow the sale”. It’s too hard to sell without carrying around the baggage of adding an extra day to the estimated delivery time, or shaving a little off the promised quality or quantity of the product, just to impress later.

The Power of Enthusiasm

One of the most important parts of successful sales is enthusiasm. When you are excited about your product or service, it gets contagious with the people you are selling to. So how do you get enthusiastic?

It's not easy to fake. For enthusiasm to work, you have to truly believe in what you're selling. So the first question is: do you really believe in it? Would you buy it yourself? If you can truthfully answer "yes", then you are in great shape. But what if the answer is "no"? In that case, you have to figure out what the problem is. Is the product too expensive? Is it built poorly? Are these conditions, or whatever it is that turns you off, able to be fixed? You will not succeed unless you can get enthusiastic – so this is a huge problem. You may be trying to start-up the wrong business if you do not find yourself

enthusiastic about it. There is no job more depressing than trying to sell something that you don't believe in. I once had a salesman who hated what he was selling – he did not believe in the product – although outwardly he did well at it. But he was a miserable, unhappy person to be around. One day, he virtually had a nervous breakdown at the office. He just couldn't go on selling things he was not enthusiastic about. At our urging, he changed over to selling something completely different, that he believed strongly in, and now is a happy person again. For example, I do not understand expensive RVs. I know people who have inexpensive ones and their reasons are plausible, but \$1,000,000 RVs? I just don't get it. So imagine how my life would be if I was selling \$1,000,000 RVs. I would feel like a huckster, selling overpriced junk to gullible consumers. But the fact remains that there are people who like to buy \$1,000,000 RVs, so I would really be punishing myself mentally for no reason. But it's just not a healthy way to live. You have to be enthusiastic to sell effectively, and to feel good about what you do. And when you are enthusiastic, your sales will be much, much stronger.

Set Goals on Volume of Contacts

Many people only set sales goals based on dollar amounts. Their goal for November may be \$12,000 in sales. That goal is already available in your annual budget, and in your business plan. But that's not a great sales indicator. That would be like telling your football team "I want you to score 30 points this quarter" without any plan to do so. A much better goal, instead of \$12,000 in sales, would be to make 1,000 sales calls this month by phone, sign up 20 new customers, and get 30 repeat orders. By focusing just on total dollars sold, you reduce the urgency of making sales calls – what if someone out of the blue called and ordered \$12,000 of merchandise? Would you just stop selling for the month? If you set your sights on volume of sales calls, the dollar volume will show up. In addition, if you can verify that the calls are being made, and the sales are just not happening per the budget, you can try and re-build the business based on the new reality. If you focus on and track only the sales dollar amounts, you may never know that the effort was there when the sales don't measure up, and may

change your business plan when really all you needed was a stronger sales effort.

Make Your Sales Goals and Results Constantly Visible

If you want to be successful in sales, you need to post your results for all to see – even if it's just you. By putting your successes, and failures, in plain sight will help to keep you motivated and remind you of the urgency to make sales. If you go into most auto dealerships, you will note that the sales manager has an erasable board that has each month's sales budget and actual results on it, often broken down by salesman and even type of vehicle. Most auto sales managers are high paid professionals, and they know that their best chance of success is to have to stare at their sales results 24/7. You better believe that they hate looking at those boards these days, with plunging auto sales, but they still do it, because they know it gives them an edge – and might just save them and the dealership.

The worst concept a business can use on sales is to keep the target and results on a sheet of paper hidden in a desk drawer. Since nobody ever looks at it, there is complete mystery as to how things are going, and then shock and disgrace at the end of the month when you finally pull the sheet out. And until the month end nears, there is no urgency to sell anything, since everyone can rationalize that things are going fine.

Competitive Pricing

Many a start-up business has been initially fueled by undercutting the competition's pricing. That's a strategy that has been around since the beginning of time. Essentially, you go to your competitor's customers and say "I'll do what they're doing for you for half the amount". While this is a great way to get your foot in the door, you must never forget that – it's a strictly short-term phenomenon. Assuming that your competitors' weren't crazy, you'll go broke working for 50% of the market rate. So tell your customers that you are willing to do the job for 50% to get them to try your service – but make sure they understand it is a promotional rate. This method gets your foot in the door, but it is only the beginning of gaining a customer. You must convert this customer over to your normal pricing as quickly as possible. Being known as the guy who works for 50% of normal is suicide for your business. But being known as the guy who will let you try his service for 50% is smart and well-guided.

The only exception to this, of course, is when you can truly offer your product or service for 50% of the going rate in perpetuity. This can be accomplished sometimes through improvements in technology, or through more efficient methods or lower cost labor. I have done this through my old tyme photo shop start-up. I learned tricks to build a highly profitable start-up at 50% of the going photo price through using digital photography and a mobile studio. If you are

lucky enough to find a product or service that you can offer at a huge reduction to the market rate, then you should do really well. But move fast, as competitors will start to pop up immediately, as they adjust to meet your price.

Bartering

No, we're not talking about pigs and chickens here. And not trading your product for a honey smoked ham. There is an industry unto itself in the U.S. called "barter", and you should at least be familiar with it in case it can be beneficial to your business.

Bartering is the trading of goods or services from one business to another. This system worked in nineteenth century America, but most companies can't find a trading partner that meets both of their needs. So a middleman was developed, called a barter exchange. This party allows one company to trade goods or services for barter credits, also known as "scrip". This same barter company then sells the goods and services in their inventory to other companies in exchange for their "barter dollars". Barter dollars, in effect, become a form of currency strictly for barter exchange members. For example, let's say that you are a dog groomer. A member of the barter exchange wants their dog groomed, so they arrange for your services in exchange for fifty barter dollars. Then you use your fifty barter dollars to buy a hotel room at the Ramada Inn, also a barter exchange member.

Is barter better than cash? No. Never. But if you have excess goods or services, then it is a way to convert this potentially worthless resource into something of value. In some cases, start-up companies have become masters of the barter technique. I know a start-up that lived off 100% barter in their early years – they traded for their apartment, car, office, office equipment, and even food. You may never be that good at figuring out how to use barter for all your needs, but it may be an important part of your arsenal when you first start out, or when times are slow, or really anytime that you have excess product or time.

CUT, CUT, CUT

This is your other mantra besides sell, sell, sell. It represents the constant focus on keeping all costs at a minimum, and to remove anything from your team or business plan that does not prove to contribute to your goals.

American business success is filled with men and women who were insanely focused on cost cutting. They include Henry Ford, Hetty Green, and J.P. Morgan. I'm not saying that you need to collect scraps of soap (as Hetty Green

did), but you need to be 100% thrifty and “poor boy” every investment. When you consider that profit = revenue minus costs, then there is no point in putting all that effort in sell, sell, sell if you just throw all the income out the door with excessive costs. Another way to think about it is that you have to sell a lot less (a comfort in this economy) to hit your targets if your costs are lower.

Choose a System To Track Costs

You won't be able to work to cut costs if you don't know what they really are. You also won't be able to scientifically track your progress without a score card on what the improvement in costs has been.

The crudest, old-fashioned system is to track costs manually. Basically, writing down everything you spend on a ledger sheet. This is how all businesses kept track until the advent of the computer a few decades ago. Many start-up businessmen still use this system and, if you are diligent about it, it is just as accurate as any computer generated report. However, it does not give you the ability to sort the data by a particular component or time period, nor the ability to put together the type of quick and easy-to-read financial statement that most banks and investors want to see.

So you really need to dive in to the computer era and let a computer handle your tracking and reporting. All you need to have is a personal computer (now available even at Walmart or Ebay at very low prices) and a software system. The best known of these options is Quickbooks. Although the notion of quickly learning the computer age may be scary to some people, it will save you so much time down the road that you need to bite the bullet and get it going on the front end. BOOT CAMP

Separate Bank Accounts

It is always a good idea when starting a business to set up its own checking account. To do this, you will also need a tax ID number. It is much easier to get a reality check, money-wise, by looking at your bank balance, and you can't get that immediate data if you commingle your personal and business accounts. In addition, if you are ever sued as a business, you don't want to have your personal and business accounts together, as it reduces some of your legal rights concerning assets.

Now that you have a way to track them, let's look at the different types of costs you will face in your start-up, and how to combat them.

Start-Up Costs

One of the first costs you need to cut is your start-up cost. This is the initial investment you have to make in the business to get it off the ground. This would

include your initial inventory and equipment, as well as legal costs, printing, initial advertising, etc. Be sure to keep these costs down to their lowest possible amount. Every penny you spend on start-up costs will be one penny less you have to spend on really selling your product later, when it will be more important to you.

You Are The Biggest Cost

Before you even begin to think about quitting your day job, be advised that you, alone, are the single biggest cost of your business. Look at how much your day job is making you. Then add in such items as health care, retirement account matching, FICA, company car, and any other perks. That total amount is the size of the burden that you will be putting on your new business (and your shoulders) if you quit your day job. Can you afford that? For almost all start-up businesses, the answer is “no”. Some people cheat and pay this negative out of their savings or loans, rationalizing that quitting their day job is essential to their start-ups success. Nothing could be farther from the truth. I have found that most start-ups flourish in more no-pressure environments, where you feel more freedom to experiment and make drastic changes when they seem appropriate. It’s hard to do those things when you are worried about making your mortgage payment. If, however, you have already lost your job and do not have a replacement, then pouring all of your energy into your start-up is a great way to alleviate the stress and keep you thinking positive. It can actually, make you interview better, as you realize you have other uses for your time and appear more “in-demand”.

Most start-ups do not require immediate, 40 hour daytime weeks. They start off small and take time to grow – and all of that time can be weeknights and weekends. If you have a business that requires someone to have regular office hours, then hire someone at \$7.25 per hour (or whatever the minimum wage is); that’s probably a lot less than you’re making at your day job.

The Myth of the Office

Some people have the mistaken impression that they need a nice looking office to have a successful business. Nothing could be further from the truth. In today’s world, your office is your laptop computer and your cell phone. This mobile office can be operated from a Starbucks, an airport, or your coffee table. The bricks-and-mortar office is dead. It’s a dinosaur. And the last thing you want to do is waste money on such dead weight. The only exception to this rule are businesses in which you meet with clients, such as a CPA or a financial advisor. But let me ask you a question. Why can’t you meet at *their* office. I know a very successful financial planner who has a rundown office inside of an old hair salon – which he choose for the safe location and incredibly cheap rent. Nobody knows that’s his office because he never meets clients there. He goes to their home or office. And you now what? They like that. They prefer having him come to them. So he not only saves a fortune on office expense, he uses that as a sales tool. If

that won't work for your start-up, at least consider sharing an office or an executive suite with a nice conference room.

Most people who have large, expensive offices today do so out of 1) ego or 2) not keeping up with the times. Most of your customers these days could care less about where you office. The days of a well-decorated office with a receptionist are dead. They are of another time in history. I still enjoy visiting them – it's like walking into a black-and-white movie.

If you are going to waste money on anything, don't do it on your office. It's dead weight.

The Truth About Office Equipment

When you start a business, people try and sell you all sorts of items that they pretend are essential if you want to succeed. These include expensive phone systems, copiers, pitney-bowes postage machines, etc. Here's all you really need: a cell phone, a laptop and an "all-in-one" copier/fax/scanner connected to your home phone line. Total cost: \$0 on the cell phone (you get it for free when you sign up for service), \$300 to \$700 for the laptop, and \$200 for the all-in-one. So best case your entire, sumptuously-outfitted office costs \$500. Worst case \$900. That's as much as you need to spend. Over that, you are just wasting money, and you will regret it later, when you really, really need it. And never, ever, enter into a long-term lease for a copier or other office equipment. It will be rendered obsolete with new technology six months into your three year lease, and will stop dependably working a year later (in the case of a copier). And if you want to close the business down, or even sell it, you are stuck with it. If you have the occasional large copying job – take it to Kinko's or Office Depot.

Inventory

Aristotle advised "moderation in all things". That includes stockpiling supplies and finished goods. Modern inventory methods include keeping only small quantities on hand and then ordering more quickly once those are depleting. Modern technology and manufacturing speeds have made that more possible than ever before.

A few years ago, if you wanted to publish your own book, you had to order a minimum of 1,000 copies. Then you had to worry about how to store them and keep them from being damaged with humidity. Today, you can set up your book at an "on-demand" publisher like Lulu, and print a copy every time you sell one. No need for storage and concern. Or, more importantly, financial risk (what if you printed 1,000 books for \$10,000, and then only sold 10?).

Whenever you start a business, you never know for certain what is going to happen, so the last thing you want to do is stockpile a 10 year supply of anything.

Buy enough to last a few months, but don't go overboard. There is no specialty product your business will need that can't be special ordered and received in sixty days or less.

Fixed Costs

These are costs that you incur whether or not you ever sell even one item. They include office rent, salaries, insurance, utilities, telephone, etc.

Your first step to cut these costs is to clearly identify what they are. Make a list of each and every one of these costs. Also, put on the list your budget from your winning business model. This tells you what your target is.

The best chance you have of hitting your budget is through multiple bidding. You need to get at least three to five bids on each of these line items. As important as the pricing is to make sure that each bidder is qualified to do the work. To compare bids accurately, you must make sure that you are comparing "apples to apples" and that your bidding is not flawed by the inclusion of bidders that are not legitimate businesses. For example, you cannot compare an insurance quote by State Farm with one from a fly-by-night group that cannot possibly pay on your claim. Additionally, make sure the deductibles are the same, as well as the policy limits, or you are again not comparing two similar items.

Once you have three to five bids for each line item, think of how you can reduce or eliminate that cost altogether. For example, can you share office space with another entrepreneur? Can you get by without a phone line, and use only your cell phone as your office line? Every line item should be challenged for elimination or drastic reduction, and at least one cost-eliminating or reducing idea should be introduced. Many of these ideas will have to be "outside the box", so be creative in your solutions.

Always remember that it is fun to spend money, but incredibly un-fun to undo what you have committed to. Every time you make a major commitment, always remember how unpleasant it will be to break it later. Hiring an employee is fun, firing one is not. The best course of action is to never make any commitments that you absolutely don't have to. If you can lease space month-to-month, then don't sign a longer term lease. If you can hire someone on a part-time basis, don't convert them to full time. Making commitments is bad for business, and ruins your ability to maneuver your business quickly. Sure, everyone who is selling you something wants you to make long commitments. But you have to be strong and watch out for your needs, not theirs.

Once you have reduced your fixed expenses as low as you can humanly go, it is time for someone else – a mentor—to review them also and see if they can find places to cut. It's amazing how some fresh ideas can translate into further cost cutting. And the very process of playing devil's advocate can often find further

cost cutting opportunities. When you have exhausted every possible way to cut the fixed costs, it's time to turn to the variable costs.

Variable Costs

Variable costs are ones that you have more control over. While fixed costs, such as rent, can only be negotiated once, variable costs can be cut or renegotiated daily. The key, like the fixed costs, is to always think “cheap”. Always remember that every dollar you save is another dollar in your pocket or a dollar less you have to sell to make your budget.

Like you did with the fixed costs, you need to make a laundry list of every variable expense you incur. Once you have this list, you need to exhaustively think of how you can reduce or eliminate each one. You may have some brainstorms that can make a significant improvement in your budget. And your ideas should include at least one “outside the box” concept to make sure you are truly thinking through every possible option.

Remember that many great businesses have been built out of re-tooling just the cost side of traditional businesses, without making any impressive gains in sales. The best and most obvious example – Walmart. Walmart, in the early days, did not wow the world with their sales, but they sure did with their frugal cost cutting.

Always Negotiate

There is no expense that cannot be negotiated. Never feel bad or embarrassed about asking for, or demanding, a better deal. All great businessmen do this continually, even on the smallest costs. BOOT CAMP

The saying “the squeaky wheel gets the grease” is very relevant to negotiating. Most customers never ask for a better deal. They just accept what is offered to them. Don't ever let that be you. You should always be fighting for a better deal. Even if the deal you have now is satisfactory, if you can cut it down farther, it reduces the pressure on other parts of your budget that are not in line. John D. Rockefeller built his fortune out of negotiating. He found that, through volume, he could negotiate lower shipping costs for his oil, and used this advantage to undercut his competitor's pricing and put them out of business. Had he not fought to get this shipping reduction, he might never have created his monopoly or his fortune. So how do you negotiate? There are several different types of negotiating:

- **Russian Negotiating**

This style of negotiating involves operating at great speed so that the opponent cannot have time to think or even do some research to know if they are getting a

good deal, and ultimately ends in an ultimatum. For example, if I wanted to buy your car I'd say, "I'll give you \$5,000 for that car right now, in cash, but I must know within 10 minutes". The other party does not have time to see if \$5,000 is a good deal or not, and not much time to even give the offer careful consideration. Russian negotiating is often used in situations where one party has perceived greater strength than the other, and tries to "railroad" the weaker party into making a mistake by making an un-educated decision. You are almost always better off to avoid situations that involve this type of negotiating. There is nothing worse than "guessing" what the true values of things are without any preparation. And it is always the end to repeat business – nobody is going to want to work with you again when you pull these antics. This is best used in situations in which you will never see the other party again; you just get what you want and move on. It is not a successful style for most businessmen to engage in. And sometimes it even backfires on the winner, who may not have had enough time to perform any due diligence on what he is buying. There is a movie based on this premise, in which a studio head Russian negotiates another studio who wants to borrow one of his own stars for a movie, only to find that the star that he traded for actually died the day before in an auto accident. Speed is great in Nascar, but not always the best idea for negotiating.

- **Win/Lose Negotiating**

In this type of negotiating, one party wins and one party loses. One walks away happy knowing that they got a great deal, and the other walks away mad, confident that they got ripped off. If you want to build a large, prosperous and lasting company, this is not the best negotiating style for you.

If you are an aficionado of win/lose negotiating, then you will one day wake up and find you have no more customers. Because nobody wants to work with this type of individual. You may get away with it for a while. But eventually, you will find nobody left to play with. And when the tide turns, don't expect any quarter from your enemies who you treated so poorly.

- **Win/Win negotiating**

This is clearly the winning strategy for negotiating. Both parties are happy and wanting to do business again. So how does it work?

In win/win negotiating, both parties lay out their objectives, and then work together to solve each other's problems. This is the most successful form of negotiating, because it not only locks on your goals, so that you don't fail in them, but allows for continual, further successful trading between both parties.

Let's say, for example, that you really want to buy a certain antique vase that is priced at \$150.. But you only think it's worth \$100 and only have \$50 in your budget this month. You tell the antique dealer your needs and they say that they

really want to sell it, but they need \$110 – but to make it work for you they'll take the \$50 down and give you three months to pay off the balance. You think that is a wonderful idea, and you have just completed a successful win/win negotiation. And will you go back to that same antique dealer in the future? Of course you will. You will probably buy from them many, many more times. And will they want to sell to you? Certainly they will. Of all the popular notions of recent times, none is more important than the concept of "win/win".

In win/win negotiation, you never are faced with embarrassment, since you are throwing out an idea and seeing if that has any parallel with the other person's goals. There is never any negativity – except on those who refuse to open up and get honest with their needs and desires.

Emergency cost-cutting

Even the best managed business often finds itself in a financial squeeze. There is probably not one famous business in the U.S. that has not faced terrible times in which it seemed that the entire business might be lost. Look at Chrysler under Lee Iacocca – it didn't appear it would ever survive. Or Sears. Or 1001 other examples. If you think you can start a business and never be boxed into a corner, you are dead wrong. So you better learn what to do in a crisis. BOOT CAMP

- **Prioritization**

The first step in a crisis is to get out all your bills and put them into two stacks: the "have to pay" and the "don't have to pay". What makes a bill a "have to pay"? Those are the bills that, if you don't pay them, will shut your business down immediately. For example, your employee's salaries. If you don't pay them, then that's the end of the ballgame (assuming you still need them). The same is true of your loan payments and utilities. Anything that has a serious ramification if it goes unpaid goes to the pile with "have to pay" status. "Don't have to pay" bills would include any vendor that is not essential to your business, or any vendor that does not require immediate payment or has no immediate, material impact on your business if they stop working with you.

- **Cut and Spread**

Once you have identified which bills must be paid to remain in business, it is time to develop a battle plan called "cut and spread". Call up each of these vendors and tell them that you have had a terrible hit to your cash flow, and need to know if you can pay them in several payments instead of one. And you need to spread those payments out over a period of time, like a few months. Also ask them if you can pay less than the full amount due – can you get by paying a certain minimum amount (like a charge card) or some other, lesser arrangement. Most vendors will work with you if you have a reasonable excuse, and don't abuse their cooperation. Think of it in the same manner that George Kirby saved the bank in

“It’s a Wonderful Life”. He’d ask people who came in to withdraw all their deposits at the bank (it’s during the great depression) “how much money do you need just for the coming week?”, and was able to minimize the financial losses that would have put the bank into insolvency. Most cash flow issues can be solved in this manner, and then restored when the problem is cured.

The vendors in the pile entitled “don’t have to pay”; they are much more difficult. You don’t have any money to pay them, even though you really want to. So your best strategy is to tell them that you are in a real bind, but will pay them as soon as you can. Remember that wording: “as soon as you can”. Don’t make commitments on when you’ll pay them. You don’t really know, and they will drive you crazy if you miss your target. They don’t want to hear it, but “as soon as you can” is as detailed as you can be. If someone threatens to sue you, then explain to them that if they do that, you will move them from the top of the list to the bottom of the list of who to pay – that will normally dissuade them – and that there is nothing to get anyway: “you can’t squeeze blood out of a stone”.

Taxes

Any business may be subject to several different taxes, including sales tax, property tax, franchise tax, withholding tax, and income tax.

You should get a firm handle on these on the front end. If you do not budget for them, you may end up with huge amounts due and no money to pay them with. One of the worst, if not the worst, creditor to have chasing you is the IRS. The barriers to payment and collection are none for these people. They can seize your assets and even put you in jail. So take a proactive approach to make sure you don’t get into that type of problem.

Search For Ways To Minimize Taxes

At this point, you need the counsel of a CPA. When you start to push the envelope for tax savings, you cannot afford to make a mistake. If so, you might have to pay back literally years of back taxes, plus interest and penalties. At the same time, if you overpay your taxes, the IRS is never going to let you know that – they’ll just keep it unless you overpay the stated amount of tax on your tax return.

Some things to look into are deductions on home offices, company vehicles, the correct definition of what portion of your sale is taxable, etc. There is no problem in bouncing off creative tax savings ideas with your CPA, just make sure and listen to what he tells you are legitimate and don’t try any funny stuff. You will end up being audited, and the financial damage could threaten your business.

MANAGING RISK

Every second of every day, you are dealing with risk. When you get up in the morning and get in your car and drive to work, you are taking some terrible risks. You risk tripping and falling down on your sidewalk as you walk to your car. But you reduce that risk by keeping anything you can trip over off the sidewalk, and making sure that there are no huge cracks and holes in the path. When you start your car, you run the risk of it blowing up, or not starting at all, but you hedge those risks by buying a decent car and keeping it in good condition. You even reduced the risk that it would not start by keeping gasoline in it. And when you drive down the road, you run the risk of having a terrible accident and getting seriously injured or killed (this, in fact, is statistically the highest probability risk that you will be taking all day), but you mitigate this risk by driving carefully, wearing your seatbelt, having an airbag, and carrying insurance. And while you're gone, your house might burn down, but you hedge that risk through not leaving fires burning, having a smoke detector, and carrying appropriate fire insurance.

As you can see, you take thousands of risks each day, but you survive them through planning and, in the event of disaster, insurance. So why should your start-up business be any different? It shouldn't. Only the risks and dangers are a little different. They include:

Lawsuits

You rarely get sued over your regular, everyday life. As a result, you may not be aware of the risk. But in the business world, lawsuits are common and frequent. There is a whole industry that revolves around this unfortunate occurrence – attorneys. And often these attorneys are the catalysts that spur clients on to filing suits – they are definitely public enemy number one for your business

There are different types of lawsuits that you must be vigilant against:

- **Employee Lawsuits**

These are some of the most unpleasant of all suits, since it is often someone you have known personally and provided opportunity to, who suddenly turns on you. Not only are you hurt by their lack of morality, but they also often have insider knowledge on your business that they will use as a tactic to extort a quick settlement from you. Most of the great business catastrophes in history began as an employee lawsuit. These suits can be over discrimination, wrongful termination, sexual harassment, violation of the minimum wage act, violation of child labor laws, unpaid salary or commissions due. They can also involve the employee enacting

what is called the “whistleblower act” and turning you in to the police or Internal Revenue Service, or another governmental group.

The best way to guard against these lawsuits is to consider every employee a potential lawsuit in the making. Although you want to be “friends” with the people you work with, you must not become too familiar with them. Do not, ever, reveal important company secrets to them that you would not want advertised in the daily newspaper – because if you get sued it may come to that. Also remember the old adage “familiarity breeds contempt”. Don’t hang out with them after work, or take long lunches with them daily. Be nice, but be aloof. And be sure to document *absolutely everything* in writing concerning their compensation or failures on the job that lead to dismissal. Before you even hire your first employee, it might be worth your while to get with an attorney to learn exactly what is required in your state to document on each employee to have a great “paper trail” (documentation) should you have to go to court.

One very important point to always remember, before you get too friendly with your employees, is how difficult your personal relationship makes it to fire them. Because the statistical odds are that you will have to sever your relationship with them at some point, whether it’s through firing them or selling or closing the business.

- **Customer Lawsuits**

These type of suits revolve around unhappy customers suing you for a bad product or service, or overcharging them, or misrepresentation. If you have a lot of customers, these suits are unfortunately fairly common. Sometimes they are reasonable, and sometimes they are insane (the attorney who sued the dry cleaner for \$50,000,000 for losing his pants).

Often, these type of lawsuits can be settled out of court, or stopped early on with good customer service and potentially returning their funds. Most of your customers are pretty reasonable. There is, in fact, a study that has shown that unhappy customers, if made happy, have a greater loyalty for your business than those that have never had a problem. However, some of your customers are completely unreasonable and some deliberately bought your good or service with no intention other than suing you – hoping for a quick shake down and settlement.

Because of these occasional bad apples, you need to be constantly on the watch for potential lawsuit targets. If you manufacture a product, for example, that you sell by weight, make sure that the weights are accurate. If you sell 10 ounce bags of chips, make sure they weigh 10 ounces, not 9 ½. Similarly, if you sell yards of fabric, make sure that your ten yard roll

has ten yards on it. Suits on weights and measures are tough to dispute – if you're wrong, you're wrong.

Another potential lawsuit target is pricing aberration. If you advertise that your brake job is \$29, then don't charge \$34 once the customer gets there. And make sure that you have all the proper disclaimers in your ads.

Pricing collusion is a popular lawsuit. That's when you and your competitor agree to hold the price at the same level, to remove the competitive system.

Product or service quality is another potential lawsuit target. If you sell a tire that is supposed to last for a year, and it goes bald and flat in a week, then you run the risk of getting sued. Particularly if that flat tire caused a fatal collision. Many times the failure of your product or service can cause giant damages, such as a bad batch of bolts causing a crane to collapse, or a broken tail light causing a huge 18 wheeler to get sideswiped and run off the road, destroying its cargo. Make sure that you can provide a quality good or service in keeping with industry standards.

The worst type of customer lawsuit is what is called a "class action suit". This is where an attorney organizes a large group (sometimes all) of your customers together and sues you for a huge amount of money. These suits are normally in the millions of dollars. The best way to guard against these is to not violate any of the rules with your customers.

- **Vendor Lawsuits**

Sometimes you will be sued by one of your vendors – the people that *you* buy products or services from. The most common of these suits is for non-payment of amounts due. Often, you have not paid them as a result of cash flow problems, and can simply resolve these suits by paying the bill. But there are other, more complicated suits that sometimes occur. One of the most common is a suit alleging that you aren't meeting the terms of your contract. For example, if you have a boot repair shop and you signed an agreement to buy \$200 of leather from a supplier every month, but with the recession you only need \$100, they may sue you for not meeting your end of the bargain. One of the best ways to hedge this danger is to never enter into any commitments unless you absolutely have to and, if you do, then make sure you have legal language in the contract allowing you to cancel if things go bad. You should also have an attorney review any contract you sign over a certain dollar value, to make sure there are no hidden traps. Remember that, in a recession or depression, your vendors are going to have as much trouble paying their bills as you are having, and will fight for every penny they can squeeze out of you.

- **Governmental Lawsuits**

Based on what good or service you produce, these are most commonly lawsuits for breaking permit requirements in your city. For example, running a business out of your home (if that is not allowed). Or creating too much noise or smell in manufacturing your product. Whatever the case is, the best prevention is to know the laws and make sure you are in accordance with them. Many start-ups never bother to examine the local laws, and even open retail businesses in areas that are not zoned for that use. Your municipality's ordinance book is freely available either on line or in printed form. You must buy one and read it.

The other, perhaps most common, of these type of suits is for unpaid taxes. You must always make sure that you are paying all of the different taxes owed, and in the correct amounts. These include sales tax, income tax, employee withholding, state income tax, franchise tax, etc. Normally, if you have made a mistake, you have the chance to resolve it before a suit is filed.

- **Competitor Lawsuits**

These normally revolve around a competitor claiming you stole their idea, or violated their copyright, or tried to ruin their business by unfair pricing. Normally, these type suits are reserved for big companies (for example, the recent lawsuit over Bratz dolls by Mattel), but sometimes they filter down even to start-ups. The most common type of suit for a start-up, in this variety, is one claiming that the owner stole a copyrighted idea. If there is any question as to this issue in your mind, you should consult with an attorney during your business model phase. If your whole business is built on a stolen idea (such as selling illegal, counterfeit Channel handbags) then you should know better. But sometimes there are grey areas that need some legal input.

If you are entering a very competitive business, or a long-standing monopoly that hates competition, make sure that you have absolutely given them nothing to attack you over. Remember Benjamin Franklin's "an ounce of prevention is worth a pound of cure".

- **Investor/Partner Lawsuits**

These lawsuits are as nasty as employee lawsuits, and need to have the same attention to detail to mount a proactive defense. Normally, these occur over money and missed goals, but can also be triggered by other, trivial issues. Since this type of lawsuit can literally kill a business, it is vital that you make sure that everything is always in writing, such as minutes of

meetings and goals and financial performance, and that you have an attorney orchestrate what needs to be constantly documented on the front end. It is not uncommon for long-standing friends to become bitter enemies over money, or a champion entrepreneur to be removed over some one-time missed budget (look at Steve Jobs at Apple Computer).

Dealing with lawsuits for minimum damage

Once you have been served with a lawsuit, there are some general rules that improve your odds of success. The most damaging strategy is to ignore it or hope it will go away. There is a rigid timetable on lawsuits, and you have to move quickly to have your best chance at success.

- **Rule # 1: Remain Calm**

It's easy to say and impossible to do. But history has proven that, in times of crisis, the best thing you can do is to move slowly and thoughtfully. Often your enemy, the other party and/or their attorney *want* you to panic and make a quick, poor decision. Success in the legal arena requires patience and strategy, and speed is not always a virtue. Remember that it takes months or years to actually go to court. The legal process is, by definition, extremely slow moving – so don't get in such a rush. No matter how hard you want to, you are not going to get this mess resolved in a day or two. So calm down.

- **Rule #2: Never Admit Guilt**

Our justice system is set up to reward those who never accept guilt, and punish those who confess to their mistakes. As odd as this might be, you need to take advantage of this flaw in the system. Even if you are caught red-handed on video tape, never admit guilt. Come up with any excuse you want (it's not you but someone similar; someone framed you by putting your likeness on the real person; an alien beamed you up to a starship and sent down a cyborg that looked like you; etc.). All that's important is that you never, ever, ever, plead guilty. Why? Because you lose all of your negotiating power. If you plead innocent, even if you are guilty without question, it's still going to require a lengthy and costly court case. So what happens? The other party strives to settle. Or plea bargain. Just by pleading not guilty, you hold a huge weapon of time and expense. If you plead guilty, on the other hand, you are straight to the punishment phase and that takes a couple weeks and no legal expense. And the other party is also terrified that, if you go to trial, you'll win. So again, they are anxious to settle – or maybe drop the case altogether.

- **Rule #3: Try To Resolve Problems Before They Get That Far**

Many, many lawsuits could be resolved on the front end if you proactively seek to find a solution. Unhappy customers can be made happy again if you return their money or replace their malfunctioning goods. Ex-employees can often be bought off with a small, token settlement amount. Governmental agencies can be made happy with a timetable for compliance and a small fine. So always try and resolve things on the front end. You will always be money ahead if you do this.

- **Rule #4: Try To Settle Lawsuits**

If you are unable to resolve problems before a suit is filed, don't give up. Try and settle them once they have become a lawsuit. Any lawsuit can be withdrawn by the opposing party at any time – so try to find a solution before you have to go to court. Sure, it's not fun to pay out a settlement, but often the settlement is less than the legal fees of going to court and it's a 100% sure thing, which going to court is never going to be. And manage the settlement of lawsuits yourself (see the next rule).

- **Rule #5: Don't Trust Your Attorney**

Asking your attorney if you should settle a lawsuit is like asking a barber if you should skip a haircut – the answer is always going to be “no”. Why would an attorney willingly tell you to cut out a huge fee on his behalf? Before I learned this lesson, I let an attorney manage a small case for me that could have been settled for about \$1,000. Instead, he deliberately let it fester into a class-action lawsuit that ultimately cost \$300,000. I will never forget what he told me once the huge suit had been filed, “don't worry, I am prepared to defend this case if it takes years”. Wow, that's big of him. He had made sure that he created a job for himself at my expense. It's almost passé to hate attorneys, but you don't have to be around them long to join the club. Of all the attorneys I have ever worked with, there are maybe two that I think were honest and trustworthy – and that's out of about a hundred. And you know what, even then, I wouldn't trust them 100% when money is involved. At the end of the day, they have to make a living, and you are too tasty an opportunity to pass up.

So always manage the potential settlement of cases yourself. Call the other party and/or their attorney (with or without you legal counsel) and work towards a resolution. *You* have the best possible chance of making it happen.

- **Rule #6: Always Ask For A Jury Trial**

If you are a defendant, nothing irritates, scares, disappoints, terrifies or depresses your opposition more than asking for a jury trial. By law, it is your god-given right – *so use it* (but get your attorney's opinion first). This one tactic has immediately resulted in the dismissal or settlement of countless lawsuits for me. Why? Several reasons. First of all, they take *forever*. Most plaintiffs want a quick resolution and quick money. You deny them both when you ask for a jury trial. It

tacks on months or years. To have a jury trial causes a ton more work for the courtroom, so they just keep rolling it back and back. Every lawyer knows this. The second reason can be summed up in three words: “the O.J. jury”. Ever since that landmark case, people have come to the realization that juries can make some of the most insane, stupid conclusions in the history of the world. And that terrifies plaintiffs. They immediately imagine that their case has been reduced to a 50/50 shot at best, where it might be a 90% shot in front of a judge only. The third reason is the predisposition of the jury against the government and other litigants. No jury is going to rule in favor of city hall or Uncle Sam, or a big heartless company, if they can help it. And their attorneys know that. I’ve even used as a threat “if you sue me, I’ll file for a jury trial, and you know that no jury is ever going to vote for you” – only to have the plaintiff drop the case immediately after. Can you see a jury voting in favor of a mortgage company or bank right now? Nope. And they know it.

- **Rule #7: If Your Opponent Won’t Settle, Destroy Them**

Being a nice guy and being sued don’t go together. If someone has sued you, they have given you the blanket right to win in any legal manner and hold nothing back. Because often lawsuits bring out other details that can be damaging to the plaintiff. Remember that it was a lawsuit that led to the discovery of the relationship between Paula Jones and Bill Clinton – a byproduct that nobody expected. Whatever comes up in discovery, whatever damaging thing that pops up from any source – you must use them all without any remorse. Be heartless. Go for the jugular vein. Teach that guy a lesson for filing a suit on you. If it destroys the guy’s marriage, and destroys his business and (as it sometimes happens) he comes to you begging to go a little lighter, show him no quarter. After all, he filed the suit, he refused to settle – he has given you carte blanche to destroy him without guilt. Once the plaintiff understands that you will go to any legal lengths to destroy them, it disturbs them and makes them more likely to settle or drop the case. The best historical example of this was the Confederate General Nathan Forrest, who would go to the enemy’s camp before a battle, and tell them, no matter how badly outnumbered they were, that if he was to win he would have all of the captured officers shot and killed. This simple strategy often ruined the union officers’ excitement about going into battle, and they would often decide to go around Forrest, or even surrender right there.

- **Rule #8: Choose The Right Attorney For The Job**

If you ever get sued, your first inclination may be to hire an expensive, classy attorney to defend you. However, this can sometimes be a disastrous notion. Because what wins cases is not fancy offices or nice suits from Brooks Brothers – it’s about how they perform in court. And a lot of winning attorneys dress shabby and office in dumps. So be sure to do a little research on who the right person would be. If you are going to court in a small town, find out what attorney is a personal friend of the judge and has the best connections. Such a well-

connected small-town lawyer can run circles around your average big city “outsider” counsel. You need a successful quarterback for your lawsuit, and you must choose just the right one for the best chances of winning. So put some research into it.

As I’ve said before, the last thing you ever want to do with your start-up is get in a lawsuit. ***Nobody wins in a lawsuit.*** So try as hard as you can to stay out of trouble and, if it comes up, work proactively to solve the problem before it blows up into a lawsuit. If a lawsuit is unavoidable, follow those tips, but it would be best never to have to use them.

Insurance

One of the best ways to mitigate risk is through insurance. Webster’s defines insurance as “...insuring property, life and one’s person against loss or harm arising in specified contingencies, in return for payment”. That’s pretty much correct. Carrying insurance allows you to approach life with extra confidence, knowing that some of the those risks out there, especially the largest ones, will not result in complete financial ruin.

So what do you need to insure? A lot of that depends upon your business, but some things are pretty much true for any start-up.

- **Liability Insurance**

This is the insurance that protects you against damaging a person or property. For example, if you were a florist and had liability insurance, you would be covered if someone tripped in your shop and broke their leg. Or if they poked themselves in the eye with a flower and had to go the hospital. And maybe even if they ate a flower accidentally and died. It all depends on your policy and what is covered. But this is the most important type of insurance that any business protects itself with. If you could only afford one type of insurance, then this is it.

- **Workmen’s Comp**

If you’ve got employees, then this type of insurance is a must. In most states, this insurance safeguards you in the event an employee is severely injured and cannot work. Without it, one such claim could wipe out your business, based on the severity of the accident. The policy amounts differ based on what type of work your employees do (clerical, trim trees, build cabinets, etc.). If you can afford it, this insurance is a must.

- **Property Insurance**

If you do not own the building you are in, you still need insurance to cover your contents against fire or theft. What if someone broke in and stole your computer system? What if a fire burned up all of your inventory? You have to have coverage for these things. You cannot risk your entire business over something as common as a break-in. This type of insurance is normally reasonably priced and well worthwhile.

- **Real Estate Insurance**

If you own the building your business is located in, you must have fire and other hazards insurance. This is the insurance that would build you a new building if that one is destroyed. Your bank probably already requires this as part of your mortgage – but make sure you have it and that it's in force. The downside could be horrendous.

- **Key-Man Insurance**

If you are incurring debt in building your business, and the business revolves around you and your decision making or physical talents, you should consider “key-man” insurance. With this insurance, your company would receive cash if you are killed, which is normally used to pay off debt and provide operating reserves while you are replaced and a new leader re-trained. If you do not have debt in your business, this may not be necessary for you. But you should get a price on it anyway.

Some Other Personal Insurance Issues

While we're talking about insurance for your business, there are some personal housekeeping issues worth discussing to make sure that you are financially fit to run your start-up over the long-term. These are

- **Health Insurance**

If at all possible, you need this for you and your family. In a world where a trip to the emergency room and an overnight stay can cost \$20,000, and a simple surgery \$50,000, you need this protection, or you could kill your start-up with your own personal problems.

- **Insurance On Your Home**

If you own a home, you better have insurance on it. If you don't, a fire could leave you with an unpaid mortgage that will sink your business.

- **Disability Insurance**

If you can afford this, get it. If you get disabled, it will keep you afloat until you can work again.

So what other types of insurance do you need, and what is available?

The answer to this depends a lot on what type of business you are in. You need to think if any of these apply:

- **Environmental Insurance**

If your business may cause pollution, you should look into coverage. However, brace yourself – this type of insurance is very expensive.

- **Employment Practice Liability Insurance (EPLI)**

This type of insurance covers you in the event of an employee issue such as wrongful termination and sexual harassment. The average award in a trial on this issue in the U.S. is \$60,000, not including legal fees. If you have a lot of employees, you might seriously consider this.

Liability Insurance Limits

How much insurance should you carry? How much needs to be available to pay out in the event of a claim? These are hard questions to answer, and vary from industry to industry. In general, you should have limits of at least \$1,000,000. However, if your business has a huge amount of exposure, like installing pier cranes at construction sites, \$10,000,000 may be more appropriate. Another option you have is to purchase a liability insurance “balloon”. This is a policy which increases your overall amount over the base amount of the policy. For example, you could have a \$1,000,000 base policy with a \$3,000,000 umbrella, giving you a total of \$4,000,000 in coverage. Often, the balloon costs a fraction of the base policy, but this again is based on what type of work you are doing and how risky it is.

All business owners are facing “damages inflation”, in which judges and juries are rewarding ever greater amounts of damages in the event of human or property loss. It is just not realistic to expect that a policy limit of \$100,000 has got you covered these days. But is \$1,000,000 enough? I’m not sure, but remember that the policy limit is what you have to negotiate with in the event of a disaster. Could you convince someone (and their attorney) to settle for \$1,000,000 in the event that someone is seriously injured or killed? Probably. Could you pull it off on a \$100,000 budget? Not a chance.

Due Diligence on Acquisitions Including Franchises

It is imperative that you do proper due diligence on any acquisition that you make. Otherwise, you risk losing your entire investment – or more. If the business has committed environmental pollution or broken some other law, it is possible that you will inherit those problems and lose much more than your initial investment. As a result, you must conduct a complete, thorough due diligence before ever buying an existing, or franchise, business. BOOT CAMP

Picking the Proper Formation Structure is Vital for Asset Protection

There are several basic types of formation structures for a business: BOOT CAMP

- **Limited Partnership, known as L.P.**
- **Limited Liability Company, known as a LLC**
- **Corporation, known as Inc.**
- **Sole Proprietorship.** Of all these options, this is the scariest, as it affords you no protection from any form of liability – financial or other.

Be Careful on Picking Partners

Just as employees can be a huge source of lawsuits and other woes, so can partners. It is vital that you choose the right partner – if you must have any partner at all.

Before you even think about finding a partner for your start-up business, make sure that you are not just doing so for moral support. There are many cheaper sources of moral support than a partner. Just like a marriage, partnerships often go bad, and when they do their dissolution can cost you your business, and all the hard work you spent building it. Find free sources of support, such as mentors, friends and family members. You don't need a psychiatrist as a partner – hopefully.

One of the most common reasons for a partner is financial – you need a source of cash or credit. Again, before you jump into a partnership, make sure that it is necessary. Do you really need the money? Can you start out cheaper? Can you borrow from your parents? Many people who you seek out as partner would give you a traditional business loan instead. Remember that by forging a partnership, you are giving up 50% or more of the business (unless you have less than a 50/50 split) and that means you'll have to work and sell twice as much to make the same money. That's a pretty expensive proposition.

If you must have a partner, then observe some common sense and make sure that your partnership agreement includes:

- **Everything In Writing**

Verbal agreements are fine between you and the guy that cuts your lawn, but only an idiot would forge a partnership based on a handshake or verbal commitment. Everything needs to be in writing, reviewed and agreed to by an attorney. And then properly signed and notarized. Remember the concept of a paper trail – don't screw this up.

- **Spell Out Each Partner's Contribution**

Contributions should reflect not only financial but also duties of each partner. I have been in partnerships where one party ends up doing nothing, and expects half the money anyway. People change over time, so make sure that they can't weasel out on you.

- **A Buy/Sell Or Other Way To Terminate The Partnership**

Make sure that you have some way to get rid of your partner if you need to. Without some written step-by-step procedure to get rid of your partner, you can be putting yourself into a terrible situation where you can't get rid of them, yet you can't work with them. Kind of like a bad marriage in a country that does not allow for divorce.

Proactively Seek Out Potential Problems

If you saw someone walking down a street, reading a newspaper and not looking down, and approaching an open manhole, what would you think? You'd think "they're going to fall down that manhole" and you'd scream "look out!" You need to do the same with your start-up. It is not that hard to see potential dangers in the making. If your business has retail traffic, and the floor is wet by the door, and a wet floor is slippery, then you should guess that there is a very real chance that somebody may fall down and get injured. How do you solve that? You put down a mat to give traction and/or you dry the floor. And you might add a sign that says "danger: wet floor". It is this type of thinking that can drastically cut your chances of having problems. It is amazing how many businesses never put in this effort. You see them all the time. Maybe it's the McDonalds where there is a mop bucket right near the door to the bathroom, or the apartment complex that has the electrical box door hanging wide open because somebody forgot to close and lock it, and there are little kids hanging out near it. That's called being a lousy businessman. There is no excuse for being that shortsighted.

Many attorneys will tell you that the worst cases they have ever handled revolved around some accident that could have been easily avoided. Like the guy who fell

in the box shredder because the business owner forgot to close and lock the safety door. Or the guy who got electrocuted because the owner gave him a metal pole instead of the required fiberglass one to save \$30. And what makes these cases even worse is that no jury or judge is going to have any pity for the business owner – he should have known better.

You need to be walking around, and checking, and thinking “liability” all the time. If you do that, the odds of there being an accident are hugely reduced.

But this same rule extends beyond just liability accidents. It extends to such situations as having a male sales associate and dressing room manager in a women’s swimsuit store, or having an entry floor that becomes highly slippery when wet. Or a customer trying to reach down an item from a high shelf. If you use your imagination, you can visualize about 90% of your liability before it happens. Just like those services that “baby-proof” a house to make it safe for children, you need to do the same in regards to employees and customers – your entire business.

The Concept of Paper Trail

Every time you write a letter, or send an email, you are creating what is called a “paper trail” that can be used against you in court. Never, ever, send anything to anyone that you would not want published in the newspaper. Because that may be exactly what happens if you get sued. One of the first things a plaintiff demands is all of the correspondence related to the lawsuit and the parties – and that include internal memos that you never dreamed anyone would see. It is imperative that you never write anything down that can be used against you. Often it is these internal memos that sink a business when it gets sued or investigated. So never be your own worst enemy and provide the opposition exactly what they need.

Similarly, you need to keep all written correspondence and notes on all of your customers and employees to document their own faults and negotiations in the event that you have to sue them. Many times, your competition will forget that they sent you incriminating evidence years earlier, and you have a very handsome paper trail to use in the lawsuit.

If you ever have to go to court, you will find that the paper trail is ten times stronger than mere testimony. Judges and juries know that people can have memory lapses, or alter reality to meet their own needs, but you can’t argue with things that are written in black and white and signed by the author. So be the master of the paper trails, not the victim.

And don’t think that it ends with paper. All things internet can be copied and traced, too. But especially don’t let your guard down on the phone. The best recent example of this was Governor Blagovich of Illinois. Here he is, talking

about all kinds of illicit things while the FBI was taping away every conversation he made. That can also happen to you. If you have anything that should not be put in writing, then it should not be discussed on the phone, either. And even in person, someone can have a \$20 tape recorder in their pocket – there are inexpensive digital recording devices now the size of a pen. So don't ever say anything that can be used against you. You can think it – just don't say it or write it.

Trademarks, Copyrights and Patents

One good way to protect yourself from harm is to have everything that can be licensed as your property done so. This protects you from someone stealing your unique work and reproducing it under their own label.

- **Trademarks**

A great way for you to protect your slogan, product, or service from misuse and imitation is to acquire a trademark or service mark. To acquire one, you must properly document why yours is unique from all others.

- **Copyrights**

Copyrights are generally placed on works of originality such as music, art, scholarly writings, and books. Registering for a copyright involves paying a fee and filling out some approved paperwork. Copyrights generally cover a unique work for an individual's entire lifespan, plus seventy years from the time of their death.

- **Patents**

An individual who invents something that is new and unique may obtain a patent. A patent gives the inventor the sole rights to their invention for a period of twenty years. The process to obtain a patent is extremely complex and expensive, so seeking out a professional advisor on this is mandatory.

Negative Publicity

It is very unlikely that you will ever face the problem of negative publicity concerning your business. The only times that businesses make the news are when there is some terrible accident that could have been prevented, or an employee that goes wild, or some terrible permit or health code violation. If you stay proactively involved in mitigating any risk scenario, your chance of having a problem is nearly zero. Additionally, as long as you treat your customers fairly, you will not show up on an "action reporter" type of program.

If you ever should have a problem, the key is to stay calm, only report the facts without slandering anyone or making a false statement, and make attempts to correct the situation immediately without admitting guilt.

I have unfortunately been on television news before, as a landlord, and the actual damage to my business was nonexistent. I once owned a building that had been rented and was on the national news as the largest illegal snake breeding operation ever busted. Besides making an interesting news story it had no impact on me or the building at all. Most people are bombarded with news stories 24/7, so they really don't focus too much on what they see or hear. They forget about it by the next day.

Don't Worry, Be Happy

I worry about almost everything, but I can sleep well at night knowing that I have done my best to mitigate any risk, solve them when they arise, and carry insurance to fix the things I can't control. As long as you are taking those steps, you will be fine.

ALWAYS HAVING AN EXIT STRATEGY

From the very first day that you begin your start-up, you need to be thinking about your exit strategy. Because you never know what will happen, and keeping your exit strategy constantly in mind can help you position yourself for maximum success and minimal failure. BOOT CAMP

What is an exit strategy? On the upside, it's selling your business for a big price – even going public in rare cases and effectively selling it on Wall Street. On the downside, it's selling your business for what you have in it, or closing it down for a complete loss. Of course, there are a million variations in between, but the best ways to exit are pretty much a constant – and you can definitely better your position by always thinking about it a little every day.

Many people start-up a business with no exit strategy in mind and then, years later, they find that they cannot achieve their goals because they never thought through what it would take to sell their business some day. While no successful entrepreneur ever spent the majority of their time dwelling on how to exit the business, almost all successful ones have kept a little bit of their attention on it at all times.

The key points to planning a successful exit are:

Keeping Your Business In Line With Industry Standards

Every industry has its own play book and expectations of how deals are structured. It is important to stay within the confines of these standards, so that you are attractive to, and can be consolidated into, a bigger player down the road. When I had my billboard company, I always made sure to only build signs that were the standard sizes that all of the big companies used. Even if I got offered a great deal on a sign structure that was non-standard, I would always pass on it. I knew that if I wanted to be worth a lot of money someday, I'd have to be in a form that the buyer would be used to. Some of my competitors went their own way and built unusual sized signs, or deals with non-standard terms. Whereas I was able to sell to a public company at its peak, they are still sitting on their billboards today, because nobody will buy them. If you want to be one of a kind in something, then wear big, brightly colored hats to the office, but focus on staying within the normal industry standards with your business.

Timing

“You want to sell at the top, and buy at the bottom.” I'm sure you've heard that before. But what does it mean? It means that you want to sell your business when values are at a maximum, and buy out other people's businesses when values are terribly low. Things tend to run in cycles, and you can often spot where you are in the cycle. If you are nearing the top of the cycle, even though you had not wanted to sell your business, you should consider it immediately. Why? Because these cycles take years, and you may not be alive during the next one. If you sell at the top, you can always buy more, similar businesses at the bottom – often your own. History is full of entrepreneurs who buy their business back years later for 10% of what they were paid. If you want to have a successful exit, timing is key – and you can't always control it. If the timing is right, you may have to expedite your exit, if that's what you want to do.

Structure Your Sale Proceeds Properly

When you sell your business, assuming you are selling at the top (which I hope you are), you want to get all your funds in cash. The last thing you want to do is get a little down payment and receive the rest in a note receivable with monthly payments. “Seller carry” transactions are never a good idea. Why? Because you know there is a very good possibility that the economy, and your business, will go down following closing, either due to the general business cycle, or problems stemming from new management. Cash is absolutely king when selling your business.

But what if the buyer does not have the purchase price in cash, and can't get a bank loan? Then you need to get as big a down payment as possible, plus make

the note “recourse”, which means that if he defaults, you can take any other property or cash he has up to the limit of the amount of the note. For example, if he has \$300,000 in CDs (you can’t take any retirement accounts), and his note is for \$200,000 when he defaults, you can go to court and theoretically take \$200,000 of those CDs for your unpaid balance. Of course, this requires massive legal fees and a lot of time, not to mention the threat of bankruptcy or a counter-suit, so this is a last choice option. But it may beat no sale at all, and you at least got some significant cash down.

Another option, if you *must* take a note back, is to try and turn around and sell the note to a note buyer, normally someone you find over the internet. You would have to sell it at a huge discount, if you can find a buyer at all. But if you are convinced that your business is about to tank and the note potentially become worthless, it beats holding a valueless note.

If you are selling to a huge, public company, who can only offer you some cash and the rest in stock, then by all means do it. In public markets, you can always “short” the stock, a complicated transaction that requires the guidance of a stockbroker. In that way, if the stock goes down, you still get your money at face value, if you have structured it properly – that is, to my understanding, how Mark Cuban kept a billion on his stock sale of Broadcast.com, which collapsed along with the dot com bubble shortly after the sale. Had he not shorted the stock, he might have ended up with nothing but the down payment.

But let’s assume you can’t short the stock or sell the note, but you can’t get all-cash proceeds. Then the best you can do is to keep your hand in the business in some manner, maybe as a consultant or even an employee, to watch over the business until you get paid in full. That way, you will be there to take over when you get the business back upon default of the note. Plus, it will allow you a more seamless takeover when the event occurs, as well as give you advance notice of the problem.

How to Find a Buyer

If the market is near the top, and you want to sell, then you will first need to build a prospect list of potential buyers. Those should include:

- All of your larger local competitors.
- Anyone who has ever phoned you about selling in the past
- Any large, national competitors, even if they are not in your market
- Business brokers who specialize in your niche
- Investment bankers who specialize in your niche

You can also run ads in the newspaper or elsewhere, but those potential buyers are of a lower caliber and rarely come through.

How to Present Your Business For Sale

Never forget the power of first impressions. It is very important to have professional quality sales materials to instill confidence in your buyer (as well as his lender).

A good quality presentation to sell your business would include a brief history of the business, what your product or service is, why this is a good niche to be in, ways that the business could be grown going forward, ways expenses could be cut going forward, the last three years of financial performance, and a biography of any key personnel who would go with the business. BOOT CAMP

You should leave out the items that would be given during due diligence, such as a customer list, copies of contract, etc. You would not want to give these to just anybody, as they might use them to harm your business and steal your customers. In fact, you should not give out any details on the business until someone has signed an agreement referencing that they will not give the details to other people, and acknowledging that this is privileged information. The name of this document is a “non-disclosure agreement”. You should have your attorney write one before you begin the sales process.

The sales presentation should be presented in a spiral-bound format, and have a professional looking cover and Index.

How to Price Your Business For Sale

Businesses are priced based on several different strategies.

- **As A Function Of Income**

Under this formula, your business is worth a multiple of its earnings. This is the most common way that businesses are sold. Through a business broker, your business would sell for three to five times cash flow. Your business' cash flow is defined by “earnings before interest, taxes, depreciation and amortization” (also called EBITDA). That represents the true cash flow from the business. If you take into account an interest rate of about 10%, paying three times cash flow takes five years to pay off, and paying five times cash flow takes about eight years to pay off. That's about all that any sane buyer is going to commit to.

The only exception to this formula is when you are taking a large business public. It is not uncommon to see multiples of 20 to 100 times EBITDA on public companies. But this is an extreme rarity, so don't even begin to think it can happen to your business. But if it is possible, seek out the advice of a competent investment banker to guide you.

- **As A Function Of Asset Values**

Under this analysis, you obtain the value for the physical assets of the business as the primary source of value. For example, a moving company that owns 60,000 square feet of warehouse space and 4 trucks, yet makes only \$50,000 per year of EBITDA, would have more value in its assets than as a business. With \$50,000 EBITDA, it might be worth \$150,000 to \$250,000 to a buyer, but the 60,000 square feet of warehouse might be worth \$600,000, and the four trucks might be worth an additional \$120,000. Another example would be a manufacturing plant that has very low EBITDA, but has a fortune in state-of-the-art manufacturing equipment and a large building it owns.

- **As A Function Of What It Could Produce Under Other Management**

The best example of all time in this category would be the sale of Ross Perot's EDS to GM. GM paid 100 times EBITDA – which is an insanely high valuation. They believed that, under GM's management, the business could be grown exponentially. Although it was not the success story they had expected, GM did grow the business enormously. Another example is Ray Croc's purchase of McDonalds. Often, an operating business is able to make a business more profitable through merging and reducing costs, and sometimes they have an additional line of products that can be sold inside the new company's existing customer base. And many times, someone has an idea that can transform an existing business into a rising star.

Even if your start-up has not performed at its full potential for you, that does not mean that the right buyer can't take it to another level. Case in point, Victoria's Secret, which was a successful, small mail order catalog company that was purchased and turned into an international brand with its own line of retail stores. If you think your business is worth more to a select number of buyers who can reformulate it, then make your sales pitch to them first.

Always Leave Room For Negotiation In Your Pricing

As Americans, we are conditioned to never pay full price on big ticket items. We believe that all big ticket items are subject to haggling – from cars to houses. Sure, we don't bicker over the small stuff like groceries and clothes at the department store (although in some European cultures even those things are negotiated) but we do draw the line at really expensive stuff. And we will just never pay the full price; we have been taught never to do this by our own parents and the media. So, when selling, you need to always ask more than you hope to receive.

How much more? That's a great question. There is no hard and fast rule. Generally, the assumption is 10% to 20%. So if you hoped to sell your business for \$1,000,000, then you should maybe ask \$1,200,000. But again, this is not

scientific. Often times it is gut intuition that dictates how much room you should leave for negotiation. But one thing's for sure – you have got to allow the other party to negotiate you down from your asking price.

Always Incorporate a Plausible Spin Into Your Story

“Honesty is the best policy” has no place in selling your business. You don't want to be dishonest to the extent that you can get sued after the sale for fraud. But you do need to put a little white lie action into the reasons that you are selling, as well as any business failings. If you are selling because you think that current trends are going to kill off the industry, you would never tell that to the buyer. Instead, you'd say that you want to sell to take advantage of some new opportunities, or for health reasons, or any of 1000 other excuses that have no bearing on reality. You would not believe how many business sellers claim to have a short time left to live – and then make an amazing recovery right after the business is sold. It would be enough that, if they all really did die as promised, it would outstrip our nation's funeral home capacity.

Similarly, if your sales stink this year, don't say it's because they are building cheaper knock-offs of your product in China and you can't compete anymore. Instead, say that you haven't been selling as hard as you used to due to health reasons, or a mid-life crisis distraction or some other lie. Again, don't get yourself sued. But do put your best foot (and excuse) forward. If my daughter wants to miss school tomorrow because she did not finish her term paper, you don't want to call the school and tell them that. Instead, you'd tell them that she has a terrible stomach ache (which is true from nerves) and that you think it's going around (you heard someone at the grocery store talking about it). The net effect is the same – she misses school – but the impression of why is entirely different. Remember that most of business is a game, so embrace the game and play to win.

Never Forget That Time Kills Deals

It doesn't matter how artfully you negotiate the sale if you don't close on it. Every minute, every second, that you are not closed gives your buyer time to change their mind. Why would they change it? All kinds of reasons. Maybe a newspaper article that talks poorly of the industry. Maybe a negative comment at a cocktail party. Maybe a poor display of excitement by their banker. The brain is a highly sophisticated processor of data, and it does not take much to change a buyer's mind. So do everything you can to speed the closing along as fast as possible. Never give up a single minute until it is closed and paid. Then you can take a break.

How To Shut Down a Failing Business

Sometimes the best thought out business models don't make it. Maybe the market has turned. For example, hundreds of the nation's best private equity groups were caught completely off-guard when the dot com industry imploded in the 1990s. Other times, it may be that your business model assumptions were way off – people still bought the product but only at 10% of what you calculated. These events are never anything to be ashamed of. The key is to shut down in the manner that minimizes both your loss and your embarrassment.

- **Never Enter Into Long Term Commitments**

You never, ever want to commit to anything unless you absolutely have no choice. If you can rent your office space by the month, then never agree to even a two month term agreement. And if you can rent weekly instead of monthly, even better. The number one killer of start-up business exits are long-term leases and contracts. Without them, you can shut the doors at will. With them, you may be stuck paying on leases and contracts for months, even years, with no business to support them.

So why do we get stuck in long term leases? Because we let ourselves. The retail strip mall leasing agent says they only do one year leases. That's not true. And the guy who leases copiers says he only does them two year contracts? Bull. We just go with what they say and never argue the term. Never do that. You need to seek out aggressively the shortest term possible. I would rather trade higher cost for shorter term. Often, businesses will try and stick you with the longer term option by showing how it costs less. That tiny amount of savings is your insurance policy not to be stuck in a long term lease – and it is incredibly cheap insurance.

I once had a guy tell me “I don't make commitments to anyone – not even my family”. While that's a little too extreme, at least it's partially right.

- **Never Talk Much About Your Business With Friends And Family**

Many people set the stage for embarrassment about their business failing by talking about their business incessantly with their friends and family. If you talk about your business 100% of the time, then it will become very apparent something is wrong when you stop. It's great to talk about your business and to be proud of it, but talk about other things as well. If you don't talk constantly about your business, then you won't be asked much about it if it folds down the road.

- **Try To Avoid Debt, Or Keep It As Low As Possible**

Debt is the one thing that will follow you after you close your business. If you need money to start your business, try to keep it at an absolute minimum, and pay it back as promptly as you can. The beautiful businesses to start and run are

the ones that don't require you to borrow any money. If you shut that type of business down, you won't have any baggage to deal with after the closure. However, if you have a big bank note, you will have to either pay on it for years, or come to some type of settlement and borrow from family members, or declare bankruptcy. None of these scenarios are pleasant. The best solution is to seek out opportunities that won't put you in much debt, and then work like crazy to get that paid off as fast as possible.

Save Face With Your Best Spin On Closing

You never want to tell people you shut down because you bombed. You want to give them a plausible explanation to allow you to save face. These excuses can include:

- Health reasons
- You don't have the time to devote to it anymore
- You got a great offer to go work with someone else
- You are selling more on the internet
- You are going to move to a better location (and then you never do)

Or you may come up with a better one on your own. Is it wrong to lie? Well, is it wrong to be nosy? It is nobody's business why you closed, so why not mislead them to teach them a lesson? There is nothing morally wrong with that, in my opinion, as long as you don't violate the law.

The Best Time to Negotiate A Cab Ride is After You Take It

Even if you are 100% sure you are going to close the business, don't tell anyone. Use up all of their product or service you need to get yourself to the end. Then tell them you're closing. If you tell them in advance, they may stop working with you as you have become a huge credit risk. And sometimes, it all works out in the end. There is a story that Fred Smith of FedEx ran short of payroll at one time, and flew to Vegas and won enough gambling to cover it. And that was the final week that FedEx was short. This story, which may or may not be true, still has a good moral – sometimes things do work out, even when they seem doomed, so don't give up. And losing all of your vendors, if you honestly tell them of your troubles, will deny you the opportunity for a happy ending. Believe me, if the roles were reversed, your vendors would do the same to you.

Share The Pain

If your business fails, don't face it alone. Get all of your creditors to share in the problem. Don't shield them from the truth. Make them feel the pain through slashing the amount due and extending the payments in a manner you can afford. If you owe \$3,000 on your copy machine, then offer them \$500 and the return of the machine. Worst case, return the machine and let them try and sue

you. Don't have the attitude that you are going to kill yourself to make sure everyone else but you gets 100 cents on the dollar. They were taking a gamble when they worked with you, and they knew that – don't ever think differently. They have some portion of bad debt built into their budget. Make them use it on you. Even huge companies use this strategy when things go bad. Everyone involved in your business should share in the failure and agree to reduce the outstanding amounts due. If they won't agree to do that peacefully, a bankruptcy judge will require them to – if it has to go that far.

Never be ashamed

If you retain nothing else from this book, let this be it: you are a hero for starting a business and, even if it fails, you are worthy of praise for your bravery. This was best said by President Theodore Roosevelt:

“The credit belongs to the man who is actually in the arena; whose face is marred by sweat and blood; who strives valiantly; who errs and comes short again and again because there is no effort without error and shortcoming; who knows the great enthusiasms, the great devotion, spends himself in a worthy cause; who at best knows in the end the triumph of high achievement; and who at worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who have never tasted victory or defeat.”

Before you pull the plug, re-group and try one more time

Business history is full of famous companies that almost went down for the count, but somehow stood up and gave it one more try and succeeded. One of the best examples of this was Conrad Hilton, founder of the Hilton hotel chain. Hilton had built from scratch an incredible portfolio of hotels, and appeared to be set for life. Then came the Great Depression in 1929. Hilton lost absolutely everything. In a situation such as his, most people would give up or even commit suicide. But not Hilton. He re-grouped. He went to the banks that had foreclosed on him and offered to manage the hotels for them. Hilton had always been thought of as a great manager, so the banks hired him on. After years of managing the hotels, he put together a group of investors and started to buy them back from the bank. The economy turned as a result of World War II, and the same hotels that he had lost during the depression, became raging successes under his new ownership. And the Hilton hotel chain again rose from the ashes. But had he not re-grouped and attacked one last time as a management company, the Hilton name would not exist in the hotel business today.

So before you finally give up on your start-up, think if there is another way, another path you have not tried yet. Is there some piece of your business that is working. Can you re-form your business around that one function? Think outside the box. Sure, you wanted to start a sandwich shop. Nobody wants sandwiches

in this location – but they want coffee. Can you morph your business into a coffee shop? Even if you hate running a coffee shop, could you put the business together and make it profitable enough to sell it? Never, ever, give up until you have exhausted all the options. Never.

And while you are thinking about how to re-group and start your business up one last time, how about putting together a new business model.....

Conclusion

We have started up at least 20 businesses in our lives. Some were spectacular successes. One sold to a public company which still exists today on the stock exchange. One was involved with a huge, high-profile private equity group. Others were extremely profitable, though lower profile. And a few were complete clunkers.

But what did they all have in common? By sticking with the five steps outlined in this book, all had a great chance of success from the beginning. All got off the ground and flew, thanks to a constant focus on sales and cost cutting. The amount of capital at risk was very low, on several it was under \$1,000. By focusing on an exit strategy from the beginning, the sale to the public company was made possible, as was the sale to the large private equity group. Through careful focus on risk issues, all lawsuits were survived. And even on the clunkers, losses never exceeded \$3,000.

And all of them easily beat the stock market – even the clunkers (the market fell 40% this year). Adjusted for risk, they cremated it. They also beat the returns on real estate and every other investment type.

So let's review why you would not start a business. You don't know how to do anything. *Well, if you can read this book, then just knowing how to read opens the door to about 200 start-up ideas.* You don't have any money. *You don't need any money. We have a list of 50 start-ups that cost less than \$1,000, and many cost nothing.* You don't have any time. *Do you watch T.V? Do you have any hobbies? Come on, you've got a couple hours a day. And you definitely have all weekend.* You've got nobody to mentor you and give you advice. *We've got all the help you need at www.StartThis.com.* You don't need any more money – *yeah, right!*

So you're done with this book now. Use the time you spent reading it to search out your first batch of start-up ideas. Visit us at the site for our free weekly question and answer hour, as well as our forum – we'd love to hear from you.

This is the year for you to take control of your destiny, and have a great time doing it.