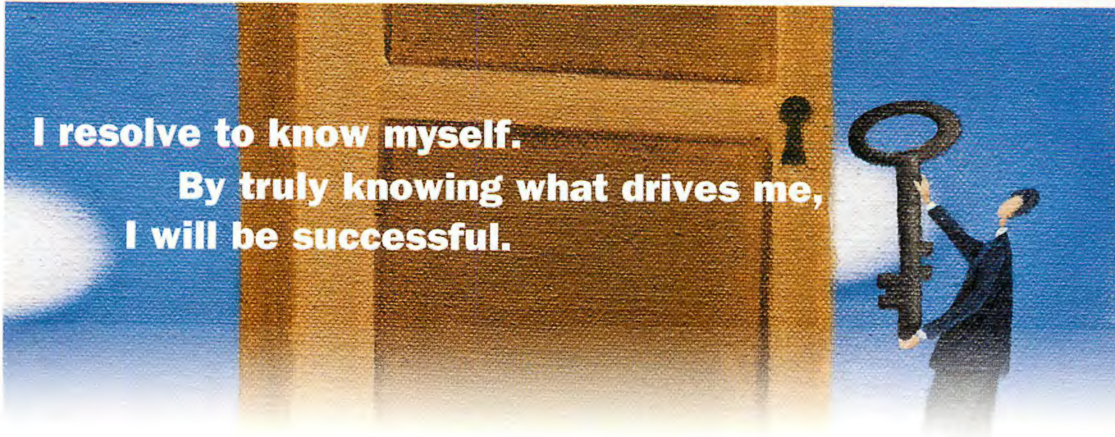
❖ Currencies

the entrepreneur's success kit



I resolve to know myself.
By truly knowing what drives me,
I will be successful.

Money ❖ Recognition ❖ Courage ❖ Victory ❖ Acceptance ❖ Health

For an explanation of the entrepreneurial currencies in this kit, see page 16 of the Guidebook.

The Moment of Solidity exercise, on pages 13–14 of the Guidebook, will help you determine your primary currency. The currencies self-test, on pages 13–17 of the Workbook, will help you determine your secondary currencies.

These blue Currency Cards are companion material to Chapter 1 of *The Entrepreneur's Guidebook for Success*. They will help you dig deeper into the positive and negative aspects of each currency. You will learn:

✓ Which types of businesses you may be best suited for, and which to avoid

✓ Good secondary currency matches that help balance out your primary currency

✓ Practices and visualizations that will help you leverage your natural strengths and neutralize your weaknesses

✓ And more . . .

❖ Currency Card 1: Money

There is nothing that captures the imagination of the multitude, causes the healing of national ills, or raises the specter of chaos more than commercial intercourse—that is, the velocity of money.

— Alexis de Tocqueville

Background

If money is your primary currency, it can be both a blessing and a curse. On the positive side, you have a clear motivator, an undeniable yardstick to measure your success and failure, and a universal metric to govern your decisions. On the other hand, fixation on the currency of money can detract from your ability to motivate and inspire others involved in your business and sometimes from your ability to motivate yourself. Somewhere within each of us there is a child who senses and craves adventure and purpose beyond winning the rat race. To be truly happy in our profession, most of us need to feel that our work has a special quality that goes beyond even a large paycheck. For some, it may be a feeling of making a difference in the world; for others, it may be the creative side of work, or the degree to which we are challenged intellectually, physically, even emotionally. The key to being successful as an entrepreneur whose primary currency is money is to understand that others around you—partners, employees, customers, suppliers, even investors—may not be fully nourished by your monetary measurements of success. If you recognize the pros that most often come with the money currency (clarity of purpose, attention to detail, and careful monitoring of risk), while working to obviate the cons (lack of naturally inspiring leadership, potential for poor stakeholder relationships, and lack of appropriate risk taking on product and service delivery), it can prove an extremely potent tool for achieving entrepreneurial success.

Businesses for Which You Might Be Best Suited

- ✓ Retail
- ✓ Fast food
- ✓ Outsource manufacturing
- ✓ Investment banking
- ✓ Export/import or commodities trading
- ✓ Small-business lending
- ✓ Affinity marketing

❖ Currency Card 2:
Money
(continued)

Businesses You Might Want to Avoid

- ✓ Publishing
- ✓ Event planning
- ✓ Human resources training
- ✓ Educational products and services
- ✓ Consulting services
- ✓ Legal services
- ✓ Headhunting/outplacement
- ✓ Not-for-profits

Strengths to Take Advantage Of

- ✓ A discerning eye: an ability to pick good people, products, and projects
- ✓ Ability to accurately assess business risk, even in complex decisions and projects
- ✓ Durability, especially early on, when businesses shift around a lot

- ✓ Good planning, including an ability to map out future financial and operational requirements and milestones
- ✓ Professional presentation and communication, yielding opportunities to do business with other people and companies that normally might be considered out of reach for a small business
- ✓ Attention to detail, which inspires trust in prospective investors and lenders, and can result in financing options usually unavailable to start-up businesses

Tendencies to Watch Out For

- ✓ Short-term thinking, including placing the value of short-term cash flow considerations over the right long-term investment decisions
- ✓ An unforgiving nature with stakeholders (partners, employees, customers, and suppliers) that can quickly burn out relationships
- ✓ Risk aversion, sometimes at the expense of the necessary evolution of the business, its people, and its products
- ✓ Emotional instability, often driven by an obsession with the current numbers, which can swing dramatically in the early stages of a business's development

❖ Currency Card 3: Money (continued)

- ✓ A loner mentality that can cut you off from good advice and input, even from loved ones
- ✓ Lack of balance, including absorption in work and inattention to family and home life, health, and spiritual solace

Complementary Secondary Currencies

The following currencies can help balance out some of money's more extreme elements:

Health. Some of the more exaggerated tendencies of money primary currency holders—workaholism and one-track, insensitive communications with partners and employees—can be tempered by the more holistic influence of the health currency.

Courage. The deeper, crusading nature of the courage currency can help infuse the money primary currency holder with a more inspirational and soul-pleasing purpose in his or her entrepreneurial quest. It can also help convey this purpose to partners and employees, and enhance the money currency holder's charisma and leadership ability.

<u>***Suggested Practices and Visualizations***</u>

<u>Make time to disconnect from work.</u> Integrate a completely nonbusiness activity into your workday, every day. This can include a short (but scheduled) meditation at your desk, a walk around the block, a workout at the local gym, or listening to a piece of classical music. Let this time relax and recharge you and—if possible—get you away from the thoughts and tribulations of your workday. One of the money primary currency holder's premier challenges is to find an appropriate work/life balance and to avoid burnout.

<u>Go beyond the dollar sign.</u> Every time you embark on a new business relationship (customer, vendor, investor, lender, partner, or employee), ask yourself first what this relationship brings to your business *besides* enhanced revenues or profits. If it's a new business partner or employee, ask how he or she might make your day more enjoyable, allow you to think about things differently, or relate to others in your business more effectively. If it's a new customer, ask yourself how you can learn from his or her particular needs so you might be able to serve other customers better. If it's a new supplier, ask yourself how his or her products or processes might cause innovation in your own product or induce healthy questioning of your own business processes. Don't worry about the financial side right away. Your mind is wired to think of these things, and you'll get to them soon enough! The key is to force yourself to think about the other, "softer" components of a new business relationship that make a huge difference over the long term.

❖ Currency Card 4: Money (continued)

<u>Pick teammates who balance your tendencies.</u> Make a conscious effort to surround yourself with people who think differently from you. If you pick a business partner for a new venture, you might want someone obsessed with product quality and the customer's experience, and not the bottom line. If you pick a financial controller or chief financial officer, choose someone who thinks about new investments over the long term and will balance your frugality with appropriate investment in the future. You need people around you who challenge your devotion to the dollar and who understand that building a great business requires a combination of financial acumen, operating focus, and inspired leadership.

Famous Money Currency Holders

William Randolph Hearst
Henry Kravis
Robert L. Johnson

Suggested "Balancing" Book and Periodical

The Alchemist by Paulo Coelho
The New Yorker

❖ Currency Card 5: Recognition/Fame

There are only two things that should mean anything, in my opinion, to people who want to get into business and serve the public: the first is pride of accomplishment; the second is work for applause.

— Ray Kroc, founder of McDonald's

Background

If your primary currency is recognition or fame, the good news is that you are likely to have the healthy sense of self (read, ego) that is common to almost all successful entrepreneurs. You want to be recognized for your accomplishments and to be appreciated by a broad audience for the (most likely) positive ways you can contribute to society. As William Norris, the founder of the Control Data Corporation, put it when addressing Babson College's graduating class of would-be entrepreneurs some years ago, "You just want people to say, 'That guy changed the world.' That's not too much to ask." This confidence and desire for renown can help investors, lenders, employees, and customers buy what you're selling: you! Everyone who's ever had a fledgling business covered in the press knows the power of visibility and market recognition.

The bad news for the fame-driven entrepreneur is that you're inclined to self-sabotage on the entrepreneurial battlefield. You can be mightily self-absorbed, concerned more with how you're perceived at parties, at your twentieth college reunion, or even by your best buddy than how your business is actually faring. I have seen dozens of entrepreneurs get caught in the bear trap of recognition, where self-image gets so wrapped up with their entrepreneurial project that they are unable to make necessary changes in their business's development (cutting staff in a down market, for example, or discontinuing a product or service that just wasn't working) for fear of it somehow making them look bad. One of the most famous examples of the I-am-the-business disease was Don Burr, the founder and CEO of People's Express airline, who was so self-identified with his prototypical "flat organizational structure" (where employees had no titles and had rotating and loosely defined work responsibilities) that he couldn't bring himself to halt the rampant mismanagement, safety violations, and inconsistent service that ultimately forced the company out of business.

The key to success for the recognition-motivated entrepreneur is, above all, self-awareness. Know that you have a penchant for publicity. If you are self-aware, you can use this currency to be bold and charismatic, and attract clients, investors, and team members like a magnet. You can also prevent the desire for renown dominating your decisions and be willing to make changes at times in your entrepreneurial path that are uncomfortable or unpopular.

❖ Currency Card 6:
Recognition/Fame
(continued)

Businesses for Which You Might Be Best Suited

✓ Entertainment (production, on-air talent, etc.)
✓ Consumer products
✓ Journalism and publishing
✓ Executive coaching
✓ Advertising (creative side)
✓ Design fields (interior design, graphic design, landscape design, etc.)
✓ Academic fields
✓ Charitable organizations
✓ Restaurants and pubs (particularly higher end)
✓ Video gaming

Businesses You Might Want to Avoid

✓ Business software
✓ Telecommunications
✓ Business process outsourcing
✓ Hospitality
✓ Advertising (account management side)
✓ Online marketing
✓ Legal services
✓ Accounting services

❖ Currency Card 7: Recognition/Fame (continued)

Strengths to Take Advantage Of

- ✓ Capacity to project an image of success, encouraging stakeholders to buy into the dream and be more productive and engaged
- ✓ A powerful belief in your abilities and destiny, which can sustain you through low times when others falter
- ✓ Charismatic and positive personality that makes customers, employees, and others feel good about working with you
- ✓ A natural desire to be recognized that can often result in excellent customer service and satisfaction ratings
- ✓ Leadership abilities that can support bold strategic decisions and long-term growth
- ✓ Marketing acumen and a sense for what people like that can give you a knack for successful market timing and trend spotting

Tendencies to Watch Out For

- ✓ Lack of focus on the basic, less glamorous aspects of business
- ✓ Fusing of sense of self with the business enterprise, to the point where you lose the necessary perspective and ability to make cuts and changes
- ✓ Acrimony and loss of trust between business partners resulting from a struggle for the limelight
- ✓ Attachment to idiosyncratic elements (an old logo, a particular product or customer) that are unimportant in the larger scheme of things
- ✓ Emotional roller coaster riding that can lead to impulsive decision making

Complementary Secondary Currencies

The following currencies can help balance out some of recognition's more extreme elements:

Victory. The recognition primary currency holder can become self-absorbed and lose sight of the ultimate goal: to manage and grow a successful business enterprise. The victory currency is all about winning the entrepreneurial game, where the team's being victorious is more important than any individual's performance.

Money. The one-pointed determination of the money currency can help the recognition-driven entrepreneur remember that fiduciary responsibility is the bottom line, giving the strength to make sometimes unpopular and painful adjustments to the business model.

❖ Currency Card 8: Recognition/Fame (continued)

Suggested Practices and Visualizations

Detach from the business. Consciously separate your business's successes and failures each day from the way you view your own self-worth. When you have a particularly bad day (you lose a client, someone threatens to sue you, an unanticipated expense hits your books), practice actually viewing it from a distance, as if you were watching a movie in which you play absolutely no role: Pretend that it doesn't matter, that it's not your business. *You're* not the one who has to pay that check, or grovel to that client. As crazy as it might sound, try to *enjoy* the movie, as if you were laughing at someone else's problems. On the other hand, if you have a terrific day (a media outlet recognizes your company for its superlative performance, a client signs a big new order, you simply make payroll again), equally try to detach yourself and imagine that you have nothing to do with these successes. You're just a bystander, observing someone else's celebrations and successes in some great and mysterious play. This practice of detachment will help you tame the perils of self-absorption and delusion that can haunt the recognition currency holder. And if this exercise seems difficult or silly to you, if you find yourself saying, "How stupid to think that I am not responsible for the successes in my own business!" then that's a clear sign you're already in the self-delusion danger zone and need to do this exercise every day!

Practice sharing the limelight. Whenever possible, share credit for business successes, large and small. Recognize your team's and your partners' efforts in the process. I am not talking about false modesty here. You need to internalize a team attitude and believe that you are only a part—sometimes a big part, sometimes a small part—of a larger effort. If recognition is your primary currency, you are in no danger of fading into the background, so to speak. You are a natural leader and are comfortable in the limelight. You need to attain balance by practicing humility and detachment. At first this may seem forced. But as with anything you practice diligently and daily, it will become second nature and flow spontaneously over time, and the difference in your business effectiveness will be marked.

Famous Recognition Currency Holders

Oprah Winfrey

Ross Perot

Ted Turner

Suggested "Balancing" Book and Periodical

Getting Rid of What You Haven't Got by Swami Muktananada
Harvard Business Review

❖ Currency Card 9: Courage

Twenty years from now you will be more disappointed by the things that you didn't do than the ones you did. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover.

— Mark Twain

Background

Courage is the most paradoxical of currencies; we tend to admire it most in others but have difficulty admitting to its presence in ourselves. It sounds and feels unequivocally positive. Courage! Like Mel Gibson's character shouting "Freeeeedom!" in the face of certain death at the end of *Braveheart*. Or Bill Gates dropping out of Harvard to move to Albuquerque, New Mexico, to start MicroSoft Enterprises. But if you ask the typical entrepreneur what drives him or her deep down, it is the rare bird indeed who will say, "I have a deep-seated need to be courageous." It's as if admitting the *need* to be courageous (or the pleasure derived from being courageous) cheapens the *act* of being courageous. But it is critical to be aware of one's own motivating need to be courageous. If you are aware of this currency, you can channel its raw and formidable power to do great things: start your own business, take on ambitious investments, come up with revolutionary new products.

At the same time, a misdirected courage-loving entrepreneur can become ensnared by the seduction of invention and innovation. He or she may become infatuated with a novel product or service, or become determined to solve a market inefficiency that, alas, even when solved has no profit potential. (I am reminded of Thomas Edison's frustration that it was his most mundane inventions that made money.) Courage is not necessarily an intrinsically good quality in entrepreneurship. It must be matched with attention to the fundamentals of marketing and sales, customer service, and financial planning. The courage-bound entrepreneur tends to be more inventive, or idea driven. When his or her innovative ideas are coupled with proper planning and a sober assessment of risk, the entrepreneur with courage as the primary currency can be unbeatable.

Businesses for Which You Might Be Best Suited

- ✓ Software
- ✓ Biotechnology and health care
- ✓ Entertainment
- ✓ Product research and development
- ✓ Design fields (interior design, graphic design, landscape design, etc.)
- ✓ Real estate development

❖ Currency Card 10: Courage (continued)

Businesses You Might Want to Avoid

✓ Telecommunications
✓ Retail (distribution)
✓ Transportation and logistics
✓ Accounting services
✓ Manufacturing

Strengths to Take Advantage Of

✓ Capacity to predict future trends and innovate, positioning you to venture into untapped markets

✓ A deep well of determination and a sense of destiny that can overcome all doubts and inspire others

✓ An ability to resonate at a heart level with other entrepreneurs and build a community of stakeholders (employees, customers, and suppliers) who will run through walls for you

✓ An indefatigable persona, with no seeming need for rest

Tendencies to Watch Out For

- ✓ Fascination with innovation for its own sake, without a clear conception of how a product or idea will translate into profits
- ✓ A crusading mentality, which can cut you off from needed feedback and block the team-oriented approach that is essential to entrepreneurial success
- ✓ Flightiness—moving from one aspect of an entrepreneurial project to the next, in search of the next adrenaline rush, while lacking follow-through on earlier initiatives
- ✓ Burnout

Complementary Secondary Currencies

The following currencies can help balance out some of your more extreme elements:

Acceptance. This currency can help the courage-driven entrepreneur accommodate other's sensibilities, helping to downplay his or her crusading tendencies and encourage the internalization of valuable customer and employee feedback.

Money. Although the combination of the courage and money currencies can enhance the risk of obsession and burnout, a bottom-line mentality is critical to the avoidance of the "inventor syndrome" that can infect the primarily courage currency entrepreneur who's more interested in things that are neat or new than those that are profitable.

❖ Currency Card 11: Courage (continued)

Suggested Practices and Visualizations

<u>Control your enthusiasm.</u> Courage is, in a sense, the simplest of the entrepreneurial currencies. It is the maturation of the childhood voice that spurred us to want to be nurses, firemen, or baseball players. But unbounded courage can make it difficult to achieve mundane things like a functioning product, profits, or a cohesive growth plan. Visualize grounding, or "binding" your courage. Focus on the feeling you have when your entrepreneurial energies are in full blossom: You have just quit your job to strike out on your own, or you just landed your first customer. Really get *inside* that feeling of elation, of having had the *courage* to follow your dreams. Now, consciously take that feeling of self-realization—of being the best you can possibly be—and tie it to an actual milestone in your business. Make it clear to yourself that when you achieve this concrete milestone (a certain threshold of revenues, the development of an internal business plan, even finishing your new brochure), you have *permission* to tap back into that extraordinary adrenaline rush of courage. It's like a nectar that you allow yourself to taste, but only on reaching certain thresholds of success. Practice binding—controlling—this creative energy and channeling it toward definable and concrete goals in your business. Even the most inspired courage currency entrepreneur needs to apply discipline to his or her dreaming.

Become obsessed with feedback. You tend to live in a bubble and lose sight of what others—business partners, prospective customers, investors—think about the business at hand. You need to make a concerted effort to incorporate the feedback of those around you into your business planning. Seek out clients, even in a formally planned setting, who will give you critical feedback on the quality or appropriateness of the service you are giving them. You have such a strong personality that you may not realize that you are making it difficult for people to approach you and provide you with critical advice. Solicit this advice all the time. Ask people, "What could I be doing better? Do you think my product will really sell? What do you think I should change about our approach to the market?" Even, "Do you think my entrepreneurial idea makes sense?"

Famous Courage Currency Holders

Henry Ford

Gloria Steinem

Howard Schultz

Suggested "Balancing" Book and Periodical

Built to Last by Jim Collins

Local business publication, such as *Crain's* or local newspaper business section

❖ Currency Card 12: Victory

A fanatic is one who redoubles his effort when he has forgotten his aim.

— George Santayana
(as paraphrased by Looney Tunes founder Chuck Jones, describing the problem with Wile E. Coyote)

Background

Like money, victory has the potential to be a touchstone for success—providing you with clarity and poise in your daily choices as an entrepreneur. Victory is the quintessential American currency, maybe the essence of capitalism, but in practice people often play down the raw desire to win, or consider it gauche. While it is important to recognize that you can put people off with in-your-face competitiveness, embracing the competitive drive within you will free up your creative spirit and make you more effective in your work. As with the other currencies, many of us have difficulty admitting to victory as our underlying driver. Some of the most effective entrepreneurs—indeed, the most effective leaders in general—have embraced victory as their touchstone, from Emperor Augustus to Lee Iacocca.

Impatience is the exposed underbelly of the victory-driven entrepreneur: forgetting to pay heed to a business partner's needs and motivations; not taking the time to perfect one product offering before moving on to another; or skipping essential networking with existing competitors and market participants (through conferences, industry associations, and direct outreach) before barreling into a competitive marketplace. It's not that the victory-driven entrepreneur doesn't have the capacity to assess these issues ahead of time; it's that in the frenzy of the moment, he or she tends to be like a bull in a china shop, knocking things over in this will to succeed. The successful victory-driven entrepreneur takes special pains to step back and think before acting. If you can balance your over-powering competitive drive with a degree of caution and attentiveness to those people you might otherwise bowl over in your anxious rise to the top, you will be truly unstoppable.

Businesses for Which You Might Be Best Suited

- ✓ Retail
- ✓ Investment banking
- ✓ Manufacturing
- ✓ Media and publishing
- ✓ Technology
- ✓ Telecommunications
- ✓ Transportation
- ✓ Product development and research

❖ Currency Card 13: Victory (continued)

Businesses You Might Want to Avoid

- ✓ Health care
- ✓ Consulting services
- ✓ Design fields (interior design, graphic design, landscape design, etc.)
- ✓ Entertainment (production)
- ✓ Business process outsourcing

Strengths to Take Advantage Of

- ✓ Laserlike focus and attention to detail on certain projects when the competitive juices get flowing
- ✓ Strong natural leadership ability due less to charisma and more to "the smell of success"—people like to be around you because they think you're a winner
- ✓ A kind and empathetic inner nature that emanates from your instinctively positive and optimistic view of the world (unfortunately this kindness often gets concealed by the hypercompetitive side)
- ✓ Excellent instincts related to what products, ideas, and people are likely to be building blocks of your business's success

Tendencies to Watch Out For

- ✓ Insensitivity to anybody who stands in the way of your success, resulting in a brutalization of relationships that can come back to hurt you over the long term
- ✓ Lack of attention to detail; a tendency to rush things, especially when you see the end goal sooner than others
- ✓ General lack of empathy for those around you who might be less bright, ambitious, or motivated than you are
- ✓ Lack of focus on other, nonwork areas of life that will nurture your soul and, ultimately, make you more effective in your work
- ✓ Misprioritization of business goals resulting from an obsession with particular successes (winning in a client pitch versus a competitor, or getting a product out the door before a competing firm does can sometimes become more important goals than making money, or even staying sane and happy as you run your business)

❖ Currency Card 14: Victory (continued)

Complementary Secondary Currencies

The following currencies can help balance out some of victory's more extreme elements:

Health. Victory, even when achieved, is not necessarily conducive to healthy and balanced living. The most effective victory currency entrepreneurs find ways to shut off their winning-at-all-costs valve by introducing exercise regimens, family time, and charitable activities into their daily lives.

Recognition. Although perhaps counterintuitive, a focus on market and societal recognition can help keep the currency of victory in check. If you are aware that victory is in itself not the goal—that things like social contribution, innovation, or broader market relevance will bring about the renown sought by the recognition-driven entrepreneur—you are more likely to blunt the self-destructive edges of untethered competitiveness.

Suggested Practices and Visualizations

Actively practice compassion. It's not that you are by nature callous or don't have the capacity to empathize with others. It's just that you are moving so fast and furiously, and you are so determined to succeed, that you often forget the little things: that people need words of encouragement to be successful, customers sometimes need patience and coddling, and not everything can be done overnight. Seeing your incredible drive, people who don't really know you will assume that you are unfeeling. In fact, if you don't take the time to tap your own compassion, you will actually *become* unfeeling and ultimately hurt yourself as much as others. At risk of sounding corny, get in touch with your feelings: Allow yourself to think about how those you interact with feel about *you* and how you are treating them. Remember that just because you don't require a lot of emotional coddling and attention doesn't mean others are sustained in life so easily. The greatest pitfall for the tough-as-nails victory currency entrepreneur is the inability to slow down, to allow yourself the time to reflect, breathe . . . and love.

Engage in noncompetitive activities. Surround yourself with people who are not driven by victory and try to do things that may even feel antithetical to victory. This means going out of your way to be generous with a departing employee, or acknowledging openly with a client that your services have not been up to snuff. It means taking a day off with your family, even in the midst of a big transaction, or organizing your team to teach for Junior Achievement when they could be back at their

❖ Currency Card 15: Victory (continued)

desks being productive. It's not bad to be competitive—no entrepreneur has ever succeeded in a big way without tapping the power of the victory currency—but you must not let your competitiveness rule you or you may become so unpleasant to be around and bruise so many relationships along the way that you will never be truly successful in business.

Famous Victory Currency Holders

Rupert Murdoch
Martha Stewart
Bill Gates

Suggested "Balancing" Book and Periodical

The Prophet by Kahlil Gibran
The Christian Science Monitor

❖ Currency Card 16: Acceptance

The multitude judges better than the individual, whoever he may be—or so we must think.
— Aristotle

Background

You must be very careful if acceptance is your primary currency as an entrepreneur. If you were in any other salaried path in professional life, the admonition would not be nearly as strong. In fact, the workforce as a whole encourages conformity and being accepted, whether by your peers, your boss, or your clients and vendors. For any business project to be successful, it must be accepted by consumers. At the same time, the desire for acceptance—in the sense of immediate social and financial validation—has the potential to be an albatross around the neck of the entrepreneur. The key to success in the entrepreneurial milieu, said Kuzuo Inamori, founder of Kyocera, is to "make your own considered judgments independent of what others call 'common sense.' " Nearly every entrepreneur who has ever shared reflections on the underpinnings of success has echoed this need to shy away from received wisdom, to think and act outside of convention. Welcome being the pariah. Embrace receiving no for an answer and having your ideas scoffed at. If you are able to revel in your difference and detach your happiness or sense of self-worth from others' judgments and opinions, your natural inclination to please—to have your products and ideas be accepted in the marketplace—will achieve its full potency. The acceptance-driven entrepreneur has the advantage of a natural ability to convert the crazy entrepreneurial dreaming and scheming into products and ideas that smoothly integrate with the market's current offerings and tastes.

Businesses for Which You Might Be Best Suited

- ✓ Business process outsourcing
- ✓ Health care
- ✓ Systems integration
- ✓ Legal services
- ✓ Product development and research
- ✓ Retail
- ✓ Educational products and services

Businesses You Might Want to Avoid

- ✓ Real estate development
- ✓ Manufacturing
- ✓ Management consulting
- ✓ Telecommunications
- ✓ Software

❖ Currency Card 17: Acceptance (continued)

Strengths to Take Advantage Of

- ✓ A sense of fitting in that can help you introduce a new business or product into the marketplace and get new customers quicker than any other entrepreneurial type
- ✓ An ability to build alliances with competitive companies
- ✓ A team-oriented approach that allows you to conduct the "orchestra" of your business better than most, to seamlessly integrate activities and manage different personality types among team members and employees
- ✓ The ability to instill confidence and trust in those around you
- ✓ A strategic vision that allows you to see your fledgling business through to more advanced stages of development

Tendencies to Watch Out For

- ✓ Fear of making tough decisions in the business, especially those that cause at least temporary pain (cutting personnel, dropping a product line, moving offices)

- ✓ Paralysis when confronted with a crossroads in your business's development, particularly where there is no clear direction from other trusted confidants
- ✓ Inability to resolve disputes among stakeholders for fear of being offputting
- ✓ Difficulty "getting out of the blocks"—you may be very good at running your own small business but need a big push from a loved one or friend in your life to make the initial leap
- ✓ Potential for ethical lapses, given the vulnerability to outside opinions

Complementary Secondary Currencies

The following currencies can help balance out some of acceptance's more extreme elements:

Recognition. The natural antidote to acceptance, the recognition currency will encourage the entrepreneur to be more individualistic in approach and take necessary leadership on tough issues.

Courage. Like the recognition currency, courage is a drive that supports individualism and bold decision making. This currency will help the acceptance-driven entrepreneur directly combat the insidious need to be liked by everyone, a tendency that can paralyze a business's early development.

❖ Currency Card 18: Acceptance (continued)

Suggested Practices and Visualizations

Stand solidly in your conviction. You have excellent social and entrepreneurial insight, especially with regard to people's tastes, desires, "hot buttons," and insecurities. You can ingratiate yourself and/or the product you are offering to almost anybody in any market. You manage people well, as you are attuned to the things that make them tick and those that make them break down. The problem is, because of your heightened sensitivity to others, you are in constant danger of losing yourself, of becoming nothing more than a mirror of others' desires and insecurities. You must combine this sensitivity with a conscious, powerful establishment of your own identity and opinions, particularly at the beginning of every major step in your business's development. Each day, preferably in the morning, close your eyes and imagine yourself all alone. You are on an island in the ocean; you are on top of a mountain, as the sun rises; or you are standing tall and strong in an empty field. From that place of aloneness and strength, ask yourself what you need to do that day, that week, that month. The strong and independent version of yourself is not swayed by the fears of ticking off a partner or the potential consequences of changing the services you're offering. You *know* deep down what you have to do, and you must make your business decisions—particularly those you don't want to make or that you try to avoid making—from that place of strength.

Weigh pros and cons objectively. You must always challenge yourself to make tough decisions independent of considering whether the "audience" of family, friends, business partners, etc., will approve. A simple exercise that will help you is to make a list: On the left-hand side of the page (without self-censoring, and including any and all fears you may have about others' judgments on the subject), put all the reasons why you should make the decision to do something; on the right, list all the reasons why you should *not* do something. Then go through each list and remove anything at all that has to do with what others will think of your decision. Although these concerns around others' opinions are valid, you are likely to overemphasize them. Go with the decision that has the most points in favor after you've gone through this "stripping" exercise.

Famous Acceptance Currency Holders

Andrew Carnegie
Wally Amos
Bill Clinton

Suggested "Balancing" Book and Periodical

The Prince by Niccolo Machiavelli
The Economist

❖ Currency Card 19: Health

Forget about being rich; be rich in your heart, in your soul, in your mind.

— Ray Kroc, founder of McDonald's Corporation

Background

As the health-driven entrepreneur, you are unique. Unlike the currency holders of money, courage, and victory, you are not prone to obsession and burnout. Your entrepreneurial projects are central in your life, but they do not consume your family, personal, and spiritual priorities. And unlike the currency holders of recognition and acceptance, you are not beholden to the views and opinions of others. You have a unique strength about you, grounded in a natural sense of work/life balance. You have decided on the entrepreneurial path because it fundamentally makes you happy. As with most entrepreneurial currency holders, it comes down to a sense of destiny for you—a feeling or an experience early on in your life calling you to the path of entrepreneurship. You are more likely than other entrepreneurs to be working as a sole proprietor, since your ambitions tend to run toward a sense of balance and independence, as opposed to building large organizations or conquering the world.

At the same time, the health currency holder is never far from the shoals of complacency and escapism. Entrepreneurship is more a way of life for you than a strictly business proposition, and while this is a healthy way of viewing your work world, you can get caught napping when customer tastes change or market shifts go against you. The entrepreneur driven by health tends not to plan ahead as much, establish business safeguards (a cash cushion in the bank account for lean times, or a sufficient pipeline of client sales leads), or seek outside counsel that can stave off problems over the long haul. You are also prone to self-imposed isolation, caught up more in a personal mission than interested in the process of building a team. The most successful health-driven entrepreneurs mitigate their tendencies of self-absorption and complacency by seeking out ambitious and attentive partners, advisers, and outside board members.

Businesses for Which You Might Be Best Suited

- ✓ Health-care services
- ✓ Consulting services
- ✓ Human resources training/development
- ✓ Restaurants
- ✓ Real estate brokerage
- ✓ Design fields (interior design, graphic design, landscape design, etc.)
- ✓ Freelance work (arts, photography, journalism, etc.)

❖ Currency Card 20: Health (continued)

Businesses You Might Want to Avoid

- ✓ Financial services
- ✓ Retail (distribution)
- ✓ Software
- ✓ Telecommunications
- ✓ Biotech
- ✓ Entertainment (production)
- ✓ Manufacturing

Strengths to Take Advantage Of

- ✓ A positive attitude that makes it easy for you to retain clients and attract new clients, when you set your mind to it
- ✓ A good mind/body/spirit balance that allows you to take difficulties in stride, be resilient, and keep your wits about you even under great pressure
- ✓ A genuine love for your work and attention to detail, and a virtuous cycle of listening to your customers and improving your existing offerings

✓ A greater ability than other entrepreneurs to successfully navigate the risks of being in businesses with family and friends

Tendencies to Watch Out For

✓ A loner mentality and fear of losing control that can block your social skills and prevent you from expanding your client base or your team

✓ Complacency in anticipating shifts in the marketplace (including changing input costs, consumer tastes, and economic climates)

✓ Potential to rely too much on the business for daily nourishment of spiritual and psychological needs

✓ Inattentiveness to bottom-line profitability, especially when the business is a center of self-fulfillment and enjoyment

Complementary Secondary Currencies

The following currencies can balance health's more extreme elements:

Victory. The health-driven entrepreneur benefits from the influence of victory as a focusing tool. The infusion of competitive spirit is important to avert tendencies toward complacency and to help grow the business.

❖ Currency Card 21: Health (continued)

Money. A focus on profitability and financial planning is not the forte of the health-currency holder, so money makes a good secondary driver for you.

Suggested Practices and Visualizations

Avoid complacency. You must constantly challenge yourself to grow and evolve your business. Your natural inclination is to stop at a comfortable business plateau instead of pushing yourself to the next level. You may also suffer from a tendency to drift from the profit motive. Practice constant self-assessment on these points. Ask yourself: "Am I really pushing myself to the next level? Am I growing and learning as much as I am capable? Could I be serving my customers better, or even expanding my team?" Don't proselytize growth at all costs, but do challenge your tendency to get stuck on the entrepreneurial path. You may want to ask a friend or fellow entrepreneur to coach you in your entrepreneurial development.

Seize opportunity. One of history's greatest entrepreneurs exhorted, "In all of your endeavors, position yourselves in the center of the whirlpool." Meditate on this statement. What does it mean to you? Have you positioned yourself in the "center of the whirlpool"? What could you do to position yourself in this way? What are the steps you'd need to take? Use this meditation on a regular basis and let it be a catalyst for you to push yourself to take on more risk and try new things.

Famous Health Currency Holders

Thomas Edison

J. W. Marriott

Suggested "Balancing" Book and Periodical

Billionaire by Ivan Fallon

Fortune

❖ **CURRENCY RESOURCES:**

Know Yourself:

Beginning the Journey the Right Way

SELECTED RESOURCES

BOOKS

- ❖ *The Alchemist* by Paulo Coelho. A book that helps you discover your own "personal legend."

- ❖ *The Greatest Salesman in the World* by Og Mandino. Some consider it to be the best self-help book of all time. A great motivator and self-discovery tool.

- ❖ *Discover Your Genius: How to Think Like History's Ten Most Revolutionary Minds* by Michael J. Gelb. Explore the potential of the different parts of your personality. (Also recommended: Gelb's *How to Think Like Leonardo da Vinci: Seven Steps to Genius Every Day*.)

- ❖ *Now, Discover Your Strengths* by Marcus Buckingham and Donald O. Clifton. Focus on your strengths and don't waste time trying to eliminate your weaknesses. A different approach.

- ❖ *Do What You Are: Discover the Perfect Career for You Through the Secrets of Personality Type* by Paul D. Tieger and Barbara Barron-Tieger. Can be a little too formulaic but contains useful exercises.

- *Siddhartha* by Herman Hesse. A classic, based on Buddha's mystical path of self-discovery. Read it with an open mind and an eye toward the bigger picture.

ONLINE RESOURCES

- The Enneagram Institute (www.enneagraminstitute.com). Identifying your personality type using the Enneagram system.

- Career and Personality Tests Online (www.discoveryourpersonality.com). Various self-assessment tools, including official Myers-Briggs Type Indicator.

- Advisor Team (www.advisorteam.com/temperament_sorter). Another personality test to help orient you toward the right career/industry.

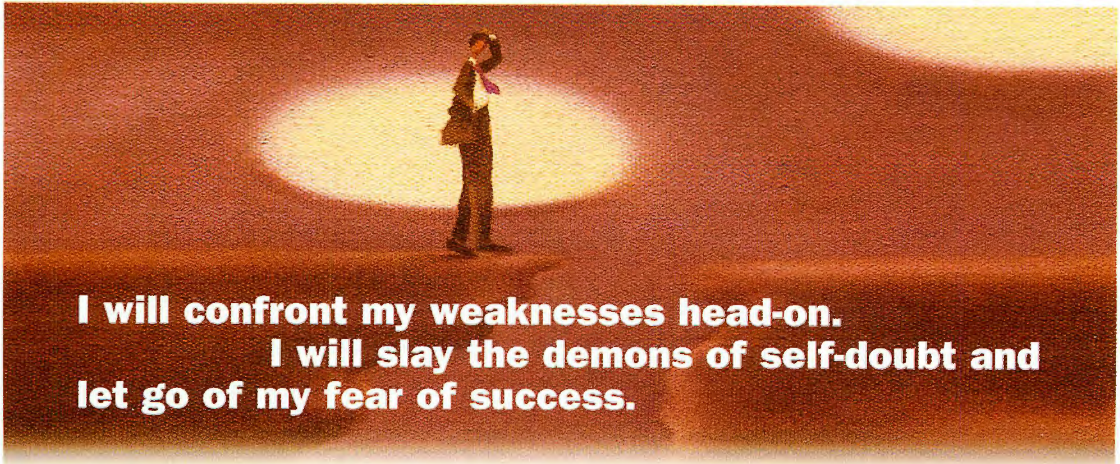
- The Official Og Mandino Web site (www.ogmandino.com). If you want more after reading *The Greatest Salesman in the World*, this site provides information on related training and seminars.

MOVIE

- *The Gladiator* (2000), starring Russell Crowe and Joaquin Phoenix. The fundamental entrepreneurial ingredients of determination, integrity, leadership, and seemingly impossible odds. (Be aware that it is violent.)

❖ Achilles' Heels

the
entrepreneur's
success kit



I will confront my weaknesses head-on. I will slay the demons of self-doubt and let go of my fear of success.

Money ❖ Worthiness ❖ Forgetfulness ❖ Holding-on ❖ Expediency

For a discussion of self-sabotage and the fear of success, see pages 38–40 of the Guidebook.

The Hanuman Stance exercise, on pages 42–43 of the Guidebook, will help you pinpoint your weaknesses. The exercises on each of the five major entrepreneurial Achilles' heels (or traps), on pages 43–57 of the Workbook, will help you identify individual strategies for overcoming these weaknesses.

These red Achilles' Heel Cards are companion material to Chapter 2 of *The Entrepreneur's Guidebook for Success*. They will help you explore your vulnerabilities as an entrepreneur and avoid the common traps you are likely to fall into along the entrepreneurial path. You will learn:

✓ How to grow your business with little to no outside money

✓ Techniques for eliminating self-doubt and procrastination

✓ How to successfully delegate and hand off responsibility in your business

✓ And more . . .

❖ Achilles' Heel Card 1:

Avoiding the Money Trap:
Growing Without Money

There is a rule of thumb that the more disciplined entrepreneurs are forced to be early on in their entrepreneurial paths (particularly in terms of access to capital), the more successful they will be over the longer term. Certainly, if you learn to run your business with the assumption of no outside capital being available, you will develop a conservative approach that will protect from the inevitable lean times ahead. Here are some tips on ways to stretch dollars and grow without money.

<u>Deferred salary.</u> As a venture gets off the ground, you will often find the early team on a less-than-constant compensation schedule. Though only a company's core founding team can be expected to work for free in a venture's initial stages, it is not unreasonable to ask other people to defer payments for a period of days, weeks, or months (some entrepreneurs accrue their own salary and defer payments over a period of a year or more!) as a new company finds its sea legs. In exchange for deferring salary payments, team members might get a higher-than-normal payout when the money becomes available, or earn some sort of ownership in the business as a whole. At the very least, employees and partners who are willing to defer their salaries, even for a short period of time, should earn loyalty and remembrance when times are good. When asking people to accept (or accepting someone else's offer of) deferred salary, however, be careful: If for some reason you are unable to pay down the road, many jurisdictions in the

United States can hold you liable for this "unfunded payroll." (See Observation Card 15 on avoiding personal liability for an explanation of the personal risk this entails and consider consulting a lawyer if you think this is a route you should take.)

Deferred fees. As with deferred salary, outside professional service providers (like lawyers, accountants, marketing consultants, public relations professionals, and so forth) can be asked to defer receipt of certain fees, particularly when they are trying to win your ongoing business. An example is your lawyer, whom you have to pay to help you incorporate or go through a trademark process for your logo or a new product design. Another is the graphic designer who might develop your first batch of client brochures. Professionals like these may often see the bigger picture of what your business could mean to them down the road and give you a break on the initial costs. As with deferred salary requests, you need to be sensitive to people's individual financial condition, but you should seek out partners, employees, and service providers who can stand a little financial pain up front and keep the long-term reward in sight.

❖ Achilles' Heel Card 2:

Avoiding the Money Trap:
Growing Without Money (continued)

In-kind trades. People were doing business together long before the introduction of sophisticated financial markets, checking accounts, bank loans, credit cards—even before the introduction of paper currency! Old-fashioned barter can be a terrific option for ventures just getting off the ground, as well as established small businesses traversing lean times. Your business has a product or service (building maintenance, food and drink, video editing, business consulting, dry cleaning, or anything else) that other businesses need. Approach other entrepreneurs (and even larger more traditional companies) about ways you can come up with mutually beneficial trades of respective products and services. This is attractive for both of you, since you are effectively acquiring goods at wholesale rather than retail prices. Be creative, and don't be afraid to come up with three-way or other complex barter deals. One business I am familiar with, which designs and distributes customized corporate apparel, provides corporate uniforms to a printing company, which in turn prints marketing mailings for a car dealership, which in turn provides a leased delivery van to the corporate apparel company. No dollar bills change hands, but it is certainly capitalism at work!

Supplier financing. Companies you do business with, particularly those you buy products or services from, want to see you stay in business. You may be able to get the suppliers of your merchandise to defer payments, or even share in the selling risk with you. Don't be afraid to ask your suppliers or business partners for deferrals, risk sharing, and other creative solutions to help you conserve cash as you grow. (Also see Observation Card 22 and following cards.)

Subsidized business development. Every small business in the history of the world has a communal "cheering section"—customers, suppliers, business partners, government entities, or others—who have a vested interest in seeing that business succeed. If you figure out who has the most to gain from your business being successful (or your business entering a new area, like a new city, or a new product line), you may find opportunities for subsidized development with wholesalers, government agencies, and even competitors. Keep your eyes and mind open to opportunities for subsidized business development!

No business was ever prevented from growing solely because of a lack of expansion capital. Consider all the creative ways to grow without money. Don't let the money trap hold sway over you!

❖ Achilles' Heel Card 3:

Avoiding the Worthiness Trap:

Slaying Self-Doubt

The feelings of unworthiness that act as saboteurs on the entrepreneurial path are crafty; they sneak themselves unawares into your consciousness and into your life. As a result, you must be equally crafty in combating them. Here are some symptoms of the worthiness trap, as well as methods for their eradication.

Symptom: Procrastination. Procrastination is the bane of creative and managerial types the world over. The voice of procrastination makes up other things that take precedence over the task at hand, minimizes the importance of the task and—most destructively—tells you that you are incapable of successfully achieving the task and therefore shouldn't bother. Procrastination masquerades as laziness or lack of discipline; it is really a type of fear—fear of success.

Remedy: One step at a time. The antidote to procrastination is breaking down the task into bite-size component parts. Instead of thinking about the business plan you need to draft from scratch, focus just on getting your statement of purpose done (see Business Plan Card 2 on statement of purpose for help). Instead of stressing out about your need to introduce an overall accounting program to keep track of your business's costs, focus instead on just getting your monthly budget onto a spreadsheet or into a ledger (see Observation Cards 20-21 for help with financial budgeting and planning). Feelings of unworthiness and fear of success cannot stand up to the unrelenting simplicity of a one-step-at-a-time approach.

Symptom: Lack of preparation. Entrepreneurs who go grossly underprepared into important meetings with potential new customers or financing providers don't surprise me anymore. Not preparing for big moments in your business's development gives you an excuse if things go wrong: "I could have gotten that loan," you tell your friends (and *yourself*);"I just didn't have the right documentation at the time." Or "We would have nailed that new customer account," you reminisce, "but how could we have known they were already using a new operating system?" Your lack of preparation, which you rationalize away as understandable or unavoidable, serves as proxy for your feelings of unworthiness, without your admitting to anything of the sort!

Remedy: Preparation. There is no easy solution to the unpreparedness disease. The only thing you can do is to identify and prioritize those make-or-break moments in your business (when you have a potential anchor customer coming into town, for example) and prepare for all the eventualities you can imagine. Research. Put your plan on paper. There are always things you can do to learn more about the financing provider you're going to meet, or the supplier you're going to try to convince to extend you credit. You have the capacity to be prepared. Disarm the classic entrepreneurial—and self-defeating—tendency to fly by the seat of your pants.

❖ Achilles' Heel Card 4:

Avoiding the Worthiness Trap:

Slaying Self-Doubt (continued)

Symptom: False humility. This is one of the craftier of the gremlins of the worthiness trap. You have read a lot in this kit about the need to remove the ego and see with the clear eyes of humility. Most entrepreneurs are supremely self-confident, or at least have the veneer of self-confidence. Thus, they enter into a game of unconscious self-sabotage where they use humility as an excuse to undersell their capabilities and to underachieve in general. It is the entrepreneur who decides not to pursue that new client because it is "out of reach" or "wouldn't want to work with a small company like mine" who never gets his or her act together to put together a slide show for a prospective financier, because "no one would ever put money into a business like mine." While these may feel like "realistic" statements and evidence of your avoiding delusions of grandeur, they are in fact the results of deeply seated feelings of unworthiness and have no place whatsoever at the table of entrepreneurship.

Remedy: Setting your sights. As with the remedy for procrastination, the trick here is to use incrementalism: Each time these thoughts of unworthiness come up (masquerading as humility and realistic expectations), defeat them by setting your sights *slightly* higher than they are leveled today. You don't suddenly have to come to the judgment that you are capable of selling your services to IBM; just begin to sell to clients slightly larger than those you are servicing today. You don't have to decide overnight that you are ready to go out and raise $2 million to expand your business; just begin to prepare the documents for that working capital line of credit you've been contemplating forever (see Observation Cards 31 and 32 on financing materials for help on this). It is unlikely that your psychological defenses will allow you to defeat your insecurities in one fell swoop. That's okay: Ease into those courageous, big steps. Trick yourself into feeling worthy of success by setting your sights slightly higher all the time.

Symptom: Concealment. Anytime I come across an entrepreneur who is less than forward with his or her entrepreneurial plans or ambitions, I know I am dealing with someone caught in the worthiness trap. People make up all sorts of reasons in their heads for not telling the world about their plans for starting up a new venture, or their plans to get to the next level in their existing business. They say it's because they don't want to give the idea away to someone who might copy it (see Observation Cards 13 and 14 on confidentiality), or because they haven't yet told their boss at their day job. While these points can be legitimate, the real reason most entrepreneurs don't speak openly about their ambitions is the fear that they will not be able to achieve the dreams they are setting out—that they are not *worthy* of this success.

❖ Achilles' Heel Card 5:

Avoiding the Worthiness Trap:

Slaying Self-Doubt (continued)

Remedy: Openness. I often start entrepreneurship seminars with an exercise I call the "label test." I hand out small notebooks (much like the Workbook included in this kit), which I explain will be the place where they record any and all insights with respect to their entrepreneurial project, and they should carry with them religiously from then on, wherever they go. At the same time, I hand out small sticky labels. I ask the participants to write the name and type of business they're in on the label ("Networking by Diana," for example, followed by, "Data-networking services for small-business offices and residences"). I then give the participants a choice: They can affix the label either to the front cover of the notebook (meaning people will see it all the time), or to the inside cover (where no one is likely to see it but themselves). A surprisingly high number of participants stick the label inside their notebooks—thereby forgoing the positive interchange that could occur when potential customers, partners, distributors, suppliers, or employees see them in the street or on a bus with their notebook labels plain to see. The cost of concealment of one's dreams and aspirations is high indeed, and the only antidote is to be open. Wear your entrepreneurial aspirations, or your existing fledgling business, like a badge. Be proud of it. Be ready to discuss it. Be open to the blessings that daily life can shower upon you when you offer your dreams for the world to see.

Although there are legitimate exceptions to this rule, openness about your business—both its triumphs and its difficulties—is the best way to build a sense of worthiness and a strength of conviction in your ultimate success.

❖ Achilles' Heel Card 6:

Avoiding the Forgetfulness (Self-Delusion) Trap:

Finding Yourself Again

Forgetting your true nature is the death knell for the entrepreneur. Yet this is the most difficult of the Achilles' heels to diagnose because, in essence, it calls for diagnosing what you do not know how to diagnose anymore! However, there are tools you can use to identify whether you have succumbed to the forgetfulness trap and things you can do to stay close to your currency moorings. (Refer to Gifts Cards 1 and 2 on alignment for a related discussion.)

<u>Tools for diagnosis.</u> The key to successfully reestablishing solidity and self-knowledge in your business life when you have lost your bearings is to see with clear eyes where you have become disconnected from your currency and your core values.

✓ *Listen to others.* The most important diagnostic tool for the forgetfulness trap is listening carefully to those people who have been involved with your entrepreneurial project from the beginning and whom you trust. Ideally, these people are currently involved in your business on a *day-to-day* basis and can clearly identify where things are off. If the person you turn to is too far removed from the day-to-day, he or she may not be able to distinguish between the rosy picture you are indubitably painting of your venture's condition and the reality of the matter. In any event, you should prepare yourself to receive very painful feedback from others, including comments on relationships (customers, partners, investors) that you may have burned and opportunities (new customer sales, financing) you may have squandered. It may feel a bit like a psychological intervention but, like intervention, it is ultimately for your own good.

✓ *Look for dramatic changes in your business.* The best businesses have a clear statement of purpose (see Business Plan Card 2 on statement of purpose), and while making countless tactical adjustments, they only rarely make major strategic shifts. If you observe a series of significant changes in the direction of your business in a relatively short period of time (from a product-oriented business to a service-oriented business, from a business focused on selling to individual consumers to a business focused on selling to other businesses), it is likely that rather than the market dictating so many dramatic shifts, you have lost your focus. You need to go back to the drawing board and (a) assess what your primary currency is, (b) determine whether the business you propose to be involved in dovetails well with this currency, and (c) begin to implement a plan in a consistent and steady fashion.

✓ *Look for dramatic shifts in your own emotions/behavior.* The most accurate barometer of a business's health often is the entrepreneur's emotional state

❖ Achilles' Heel Card 7:
Avoiding the Forgetfulness (Self-Delusion) Trap:
Finding Yourself Again (continued)

of well-being. If you find yourself whipsawed between elation and depression with relation to your business, constantly at an emotional extreme, it is likely that you have succumbed to the forgetfulness trap. While there is no doubting that the entrepreneurial path is one of dramatic ups and downs, a well-centered entrepreneur, aware of his or her primary currency and possessing a thought-out business plan, should be somewhat insulated against these wildly swinging emotions. If you feel enslaved to the emotional ups and downs of your business, it is a sign that you have probably forgotten your true nature.

Mooring exercises. If you have fallen into the forgetfulness trap, there are steps you can take to find your center again:

✓ *Moment of Solidity exercise.* See pages 13–14 of the Guidebook. This exercise is specifically designed to help you get in touch with your primary currency. After having gone through this exercise, make sure to read the Guidebook section on your primary currency and the corresponding Currency Cards. The Moment of Solidity exercise is meant to be repeated again and again, at any point when you are feeling disconnected with your primary currency or not quite right in your business.

✓ *Take a break.* Although it seems like an obvious remedy to forgetfulness and strategic drift, most entrepreneurs don't take enough time off from their business. Constant involvement in your entrepreneurial project breeds a lack of proper perspective and ultimately a break in self-knowledge. Some of the most successful entrepreneurs in the world, while being raging workaholics, have enough sense to recognize their addiction and force themselves to take time off—sometimes long stretches of time. Whether it's a weekend away in which you don't work on your business plan, or a six-month sabbatical from the business you've been running for twenty years, you must find a way to disconnect and regain perspective.

✓ *Communicate with stakeholders.* Often, when entrepreneurs fall into the forgetfulness trap, they also forget that they have a community of people who support and care for them—team members, vendors, customers, advisers, not to mention loved ones and friends. If you are in trouble in your business, and/or feel like you have lost your moorings, go to the resources that are closest to you and know your business best. Use the power of these relationships and this dialogue to remind you of why you got into this venture in the first place, or when in your business's development you were the most successful. Let your customers remind you of the appeal of your product; let your spouse remind you that you became an entrepreneur to enjoy a healthier lifestyle; let your investors remind you that you told them the first couple of years would be rough. It's okay to need reminding sometimes: Let your stakeholders pull you out of the forgetfulness trap.

❖ Achilles' Heel Card 8:

Avoiding the Holding-on Trap:

Identifying and Executing the Handoff

Learning how to hand off a leadership role in a business that feels like your baby, or even just delegate some limited responsibility to someone else, is one of the most difficult things to do as an entrepreneur. But it is a critical step in your business's evolution and a clear predictor of future success. In order to avoid getting stuck holding on to the reins too long, you first need to clearly identify the handoff plateaus, the natural handing-off points for functional responsibility, and employ the right tactics in making the handoff:

<u>Handoff plateaus.</u> In order to figure out whether it is time to bring in outside help to manage your business—or manage a piece of your business—you need not read lots of business textbooks or do complicated analyses. The answer is usually right in front of you, in the form of your personal experience with respect to your entrepreneurial project, day in and day out. You just need to become aware of what you're feeling.

✓ *Being overwhelmed.* Many entrepreneurs labor under the assumption that it is normal, or at least acceptable, to feel overwhelmed by their job all of the time. This is most definitely *not* the case. Although launching and running a small business is one of the most challenging jobs that exist, being overwhelmed should be an occasional, not a constant, state of being. This is almost always a sign that you need a complementary partner or leader in your business, someone who can share the sheer burden of work to be done, or take off your shoulders particular responsibilities (sales, for example, or finance) that you are unsuited for or dislike.

✓ *Confusion and inability to prioritize.* Once I counseled an entrepreneur whose business had grown quite rapidly, to more than seventy people. He would have meetings with his top five executives every week, and I would meet with him shortly afterward. He would always bring back with him copious notes. "What was the outcome of this morning's meeting?" I would ask. "This," he would say, handing me his pages of notes. When entrepreneurial managers lose the ability to prioritize—to pick out what's most important on the task list each day, week, month, or year—it is a clear sign they are at a handoff plateau. To-do lists should not get longer as a business grows; the items on the list should just change. Managers in their comfort zone understand that they cannot do everything themselves; they focus on completing critical tasks and delegating all others. This type of ruthless prioritization is rarely the forte of a founding entrepreneur; if you're lucky, your business will grow quickly enough that you'll need to hand off the baton to a delegating manager of this type relatively early on!

❖ Achilles' Heel Card 9:
Avoiding the Holding-on Trap:
Identifying and Executing the Handoff (continued)

✓ *Frustration and lack of passion for job function.* Entrepreneurs tend to act like martyrs. Even when they have reached the end of their managerial abilities, feeling totally overwhelmed and confused, they still soldier on. You've got to correct this tendency if you have it. Navigating the entrepreneurial journey successfully involves finding what you're best at and sticking to it. You don't get any points for toughing it out in the wrong role in your business, or trying to be someone you're not (a good number cruncher, or a patient customer service representative). You do best to quickly and honestly assess your weaknesses and find ways to compensate for them through systems and procedures, as well as complementary business actors (partners, employees, advisers, board members). If you are an *inventor* at heart, someone who likes to come up with new ideas, don't force yourself to be a manager. You will be frustrated. If at all possible, hand off the responsibilities in your business that elicit frustration or for which you lack passion.

✓ *The perfect "other."* Not all handoff plateaus are identified by the way you are feeling as an entrepreneur (overwhelmed, confused, frustrated). Sometimes these feelings are absent, or relatively rare, but the perfect "other" comes along and represents an opportunity for a change that you should not pass up. Usually, this "other" is a person —a prospective business partner, employee, board member, investor, or adviser. It could, however, be another company—a potential distributor for your product, which allows you to ignore retailing and focus on product development/improvement, for example, or a larger company that wants to buy you, which would introduce a new layer of management and allow you to focus on what you like best: sales. Whoever or whatever your perfect "other" is, keep an open mind. You may not be aware of what you need until you stumble across it.

<u>Strategies for successful handoffs.</u> Identifying your handoff plateau is extremely important, but it is only half the battle. Now you need to figure out how to transition leadership or delegate responsibility effectively. Here are a few prevailing methods, depending on the business's needs and the personalities involved.

✓ *Gradual/mentoring.* Most transitions of responsibility are carefully planned and occur gradually. An incoming CEO will work closely with an outgoing CEO in order to learn all the quirks of the job; hand off client, vendor, and employee relationships; and (in no small part) give comfort to the outgoing leader that everything will be handled to his or her satisfaction. In small and start-up businesses, the same principle of a gradual handoff often applies, even when it's not the overall leadership position being transitioned but a particular customer relationship, bookkeeping responsibility, or even front-desk reception area coverage.

❖ Achilles' Heel Card 10:
Avoiding the Holding-on Trap:
Identifying and Executing the Handoff (continued)

✓ *Cold turkey/clean break.* Some managers or organizations are better suited to the cold turkey school of delegation/leadership transition. Here, the theory is that gradual processes create confusion—in the minds of customers, suppliers, employees, financing providers, and others—and an immediate clean break is worth more in clarity and simplicity than it costs in disruption to the business. This handoff strategy is usually better suited to small and start-up enterprises, where there are fewer facts and details to master than in a large organization and where it can often be difficult to pry a founding entrepreneur away from his or her responsibilities without dramatic action. For this system to work, however, the person assuming the new responsibility (whether as CEO, head of sales, CFO, etc.) must have a strong and confident personality—since he or she will be thrown into the fray without as much preparation.

✓ *Partial abdication.* This is probably the most common, yet also the trickiest, business handoff. One person is delegating responsibility to another (anything from an overall leadership position to a particular task) but is at the same time preserving domain over some part of the responsibility being transferred. This is the most common handoff for small and start-up businesses because they often grow like an avocado plant: small sprouts of responsibility shooting off from the founding entrepreneur (the pit, in this analogy) over time. The keys to success in partial abdication transitions are (a) a clear articulation between the two parties as to *exactly* what responsibilities are being assumed, (b) discipline by the delegating party in fighting the urge to reassume responsibilities when they're not carried out precisely they way they used to be, and (c) good ongoing lines of communication between the parties.

❖ Achilles' Heel Card 11:
Avoiding the Expediency Trap:
Setting up Defenses

The expediency trap revolves around being impatient or careless and cutting corners, two tendencies that, unfortunately, are common to a lot of entrepreneurs.

Impatience and carelessness. The expediency trap is so dangerous to entrepreneurs because it feeds on one of their fundamental characteristics: impatience. If entrepreneurs were not impatient with the way things worked in the world around them, new ideas wouldn't germinate and innovation wouldn't take place. A certain degree of impatience is *healthy* in the entrepreneurial psyche. But impatience with the status quo—coupled with a desire to change the status quo—is one thing; impatience when it comes to *executing* the steps required to change that status quo is another thing altogether and can become one of the entrepreneur's worst Achilles' heels. There is a critical difference between the healthy impatience entrepreneurs have with respect to old and tired ideas and the unhealthy impatience they have with the painstaking steps and "grunt work" required actually to implement bold, new ideas. The former drives nearly every successful entrepreneur; the latter is the cause of many failed entrepreneurial projects. It leads to sloppiness, carelessness, and a disdain for the necessary detail of business building. Symptoms include:

✓ Lack of an organizing business plan documenting how the business is organized and where it is going (see all the Business Plan Cards)

✓ Lack of basic written guidelines on sales, quality control, customer service, and team-related issues (organizational chart, hours of operation, salary, benefits, etc.) (see Business Plan Cards 6–10 on team overview and execution)

✓ Lack of well-thought-out marketing materials, like brochures, business cards, e-mail solicitations, etc. (see Business Plan Card 21 on marketing materials)

✓ Poor security measures around important assets and information, like client lists, office files, inventory, etc.

✓ Poor accounting practices and a lack of basic monthly or quarterly budgets (see Observation Cards 20–21 on financial budgeting and planning)

✓ Poor business documentation in general, including incorporation documents, trademarks and copyrights, confidentiality agreements, financing documentation, etc. (see Observation Cards 5–15 on paperwork and ground rules)

❖ Achilles' Heel Card 12:

Avoiding the Expediency Trap:

Setting up Defenses (continued)

Cutting corners. While impatience and carelessness have the *potential* to sink your business, cutting corners by choosing the easy thing to do over the right thing to do when confronted with a dilemma of moral or quality control dimensions is *certain* to sink your business. As I made clear in the Guidebook, new ventures have too much stacked against them already (people's nervousness in doing business with an untested entity, the lack of economies of scale when bringing new products and services to market) to withstand any moral laxity or inattention to quality control. I have witnessed several of these fatal missteps: a young man who exaggerated his revenue numbers in his diet-counseling business in a bid to sell his company to a competitor; a venture capitalist who waited too long to make tough decisions in a business under his purview out of fear that some of his peers in the venture capital community might become aware of his troubles. The toughest thing to do is to ferret out this behavior—or risk of this behavior—in your own entrepreneurial experience. The necessity for candor here is critical and absolute. You must ask yourself:

✓ Am I being completely honest with all of my stakeholders about the state and capability of my current product or service offering?

- ✓ Am I faithfully reporting my financial state of affairs to the people that have a right (legal or moral) to know?
- ✓ Can I really stand behind the assertions or comparisons that I make with reference to my competition?
- ✓ Am I following the quality control steps necessary to ensure that my customers are getting everything they pay for?
- ✓ Am I complying with all the requirements of the contracts and agreements I have with third parties (including employees, contractors, business partners, suppliers, customers, taxing and regulatory authorities, etc.)?
- ✓ Is there anything in my daily business life that—as much as I might try to push away the feeling—makes me feel queasy or uncomfortable at an ethical level?

If a light of recognition went on when you reviewed the common symptoms of impatience and carelessness, or you answered no to any but the last question about cutting corners, you should take it as a clear sign that you are susceptible to the expediency trap. There are two powerful remedies to the weaknesses of expediency:

❖ Achilles' Heel Card 13:
Avoiding the Expediency Trap:
Setting up Defenses (continued)

Setting up defenses. Most entrepreneurs, when doing honest self-assessments on things like sloppiness or cutting corners, tend to get bogged down with feelings of futility and guilt. *Wrong reaction.* Rest assured that nearly every entrepreneur who has ever walked the earth has confronted some or all of the demons associated with the expediency trap. Get over it. The key is to put aside the guilt and take concrete action. Set up compensating mechanisms, legal barriers, communications protocols, and any other rules of thought and action that will help correct current bad behavior and encourage future compliance. There is no shame in doing this. Every successful Fortune 500 company does it. Write a clearly worded employee handbook, which doesn't have to be too detailed or bureaucratic but clears up any confusion over work responsibilities, hours of operations, or benefits (even if you have only three employees!); hire a bookkeeper who will come in once a week and force you to be disciplined about keeping your accounts in order; reach out to your top customer and do an in-depth survey to make sure that he or she is satisfied with your service and is being clearly communicated to. Basically, go down the lists above and create real defenses to protect against bad behavior: documents, guidelines, conversations, accounting reviews—whatever it takes.

Balance. Find someone who can provide a counterweight to your tendencies toward carelessness and taking shortcuts. This could be a business partner, an investor, or even a loved one with whom you come totally clean about your weaknesses and concerns on these fronts. An informal outside adviser or a formal outside board member for your business—someone you trust but who is willing to call you out—is also a good idea. Whoever it is, ask him or her to ensure that in the future you comply with the defenses you have just set up. Make sure the person really understands the new rules and protocols you have established, whether they have to do with financial reporting, product quality control, customer service, or tax filings. Since you are going to be asking this person to do a lot of work and become intimately involved with your business (to the extent you are picking someone outside your current management team, which is recommended), you might consider either paying him or her or offering a piece of ownership in your business. The point is: Your "balancing" party must take the responsibility seriously and be willing to reprimand and even punish you.

❖ ACHILLES' HEELS RESOURCES:
Your Strength May Be Your Weakness:
Overcoming Your Achilles' Heels

SELECTED RESOURCES

BOOKS

- *The 7 Habits of Highly Successful People* by Stephen Covey. Tips from the master on how to leverage your strengths, blunt your weaknesses, and prioritize correctly.

- *Starting from Scratch: How to Start a Business When You Don't Have Money* by Gary G. Schoeniger. Inspirational but practical advice on how to overcome the money trap, especially in start-up phase.

- *Feel the Fear and Do It Anyway* by Susan Jeffers. How to overcome doubt, self-sabotage, and fear.

- *The Tipping Point: How Little Things Can Make a Big Difference* by Malcolm Gladwell. How minor advances in products and ideas can tip the scales toward enormous popularity. Inspiration for innovators of all stripes.

- *The Integrity Advantage: How Taking the High Road Creates a Competitive Advantage in Business* by Adrian Gostick and Dana Telford. Self-explanatory. Not aimed at entrepreneurs per se, but includes useful lessons for implementing integrity-based decision making into your business.

- *Brand New: How Entrepreneurs Earned Customers' Respect from Wedgwood to Dell* by Nancy Koehn. The importance of sustained commitment to quality and the avoidance of fads.

- *Making Delegation Happen: A Simple and Effective Guide to Implementing Successful Delegation* by Robert Burns. The title tells it all.

ONLINE RESOURCES

- Secrets of Success (www.secretsofsuccess.com). Inspirational stories of entrepreneurs and business leaders across the globe and how they overcame obstacles in their path.

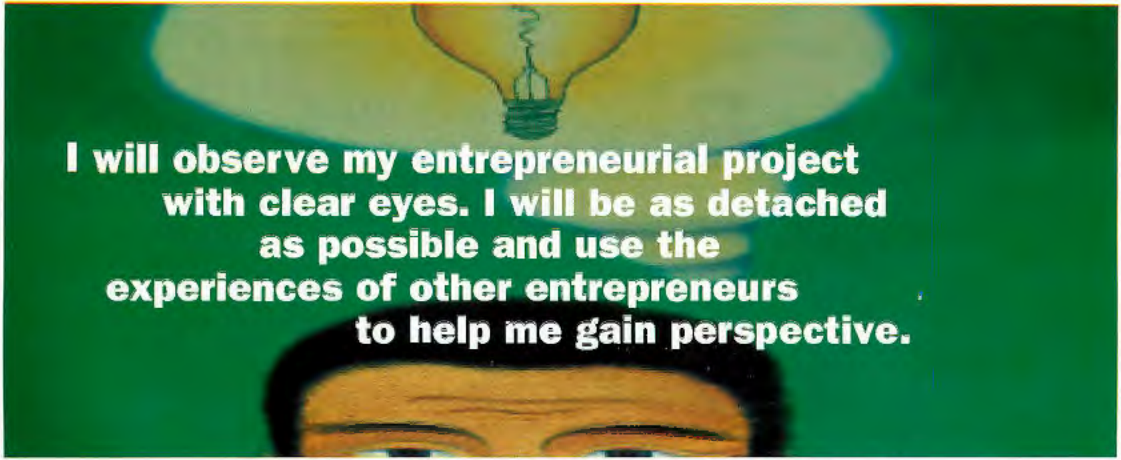
- Brian Tracy International (www.briantracy.com). One of the better self-help resources. Tracy recognizes that each of us must recognize and do battle with our weaknesses and "decide" on success. The Web site is basically a catalog.

MOVIE

- *Jerry Maguire* (1996), starring Tom Cruise, Renée Zellweger, and Cuba Gooding, Jr. A sports agent breaks out of a shallow and predictable career to pursue his own venture. Along the way he confronts his weaknesses and overcomes his fear.

❖ Observations

the entrepreneur's success kit



I will observe my entrepreneurial project with clear eyes. I will be as detached as possible and use the experiences of other entrepreneurs to help me gain perspective.

Partnering ❖ Time Management ❖ Paperwork
Outside Service Providers ❖ Goal Setting ❖ Financial Planning
Raising Money ❖ Focus ❖ M&A ❖ Outside Management and Boards

The Observer exercise, on pages 73–75 of the Guidebook, will help you identify areas that require attention and problem solving in your business. Also, go through the written exercise on each of the ten most common areas of observation, on pages 67–77 of the Workbook.

For a discussion of the roles of feelings and facts in your entrepreneurial self-assessment (or "observation"), see pages 76–83 of the Guidebook.

These green Observation Cards are companion material to Chapter 3 of *The Entrepreneur's Guidebook for Success*. They will help you honestly assess (observe) the practical challenges in your business and come up with solutions. You will learn:

✓ What to look out for when partnering with family and friends

✓ How to pick the right lawyer, accountant, and other service providers

✓ Techniques for raising money for your business

✓ And more . . .

❖ Observation Card:
About the Contributors

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❖ Observation Card 1: Partnering with Family and Friends

Contributed by Edward V. Mullen

There are many challenges to consider when deciding whether to start a business with a family member or a close friend. You should be tough with yourself in thinking through whether the person you are choosing as your business partner is the best choice for the job at hand, or just the *easiest* choice. If you are confident that your family member or friend is the best "business" choice, you must also consider the relationship you have with this person now and recognize that it will never again be the same—for better or worse.

Having started several businesses, both on my own and with friends and family members (including my brother *and* my father), I have significant exposure to the pros and cons involved. You should ask yourself a series of very difficult questions before embarking on the entrepreneurial journey with someone with whom you are emotionally close:

✓ How important is emotional companionship on the entrepreneurial path for me? Am I partnering with the person(s) *primarily* for the emotional companionship? (Be very careful about this—you can find emotional support elsewhere as well, through family and friends *outside* of your business.)

✓ What are the unique strengths and weaknesses of the person(s) I am partnering with?

✓ Do these strengths and weaknesses truly complement my own? Have I openly discussed how our abilities and deficiencies will meld together in the business? (This is essential, because too many people of the same makeup, so to speak, can bode ill for a founding team.)

✓ Do we share the same goals for the business? Will we define success similarly? Do we have the same, or complementary, currencies?

✓ Do we have the same business values and ethical foundation?

If, after going through the questioning above, you are still confident that it's the right thing to go into business with a close friend or family member, I advise the following:

✓ Agree that you will keep your business relationship separate from your personal relationship. This is not actually possible. Still, try.

✓ Find ways to share risk together—financial, reputational, and otherwise. In other words, put yourselves in the same boat.

❖ Observation Card 2: Partnering with Family and Friends (continued)

- ✓ Agree to disagree on things and set in place a mechanism (clear lines of authority, a third-party mediator, an operating agreement) to resolve disputes.
- ✓ Agree to keep other family members or close friends out of any business problems, so as not to create a split in the event of a disagreement. This is *very* important.
- ✓ Make an effort to communicate even more than you would with a "normal" business partner or employee. Don't let the nonbusiness relationship become stale.
- ✓ Commit to trust and respect each other, even (particularly) when it's most difficult to do so. If the relationship is in trouble, find a way to call it quits *before* you lose trust and respect. Your relationship is more important than the business.

Working with family and friends in a start-up environment can be extremely difficult, and relationships can suffer greatly. That said, some of the most successful and gratifying experiences in business come from working alongside people you really care about. In my own experience, I realized that the element of trust was the difference. There were plenty of other people I could have approached to be my partner—people who were smart, hardworking, and even well connected. But ultimately, there was nobody out there whom I could trust more than my brother. Remember this last point when the going gets tough.

❖ Observation Card 3: Organizing Your Time

There is no shortage of general time management literature in the self-help and business sections of your nearby bookstore. Please refer to the Observation Resource Card at the end of this section for recommendations on a couple of the best resources of this type. As it relates specifically to the entrepreneurial experience, however, here are some tips on organizing your time:

Do

Set priorities and say no. Successful entrepreneurs prioritize and know how to say no. If you let others dictate what you accomplish each day, it's likely you won't accomplish anything at all. Every day's activities should be organized around your overall business goal (see Business Plan Card 2), and you can use periodic intentions to strengthen your focus (see Gifts Card 5).

Set up a clear calendaring system. It's critical to have a disciplined scheduling system. Whether it's an online calendar, a personal data assistant (PDA) device, or an old-fashioned date book, you must be in the habit of keeping a single calendar of all your appointments. Stay disciplined; if you need to schedule something and don't have your calendar handy, wait until you can get to it.

Set up informational "funnels." People will always be after your most precious commodity: your time. For those stakeholders in your business who have a right to get frequent updates, or whom you would like to keep in the loop, you need to set up a mechanism to get them information regularly without it sapping your time and energy. I call these mechanisms "funnels," because when they work well you can throw in a bunch of raw data and have it easily funneled down to a sensible, easy-to-digest information stream. For example, set up a spreadsheet on a software program like Microsoft Excel, where you have all of your major, repeating monthly budget items, and each month plug in any numerical changes that occurred in your expenditure pattern. You can send this budget to your bank loan officer each month. Another example of a funnel is a regular client sales report, detailing contacts, time frame to sale, etc., for each client, which you can send as a standardized report to your investors. The key is to make sure that the people who are getting the information know to wait for it, and don't call and write you a lot between receiving the regular reports—so you can stay focused!

Let your customers dictate your priorities. The customer's always right, and if you can absorb this attitude, you will be successful over the long haul. This is true even when you have to throw out your time management plan for a given workday to deal with a client issue. This may mean occasionally breaking some of the previous guidelines (in terms of saying no, working with informational funnels, and so forth).

❖ Observation Card 4: Organizing Your Time (continued)

Balance strictness with flexibility. As the previous card suggested, sometimes you need to throw the rules out the window. "Planning is invaluable," said Churchill, "a plan that cannot be changed is worthless." When a customer needs attention, an employee is going through a personal crisis, or a supplier is questioning your ability to pay, you must attend to the emergency—just remember to get back to your plan when you're done and don't succumb to the common entrepreneurial tendency to spend your entire professional life in "fire drill" mode.

Take time to "sharpen your ax." A business partner of mine used to encourage me to take more vacation and rest; he used the metaphor of the lumberjack who, recognizing that he is less effective with a dull blade, takes one morning each week to sharpen the ax. If you don't take breaks to recharge, you will become less and less sharp in your daily life, and won't achieve as much.

Don't

Lose calendaring discipline. Many entrepreneurs ignore the advice on having a calendaring system. Stick to it! It will make a real difference.

Overpromise. Entrepreneurs tend to commit to things they can't follow through on. Remember that your promises depend on others doing their job well and on time. In general, don't make promises that depend on others. Stick to the things that you have total control over, and for everything else, tell the truth: You'll do your best. Don't be afraid to underpromise; you will be happier with yourself—and others will trust you more—if you overdeliver.

Let your vendors dictate your priorities. Every stakeholder in your business deserves attention and respect. At the same time, entrepreneurs who let other entities and individuals with divergent economic incentives dictate their schedule usually fail. You need to know who butters your bread, and who doesn't.

Get into "jump" mode. It's easy for entrepreneurs to fall into a pattern of constantly responding to outside requests instead of staying focused on the priorities they have set for themselves. This can happen almost without noticing; you need to be vigilant that your time is being consumed by activities that dovetail with *your* goals and priorities (see Observation Cards 18–19 on goal setting).

Try too hard to be liked. Bill Cosby said, "I don't know the key to success, but the key to failure is trying to please everybody." You will not be able to make everybody happy. Part of unlocking success is learning how to say no.

❖ Observation Card 5:
Paperwork and Ground Rules:
Picking the Right Corporate Entity

Contributed by Arnie Herz

You've got a great idea for a new venture and you're eager to get going. But before you hang out your shingle, you need to decide on an overall business structure—in legal terms, you must determine what kind of business entity to form and operate as. Generally speaking, there are two formats to consider: the sole proprietorship and the limited liability entity. While there are several varieties of the latter, the most common nowadays are the corporation and the limited liability company. The following overview highlights some key distinctions between these entities.

<u>Sole proprietorship.</u> A sole proprietor is an individual operating a business. On the upside, this is the fast track to business formation. There are no government filings to make or fees to pay. You don't need a lawyer or other "expert" to help you start up. On the downside, both your personal and business assets are on the line if the business fails and creditors knock, or if a disgruntled client or employee sues and gets a judgment against you (see Observation Card 15 on avoiding personal liability for ways to protect yourself from personal risk as an entrepreneur). You can cover your assets to some degree with solid insurance policies, but you need to take a hard look at the type of business you're starting and candidly assess the risks of exposure.

Limited liability entities. Limited liability entities—which include S-corporations, C-corporations, and limited liability companies (LLCs)—add a good measure of security to the business mix by generally allowing individuals to do business without jeopardizing their personal assets. This comfort comes at a price, however. To form these entities, you need to invest some time and money at the outset to satisfy your state's business filing requirements. You should also factor in to these start-up expenses the cost of obtaining accounting and legal advice as to the type of limited liability entity you might want to choose. To balance out the list of considerations, it's important to note that limited liability entities come with some significant tax advantages, including a lower incidence of audits as compared to sole proprietorships.

For more information on different types of corporate structure available to you, and respective costs, refer to www.mycorporation.com or www.corporate.com.

❖ Observation Card 6:

Paperwork and Ground Rules:

The Need for Contracts

Contributed by Arnie Herz

The informal handshake, the verbal exchange, the mutual understanding between friends—this is the stuff of storybook business agreements. While we all dream of that magical place where people live by such meetings of the minds, the harsh reality of our litigious world of soured relationships ruins the reverie.

While some business disputes stem from sheer dishonesty and greed, most occur because decent and well-meaning individuals have different takes on a deal they never put in writing. Discord also abounds where, satisfied with a written agreement set out in broad strokes, businesspeople fail to identify and address in writing small yet significant deal points. Some entrepreneurs are particularly prone to this misstep, given a relative lack of resources to hire lawyers, a tendency to trust others, and infrequent previous exposure to legal contracts.

In the real world, there seems to be a direct correlation between clear, detailed written contracts and harmonious business relations. Although you should definitely consult an attorney for a final review, you can usually tackle the nuts and bolts of business agreements on your own. Just make sure you:

- ✓ Write down large and small deal points in a format that both parties can readily understand, and share these points early and often.
- ✓ Cover as soon as possible issues such as payment amounts and terms, late payments, defective goods or services, parties' responsibilities and expectations, handling disagreements, duration and termination of the contract, insurance, and liability. In general, apply the rule: If it makes you uncomfortable, *discuss it*.
- ✓ Take time to identify what might go wrong and address how the parties will respond in that eventuality.
- ✓ If you retain a lawyer, choose one who has the business law experience needed to take you through the contract process in a way that best protects your interests.

❖ Observation Card 7:

Paperwork and Ground Rules:

Intellectual Property

Contributed by Arnie Herz

Intellectual property (IP), encompassing trademarks, copyrights, and patents, can be among your business's most valuable assets. While you should consult with an attorney on your IP needs and issues, you still want to have a basic understanding of IP's three component parts.

Trademarks. Also called "marks," these are words, names, phrases, symbols, logos, sounds, or other devices used to offer your goods or services to the customer. Examples of well-known trademarks are McDonald's, Wal-Mart, and Disney. Simply incorporating under a particular name or obtaining a d.b.a. ("doing business as") certificate does *not* give you the right to use that name as your trademark. Generally, you obtain federal trademark rights by being the first to use your mark in interstate commerce or the first to file an application to register your mark with the U.S. Patent and Trademark Office. It's best to consult with an attorney specializing in trademarks from the outset, as he or she can help you select a unique mark and navigate the sometimes confusing and protracted application/registration process. A trademark attorney will also help you understand any issues of international law that may affect your trademark rights.

Copyrights. These typically refer to creative endeavors such as plays, musical compositions, books, works of art, or computer software codes. It's best to get a copyright filing for all such material developed by you or one of your employees. Filing is a relatively simple and straightforward process and can be done through the United States Registrar of Copyrights Web site at www.copyright.gov.

Patents. These are grants of exclusive rights by the U.S. Patent and Trademark Office for the use, manufacture, or sale of an invention. Of the three IP types, patents are the most complex. They require the input of experienced patent lawyers who are well versed in the governing law and generally have engineering backgrounds. For more information on patents or trademarks, visit the U.S. Patent and Trademark Office Web site at www.uspto.gov.

❖ Observation Card 8:
Paperwork and Ground Rules:
Shareholder, Partnership, and Operating Agreements

Contributed by Alexei J. Cowett

Note: The information on this card, and in the rest of the kit, does not constitute legal advice.

Once you have selected the right corporate entity (see Observation Card 5), it's time for you and your partners and/or investors to reach agreement on the fundamental aspects of your business association, such as how you will

✓ Manage the business and decide on major issues
✓ Deal with potential disputes and conflicts of interest
✓ Bring in additional capital and investors
✓ Provide for an orderly transfer of equity interests in the event of sale, dispute, death, or other serious occurrence

This form of agreement generally is referred to as a shareholders' (or investors') agreement in the case of C- and S-corporations, a partnership agreement in the case of limited and general partnerships, and an operating agreement in the case of a limited liability company (LLC). Because of its importance, it is strongly recommended that a knowledgeable business attorney and tax expert participate in the preparation of the agreement. While the format of your agreement will vary depending on the type of entity you choose, there are standard issues that are typically addressed.

Management. Who will operate the business on a day-to-day basis and set direction and policies? Under what circumstances can the chief executive of the corporation, general partner of a partnership, or manager of an LLC be removed? Will major business decisions require consensus or some heightened degree of approval? For example, when will the entity be permitted to

- ✓ Borrow or lend money
- ✓ Buy or sell significant assets or make significant capital expenditures
- ✓ Enter into new lines of business or exit from existing ones
- ✓ Issue or redeem equity securities or bring in new investors
- ✓ Hire or fire key employees and advisers
- ✓ Make major changes in accounting policies
- ✓ Settle litigation or other claims
- ✓ Distribute dividends or provide profit-sharing
- ✓ Enter into transactions with affiliates, such as officers, directors, or investors of the entity, or any of their family members

❖ Observation Card 9:

Paperwork and Ground Rules:

Shareholder, Partnership, and Operating Agreements (continued)

Other things to consider include procedures for setting annual budgets and business plans, and considering under what circumstances parties will be required to make an additional investment in the business. Depending on the corporate entity, the agreement also may include provisions relating to the appointment and replacement of officers, directors, and other key persons, and voting agreements.

Transfers of equity interests. You need to decide under what circumstances parties will be permitted to transfer their equity interests in the business. Likewise, when will parties be *required* to transfer their interests? What are the payment terms? Will part of the purchase price be in the form of a promissory note or other deferred compensation? Are there circumstances where a party will forfeit all or part of its equity interests as a form of "liquidated damages" (for example, following a failure to make a necessary capital contribution or failing to meet some other important obligation)? Agreements might contain:

✓ *Rights of first refusal:* a party must offer other parties an opportunity to buy equity interests before they can be sold to a third party.

✓ *Tag-along rights:* a party has the *option* to sell equity interests to a third party on the same terms as offered to another equityholder.

✓ *Drag-along rights:* a party is *required* to sell equity interests to a third party on the same terms as offered to another equityholder.

✓ *Puts and calls:* a party may be required to buy or sell, as the case may be, another party's equity interests, whether at a prenegotiated valuation or some other valuation method (see valuation, below). Circumstances that might trigger such puts and calls include the death or disability of a party.

✓ *Permitted transfers:* a party may transfer equity interests to a spouse, child, or other preauthorized person or entity.

Keep in mind that any transfers need to comply with applicable laws, including state and federal securities laws.

Other Issues to Consider When Drafting Agreements

Valuation. At what price will transferred interests be purchased? If the parties have not agreed on a valuation for the equity interests (whether based on a preexisting formula or negotiation), it is not uncommon to have the valuation determined by a third-party financial adviser or valuation expert. Of course, you should consider whether you want to set special ground rules for this mediation ahead of time and whether there are circumstances where different prices should be paid (for example, a discount paid for a less than fifty percent ownership interest or a premium price for a controlling stake).

Dispute settlement. What happens when there is a deadlock? Will the parties go to mediation or arbitration? Where will this take place? When should they be able to take the matter to court? Will a minority shareholder or partner be able to force the majority shareholder or partner to buy back his or her shares in the company if they can't resolve their differences? Do the parties want to create an economic disincentive to discourage majority partners/shareholders from ignoring the input of minority partners/shareholders on key issues—for example, by permitting the minority holder to force the majority holder to buy back his or her shares in the company at a premium?

Indemnification and liability. Under what circumstances will the parties have liabilities to each other? Or be entitled to indemnification (a guaranteed payment in case of a loss, like a contractual payment obligation) from the entity and/or the other parties? What steps will the parties and/or the business take to manage unnecessary risk? For example, will the business be required to carry certain insurance policies, such as "directors and officers" or "errors and omissions" insurance?

Liquidation or dissolution. When will the entity be placed into liquidation or required to dissolve? What happens?

Financial information and other reports. What information must the business provide to its equityholders? Will financial statements need to be prepared and distributed quarterly? Will they be reviewed or audited beforehand by an accountant?

Conflicts of interest, exclusivity, and business opportunities. Will parties with conflicts of interest be disqualified from participating in decisions involving the subject matter of their conflict? Under what circumstances may a party engage in competitive activities outside of the business? Will parties be subject to restrictions that continue after ceasing to be associated with the business (such as noncompetition or nonsolicitation obligations)?

Tax matters. Who will be responsible for filing tax returns (and other important government filings)? Have you consulted with a tax attorney or other tax expert as to important tax (and accounting) considerations?

❖ Observation Card 11:
Paperwork and Ground Rules:
Employees

Contributed by Alexei J. Cowett

Note: The information on this card, and in the rest of the kit, does not constitute legal advice.

People are your company's most important assets. They also can be one of its biggest liabilities, if not selected and managed well. Some rules of the road:

Hiring. Job candidates can't be denied employment (and can't be terminated or denied promotion) on the basis of race, sex, national origin, and other protected criteria (which in some jurisdictions may include such things as physical appearance and sexual orientation). Interview skills training for you or your staff to learn what to watch out for and questions to avoid is critical. Verify candidates' information (including credit checks and investigative reports, where appropriate and legally permissible) and check references.

Immigration issues. Federal law requires you to confirm that all prospective employees are U.S. citizens, nationals, or permanent residents, or otherwise have work eligibility, and to document and retain proof of eligibility on Form I-9. Employment-based visas are available for foreign nationals, but processing times can be lengthy and you may need an attorney versed in immigration law.

Terms of employment. In many states, employment is "at will," meaning that the employee can be fired with or without cause. But that's not the end of the story. If employment isn't at will (either because of applicable law or negotiated outcome), you should document the circumstances that led to termination. For all employees, you should specify key employment issues in an offer letter or employment agreement, such as compensation, benefits, and responsibilities. Create an employee handbook that details employment policies, such as monitoring of employee e-mails and computers, discipline procedures, policies regarding improper workplace conduct (such as unwanted sexual advances or harassment), and sick leave and vacation policies.

Special employment considerations. Will employees be developing intellectual property or be privy to sensitive business information? Are you concerned that employees might go into competition with you and solicit away clients or fellow employees? If so, you should consider special confidentiality, noncompetition, and/or nonsolicitation agreements. You should review these issues with an attorney.

Equity compensation. Are you considering stock options or other equity arrangements for employees? Consult with a knowledgeable lawyer to help you understand the issues and document the arrangements carefully.

Overseas workers. Employees working overseas may be entitled to special benefits and job guarantees not common in the United States. Consult with local experts who understand the issues.

Workplace Issues

Performance reviews. Set up regular performance reviews, with appropriate performance criteria. Keep them in the employee's file. Employees deserve feedback, to know when they're doing a great job and when they're in need of additional skills, etc.

Discipline/termination. Document discipline issues, so that when you need to issue a letter of reprimand, terminate an employee, or mete out other discipline, you have a record to support the action. Docking an employee's pay, for example, can raise issues under the Fair Labor Standards Act. Work with an attorney to ensure that terminated employees execute releases to help protect against future liabilities.

Sexual harassment, racial discrimination, and other problems. Make sure you have clear complaint procedures, especially for workplace harassment (sexual or otherwise) and discrimination (age, disability, racial, or otherwise) issues—even if you think you won't need them. Also consider training to familiarize employees with the issues and the ramifications for noncompliance. Of course, know when to bring in an attorney.

Corporate authorization, etc. Make sure that you and your employees know who is authorized to sign agreements or enter into binding arrangements, whether with third parties or employees. Limit access to bank accounts and checks. Keep confidential records secure.

Employment taxes. Make sure you are properly deducting for Social Security, Medicare, unemployment, and other required taxes. Shareholders, officers, and directors of companies that fail to make such deductions may face personal liability for noncompliance.

Overtime pay. Make sure you have clear policies regarding who is entitled to overtime pay. Know your obligations under the Fair Labor Standards Act and other applicable laws.

Family and medical leave act. Federal and other applicable laws require covered employers to grant unpaid leave to eligible employees in event of maternity leave or another "serious health condition" as defined under applicable law.

❖ Observation Card 13:

Paperwork and Ground Rules:

Confidentiality

Entrepreneurs generally fall into one of two camps: They are either too carefree about distributing confidential information on their business, whether to prospective financing providers, clients, employees, or friends and family, or they are too uptight about revealing any confidential information, which hampers their ability to do business effectively. The key, as with everything, is to strike a balance: Take the steps to protect information that is truly confidential and recognize and freely distribute the information that is not. Here are some general guidelines as you think through confidentiality and your business.

Not everything is confidential. Focus in on the stuff that would really be a problem if it got into the wrong hands. While information like how many employees you have, what your revenues were last year, how much your full product suite costs, or whom you see as your primary competition might *seem* confidential to you, be realistic about how easy it would be for others to get the information themselves or guess at it pretty reliably, and how much it really matters if someone else knows. On the other hand, the recipe for the secret sauce on your burgers, or the name of that big client you're pitching—*that* stuff is confidential and could be used against you by the competition.

Beware of paranoia. Many entrepreneurs are obsessed with someone *copying* their idea. In reality, your concern around confidentiality should be much more oriented toward your existing competition and the current threat they pose than toward other would-be competitors entering the fray. Entrepreneurs are often paranoid that someone will get hold of their business plan and launch a competing company. Although you occasionally hear about this sort of thing, I have yet actually to witness it happen. For a person to successfully seize someone else's business plan, he or she would have to be ready to make the entrepreneurial leap, have a passion for the product or service in question, see the business logic to the proposition, raise the necessary resources, and execute on the plan itself. Rare indeed. It's not that there is no risk to this happening, but don't let reasonable caution become paranoia and inhibit you from sharing your ideas with others and benefiting from their feedback and contacts.

Precautionary measures. Once you have decided what is truly confidential in your business—product specifications, customer lists, supplier information, or other information—take reasonable steps to protect you and your business. In general, be careful about distributing confidential information by e-mail. It is much easier for information to become disseminated electronically. For truly innovative concepts, designs, and products, you should go through a patent or trademark process (see Observation Card 7 for a further discussion).

❖ Observation Card 14:

Paperwork and Ground Rules:

Confidentiality (continued)

With respect to materials like your business plan or other documents, you should have recipients sign a confidentiality, or nondisclosure, agreement. This is a short document that legally binds people to keep confidential the information they are receiving and often requires them to return it to you when they are done reviewing it. Some confidentiality agreements have "teeth" to them, exacting serious monetary damages from the person who signs it and then ignores its requirements. Consult your lawyer to get a basic confidentiality agreement together, or go to www.ilrg.com for more information. Finally, if you are truly concerned about a particular piece of information, you may require it to be reviewed only in your presence. This is a dramatic, and rarely necessary, step.

Segmentation. If you have particular information that is highly confidential, consider separating it from the bulk of your business plan, slide show, or teaser (see Observation Cards 31 and 32 on raising money: financing materials for more information on these documents) so as not to hamper the fund-raising process or your communication with potential employees, partners, or suppliers. You can always refer to this particular information in the more general document and allow someone to see it if he or she signs a confidentiality agreement. This segmentation of confidential information can be particularly useful when dealing with prospective lenders or investors, since often these parties do not want to sign a confidentiality agreement and still want to see the "main" documents on your business.

Remember, while there is the occasional start-up business that is truly predicated on a new invention or market-altering concept, the vast majority of successful entrepreneurs are focused on better *execution* of old or slightly modified ideas. Even where a truly innovative approach is used (Michael Dell deciding to sell customized computers over the phone, for example), success has much more to do with your ability to execute that idea than on keeping someone else from finding out what you're up to. Be careful with your business's information, but don't become obsessed with confidentiality to the detriment of open and productive dialogue with people who can help you succeed.

❖ Observation Card 15:

Paperwork and Ground Rules:

Avoiding Personal Liability

Entrepreneurs frequently get in trouble by assuming personal liability in the course of doing business. While you can never completely avoid personal liability—particularly in the case of fraud, or being derelict in performing the fiduciary duty of an officer or director of a company (see Observation Cards 41–44)—there are ways you can protect yourself.

Type of corporate entity. In the event of unpaid debts or lawsuits against a sole proprietorship or partnership, the directors and officers (i.e., a founder/entrepreneur) can be personally liable. Generally speaking, no personal liability flows through to officers and directors of corporations or limited liability companies (LLCs). Although these corporate forms can cost more to establish and run, avoiding potential personal liability is a good reason to use them (also see Observation Card 5).

Assumption of obligations. In general, you should purchase and lease all assets and incur all liabilities in your *company's* name instead of your own. If a contract or form is addressed to an individual, you should always correct it to reflect the name of the company.

Signatures. You should sign all documents in a representative capacity (by including your corporate title beneath your signature), as opposed to yourself as an individual.

Personal guarantees. As an entrepreneur, you will often be asked to make personal "guarantees"—that is, commit to pay an obligation if the company ultimately cannot pay it. Most "business" credit cards, for example, actually require the individual submitting the credit application to assume personal liability as the "guarantor." As a general rule, avoid personal guarantees. You may have to assume personal risk at times (because you have no other way of getting a loan or an office space, for example), but do so only if absolutely necessary and make sure you understand clearly the possible magnitude of the risk. This is especially important where you assume risk that's not completely within your control (by personally guaranteeing business credit cards, for example, that others will use).

Taxes. As a general rule, you should always stay current with (and account for on a forward basis) all your corporate tax payments. However, if you are an officer or director, you *must always* make sure that your company properly withholds and pays federal income tax and state sales tax. As a fiduciary, you may be liable for these taxes (called "trust fund" liabilities) as a "responsible person."

Employee wages. Similarly, always stay current on wages (including standard severance payments, if an employee is fired or laid off), since the fiduciaries and/or the largest shareholders of a non–public company may have personal liability.

❖ Observation Card 16:

Outside Professional Service Providers:

How to Pick the Right Lawyer

Contributed by Arnie Herz

Clients expect their lawyers to handle matters with proficiency and professionalism. It is widely reported, however, that many lawyers fall way short of meeting their clients' expectations. The gap between what clients want and what lawyers routinely provide derives in large part from a fundamental breakdown in communication. Clients are not always adept at explaining what they need, and lawyers often lack the ability or inclination to fill in the blanks.

To help bridge this gap, it's vital for you as a legal consumer to be proactive and empowered in choosing your legal adviser. Be clear and honest about your hopes and expectations in terms of the outcome you desire and the service you expect. Also, be realistic. There are always limits on what you can attain in any legal situation, and protracted representation can be costly. You have to be willing to strike a balance when necessary.

The following is a basic checklist of what you, as an entrepreneur, should look for in a lawyer. Don't settle for less than you deserve and keep shopping around until you find someone who:

- ✓ Demonstrates expertise in the relevant area of law is skillful in moving through impasses, and is supported by checkable references
- ✓ Takes a real interest in your business and the issues you bring to the table, addresses issues you did not consider, and commits to working diligently on all fronts
- ✓ Candidly addresses the likelihood of achieving the desired outcome, the risks of failure, the anticipated time to bring the matter to resolution, the anticipated costs, and billing and payment terms
- ✓ Listens carefully, cuts to the heart of the matter, helps clarify—rather than confuse—your goals, and outlines an efficient and intelligent strategy that works for you
- ✓ Is respectful, patient, and understands and skillfully addresses any anxiety you feel around the situation
- ✓ Is from outside the family. I don't care if he or she is dean of Harvard Law School, your lawyer should *not* be your brother-in-law, best friend, college roommate, or—worst of all—your spouse

Almost every midsize city in the United States has a small community of lawyers who focus on, and enjoy, working with entrepreneurs and start-up enterprises. Seek out these types of lawyers. For further help in identifying the right lawyer for you, try www.lawyers.com.

❖ Observation Card 17:

Outside Professional Service Providers:

How to Pick the Right Accountant

Picking an accountant is not exactly the first thing that goes through most entrepreneurs' head. But perhaps it should be. How you manage your accounting can be a critical ingredient of success—or failure. Here are some rules of thumb.

Avoid inertia. Although it does make things smoother if you continue working with an accountant you've previously used, don't be driven by laziness or inertia. Sticking with your old personal accountant as you start your own business makes sense only if he or she has the right credentials for the corporate work as well.

Consider one-stop shopping. As a small businessperson, you will generally find it easier to have one accountant or accounting firm to manage your personal and corporate tax returns. If you are not a principal owner in your business, or your business has grown beyond the start-up or classic small-business stage (say, more than twenty-five employees), it may be wise to separate the accounting functions.

Interview alternatives. Take the time to meet with different people. Even if you feel comfortable with someone right away, force yourself to meet one or two other candidates. The process will give you benchmarks for performance and pricing, and may elicit questions you wouldn't otherwise have asked.

Ask for and check references. Do it. And make sure to check references that are relevant to your situation: small businesses, combined personal/professional accounting assignments—whatever entity resembles your own.

Be practical. Don't hire an accountant who lives 1,000 miles away. Although we live in a digital age, there are times when you will need to go over documents together and when your accountant will need to come by your place of work. Make sure that things like vacation schedules, work hours, and modes of communication (phone, e-mail, fax) are compatible.

Find a disciplinarian. As an entrepreneur, you have a thousand different things to do at any given moment. Find someone who is going to keep you in line and force you to take the right steps throughout the year.

Plan for change. Switching accountants involves extra work and can be disruptive down the road. That's why it's best to plan ahead and make sure you go with someone who can grow with your business. Pick one who can handle changes in your business and increased complexity in your accounting.

Follow your gut. Just because accounting involves numbers and requires precision does not mean you should abandon your gut feel when choosing the right accountant. To the contrary: You must have complete trust in your accountant.

❖ Observation Card 18:
Goal Setting:
Operational and Personal

I've referred to the "entrepreneurial disconnect"—the incongruity between dreaming big dreams and scaling large obstacles while failing to set basic milestones and concrete goals in the short and medium term. This disconnect is quite common. Here are some tips and techniques for setting and achieving your goals.

Types of Goals

Numbers driven. This is the most common way of delineating objectives in business. Concrete numerical objectives can be used to set your mind toward other, less strictly profit/loss-oriented matters as well: a number of employees you need to hire or even the number of times per week you are committing going to the gym. Numbers-driven goals have the great benefit of simplicity and clarity; they can be easily connected to a cutoff date, and judging whether a goal has been met or not simply requires looking at a spreadsheet.

Relationship driven. A focus on building and nourishing relationships is never as simple as numerical objectives, but it can be more effective. Take, for example, the salesperson you want to motivate. You can either set a strictly numerical goal (how many widgets she sells by the end of the quarter), or a relationship-driven goal (how happy her clients and the company warehouse folks are with her). Well, your sales rep might reach her sales target in the case of the numerical objective, but do so at the cost of burning her client relationships, selling items below cost, or encouraging specific timing of orders. The relationship-driven goal, on the other hand, encourages her to be attentive to her clients, while satisfying the home office. In the end, as with all of the types of goals discussed here, a combination—numerical and relationship driven—is the most effective approach.

Quality-driven. Another type of business goal involves the quest for quality. Here, you might decide to push your product development team to produce the highest-quality widget possible, while ignoring—for the moment—how many products they can profitably produce, or the time-to-market for such products. Quality-driven goals tend to be well suited for research and development activities, as well as project management or client fulfillment in services organizations. Coupled with relationship-driven goals, quality-driven goals can be a very effective way to focus client fulfillment teams.

Feeling driven. The most enigmatic type of goal, yet it is incredibly important over the long haul. You need to maintain a focus on goals that are more difficult to measure but ultimately serve to keep organizations healthy over the long term: Is your team motivated and happy to come into work every day? Are you taking enough

❖ Observation Card 19:
Goal Setting:
Operational and Personal (continued)

breaks, and spending quality time with family? These questions determine the success of an entrepreneurial enterprise as much as number-, relationship-, and quality-oriented objectives do. Strive for the team to be relaxed. Set a goal that your suppliers should feel motivated to do business with you.

Implementation Methods

Reward/punishment. By far the most common method encouraging goal-oriented achievement. The key to using this incentive system is understanding that people are driven by more than just money and must have other objectives to be successful, and making the rewards and punishments very clear and easy to defend in the event of a dispute. As with relationship-or quality-driven goals, be sure ahead of time that you have clearly articulated the basis for rewards and consequences of non-performance.

Ownership. This is where you give an employee responsibility, or "ownership," for a certain task or relationship, and all goals related to this area become assigned to and even *developed* by that person. Instead of objectives that are handed down from up above, or rewards and punishments preassigned to sales targets, the person with ownership over a certain area sets his or her own goals and targets. Goals are reached via that person's pride of authorship, feeling of responsibility, and commitment to success.

Constant monitoring. Here, the entrepreneur acts like one of those baby crib monitors: on all the time. The entrepreneur is constantly looking over the shoulders of everyone on the team, making sure everything gets done as expected. Constant monitoring can be effective in a small organization, or in certain stages of development (product development, or a first client assignment), but it is not a very scalable model to organizations bigger than a few people, and it tends to disempower and frustrate employees.

"Geronimo!" I also call this the "hero's approach." Entrepreneurs tend to fall back on it—the charge up the hill to achieve a daunting task, the rallying cry used to motivate the team (or yourself). It is a very personal style of leadership and goal orientation, in which the mantle of responsibility falls squarely on the shoulders of the entrepreneur, and everybody rallies around to achieve a near-impossible end, even on the border of exhaustion or running out of money. While the "Geronimo!" approach is needed from time to time in every budding business, entrepreneurs can get into a dangerous habit of using it too often. It can be exhausting, and rarely provides of detailed prioritization of goals that people need to feel empowered and motivated over time.

❖ Observation Card 20:
Financial Budgeting and Planning

This is one of the most daunting activities for many of us, especially since others (shareholders, lenders, customers, employees, family, and friends) tend to *expect* us to be good at it! The best way to approach financial budgeting and planning is to break it down into manageable steps.

Figure out today's reality before planning tomorrow's. List all the revenue sources for your business today, broken out by whatever category makes sense in your particular case: customer, product segment, individual store/location, geographical area, even individual salesperson. Now do the same for each cost in your business today, again down to whatever level of detail makes sense to you: You can list "utilities" costs (pretty general), "communications" only (more specific), or "long-distance phone calls" (most specific). When doing this exercise for the first time, don't focus on the actual dollar amounts attached to each item; just get all of the actual revenue and cost *sources* down on paper. Don't forget nonoperational cost items, like interest payments on a debt, or legal costs for doing a trademark application. Give yourself sufficient time to do this whole exercise (at least a few hours), so you can go over your records, verify information with other people if you need to, and take small breaks. I even suggest that you take a break of at least a day after first doing this exercise, to give you perspective and help you identify any missing line items. Once you have captured all of the categories for revenues and costs in your business today, pick a time frame (three to four months at least) and begin to assign dollar figures to these line items, using a monthly time period as your benchmark. This may be pretty easy for you if you're using an accounting program like QuickBooks.

Institute a system. Keeping good financial records is a bit like washing the dishes: It gets overwhelming only if you let it pile up. Once you have gained a handle on the revenues and costs for your business *today* (maybe just costs, if you're in start-up phase), implement a system to keep the information refreshed. Accounting programs made by Quicken and others, or even basic written ledger systems you can buy in your local office supplies store, are perfectly sufficient to keep track of your cash inflows and outflows, as is a Microsoft Excel spreadsheet. Your accounting system should be kept up to date daily or weekly (especially for retail or high-transaction flow businesses), or at the very least monthly. As an entrepreneur, it's imperative that you understand your accounting system (whatever it is), even if you are not the one who is inputting the data day in and day out. Learning a basic accounting system for your business may be like learning a new language to you, but it is an essential discipline.

❖ Observation Card 21: Financial Budgeting and Planning (continued)

Force yourself to plan. The first step to successful financial budgeting is understanding what you're making and spending today. Once you have a handle on these inflows and outflows, and you have implemented an accounting system that is updated at least once a month, you must force yourself to plan ahead. Start by going through each and every line item (both revenues and costs) and assigning estimated dollar amounts to them, month by month, for a year in the future. You will find that certain line items will change (as you sell more products per day, for example, or hire another delivery person), and other line items will need to be added (as you introduce a new service next February, or go from working at home to renting an office). Try to keep the same level of detail as your current month's budget for at least one year forward. Then, after this first year, estimate the next year's revenues and costs using a longer time frame (quarterly, or every three months, is ideal). Finally, try to estimate revenues and costs in the same manner for years three and four (and five, if possible) in your budget, with annual sums next to each line item. (See Business Plan Cards 15–16 for sample five-year cash flow projections, to help you get on the right track. Of course, your line items should be more detailed than on this sample.)

Develop a balance sheet. You should now have a cash flow based budgetary plan. This basically means you looked at the cash inflows and outflows over each time period (month, quarter, or year). Your accountant can more fully explain the difference between cash flow and *income statement* projections, but essentially cash flow statements reflect when cash goes in and out of a business, whereas income (or profit and loss) statements reflect when revenues and costs are *booked* by a business from an accounting perspective. For monitoring and running your business day-to-day, cash flow planning is more important. Balance sheet planning is important too. Your balance sheet is essentially a listing of your company's assets (cash in the bank, machinery and equipment, inventory, intellectual property, and so forth). You must have a clear handle on your balance sheet, both today and at different intervals in the future. Your future balance sheets will depend, of course, on the assets and liabilities you accumulate as part of your cash flow planning.

To help get you on the right track, see Business Plan Cards 15–16 for sample one-year operating budget, balance sheet, cash flow statement, and profit/loss statement for a small business. You can also visit the Heart of Entrepreneurship Web site for online training and exercises related to financial planning and budgeting.

❖ Observation Card 22:

Raising Money:
Types of Financing

Most businesses are started using their founders' savings and credit lines (credit cards, home equity lines, mortgages, and so forth). The second most prevalent source of financing comes from family and friends, through small investments or loans. A distant third source of start-up financing is outside institutions, including local banks, the Small Business Administration, state and local government development agencies, equipment lessors, and venture capital firms. Let's start by breaking out the different types of financing in a small business.

Equity financing. This is capital invested in a business in exchange for some piece of ownership in that business. Equity financing can come from founders (as well as nonfounder partners and employees) of a business who intend to be involved in the day-to-day operations going forward, or from outside entities—individuals or institutions—who have no intention of getting particularly involved in the business in which they are investing (although often they may join a board of directors or function as a formal or informal adviser to the business going forward). An equity capital investment may be large enough to justify a "control stake" investment in a business (more than 50 percent ownership of the company), or may be made as a "minority investment," meaning something less than 50 percent of the business. Sources of equity capital include:

- ✓ Personal savings and personal debt (credit cards et al.)
- ✓ Retained earnings (excess profits generated by the business over time and reinvested in the business)
- ✓ Friends and family members
- ✓ Government sources
- ✓ Angel investors (individuals—usually seasoned professionals—who invest directly in small businesses)
- ✓ Venture capital firms
- ✓ Going public (selling shares to the public by listing on a stock exchange)

❖ Observation Card 23:
Raising Money:
Types of Financing (continued)

<u>Debt financing.</u> Debt capital does not entitle the lender to any ownership in the company borrowing the money. Debt capital comes in many different forms, including everything from short-term bank and government loans to credit card expenditures and photocopier leases. Debt financing can either be collateralized, meaning that if the principal and interest payments are not made, the lender has the right to seize certain property secured by the loan (a car, a piece of office equipment, or even shares of ownership in the borrowing company), or "noncollateralized." Furthermore, certain types of debt financing entered into by small businesses are guaranteed (usually by the owner of the business, but sometimes by another company), meaning that the lender has the right to go after the guaranteeing party for payment of the loan if the company misses its payments. Common types of debt financing for small businesses include the following, all of which include personal guarantees at times.

✓ *Lines of credit.* Helps cover day-to-day expenses, particularly at lean times during the business cycle (midmonth, for example, when payroll might be due, but client payments don't come in until the end of the month). Also known as an "operating loan" or a "working capital line," a line of credit is like having a large overdraft capability on your business checking account, and it is constantly being drawn down and replenished with each outgoing check and incoming payment. As with the other credit facilities below, they are often secured by assets, receivables, inventory, and other means. Lines of credit are most often extended by a company's regular bank (where the company's checking account is kept and cash is deposited), amounts vary and interest rates can be more reasonable than credit cards.

✓ *Receivables line (aka "factoring line").* A specific form of the line of credit above, where interest rates are typically higher, and financing is specifically made against receivables. Factoring lines are typically a last-resort financing alternative, where cheaper credit can't be gotten, and a company needs to get cash somehow before client invoices are actually paid.

✓ *Demand/short-term bank loan.* Usually thirty days to two years in length, with a floating interest rate. These loans are usually extended based on an existing banking relationship (checking or cash deposits) and rely on a company's past operating history.

✓ *Term loan.* Can be anywhere from two years to ten years or more and is usually extended by a bank with the intention of financing a particular initiative, like buying new equipment, expanding geographic reach, or launching a new product line. Term loans are often collateralized against certain assets, or even against the company's shares as a whole.

❖ Observation Card 24:

Raising Money:

Types of Financing (continued)

- ✓ *Vendor financing*. In this case, a supplier of the company provides financing directly, often to allow for purchase and payment of its own goods. Sometimes vendor financing comes in the form of pay-me-later-type deals when supplies are delivered, instead of actual formal loan agreements. In almost all cases, however, these loans are secured by the equipment or inventory that's been purchased with the proceeds of the loan.

- ✓ *Leasing*. Similar to vendor financing, in that the supplier, knowing that a borrower cannot afford to buy outright, sets up a leasing arrangement. Lease financing can also be provided by third-party entities, like GE Capital.

- ✓ *Government-sponsored and -provided loans*. These vary dramatically from state to state and municipality to municipality. Usually the interest rates are lower than market, but they can be difficult to qualify for.

- ✓ *Letter of credit*. When a business needs to have capital available but doesn't actually have to use that capital right away (in the case of a security deposit on an office space, for example, a letter of credit is a good alternative. The provider of the letter of credit is effectively promising to deliver the money in question, if needed, under certain terms and conditions. If it's never needed, fees and even a low interest rate are still charged.

Hybrid financing. This is somewhere between debt and equity financing, including elements of a loan as well as elements of investment (and ownership) in a company. Types of hybrid financing include:

- ✓ *Debt with warrants.* "Warrants" are rights that allow the lender to purchase equity at some later date, usually at a steeply discounted price. Rarely does the total value of the equity attached to a loan (purchasable through warrants) exceed 10 percent of the total value of the loan.
- ✓ *Convertible debt.* In this case, a lender can convert debt into equity ownership, usually at a preagreed price and within a preagreed time frame. Often interest payments are accrued (accumulate in value instead of being paid month to month) until conversion takes place. The conversion event can be at the election of the lender, the borrower, or both, depending on the terms of conversion.
- ✓ *Preferred stock.* Often, private companies get venture capital financing in the form of preferred stock or convertible preferred stock. This is similar to an equity investment, except that the stock has special rights and privileges, including things like the right to get paid first in the event that the company is sold, the right to approve other equity investments or debts taken on by the company down the road, and even a "preferred dividend," which is very similar to a fixed interest rate on a loan.

❖ Observation Card 25:

Raising Money:

Debt vs. Equity?

Nearly every entrepreneur eventually faces the question of how to bring outside capital into the business—whether to get things off the ground or to finance an expansion ten years into the business's development. There is no right answer, but there are different scenarios in which it makes sense in general to use particular types of financing. Here are a few tips from the experts.

<u>Short term vs. long term.</u> Although there are exceptions to the rule, in general, the shorter term the cash need, the more likely debt financing is an appropriate solution. Equity capital invested in private businesses is considered more "patient" than debt capital—that is, the investor is willing to park his or her money in the business for years, expecting to get paid back only when the business is sold someday, goes public, or matures enough to begin paying dividends to its stockholders. As a result, equity investors tend also to be more flexible along the way, understanding if the direction of the business changes over time, so long as a long-term strategy can be articulated that will build value eventually. Lenders, on the other hand, look very closely at near-term cash flow dynamics in a business, and even the longest-term providers of debt capital for small businesses (banks or government loan officers providing five- to seven-year term loans) get very nervous if the business makes significant changes in products, clientele, market penetration strategy, etc. Lenders like to see

stability and predictability; equity investors like to see growth. If you want to get start-up financing, and your business is still in the form of a business plan, you are almost certain to be better off with equity capital (not to mention that nobody is likely to lend to you at that stage!), because you need "patient" money. If, however, you just signed on a big new customer, and you need some working capital to tide you over until they pay their first invoice, a working capital line of credit (debt capital) is probably the best way to go.

Cost of financing. Economists say that equity capital is much more "expensive" than debt capital. How can this be, if with debt capital you are charged a regular interest payment, whereas with equity capital you're not obligated to pay anything to the investor on a regular basis? Well, because when you allow someone to make an equity investment in your business, you exchange ownership for money. Unless you have some sort of buyback right built into the investment contract, that ownership is gone forever. Equity capital is a good alternative when you are starting out, or your business is at such a risky and unpredictable state in its development that debt is unavailable or prohibitively expensive. Debt is a good alternative when you can get it and feel comfortable that the interest expense you are taking on can be worked into your financial projections. Typically, small businesses pay interest rates somewhere between home mortgage rates and credit card rates, depending on the type of credit facility.

❖ Observation Card 26:

Raising Money:

Debt vs. Equity? (continued)

Downside. Typically, loans to small businesses are collateralized with certain assets, including office equipment, client receivables, inventory, or anything else the business has. When there are relatively few assets to collateralize, lenders try to get personal guarantees from the entrepreneur including access to the entrepreneur's house and other tangible assets (see Observation Card 15 on avoiding personal liability for a discussion of personal guarantees). Therefore, the downside of default, or breach of payment terms, on debt capital is very significant indeed. Loans in default can result in painful expropriation of assets, seizure of a business by a lender, or bankruptcy. Straight equity capital (excluding hybrid instruments like convertible debt and preferred stock, discussed in Observation Cards 22–24), on the other hand, has no default provisions. If you mispredict your cash flows in repaying a loan, you could be at serious and immediate risk of business or personal insolvency. If you do the same after having brought in an equity investment, you may have very angry investors on your hands, but they cannot foreclose on your assets or your business as a whole. Of course, you should always discuss possible risk scenarios with investors, so they are fully aware of what could go wrong and come into the investment with eyes wide open.

For most start-up and small businesses, equity capital is a sensible solution, despite its high cost (giving up some degree of ownership). This is especially true when an equity investor (like an angel or institutional venture capital firm—see Observation Cards 27 and 28) can contribute knowledge to your enterprise and help it succeed. Debt capital is more appropriate once a business has stabilized somewhat and is generating predictable cash flow. Always keep in mind the potential downside of default on debt.

❖ Observation Card 27:

Raising Money:
Picking Investors

You've decided that equity capital is the way to go, but how do you know whom to approach for investment? There are no hard-and-fast rules, but here are some general guidelines.

Family and friends. In most businesses, this is the first stop on the money train (after the entrepreneur's own savings account has been exhausted). More than 70 percent of businesses in this country still rely exclusively on family and friends for their outside equity capital over the life of the firm. The great advantages to approaching family and friends involve speed, comfort, and probability of success. Because there is already a relationship of trust and caring in place, family and friends are more likely to fund your business without asking tough questions, and they are more likely to act quickly. Entrepreneurs tend to underestimate the disadvantages of this approach, however. Unlike professional angel investors and venture capital firms, family and friends (not to mention the entrepreneurs themselves) are rarely psychologically prepared for the downside of investing in high-risk equity for a small or start-up business. People can end up feeling used or lied to, even when neither of these is the case. In many cases, family or friends want to help so much that they invest more money in the business than they can afford to lose. Relationships can become severely strained when money is put in the middle, even if the business is a success. You must weigh very carefully the costs of asking family and friends to invest in your business. Many entrepreneurs sudiously avoid this practice, although it remains the easiest way to get initial funding for a business. If you do bring family and friend investors into your business, make sure to go the extra mile to document the transactions in a fair and equitable way and to agree ahead of time on professional methods of communication and reporting. (See Observation Cards 8–10 for a discussion of shareholder and operating agreements.)

Angel investors. Most seasoned entrepreneurs say that this category of equity investors is ideal. Angel investors are not known ahead of time by the entrepreneur (at least not closely or in the context of being family or a friend), and they are typically professionals who are exposed in some way to the world of small business (lawyer, accountant, investment banker, or former/current entrepreneur). They tend to invest in a few small businesses at once and, understanding the risks, balance their portfolios accordingly (they allocate a certain percentage of their wealth to high-risk investing of this type and can afford to lose, so to speak). Angel investors can add quite a bit of value in the form of advice, contacts, and moral support for the entrepreneur. Although the financing documentation and the whole financing process takes a little longer with the angel investor than with family and friends, and angels' standards of professionalism are generally higher, the extra effort is usually worth it. The tough questions they ask and the extra documentation they request will push you in the right ways and improve your chances for success. You can often find local angel investors through your lawyer, accountant, or others in your business community; you can also reach out to local bank and Chamber of Commerce branches.

❖ Observation Card 28:

Raising Money:

Picking Investors (continued)

<u>Venture capital firms.</u> Venture capital firms are perhaps the most talked about—and most misunderstood—entities in the whole entrepreneurial food chain. Some entrepreneurs think that getting venture capital funding is a meal ticket—that the expertise and network of the venture capital firm virtually assure that their business will grow and succeed. Other entrepreneurs see only evil in the venture capital community—judging these firms to be sharks that feed on entrepreneurs' desperate need for funding, demand exorbitant terms on their invested capital, and more often than not steal the business out from under the entrepreneur. As is usually the case when dealing with extreme points of view, neither is true, though each has its elements of truth. "Venture money is the most expensive form of capital," admitted venture capitalist Catherine Marigold. Venture capital firms, which are basically pools of capital dedicated exclusively to investing in small and start-up businesses, usually seek rates of return of 60 percent or more (compared with the 8–15 percent annualized rates of return most small-business debt providers are after). Especially when you factor in the fact, as most venture capitalists do, that as many as eight of the ten businesses they invest in will ultimately fail, you can see how much they need to make on the successful investments! One way to look at this is the pessimist's view above: Venture capital firms fleece entrepreneurs in their relentless pursuit of return on their equity. The flip side, however, is closer to the truth: Because venture capital firms aim to make such high returns, they generally put an enormous amount of effort into the

companies they invest in (especially at the early stages) and develop a deep level of expertise in the dos and don'ts of small-business building. Venture capitalists make it their business to tend to a valuable network of contacts for the companies they invest in, and they can be very helpful in accessing further capital down the road, approaching new clients and markets, and generally professionalizing your business. Bringing in venture capital is a big and sometimes scary step, but it can also be the rocket fuel that gets you to the next level of your company's development.

Practically speaking, it's usually best to approach a venture capital firm in your geographical area—most are set up to invest locally, and you'll get more attention that way. Nearly every major city in North America and Europe has some sort of local venture capital association. If you can't find one near you, you can refer to one of the many Web sites devoted to the venture capital industry, such as the Venture Capital Resource Library at www.vfinance.com or the National Venture Capital Association at www.nvca.org. Most venture capital firms invest at least $500,000 to $1 million per investment (and can go up to $10 million or more in first-time investments), so it is best to approach them when you have a real need for this type of money!

❖ Observation Card 29:

Raising Money:

How and When to Seek Out Venture Capital

Contributed by Dr. Andrew L. Zacharakis

Venture capital (VC) is broadly defined as investment capital geared toward businesses that do not have ready access to secondary capital markets (stock exchanges) or institutional debt providers (banks). More narrowly, venture capitalists are organizations that invest funds on behalf of other organizations and individuals (see also Observation Card 28). The most common form is the limited partnership where a venture capitalist (also VC) raises a fund from institutional investors (endowments and corporations) and wealthy individuals. Venture capital is most commonly invested in rapid expansion and later-stage high-technology ventures. Therefore, you will be more successful in raising venture capital if you are a high technology-based company and you already have a product, have generated sales, and have the prospect for rapid growth.

When dealing with venture capitalists, you have to understand their motivations.

- ✓ They want to invest the fund as quickly as possible (usually by the fourth year). Considering that funds often manage large sums of money (some over $1 billion), VCs need to make large investments (typically over $5 million). Otherwise, the due diligence involved is too costly on a time basis.

- ✓ Since VCs often have to invest $5 million or more per venture, most funds focus on expansion or later-stage investments.
- ✓ They invest in businesses that have the potential to provide a 10 × return on their investment.
- ✓ They look for companies that strengthen their overall portfolio. VCs often like to see synergies between their portfolio companies (for example, company A is a potential customer of company B).
- ✓ They quickly screen out inappropriate investments. VCs are flooded with more business plans than they can possibly fully evaluate.
- ✓ They invest in companies that are easy to monitor, often meaning that they are geographically close. VCs will join your board after the investment and don't want to waste too much time traveling back and forth.

❖ Observation Card 30:

Raising Money:

How and When to Seek Out Venture Capital (continued)

Once you understand VC motivations, you can develop a funding strategy that targets the right VCs.

VCs demand high returns. They are looking for businesses that have a "secret sauce," a competitive advantage that isn't easily replicated or replaced. The competitive advantage can derive from your technology, your team, or the customers you have already secured. Ideally, it comes from a unique combination of all of these areas.

Screen VC funds. Identify those that invest in your industry and stage and are geographically close. A good resource for doing so is PWC Moneytree at www.pwcmoneytree.com/moneytree/index.jsp or others listed on Observation Card 28.

Network so that you can gain a warm referral. The first screen VCs often apply is whether the proposal came from someone whose judgment they trust. That means you should network to VCs through your accountant, lawyer, college professors, etc.

Work with one or two VCs at a time. Adjust your proposal based on their feedback. *Never* blindly send your proposal to multiple VCs at once. The community is fairly small and they know when a proposal is being shopped around. Furthermore, sending it around to multiple VCs simultaneously prevents you from incorporating feedback from early meetings.

The key when seeking VC is to remember that they are busy and are looking for ways quickly to say no. You need to prepare your venture so that it sticks out from the crowd. There are a number of professional services and advisory firms that can help you prepare to access the VC market. (See the Observation Resources Card at the end of this card section for some of these references. Also see Observation Cards 31 and 32 for tips on materials to prepare for the financing process in general, including approaches to VCs.)

❖ Observation Card 31:

Raising Money:
Financing Materials

When raising money, most entrepreneurs carry around with them one document: their business plan. While it's essential to have a business plan (see Chapter 4 of the Guidebook), if prepared correctly, it's too bulky to be the sole reference document in a financing process. You need to be sensitive to prospective investors' and lenders' differing levels of patience and interest in what they read. Here are recommended materials for your financing road show.

<u>The business plan.</u> Although it should not be the only document you have available for prospects, it is a must. Resist the temptation to water down your business plan, or remove certain parts of it before distributing it. Your business plan should candidly address risk factors for your business and areas of research and discovery that are not yet complete.

<u>The "slide show."</u> This is *the* primary fund-raising document for the entrepreneur. You don't have to actually use a slide show (or Microsoft PowerPoint) format, but you do need to have a flip book, at least, that gives the reader a snapshot of the major points of your business. This presentation should be approximately ten to fifteen pages, contain bullet points and graphs rather than dense text, and include these elements in the following rough order:

- ✓ Statement of purpose (1 slide/page)
- ✓ Brief background of business (when started, who started it, what has been accomplished thus far) (1 slide/page)
- ✓ Brief background of current situation and general need for financing (1 page)
- ✓ Market/industry overview (with competitive matrix in graphic form—see Business Plan Cards 3 and 4) (1–2 slides/pages)
- ✓ Team overview (including senior advisers—see Business Plan Cards 6–7) (1–2 slides/pages)
- ✓ More specific explanation of business (list of assets, product/service description, client list, competitive landscape) (1–3 slides/pages)
- ✓ Client testimonials or press clipping quotes (1–2 slides/pages)
- ✓ Terms of financing, specific uses of funds being raised (1–2 slides/pages)
- ✓ Pro forma capital structure and/or pro forma balance sheet (see Observation Cards 20 and 21 and Business Plan Cards 15–16) (1 slide/page)
- ✓ Historical financial information (if available) (1–2 slides/pages)

❖ Observation Card 32:

Raising Money:

Financing Materials (continued)

✓ Cash flow projections (by month for the next year, and then quarterly or annually for another two years at least—see Observation Cards 20 and 21 and Business Plan Cards 15–16) (1–2 pages)

The "teaser." Also called an "executive summary," this is ideally a one-page document (it can be as long as two pages but should never be longer) that gives a bird's-eye view of your project and the financing you are looking for. It should be mostly text and bullet points, plus very summarized historical financial numbers (if available, and only for businesses that have been around for a little while) and cash-flow projections—broken out by year. Your teaser is what you can generally distribute by e-mail or fax to interested investors and lenders, just to give them a quick taste of the opportunity (a "tease," so to speak). It is an efficient way to gauge people's interest that doesn't take much time or give away too much information about your business.

Marketing brochures. Financing providers like to see that your company, even at the start-up stage, professionally communicates with prospective clients. Share with them any marketing materials you have developed.

Product/service samples. If your business lends itself to giving out samples in the road show process, you should definitely do so. (Product samples are easy, but you can also give out service samples, by offering a prospective financing provider a coupon for one-time use.) There is nothing more powerful than seeing or experiencing a company's offerings directly. An alternative to giveaways (particularly for business-to-business providers) could be a videotape of other clients receiving your services or using your products.

Third-party validation. Try to gather client testimonials or press coverage of your business, either in written or video form. As much as possible, include the original form, as opposed to transcriptions.

The nondisclosure agreement. See Observation Cards 13 and 14 on confidentiality for a discussion of nondisclosure agreements.

❖ Observation Card 33:

Raising Money:

The Road Show

It is said that entrepreneurs spend more than half their time raising money. This is probably true only in the early stages of a business, but nevertheless it is a big part of the entrepreneurial experience. The fund-raising process is sometimes referred to as a "road show." Whether you are visiting friends and family, professional angel investors, venture capital firms, or even just your neighborhood bank's loan officer, here are a few tips.

Dress the part. No matter what business you are in (including creative fields, design, the arts), dress formally. A suit and tie for men and a business suit for women are always appropriate, even if the person you are meeting with is dressed more casually. People are more comfortable entrusting their money to people who look put together and who play by the rules.

Bring the goods. You should never say "I forgot it" or "I'll send it to you later" when someone asks you for your business plan, marketing brochure, financial projections, or product sample. Anticipate all the standard requests and pack your briefcase or bag with extra copies of everything you can think of (you never know when someone you're meeting with will ask for more copies, or bring a colleague to the meeting). During the meeting, put at least one of each item on the table in clear sight of everyone, in case they didn't have a chance to read something you sent ahead of time and want to leaf through it while you're talking, or they would like to take another copy with them but are embarrassed to ask. And don't forget to bring business cards. I see too many entrepreneurs go to meetings and forget their cards!

Be prepared. It's okay to say "I don't know" in answer to a tough question—and that is much better than trying to fake your way through unknown territory. People you meet with for money will respect your honesty, and it will enhance their trust in you (a critical ingredient to giving you funding). On the other hand, you must prepare for all of the *expected* questions (you must know how many people pass your storefront each day, or what you expect your earnings to be next year). Have a friend or colleague grill you hard in mock road show meetings ahead of time, so that you will be thoughtful and prepared.

It takes a team. It's a fact: People will trust you and your business more if there are corroborating voices. If you have employees or partners, you should do the road show with one of them, ideally someone who is a "yin" to your "yang" (a numbers person, for example, if you're the marketing whiz, or the salesperson extraordinaire if you're the product "scientist"). If you are a sole proprietor, try bringing someone who is intimately involved with your business (your lawyer, perhaps, or your accountant), even if yours is not his or her only project. Finally, corroborating voices can be in the form of employee testimonials (written or videotaped), supplier references, product or service awards, or other third-party validations.

❖ Observation Card 34:

Raising Money:

The Road Show (continued)

Listen. Too many entrepreneurs come into financing meetings as they were going up to a podium to give a speech. I always start by saying something like, "I have some prepared materials I'd be happy to go over with you (a slide show on my computer, for example, or a business plan), but I can also answer your questions on this more free-form, if you prefer." Remember, prospective investors/lenders are your "clients." See what they want first. Maybe they've already read your business plan if it was sent ahead of time, and they want to dive into questions right away. Listen to your audience.

Never waste a meeting. Learn from every financing meeting you have and make it a discipline to take *something* out of every single encounter along the way. You will get a vast majority of noes when you are on your road show; you will spend a lot of time with people who won't end up funding you. However, everyone has something you can benefit from—a reference to another potential funding provider, an idea for a way to approach your market, a suggested change to your financial projections. Keep an open mind and open ears. Ask for help. Studies show that people are more likely to invest in a project where they feel they can be "involved."

Have a positive attitude. One seasoned entrepreneur puts it this way when describing the key to success when raising money: "I love yes, but I like no." Sooner or later, you will realize that the real battle you have to fight when raising money for your business is not about dress code, preparedness, or even the "brilliance" of your business plan, it's about stick-to-it-iveness and maintaining a positive attitude. When you get rejected on the road show, always be gracious. Never be defensive. Thank prospective investors and lenders for their time, remind them that they have your business card and vice versa, and you'd like to stay in touch. Per the previous point, ask them for other ideas/references, if they have any. It's likely that you will meet many of these people again and again. Treat them with this understanding.

People you meet with to raise money are not usually entrepreneurs themselves and often come into road show meetings with preconceptions about entrepreneurial projects in general (that they are extremely high risk, for example, or even that entrepreneurs are "flaky"). You need to get the basics right (what you wear, mastery of anticipated questions, having a positive attitude, and so on) so you don't beat yourself. Raising money is tough enough already; give yourself every possible advantage.

❖ Observation Card 35: Focus, Focus, Focus

Contributed by Charles H. Seely

As an entrepreneur, taking risks and a relentless drive probably come naturally to you. Focus is a whole different story. You might talk about having focus, but you probably get distracted easily. Entrepreneurs are notorious for having short attention spans; no sooner have they started one project or launched a business in one neighborhood than they are looking for the next one to start, or they want to open an office in another country.

The most successful entrepreneurs, however, have managed to rein in their tendency toward distraction, develop clear goals, and cultivate laserlike focus. Granted, they may have expanded into other areas than where they started, but not until they had been indisputably successful in the first endeavor. Success requires discipline, and discipline comes through focus. Here are some focusing techniques and personal perspectives I have found helpful in my career.

> The placard. Write down your statement of purpose (see Business Plan Card 2) and share it with your team. Make sure that all your team members agree with it, and ask them to put a copy of the statement above their desk. When the temptation arises to change direction to chase the opportunity of the moment, or to expand precipitously into new markets, everybody on the team can check

to make sure that it's aligned with the statement of purpose. If it isn't, then don't succumb to the temptation. Remember, whether raising money, hiring a team, or launching a new product, you will always have distractions and temptations, and it's never easy to stay on schedule. Adding any complexity, especially early on in an entrepreneurial endeavor, dramatically reduces your chances of success.

Project "mapping." Without a proper business plan there is nothing to ensure focus. You simply won't have a realistic view of the number and types of tasks that need to be completed and the time and effort required to reach your goals. Without a good plan you are likely to push into new territories or launch new products too quickly. Chapter 4 of the Guidebook goes through all the steps for putting in place a business plan that you can use to govern the operational development of your enterprise. At a more basic level, one of the best tools for project planning is to "map" a list of tasks against an associated time line using a software tool like Microsoft Project or Microsoft Excel. When you've done your project map, or Gantt chart (as they're sometimes called), paste it up on your wall so everyone can see it. Your project map should be complete and accurately reflect the execution section of your business plan (see Business Plan Cards 8–10). You should review it daily or weekly, so you can constantly monitor progress. If you want to introduce a new product, a new person, or a new territory of coverage, you will be forced to go through the discipline of absorbing it in your project map. In addition to the statement of purpose test mentioned above, integration into your project map will function as a good barrier against loss of focus.

Persistence. Persistence is focus's stalwart companion. You must refuse to give up on a plan or an idea until you are absolutely sure that you have exhausted all possibilities for achieving it. Your persistence must be supported by your willingness to fail. Every successful entrepreneur was persistently focused in the face of the probability—indeed, the likelihood—of failure. Think of James Dyson, of the eponymous bagless Dyson vacuum cleaners. First he spent five years developing his vacuum, building 5,127 prototypes (yes, that's correct). Then he spent two years looking for someone to license the product. The multinationals were reluctant to invest in the Dyson, as his success would mean the end of the bag replacement market, worth £100 million a year in the UK alone. But Dyson finally got his license and has now sold close to $5 billion of vacuum cleaners in the last eight years—more than Hoover. James Dyson was persistent and stayed focused on his original goal.

Staying balanced. When embarking on your new venture, remember that it's going to take time to succeed. Passion and hard work are necessary, but if you are going to last the course, you must maintain balance in your life. You can't be focused if you wear yourself out in the first five miles. No one can work eighteen-hour days forever. The lesson isn't to work from dawn to dusk. The key is to pace yourself. Stay healthy, take the occasional break, and you will be far more productive.

Keeping the fire hot. Nurture the fire/motivation that will get you through your darkest hours. I find a valuable exercise is to write out a list of things that stoke your inner fire of motivation. These "stokers" might involve your socioeconomic background, being bullied at school, or even a teacher or parent telling you that you would never succeed. Put that sheet of paper somewhere where you can see it but where you can keep it private. These "stokers" will give you a kick when times are tough.

❖ Observation Card 37: Mergers and Acquisitions

Mergers and acquisitions (M&A) is a widely reported category in the financial and trade press. Every morning newspaper's business section carries a story or two on the deal of the day or the week. Most entrepreneurs pay little attention to this constant flow of deal information (rightly so) until the day they get involved in an M&A discussion themselves. Then, all of a sudden, it all feels highly relevant: the terms of the merger, the timing until "closing," the "due diligence" process, the posttransaction "synergies," and so on. Although not all of these issues are relevant to the average entrepreneur going through his or her first merger transaction, it's good to know what you're dealing with and become as educated as possible on the process. (There is a myth out there that M&A deals are more complex the larger the companies involved. In reality, small and midsize companies have complicated ownership structures, financing arrangements, employment set-ups, and other issues that make M&A quite a sophisticated area of practice.) What follows are the major elements of an M&A transaction, where the "buyer" is the company making the acquisition, and the "seller" is the company being acquired.

Overture. Every relationship starts with someone making the first move. Just as in interpersonal dynamics, one party in an M&A transaction is usually the more "aggressive" one, although it isn't necessarily the buyer. Sellers often reach out proactively to buyers, once they've decided it's time to sell. Overtures for an M&A deal are often made through a business broker, otherwise known as an investment banker, a professional who is versed in the structural and strategic considerations involved in M&A transactions and works on behalf of either a buyer or a seller as an agent. If you are considering an M&A transaction, even if you are approached by the other party in the deal, I encourage you to hire an investment banker.

<u>Initial negotiations.</u> This is when the two sides of the transaction, often through their investment bankers, negotiate the basic terms of the deal. The elements of these negotiations tend to revolve around the following major issues:

- ✓ Total price being paid over time
- ✓ Portion of payment being made in cash today; portion being made in cash over time, depending on the ongoing performance of company; and portion being made in stock or other instruments
- ✓ Ongoing role of seller's management in the combined entity
- ✓ Ongoing involvement of employees, customers, and suppliers in combined entity
- ✓ The treatment of nonshareholder financial parties, like lenders, lessors, etc.
- ✓ Timing anticipated to get a deal closed

❖ Observation Card 38:

Mergers and Acquisitions (continued)

✓ Who is covering the associated costs (for investment banker, legal counsel, and accountants' review) of the deal, especially in the event that the deal falls apart

Term sheet. This document sets out the basic terms of the deal that has been negotiated. Some term sheets are extremely simple (a couple of pages essentially representing that the two parties are trying to get to a roughly specified deal, even if no numbers are mentioned); others are very involved documents and represent serious financial and legal obligations assumed by the signing parties, even involving large "breakup fees" if either party walks away from the table in a certain specified period of time. Usually, term sheets are binding for a period of anywhere from thirty days to six months, while the parties come to what is commonly referred to as the "definitive agreement."

Due diligence. Once a term sheet is drafted and agreed on, and a time frame is agreed on during which the deal will be completed, a period of "due diligence" begins. Here, both parties (but mostly the buying party with reference to the selling party) get to learn as much as possible about each other. Areas of focus in due diligence include:

- ✓ Historical financial results
- ✓ Appraisal of all inventory, machinery, and equipment
- ✓ Analysis of the amount and quality of accounts receivable
- ✓ Assessment of a company's debts, both to current vendors and financial lenders
- ✓ Evaluation of all material contracts a company is party to, including lease agreements, employment contracts, sales contracts, coselling agreements, and all partnership-related documentation
- ✓ Incorporation documents, including shareholders' agreements, bylaws, stock option plans, etc.
- ✓ Intellectual property filings (patents, trademarks, et al.)
- ✓ Financial projections and all assumptions that go into such projections
- ✓ Intensive review of all personnel, particularly executive personnel
- ✓ Analysis of customer relationships, including existing sales "pipeline"
- ✓ Review of all stores or remote locations
- ✓ Review of production process, quality control, and customer service
- ✓ And much more . . .

❖ Observation Card 39: Mergers and Acquisitions (continued)

Definitive agreement drafting. Once due diligence has been completed (actually, often while due diligence is being completed), the seller and the buyer begin to work on the final contract ("definitive agreement") that will govern the transaction. This is where more detailed deal structuring issues get addressed (for example, whether an acquisition is going to be done as a "stock" deal or "asset purchase"). It is also when lawyers typically get more involved. Even though a term sheet is usually in place prior to negotiating a definitive agreement, it is inevitable that as the parties go about negotiating it, certain terms of the deal will change and get renegotiated.

Closing. Once the parties have reached agreement, there is a date and time assigned for them to get together and sign all the necessary paperwork, usually in the presence of their respective attorneys. Sometimes a final deal requires the signature of a number of other folks as well (landlords, business partners, other shareholders, lenders), or what are sometimes known as "consents."

Announcements. The buyer and seller usually coordinate communication with the press, employees, customers, etc.

Postclosing responsibilities. In even the best deals, issues arise after the fact. Usually, the definitive agreement allows for (and encourages) the seller to remain involved in the business going forward, at least for some period of time. Postdeal coordination is critical, both in order to make sure that loose ends get tied up and, more important, to make sure that the original reason for doing the deal (to realize synergies in cost structures, combine client lists, take advantage of shared management, improve competitive positioning, etc.) is actually achieved.

If you find yourself facing one of the following business situations, it might be appropriate to look at a sale of your business, or a merger with a competitor.

- ✓ *Retirement.* Moving on from your business and need to find a buyer.
- ✓ *Life-phase transition.* Want to spend your time in other areas; perhaps burned out from current project.
- ✓ *Generational handoff.* A business changing hands from parent to child, but some sort of buyout or financing is required to make the transition work.
- ✓ *Internal (management) buyout.* Someone from within your executive team would like to buy you out and run the business himself or herself.
- ✓ *Investor-driven sale.* A controlling, or large, investor in your business is forcing you to sell.

❖ Observation Card 40: Mergers and Acquisitions (continued)

✓ *Debt repayment.* You must find a buyer to deal with significant debts that you or the business have accumulated.

✓ *Supply chain changes.* The costs of production have gone up, or your sales channels have fundamentally changed, and you see no way out but out, so to speak.

✓ *Competitive landscape change.* When the nature of your customer demographics or behavior has changed, or when major new competitors have entered the fray.

✓ *Competitive combination.* Instead of a negative change in your competitive prospects, you may be able to take advantage of an opening of a new market or the weakness of a competitor.

✓ *Absorption by supplier or customer.* As a market evolves, often companies that are adjacent on the supply chain (selling to one another) decide to extend their reach and combine businesses.

✓ *Offer you can't refuse.* Sometimes, even when you're not planning on or even thinking about selling your company, someone gives you an offer you can't turn down.

No matter how detailed, a quick summary such as this is never going to educate you sufficiently on the M&A business. If you find yourself facing one of the circumstances above, or would even like to consider acquiring another company (as opposed to selling your own), I encourage you to reach out to a professional services firm or individual consultant with expertise in M&A transactions. You can refer to the Observation Resource Card in your kit for recommendations on appropriate resources. You can also get more help through my firm, Recognition Group, by writing to us at info@recognitiongroup.com.

❖ Observation Card 41:
Handing Off the Baton:
Outside Management and Boards

There are a number of other places in this kit where the issues of business leadership transition and delegation are addressed:

- ✓ Guidebook pages 59–63, on the holding-on trap
- ✓ Achilles' Heel Cards 8–10, on identifying and executing the handoff
- ✓ Observation Cards 18–19, on goal setting
- ✓ Gifts Cards 1 and 2, on alignment

The four cards here focus on: (1) the roles of "C-level" executives, directors, and advisory board members; (2) the qualities to look for in an outside manager or board member for your business; and (3) where to look for and how to recruit appropriate candidates for outside management and board positions.

Senior Executive and Fiduciary Roles

CEO, COO, CFO, and so on. Sometimes referred to as "C-level" executives, the chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO)—as well as the VP of marketing and VP of sales—are the titles reserved for the level of management that effectively runs a company day-to-day. Even small companies of twenty or so people usually have at least a couple of these titles conferred on staff members. A CEO is at the top of the pyramid, the overall manager on both an internal basis (employees, policies and procedures, ultimate decision making on all expenditures) and an external basis (sales, customer relations, business partnerships, corporate mergers and acquisitions), while delegating many of these specific functions to other senior executives. The COO typically oversees internal operations of the company, including production, client fulfillment, quality control, and human resources. The CFO manages financial planning and budgeting, and in many organizations holds other areas (like sales, customer service, production/client fulfillment) responsible for certain preagreed budgetary and revenue targets. The vice presidents (or executive vice presidents, depending on how layered the organization is) of sales and marketing are responsible for reaching out to and acquiring new clients. In many cases, they also have responsibility for customer service and ongoing client relationship management. Although having so many executive titles may seem inappropriate to your company's size and stage of development, it is important to understand these different functions and how they fit together, in order to scale and grow in the future.

❖ Observation Card 42:

Handing Off the Baton:

Outside Management and Boards (continued)

Board of directors. Like C-level executives, members of your board of directors have what is called a fiduciary responsibility in your business. That is, they are responsible to care for your business as if it were their own. Their loyalty must always be to the shareholders (and, if the business is insolvent, the creditors), and they can never make decisions that favor their own interests over those of the business. They must also exercise great care in discharging their duties—including always staying informed of what is going on in the business, the financial state of affairs, and any impending decisions that could have a material impact on the business's development in the future. Although the CEO and other senior executives typically sit on the board of directors as well, getting outside directors for your business can be of great benefit, particularly if you can attract individuals with deep experience in your chosen area of entrepreneurial endeavor and/or a commitment to spend time and energy to help ensure your success. Boards of directors are the governing groups that ultimately run a business (and to which the CEO reports). Since controlling a majority of the board of directors usually means you control the business as a whole, you need to think carefully about your board dynamics before adding people to it willy-nilly. Boards of directors of small or emerging companies typically meet at least once every couple of months, while the company's internal executive team may meet formally several times per week. *It is best to consult a lawyer or qualified business adviser on these issues.*

Different types of corporations (see Observation Card 5) have different official labels for the board of directors or equivalent. In a limited liability company (LLC), it is often called a "management committee." For the purposes of this kit, I refer to all people in this role as "directors." Most corporate types must, by law, have some governing group, like a board of directors.

Advisory board. Some businesses develop advisory boards to complement a board of directors. Advisory board members do not have the same fiduciary duties under the law that directors have, even though they may act with the same degree of loyalty and care in discharging their duties. The best-functioning advisory boards are those that have clear mandates, that meet regularly, and where each member is really motivated to help the entrepreneur succeed. Advisory board members often include luminaries in a particular industry, or prominent people from the public sector or academia. Advisory board members may not have the time, inclination, or appetite for risk to be "on the hook" as an official director of the company but are still interested in getting involved. As with C-level executives and directors, it is generally good practice to give advisory board members a small amount of equity in the business, to align interests and motivate them financially—although some entrepreneurs prefer to compensate directors and advisory board members strictly in cash. (See Observation Cards 8–10.)

❖ Observation Card 43:
Handing Off the Baton:
Outside Management and Boards (continued)

Qualities to Look For

Fit with you and the team. It is critical to pay close attention to the chemistry—the emotional and psychological fit with existing stakeholders, including management, employees, vendors, customers, and investors. The résumé of the candidate is important, but without chemistry, even the most qualified person on paper will probably not work out as a senior-level fiduciary in an entrepreneurial business. Take the time to get to know the candidate outside of the office context. It is important that the candidate spend this quality time with a number of folks involved in the business, in addition to the founder(s)/entrepreneur(s).

Domain expertise. Nothing replaces experience. Try to identify candidates who have prior exposure to your particular industry as well as to the unique challenges and opportunities of an entrepreneurial enterprise. In fact, if you have to choose between these two forms of experience, I would say the latter is more important. The candidate must understand the particular challenges your business is or will be facing—everything from the typical penny-pinching of small businesses to the challenge of developing credibility in the market as a small, and often unknown, player. That being said, nothing can replace passion for a concept and good chemistry with the founding team, so be open to candidates that don't perfectly fit the profile of the seasoned professional.

Realistic expectations. If there is one factor that sinks otherwise promising connections between founding entrepreneurs and outside fiduciaries, it is the presence of unrealistic expectations in the relationship. In Observation Cards 1, 2, 6, and 8–10, we discussed the importance of having the ground rules of relationships (particularly business partnerships) well established up front. In addition to setting down these "rules of the road," the entrepreneur and the outside candidate should talk through their different views on where the business is going, what each wants to get out of the experience, and how they perceive their own strengths and weaknesses. This means an open discussion of respective currencies and Achilles' heels. I encourage the parties to consider doing some of the exercises in the Guidebook together, or at least sharing their respective results with each other (especially the exercises in Chapters 1–3).

Terms of involvement. When looking at an outside fiduciary candidate make sure that his or her time frame for involvement in the business matches your expectations, and vice versa. Equally important is an honest read of how much time and effort an outside candidate expects or wants to dedicate to the project. As with realistic expectations, above, lots of communication on these points is critical—*ahead* of time.

Where and How to Recruit

Personal network. The most common source of incoming executives and board members for a small business is your personal network. Family members, friends, business partners, suppliers, investors, and lenders are all great sources for leads on possible candidates. Once you've made the decision to search for outside talent, don't be shy about getting the word out on your search. Constantly ask people to refer you candidates.

Competitors and industry associations. Although you want to be careful not to stir sleeping giants (in the case of a small company trying to sneak up on a big company's customer set, for example), your competition is a great place to look for talent. Candidates you locate through competitors and industry associations are likely to have deep domain expertise and may even have experience in building small businesses (or a small unit in a large company). Although you have to be careful with respect to legal risk around customer poaching and so forth (consult an attorney about these situations), you may even find that an incoming executive from a competitor firm brings along a strong existing set of relationships that can be valuable for your firm.

Headhunters. Professional recruiters (aka headhunters) sometimes work with small, entrepreneurial firms. They typically charge one-third or so of the first year's salary of the person they recruit for you. Sometimes they charge an up-front retainer payment, however, and they can end up being very expensive.

Advertisements and job postings. The simplest way to find people is by using newspaper and Internet posting services. However, when recruiting a senior-level fiduciary, I do not recommend this route. It is impersonal and unlikely to reach your target audience. An exception is a specialized trade publication or Internet site that focuses specifically on your industry or business type. Remember, though: Most of the best senior candidates must be sought out, as opposed to seeking you out.

SELECTED RESOURCES

BOOKS

- *Start Your Own Business: The Only Start-Up Book You'll Ever Need* by Rieva Lesonsky and *Entrepreneur* magazine. Everything from choosing a phone system to learning from failure. One of the best overall primers.

- *Small Time Operator* by Bernard Kamoroff. Don't let the title fool you. This classic gets into the nuts and bolts of obtaining initial permits and licenses, finding the right business location, developing a bookkeeping system, and hiring employees.

- *The Business Start-Up Kit: Everything You Need to Know About Starting and Growing Your Own Business* by Steven D. Strauss. Another good, practical guide.

- *Finding Money: The Small Business Guide to Financing* by Kate Lister and Tom Harnish. A thorough, practical, and well-organized guide.

- *Where to Go When the Bank Says No: Alternatives for Financing Your Business* by David R. Evanson. Additional thoughts on the entrepreneur's ever-present challenge.

- *Business Contracts Kit for Dummies* by Richard Harroch. Translates a lot of the legal mumbo-jumbo into English and provides dozens of sample contracts in print and CD-ROM.

- *How to Buy and Sell a Business: How You Can Win in the Business Quadrant* by Garrett Sutton. Using case studies, covers important topics, including valuation, negotiating strategies, confidentiality, franchises, and closing.

- *The Power of Focus: How to Hit Your Business, Personal and Financial Targets with Absolute Certainty* by Jack Canfield, Mark Victor Hansen, and Les Hewitt. The progenitor of the Chicken Soup for the Soul series explains how to stay focused in an entrepreneurial context.

ONLINE RESOURCES

- *Entrepreneur* magazine Web site (www.entrepreneur.com). Constantly updated, comprehensive site on various issues of practical interest to entrepreneurs.

- Fortune Small Business Web site (www.fortune.com/fortune/small business). Also a good general interest resource, but aimed at post-start-up phase businesses only.

- vFinance (www.vfinance.com). Search for prospective angel and institutional venture capital sources.

❖ OBSERVATION RESOURCES:

- ❖ Venture Reporter (www.venturereporter.net). Database for searching venture capital activity by industry, geography, time frame, amount, etc.
- ❖ Martindale-Hubbell lawyers Web site (www.lawyers.com). A search tool for finding legal help in a particular expertise or geographic area.
- ❖ Internet Legal Resource Guide (www.ilrg.com). Free use of legal documents archive, including confidentiality agreements and various other general templates.
- ❖ The Company Corporation (www.corporate.com). Self-service corporate registration (LLCs, S-Corps, C-Corps, etc.).
- ❖ American Bankers Association (www.aba.com). Assistance in searching for an outside commercial banking relationship.

OTHER

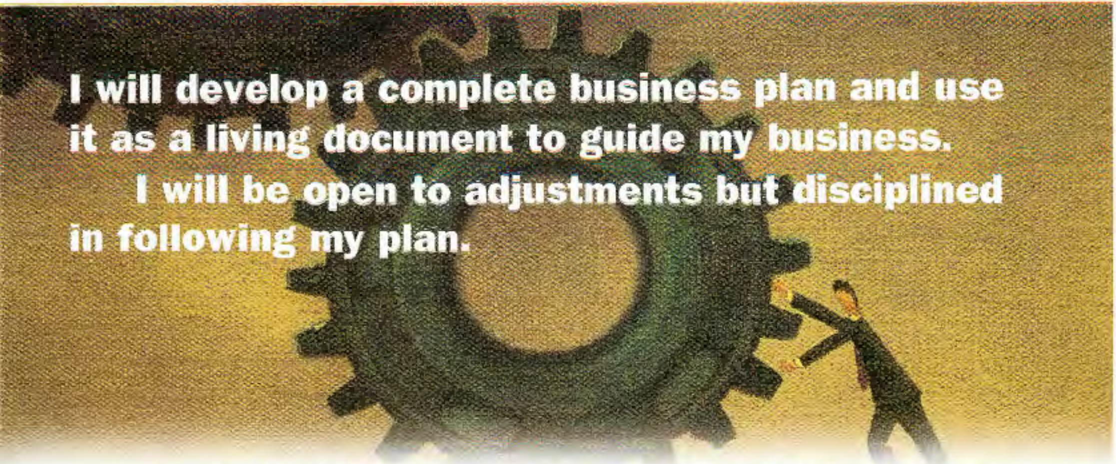
- ❖ QuickBooks software (can be researched and purchased at www.quickbooks.intuit.com). The most pervasive small-business accounting tool.

- Palo Alto Software (can be researched and purchased at www.paloalto.com). Marketing, business plan, and how-to-launch-a-business software packages for entrepreneurs.

- *Entrepreneur, Fast Company, Fortune Small Business.* General-interest monthly magazines aimed at the entrepreneur/small-business manager. Other entrepreneurial magazines with more of a technology bent: *Business 2.0, Wired.*

❖ Business Plans

the entrepreneur's success kit



I will develop a complete business plan and use it as a living document to guide my business.

I will be open to adjustments but disciplined in following my plan.

Inspiration ❖ Statement of Purpose ❖ Market Background
Product/Service Description ❖ Team Overview ❖ Execution
Risk Factors ❖ Financial Models ❖ Implementation

"The Structure of the Business Plan" section, on pages 115–124 of the Guidebook, will help you prepare to write your business plan, step-by-step. The exercises on pages 92–102 of the Workbook will help you get started and come up with an initial outline for your plan.

For some real-life examples of entrepreneurs' successes and failures in implementing their business ideas, see pages 106–111 and 124–132 of the Guidebook.

These yellow Business Plan Cards are companion material to Chapter 4 of *The Entrepreneur's Guidebook for Success*. They will help you put together your business plan and implement your entrepreneurial project. You will learn:

- ✓ Which sections to include in your business plan and how to write them
- ✓ Brand-building techniques and keys to successful selling
- ✓ Tools for recruiting a team and being an effective manager
- ✓ And more . . .

❖ Business Plans: About the Contributors

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❖ Business Plans:

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❖ Business Plan Card 1: Inspiration and Focusing In

Most entrepreneurs clearly remember the moment the idea for their business came into their life. I certainly do. Whenever that moment does come, it is critical to give it the space and respect it deserves. *Remember* that moment of inspiration. Most people are nonentrepreneurs; they come across inspiration every single day—but do not know it even when it's right in front of their face. Here are some tips to identifying inspiration when it comes.

Inspiration isn't only for start-ups. Every entrepreneur benefits from using inspiration as the catalyst for growth.

Inspiration doesn't need pedigree. Inspiration can come from anywhere. Don't pass judgment on your inspiration. Some of the most brilliant ideas have come from simple epiphanies: Stay attuned to the little moments.

You don't have to be original. You don't have to come up with the new, new thing, or invent something no one else has ever dreamed about. The vast majority of new businesses are not original; they take examples already in the market and make slight improvements.

It's okay to trust your feeling. You don't have to justify your inspiration in the first five minutes. You *do* have to come up with the business rationale eventually, but not right away. Be open to the excited, giddy feeling of inspiration; this energy can be channeled into willpower and long-term commitment.

Inspiration is the second step to any entrepreneurial journey (the first is having an open enough mind that the seeds of inspiration have somewhere to sprout). Inspiration, however, must be followed by discipline.

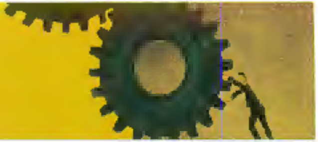
Don't get drunk on your inspiration. Often, entrepreneurs become so enamored with their inspiration that they ignore counterindicators, doubts, or even potentially beneficial adjustments to the original idea.

Research, research, research. There is no substitute. You must quickly go from inspiration to disciplined background study, or you will go astray.

Pin down the butterfly. In the Guidebook, I talked about the entrepreneurial tendency to "chase butterflies." It is critical that you get focused, pinning down—and paring down—the specific idea instead of moving on to the next butterfly.

Give yourself time. You don't have to quit your job right away, or implement that change in your business immediately.

❖ Business Plan Card 2: Statement of Purpose



Entrepreneurs tend to confuse their initial spark of inspiration with the statement of purpose of their business. Inspiration is something that comes to you: that moment of clarity when the solution to a problem seems obvious, or you feel suddenly drawn to start a business in an area you've never thought about before. Inspiration doesn't come in complete sentences, and it doesn't always carry with it a logical flow.

Unlike your company's brand, your statement of purpose is more than a general descriptor of your business or what it is selling.

A good statement of purpose is clear, descriptive of a particular product or service offering, and bound by at least one (ideally more) of the following variables: geography, customer type, selling mechanism, price point, or unique product/service attribute. Here are some tips for your statement of purpose.

> Don't proscribe, *describe.* The first time developing a statement of purpose, most use their ideas of what they think their business *should be*, not what it *is*. Your statement of purpose should mostly capture what you are doing today, or is within reach to do tomorrow. If you are running a neighborhood gym, for example, an appropriate statement of purpose might involve serving a broader area, or providing yoga and dance classes. One rule of thumb is what I call the "partial reality test"—if your statement of purpose is at least partially descriptive, even if it has an element of dreaming in it, then you're probably okay.

Be more specific. Most first tries at statements of purpose yield airy proclamations like "to provide high-quality bedding products to Bloomington customers." You *must* be more specific. Where in Bloomington? What types of customers in particular? What sorts of bedding? Your business may evolve over time and outgrow your statement of purpose. That's okay. You want to give yourself a little room to grow, but keeping it specific will keep you on track. No entrepreneur ever went out of business because he or she was too focused.

Be okay with today. In order to find the right balance between aspiration and grounding in reality, you have to become okay with where you are *today*. It doesn't mean that you must be stagnant or satisfied with where you are literally at this moment. But you need to be committed to today's plan and not tomorrow's.

Think about the "how" in addition to the "what." Your statement of purpose should not talk only about the "what" of your entrepreneurial project: a networking services company. It must also go into the "how": a company that gets to client calls quickly because of its innovative network and on-time policy. Businesses are much more about how things are done than what is being done.

Run it by a mentor. When you have finished your statement of purpose brainstorming process, try to show the top two or three choices to a seasoned entrepreneur, someone you trust. Listen to his or her critique. It is essential to get this first step right.

❖ Business Plan Card 3: Market Background

It is critical to adequately research the market in which you are building your entrepreneurial venture—including demographic trends, customer tastes, and the competitive landscape. A properly researched market background section of a business plan serves two purposes: (1) It helps anticipate the background information you need to make decisions in your business regarding expansion, product mix changes, investments, and so forth; and (2) it provides comfort to those who are reviewing your plan—prospective investors, lenders, partners, or employees—that you have done your homework. Here are some tips to researching your venture's market background.

Don't go in with preconceptions. Many entrepreneurs decide on the content of their market background *before* doing their research. We have all done this at one point or another: We decide on what we think is a good idea and then go out to find the facts and figures to back up our thesis. This is the *wrong* way to do your market background research. The research must dictate the nature and implementation of your business idea, not the other way around. If you just look for data to back up your idea, you may succeed in tricking someone into investing in your company (or tricking yourself into believing that you have a brilliant business idea on your hands), but you will ultimately fail. The most successful entrepreneurs have a certain healthy paranoia that tells them they are always one step behind the times and are constantly gauging customer tastes and needs to make sure they don't get caught by other competitors.

Go to lots of sources. Another common mistake entrepreneurs make when researching their market is relying on too few sources of information. In fact, I often read business plans that are built on one major academic paper, one article in a prestigious publication, or the opinion of one expert in the field. You must reach beyond one or two significant sources of information, especially if the source(s) in question already support your business thesis. Seek out dissenting points of view. Rather than weaken your argument, finding data points that refute your business idea will help you modify your implementation tactics and prepare for the road ahead.

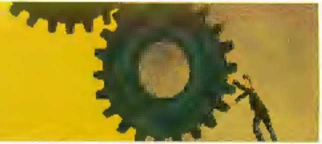
Copy, copy, copy. Do not be afraid to copy from other sources when developing the market background section of your business plan. As long as you have appropriately vetted the ideas, facts, and figures, using the phraseology and information that others have developed is absolutely fine (as long as you properly footnote the source). There is no shame in copying others' work. You get no points for originality or proper academic format. In fact, one of the richest places to get information is work done by your own competitors, since they were researching the market in which you are all operating—often available through initial public offering prospectuses, research papers, Web sites, press releases, marketing brochures, and other competitor-produced materials. Of course, you must never copy legally protected intellectual property.

Go for firsthand accounts. To the extent possible, try to get market intelligence directly from people involved—individual customers, purchasing agents at other companies, journalists, or academic analysts who study the sector in question. Even if you can find their published material elsewhere, interacting directly with market observers gives you the opportunity to have more back-and-forth, question-and-answer, and general discussion. People may be willing to say or e-mail things directly to you as an individual entrepreneur that they wouldn't be willing to publish or offer for general attribution. You also gain the opportunity to observe their body language and judge how confident, confused, or curious they are on a given subject. Finally, cultivating personal relationships with market experts may prove valuable down the road (when the market changes and you need to refresh your market background knowledge; or getting introductions to prospective clients, partners, investors, etc.).

Faithfully report what you find. Resist the tendency to filter what you discover in such a way as to support your business thesis as you had conceived of it originally. Even the greatest ideas in the world require challenging and tweaking. Humility in analyzing your findings is critical. Do not assume that the data is wrong just because it doesn't tell you what you want to hear. Report what you have found and have the courage and discipline to make the necessary adjustments elsewhere in your business plan.

Focus on what's important. Now that you have gotten out all the research on your market background section, zero in on what's most important to your business. If you run a bed-and-breakfast, national tourism trends are interesting—and may even foretell opportunities or problems down the road—but what really matters are the numbers of visitors passing through your small town and whether that big new hotel is going up a couple of exits down the turnpike. Entrepreneurs often become data junkies, fixating on and memorizing every little statistic and informational tidbit related to their industry. Don't clutter your mind too much. It is the stuff that really matters that should make it through the final editing cut and into the market background section.

❖ Business Plan Card 5:
Product/Service Offering Description



The offering description section of your business plan is your opportunity to extol the virtues of your product or service. It should be written for prospective financing providers, partners, and employees who may read it to educate themselves on your venture, and also for yourself, as a way of helping you stay focused on your client's "value proposition." Here are some tips for distilling/presenting your company's product/service offering description.

Start with the basics. Don't take anything for granted. Even if you think your product or service is eminently simple, explain the ABCs of your offering anyway. I worked with a bikini designer/manufacturer some time ago. In drafting her business plan, she made almost no mention of the product itself—assuming, I'm sure, that everyone knows what bikinis are. But it would have been helpful to know when reading her business plan that her bikinis were hand embroidered in the United States, that special anti-itch thread was being used, and that they dried more quickly than other bikinis because of their porous construction.

Don't dumb it down. Name every single one of the attributes of the product or service that your business sells. Be as technical as you need to be. Yes, you need to write down the basics. But as you continue your offering description, make sure to give the technical description as you might for a sophisticated client. Not every reader of your business plan will grasp this section, but some will, and will have needed to.

Compare/contrast. The best way to impress on the business plan reader the dimensions of your product or service is by comparing/contrasting it to other competing offerings in the market. If you and a partner manage a small architecture firm, describe in detail how your capabilities, client track record, and professional staff differ from those of your nearest competitors. Don't be afraid to itemize your offering's strengths and weaknesses vis-à-vis your competitors. It is unlikely that you have a superior offering to every competitor in every respect: price, quality, customer service, convenience, warranty, ease of use, etc. This will give you an impetus to improve and will enhance the credibility of your business plan.

Ask, "Why would I buy?" Although you may feel the answer has been made obvious by the general description of your product or service, you must always bring the issue back to the purchasing decision. Your product may have a hundred interesting attributes, but if none of them fill a real customer need, then they don't matter. In your offering description, list the specific reasons why someone would pay for your service or buy your product. You may even want to rate in order of importance the different reasons why someone would pay for it.

Focus on what's important. Now that you have gone through all the technical detail, at the end of the offering description section of your business plan, reiterate the most important attributes of your product or service—the main reason why you can effectively compete in the market. This offering description "punchline" should bear significant similarity to your statement of purpose—it should lay out a clear "value proposition" for your customers.

❖ Business Plan Card 6:

Team Overview:
Guidelines

Your team overview section should be crisp. Readers can request full résumés and references for all team members, but your business plan should dedicate a paragraph at most to each team member, two paragraphs at most for the founder/CEO. You should always list age, present job function, previous two to three places of employment and respective job functions, and educational background. Other points can be added as appropriate (business association memberships, publications, awards of merit, and so forth). Here is a sample team bio:

Susan Doe cofounder and VP of sales and marketing, age 37. Susan is responsible for all new customer acquisition at XYZ Company. Prior to cofounding XYZ, Susan worked for eight years at American Industrial Corporation (AIC), where she was one of the company's top salespeople and rose from sales representative-mid-Atlantic to national sales manager. Prior to XYZ, Susan worked for four years at Big Machines, Inc., where she was promoted to regional sales agent. Susan has an M.S. in electrical engineering from Farthington University and a B.A. with honors from Central State College. She wrote "How to Sell Big Machines to Small Companies" in the August 1999 issue of *Machinery Sales Journal* and is a member of the Association of Big Machine Sales Executives.

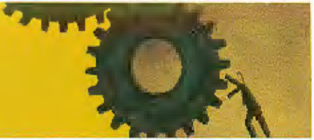
A few other pointers on team bios:

- ✓ *Format*. You can follow a slightly different format than the sample, but keep your different team members' bios *consistent*. Include the same basic points (job function, places of employment, educational background) in the same order in each bio.
- ✓ *Number of bios*. You should not have more than five or six team bios in your business plan. It's okay to have fewer, particularly if you have a very small or start-up business. If you have a lot of employees, you will have an opportunity to include everybody in the business plan's organizational chart (see Business Plan Card 7).
- ✓ *Titles*. Despite any inclination you might have to keep a "flat" or "informal" organization, it's important to give people titles when it comes to business plans in general and the team overview section in particular—even if you can't come up with anything more corporate than "partner." Titles give form to function and make it easier for all stakeholders to understand team members' performance. Even if you're a one-person company, give yourself a title! Titles *do* matter, and they should be adopted not for the purpose of power politics but to make business—with clients, vendors, employees, and financing providers—easier to understand.

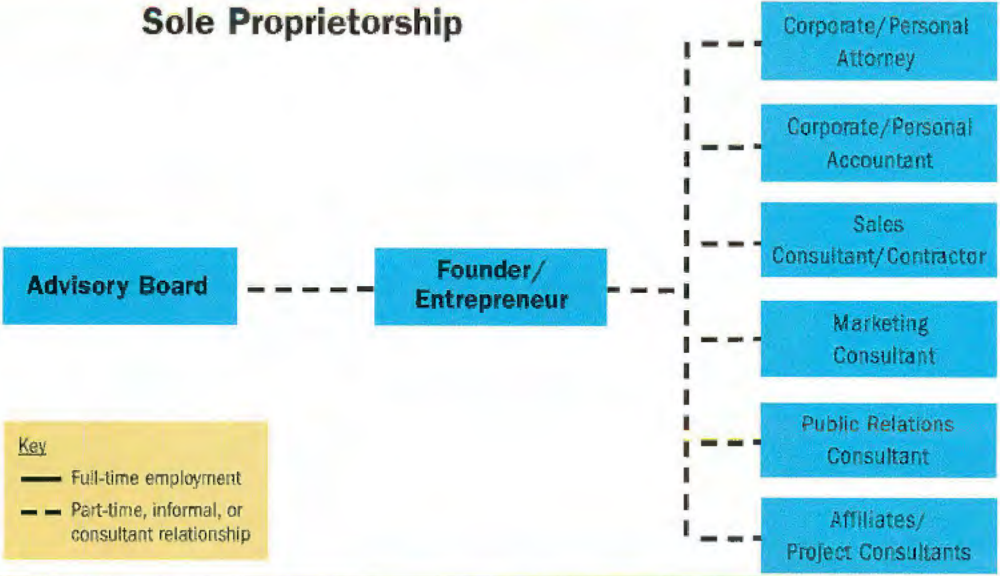
❖ **Business Plan Card 7:**

Team Overview:

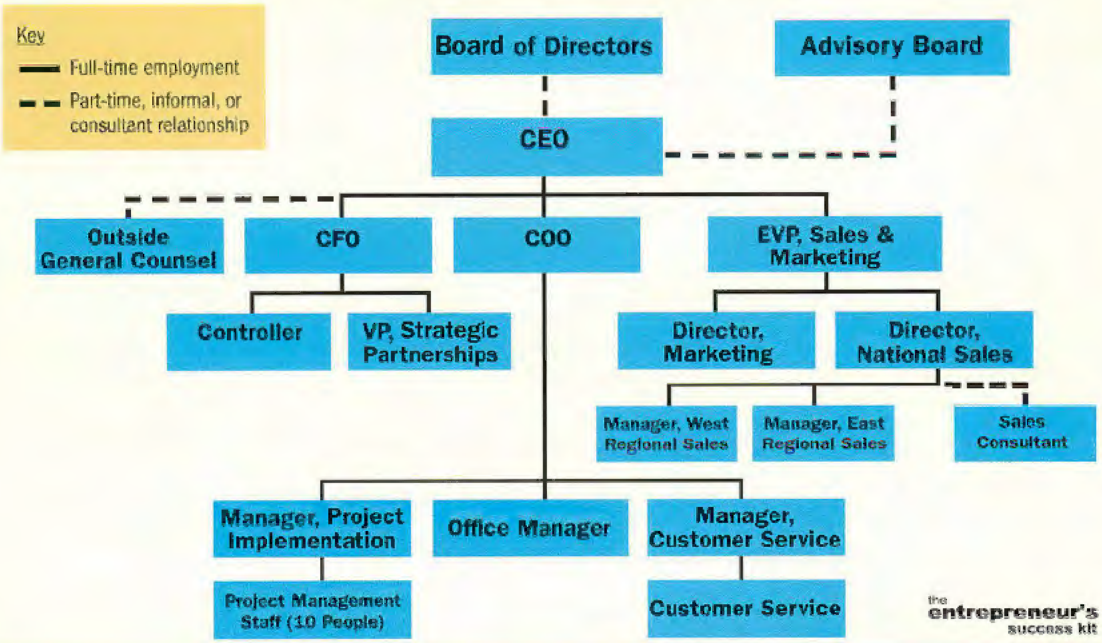
Sample Organizational Charts



Sole Proprietorship



Company with 25+ Persons



❖ Business Plan Card 8: Execution

Business Plan Cards 17–40 walk you through many of the specifics of successfully implementing your business plan, including issues related to product research and development, recruiting and hiring team members, customer service, sales and marketing, public relations, management techniques, vendor relations, business negotiations, and more. You may want to read those cards before reading this card. This card focuses exclusively on how to organize and write the execution section of your business plan.

The execution section should have the following subsections. The inclusion of *all* of these subsections and their exact order is somewhat flexible, depending on the nature of your particular business.

> Legal preparation and documentation. Include corporate bylaws, patents and trademarks, licenses to do business in certain jurisdictions, employment agreements, customer contracts, and so on. Anticipate all the legal and documentary setup your business will require. (See Observation Cards 5–15 on paperwork and ground rules for additional thoughts on this subject.)

Site location. To the extent that your business has retail locations, branch offices, or on-site customer care centers, you need to scope out appropriate sites. Anticipate this process and articulate a clear plan around site selection and setup. Even if you have one headquarters office—or you are a sole proprietorship and work out of your home—you need to address these issues in your business plan. Why did you pick your current or prospective location? When, if at all, do you anticipate growing out of your current space? If you're using your home office, you are saving a lot of money on rent. Say so in your plan, and note how much you're saving relative to the local office rental market. The point is: Be thorough.

Branding. What brand(s) will you be using? How will you be developing your brand? Tie this subsection into the marketing and sales section described below through appropriate cross-references. (See Business Plan Card 19 for additional thoughts on building your brand.)

Research and development of product or service offering. Earlier in the business plan, you will have described your product or service offering in general terms (see Business Plan Card 5). Here, you should describe in greater detail the remaining research that needs to be done, as well as the precise steps that will be taken in developing your business's offering. If yours is a product-based business, go into the production process in detail, including machinery needed, supplies and inputs required, etc. If yours is a service-based business, describe the policies and procedures that will govern service provision and all the methodologies involved.

Hiring plan. An explanation of human resources needs over time, including senior-level personnel. When will you need to hire? How will you recruit? What will new hires be dedicated to, and how will you organize the team (here you can refer back to the team overview section of your business plan as appropriate). (See Business Plan Card 29 on recruiting and hiring employees.)

Vendor selection. If yours is a product-based company, how will you decide on the suppliers you need? Describe the selection process and how the relationships with suppliers will be managed. Even if you run a service-based organization, you may have supplier relationships that are relevant. (See Business Plan Cards 35 and 36 on vendor relations.)

Inventory/overcapacity resources management. In a product-based business, address how you will effectively store, track, and manage inventory going forward. What sort of software system will you use, for example? What kind of shipping services? If you are a service-based business, how will you manage employees who are "on the beach," meaning they are currently unassigned to any particular customer project? Will they be focused on marketing and customer pitches, or research on and improvement of future services? What will be your target "capacity utilization rate"?

Marketing and sales plan. How will you reach your intended customers? Describe the marketing materials you will need and the selling techniques you will use. This subsection should be quite detailed, with sales targets over certain time periods listed, as well as goals organized by geography, client type, etc. This is also the section where you should list any intended use of public relations as a marketing tool. (See Observation Cards 17–19 on goal setting, Business Plan Card 20 on successful selling, Business Plan Card 21 on marketing materials, Business Plan Cards 25 and 26 on public relations, and Business Cards 27 and 28 on using the Internet for marketing.)

Customer fulfillment plan. This is the most important subsection in your execution section. If you have a product-based company, how will your product reach the customer? Will you be using a reseller network? Selling in your own stores? If you are a service-based company, will you be subcontracting out any part of your business? Partnering with other companies to reach customers jointly for

❖ Business Plan Card 10: Execution (continued)

some sort of bundled offering? This is the place to describe how your client project engagements will be managed.

Quality control plan. Describe here the processes and procedures that will ensure the quality and consistency of your offering. (See Business Plan Card 24 on quality control.)

Corporate partnership development. What corporate partnerships will you need to develop to be successful? Resellers? Comarketers and affiliate marketers? Subcontractors? Describe here both the relationships you will need to develop and how you plan to implement these relationships successfully. (See Business Plan Cards 37 and 38 on partners and affiliates.)

Customer service/maintenance plan. Getting the customer is not enough. Describe here how you expect to maintain customer loyalty and provide quality customer service. Will this be done in-house? Outsourced? Will you provide 24/7 coverage, or only during office hours? Who will have responsibility internally for customer service (the sales team, or the client fulfillment team)? (See Business Plan Cards 22 and 23 on customer service.)

Exit. What is the endpoint from a corporate development point of view? Do you envision selling the business someday to a competitor? Going public? Perhaps you will simply hold on to your business forever, and run it as a "lifestyle" business? These are the types of questions that should be addressed in this section of your business plan.

The exit subsection can be pulled out and made into its own independent section of the business plan, depending on the emphasis you want to give it in your overall thinking about your own business and the minds of those reading about your business.

❖ Business Plan Card 11: Risk Factors

The risk factors section of your business plan must be unvarnished. Force yourself—for the sake of contingency planning, full disclosure, and good business practice in general—to unearth all the material business risks you can think of—strategic, operational, financial, and legal. Here are a few tips for approaching the risk factors exercise, as well as a list of some of the most common risks.

Approaches

Expand on what already goes wrong. When you are trying to figure out what could go wrong in your business, start with today's reality. Look at what's going awry in your business today—faulty product or service flaw, poor customer service, late inventory deliveries, poor financial controls, and so forth—and extrapolate these issues out to their extremes. Your inattentiveness to monthly budgets makes it easier for an employee to embezzle unnoticed; your lack of a 24/7 customer service line makes it more likely that your competition will steal your customers over time; your changing neighborhood makes it more likely that your store's natural client base will move out of the area and you'll be stuck with an onerous office lease. These are the types of things you don't want to think about, but you must. And they are usually natural extensions of small trends and clues ascertainable in your business as it stands today.

Observe others' problems. Most entrepreneurs don't like to talk about or study failure. (I hope this kit has changed this notion for you, by explaining the positive aspects of a good understanding of failure.) Nevertheless, there is no better way to candidly assess your business's own risks than to look at the failures of other businesses, particularly those similar to your own in market niche, size, geographical location, etc.

Take away the internal censor. Facing your business's risk factors can be scary. Resist the temptation to downplay certain risks. Do not censure yourself or others when exploring the risks in your business plan. This only serves to keep you unprepared for difficulties that inevitably will arise.

Get others' points of view. As smart and candid with yourself as you might be, it's always easier for others to see where you are (or could be) tripping up and identify your blind spots. And it's important to approach not only your senior counselors and advisers for this kind of insight; if you feel you have a close enough relationship with them, solicit the opinions of investors, lenders, customers, vendors, and employees. This is critical to a well-developed risk factors exercise: looking outside of your own frame of reference to identify the stumbling blocks in the path ahead.

❖ Business Plan Card 12:
Risk Factors
(continued)

Common Risks

✓ Macroeconomic shifts. Changes in the economy as a whole.

✓ Specific market/demographic shifts. Changes in neighborhoods, customer tastes, labor rates, inputs that go into making your product, etc.

✓ New market doesn't materialize. Your company's offering may not catch on.

✓ Inability to develop product or service. Entrepreneurial enterprises often depend on being able to manufacture a new, innovative product or a new way of providing a service.

✓ Competition. Given the broadness of this risk category, your business plan would normally have a longer discussion of the specifics, or refer to the market background section for more detail.

✓ Regulatory environment. Many businesses are subject to the changing winds of government regulation.

✓ Inability to finance operating losses. If your financial projections show that your company is going to lose money for a while before breaking even.

- ✓ Inability to pay down debt.
- ✓ Inability to meet other contractual obligations. Your company may be in danger of not being able to pay suppliers, business partners, etc.
- ✓ Loss of key team member(s).
- ✓ Loss of key customer(s), key supplier(s), or key business partner(s).
- ✓ Faulty offering/reputational damage. Few businesses can withstand the impact of bringing a shoddy product or service to market.
- ✓ Intellectual property dispute.
- ✓ Poor financial controls.
- ✓ "Acts of God." Fires, floods, earthquakes, wars, and revolutions all qualify.

❖ Business Plan Card 13: Financial Models in Spreadsheet Form

The profit and loss (or income) statement, the balance sheet, and the cash-flow statement are at the heart of your business planning. When they reflect your past business performance, they are known as *historical* financial statements. When projected into the future, they are known as *pro forma* statements. You should prepare income statements monthly for the first two years in the future, then annually for the remaining three, for a total of five years of projections.

Your projections flow from your assumptions about the business. Revenue projections, for example, might be based on monthly growth rates leading to an end-of-year percentage of total market penetration you believe can be realistically attained. This information should come from your in-depth knowledge about the industry that you are about to enter (see Business Plan Cards 3 and 4 on market background). The reasoning behind your assumptions should be stated on a separate page from the rest of the financials and you should always be able to justify the logic behind them.

Business Plan Cards 15 and 16 show samples of the four most important financial statements for a business. These statements are based on an early-stage services company. Depending on your type of business, some of the line items may not be relevant, or they may be in different relative proportions. What you should focus on are the key components of each statement and how they relate to each other. For the sake of simplicity in these examples, the income and cash flow statements do not include historical numbers and consist of just one year of future projections.

Profit and loss statement. This lists the revenues and expenses and shows how much profit or loss the business expects to make in each period. Depending on what you are selling, you may want to include number of units sold and the price per unit—the basic calculations that drive the revenues. If applicable, you can add various other revenue streams (service fees, late fees).

Most expense line items should be based on further explanations that describe how the amounts are actually used. For example, if salary is listed at $10,000 per month, you should somewhere explain that this is for two full-time people at $4,000 per month and one part-time person at $2,000 per month. This more detailed breakdown may be listed on the same spreadsheet, or referred to in a separate document.

Balance sheet. The balance sheet provides a snapshot of your business at a certain point in time, normally the end of your fiscal year. It lists your assets, liabilities, and total capital, which reflect how much equity has been invested into the business over time. It is used mainly for comparative purposes and to assess overall financial health. By looking at how much cash, and other assets you can quickly convert into cash, you have relative to current liabilities, you can determine the business's ability to meet its regular payments.

❖ Business Plan Card 14: Financial Models in Spreadsheet Form (continued)

Cash-flow statement. The cash-flow statement shows how much cash is coming in relative to how much is going out. Whereas the profit and loss statement is about accounting (like a checkbook ledger), the cash-flow statement is about month-to-month planning and the actual cash generation of the business (like an actual bank account balance at a given time). It is particularly useful in planning for large purchases or slow periods in cyclical businesses, or where you might have a short-term cash shortfall because a large client is late in making payments.

Operating budget. The information in the operating budget is similar to what is in the cash-flow statement but is focused only on expenses. It is a critical document when raising money because it helps to determine exactly how much financing the business needs and what it will be used for. The operating budget should match perfectly with your cash flow forecasts.

For more information on resources that can help you learn financial planning and accounting skills, refer to the Business Plan Resource Card in your kit. You can also get more help through www.kaleil.com.

❖ Business Plan Card 15: Sample Balance Sheet and Income Statement

XYZ Corp. Sample Pro Forma BALANCE SHEET ($)

	Month 6
ASSETS:	
Current assets	
Cash	$902,347
Net accounts receivable	$268,756
Inventory	—
Prepaid expenses	—
Total current assets	$1,171,103
Fixed assets:	
Vehicles (net of depreciation)	—
Furniture and fixtures (net of depreciation)	$10,000
Equipment	$41,000
Total fixed assets	$51,000
Total assets	**$1,222,103**
LIABILITIES AND CAPITAL:	
Current liabilities	
Accounts payable	$66,937
Sales taxes payable	$4,598
Payroll taxes payable	$1,565
Income taxes payable	—
Accrued wages payable	$24,003
Total current liabilities	$97,103
Long-term liabilities	
Accounts payable	—
Sales taxes payable	—
Payroll taxes payable	—
Income taxes payable	—
Accrued wages payable	—
Total long-term liabilities	—
Total liabilities	**$97,103**
Capital	
Owners equity	$125,000
Retained earnings	—
Investment - Series A	$1,000,000
Total capital	**$1,125,000**
Total liabilities and capital	**$1,222,003**

XYZ Corp. Sample Pro Forma PROFIT AND LOSS STATEMENT ($)

Month	1	2	3	4	5	6	Total
REVENUE	$29,145	$35,176	$65,966	$67,312	$71,094	$78,594	$347,287
COST OF GOODS SOLD:							
Materials	$10,000	$7,500	$5,000	$938	$938	$938	$25,314
Variable labor	—	—	—	—	—	—	—
Less ending inventory	—	—	—	—	—	—	—
Cost of goods sold	**$10,000**	**$7,500**	**$5,000**	**$938**	**$938**	**$938**	**$25,314**
Gross profit	**$19,145**	**$27,676**	**$60,966**	**$66,374**	**$70,156**	**$77,656**	**$321,973**
CONTROLLABLE EXPENSES:							
Advertising	—	$45,000	$10,000	$35,000	$25,000	$15,000	$130,000
Payroll incld taxes and benefits	$30,000	$30,500	$31,050	$31,957	$33,000	$34,201	$190,708
Sales commissions	$2,332	$2,814	$5,277	$5,385	$5,688	$6,288	$27,784
Professional fees	$4,000	$2,000	$2,000	$2,000	$2,000	$2,000	$14,000
Office and operating supplies	$1,500	$1,350	$1,350	$1,350	$1,350	$1,350	$8,250
Travel	—	$3,000	—	$6,000	$6,000	—	$15,000
Communications	$10,000	$3,000	$3,000	$3,000	$3,000	$3,000	$25,000
Maintenance and repairs	$1,200	—	—	—	—	—	$1,200
Office supplies	$1,000	$850	$850	$850	$850	$850	$5,250
Miscellaneous	—	$7,000	—	—	—	—	$7,000
Total controllable expenses	**$50,000**	**$95,514**	**$53,527**	**$85,542**	**$76,888**	**$62,689**	**$424,192**
FIXED EXPENSES:							
Permits and licenses	$5,000	—	—	—	—	—	—
Interest	—	—	—	—	—	—	—
Depreciation	$1,500	$1,500	$1,500	$1,500	$1,500	$1,500	$9,000
Property taxes	—	—	—	—	—	—	—
Rent and utilities	$5,800	$5,800	$5,800	$5,800	$5,800	$5,800	$34,800
Insurance	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200	$7,200
Bank service charges	$200	$200	$200	$200	$200	$200	$1,200
Total fixed expenses	**$13,700**	**$8,700**	**$8,700**	**$8,700**	**$8,700**	**$8,700**	**$57,200**
Total expenses	**$63,732**	**$104,214**	**$62,227**	**$94,242**	**$85,588**	**$71,389**	**$481,392**
Net operating income	**($44,587)**	**($76,538)**	**($1,261)**	**($27,868)**	**($15,432)**	**$6,267**	**($159,419)**
OTHER INCOME:							
Net income/loss	**($44,587)**	**($76,538)**	**($1,261)**	**($27,868)**	**($15,432)**	**$6,267**	**($159,419)**
Taxes	—	—	—	—	—	—	—
Net income/loss after tax	**($44,587)**	**($76,538)**	**($1,261)**	**($27,868)**	**($15,432)**	**$6,267**	**($159,419)**

❖ Business Plan Card 16: Sample Operating Budget and Cash-Flow Statement

XYZ Corp. Sample 6 Month OPERATING Budget ($)	
Marketing	$150,000
Travel	$15,000
Web site and hosting	—
Payroll and payroll expenses	$200,000
Sales commissions and training	$40,000
Accounting, legal, and trademark fees	$15,000
Insurance	$10,000
Maintenance & repairs	$1,000
Office and operating supplies	$8,000
Communications	$25,000
Rent and utilities	$34,800
Permits & licenses	$5,000
Taxes	—
Bank service charges	$1,200
Loan repayment	—
Interest payment	—
Capital purchases	$60,000
Inventory purchases	$30,000
Software (CRM, ERP, accounting)	—
TOTAL	**$595,000**

XYZ Corp. Sample Pro Forma CASH-FLOW STATEMENT ($)

Month	1	2	3	4	5	6
Beginning cash balance	$12,500	$1,054,414	$980,691	$951,087	$913,884	$885,521
Cash inflows (income):						
Cash collections	$23,316	$28,140	$52,773	$53,849	$56,875	$62,875
Credit collections	$2,330	$20,001	—	$1,778	—	—
Investment income	—	—	—	—	—	—
Total cash inflows	**$25,646**	**$48,141**	**$52,773**	**$55,627**	**$56,875**	**$978,865**
Available cash balance	**$150,646**	**$1,102,555**	**$1,033,464**	**$1,006,714**	**$970,759**	**$983,386**
Cash outflows (expenses):						
Marketing	—	$45,000	$10,000	$35,000	$25,000	$15,000
Bank service charges	$200	$200	$200	$200	$200	$200
Insurance	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200
Interest	—	—	—	—	—	—
Inventory purchases	$10,000	$10,000	$7,500	$938	$2,000	$2,000
Maintenance & repairs	$1,200	—	—	—	—	—
Office and operating supplies	$1,500	$1,350	$1,350	$1,350	$1,350	$1,350
Payroll and payroll expenses	$30,000	$30,500	$31,050	$31,957	$33,000	$34201
Sales commissions and training	$2,332	$9,814	$5,277	$5,385	$5,688	$6,288
Professional fees	$4,000	$2,000	$2,000	$2,000	$2,000	$2,000
Communications	$10,000	$3,000	$3,000	$3,000	$3,000	$3,000
Rent and utilities	$5,800	$5,800	$5,800	$5,800	$5,800	$5,800
Permits & licenses	$5,000	—	—	—	—	—
Travel	—	$3,000	—	$6,000	$6,000	—
Taxes	—	—	—	—	—	—
Subtotal	**$71,232**	**$111,864**	**$67,377**	**$92,830**	**$85,238**	**$71,039**
Other cash inflows/outflows:						
Capital purchases	$25,000	$10,000	$15,000	—	—	$10,000
Loan principal	—	—	—	—	—	—
Owner's draw	—	—	—	—	—	—
Subtotal	**$25,000**	**$100,000**	**$15,000**			**$10,000**
Total cash outflow	$962,323	$121,864	$82,377	$92,830	$85,238	$81,039
Investment	$1,000,000	—	—	—	—	—
Ending cash balance	**$1,054,414**	**$980,691**	**$957,087**	**$913,884**	**$885,521**	**$902,347**

❖ Business Plan Card 17:

Implementation:
Research and Development

Research and development (R&D) of products or services should be going on constantly in a company's development—not just when starting up the enterprise, or launching a particular initiative. In a product-based company, research and development is intuitively obvious: the planning, modeling, even engineering that go into designing and launching a new product, and also the ongoing research, testing, and improvement of the company's existing product set. In a services-based company (a law firm, for example, or a construction services company), where the "product" is less clearly defined, R&D can refer to the development of new skill sets, practice areas, and client service initiatives, and also to the ongoing quality control and personnel assessment activities that a company engages in to ensure consistency and quality in the services being rendered (see Business Plan Card 24 on quality control).

In both types of companies, R&D is often the first operational step taken when a new company is set up, or a new internal business plan is being executed. R&D, as referred to here, is much more intensive and specific than the general market background research that you undertake when developing a business plan (see Business Plan Cards 3 and 4 on market background). Here are some universal principles for successful R&D.

<u>Prioritize.</u> Although you want R&D activities to be creative and at times unstructured (see below), you must prioritize R&D initiatives if you ever hope to be suc-

cessful. You cannot expect the R&D personnel (who, by their nature, are attracted to interesting and new projects) to decide which activities make the most sense at a given point in time from the business's profit and loss perspective. Discipline in prioritization is key. This is particularly true if your business is a sole proprietorship, where you do everything—sales, customer service, R&D, financial planning, and so on. If you are distracted by an R&D initiative that is not an absolute priority, you are highly unlikely to succeed.

Set budgets. Discipline in spending on R&D is equally key. I recommend setting a certain amount of R&D funding for a business period (monthly, quarterly, or annually) up front. If you are just getting your business off the ground, you probably already have worked out in your operating budget the amount of money it's going to take to get a certain product or service initiative up and running. If you are looking at R&D on an ongoing basis in a business that is already operating, the budgets must be driven by the product launch schedule and your projected financial costs and revenues (see Business Plan Cards 13–16 on financial models).

Set timetables. All new product launches must have a budget and an expected launch date. Timetables and tight project management in product development are essential. On the more free-form research side of things, it's okay to allow for a bit more creativity in the schedule (you can't force epiphanies, or breakthroughs, into a predefined schedule), but keep it within the budgeting and project prioritization bounds discussed above.

❖ Business Plan Card 18:

Implementation: Research and Development (continued)

Study others. While you must never steal someone else's invention or intellectual property, it is important to avoid getting into too much of a bubble as an R&D-focused organization. If you are not constantly studying others—customers, suppliers, and especially competitors—your innovative impulse will get stale. You will not know where to introduce new features in your product set, or how to focus your efforts.

Create internal feedback loops. Often the best R&D ideas are generated from within an organization. Create a system for getting market and employee feedback to your R&D team (or to yourself, if you are running a sole proprietorship). This means being sure to have a place where customer comments or competitive intelligence gets written down and stored—whether an internal database or even a notebook that's kept under lock and key! If you are running a slightly larger organization, with separate sales, client fulfillment, and R&D teams, make sure that these teams are constantly talking to each other—there are established ways for information and knowledge created in one place to get transferred to another.

Beta test. Never do R&D in a vacuum. Make sure to run tests of new product ideas or old product improvements by real existing or prospective customers. Sometimes called a beta test, this entails recording customer feedback to a new offering and often involves offering customers free products or services in exchange for valuable feedback and discussion.

Don't punish failure. You must keep your R&D efforts loose and creative. If you punish people (including yourself) for "dumb" ideas (coming up with a product that is a flop under beta test, or wasting time reading articles on a competitive threat that never materializes), you stifle innovation and ensure your future failure. You must allow people to have flops, setbacks, and failures. R&D by its nature must push the envelope.

Put in place positive rewards. The flip side to not punishing failure in R&D processes is rewarding success. Make sure that there are nice rewards—financial, promotional, and otherwise—for coming up with new ideas or innovations to existing product and service offerings. Rewards should accrue to people working directly on R&D, as well as to others—like customers and strategic partners—who come up with the next big thing for your business.

Balance "tight" and "loose." There is an inherent tension in R&D. On the one hand, I encourage you to be daring, encourage creativity, study the world around you, and reward innovation; on the other hand, you need to have strict prioritization and budgeting, and avoid wasting time. Companies that successfully manage the R&D challenge manage to pull off a balance between these seemingly competing tendencies—the unbounded and creative energy of innovation with businesslike focus and discipline.

❖ Business Plan Card 19:

Implementation:
Building Your Brand

Contributed by David Camp

A brand is a promise between a company and its stakeholders—customers, partners, suppliers, investors, and employees alike. It is a promise of quality, consistency, and value. Strong brands can differentiate a company—however small—from its competitors, motivate potential customers to buy, create and sustain customer loyalty, and command price premiums.

It has been said that products are created in the factory, but brands are created in the mind. This distinction is critical, as brands are simply a collection of associations, emotional and intellectual, that are created by companies to describe their products and benefits to customers. These associations are carefully crafted and communicated through various means and media to form lasting impressions among a company's stakeholders. Brands tend to grow gradually, and since entrepreneurs sometimes have difficulty with long-term thinking, they are sometimes too impatient to pay attention to brand building early on. The most successful entrepreneurs understand the power of the brand and the need to invest in it over the long term.

As you plant the seeds of your long-term brand, consider the following steps.

Create a brand essence blueprint. Make sure to understand, isolate, and articulate the single-minded proposition behind your business or brand promise (related to your statement of purpose). This is the "DNA" of your brand; it should be immutable and timeless, and should guide everything you say, do, deliver, and promise to your customers. For example, Disney's brand essence might be expressed as "magic," GE's as "innovation," Caterpillar's as "durability," and Hertz's as "reliability." It should be simple and succinct, and meet a compelling physical or psychological need of your customers.

Build a brand-positioning platform. This is a set of functional statements and findings that help further define your brand promise and guide your communication efforts. It should include a clear definition of your point of difference relative to your competitors (why are you better or different?); your relevance to your customers (what need does your company or product fill?); and your product or service benefits (what does your product or service provide/do/enable customers to do?).

Proactively manage every "point of touch." Your brand manifests itself in multiple places, all of which reinforce each other. Whether in the message of your advertising, the design of your brochure, the positioning of your business or product in the press, or the way you manage sales and customer service, you are constantly forming impressions in the minds of those with whom your business interacts. Be sure you and your team are consistent with each point of touch, to maximize your ability to make those impressions lasting and compelling.

❖ Business Plan Card 20:

Implementation:
Keys to Successful Selling

Contributed by Joseph Hyrkin

Every business discipline has its particular mantras and received wisdom. In the sales discipline, two of the more popular instructional books are Og Mandino's *The Greatest Salesman on Earth* (about the never-say-die, positive attitude of the best salespeople) and Linda Richardson's *Stop Telling, Start Selling* (about the need to listen and dialogue with customers). While there is no single, "best" way to do anything as interpersonal and mysterious as sales, there are certain tried-and-proven practices. I take a bit from the pages of both of the books mentioned above and offer the following general guidelines to successful selling.

> <u>Listen but *convince.*</u> When I interview prospective sales reps, I ask, "What makes you a good salesperson?" Most of the responses are along the lines of, "Because I listen to what the customers say carefully and then make sure we can deliver exactly what they say they want." While listening is an essential skill for any great salesperson, often delivering exactly what customers say they want will prove impossible, unnecessary, or inadvisable. Their requests can be incompatible in practice, impossible, or poorly thought out.

Part of our job as salespeople is to help customers see new ways of doing things, new ways to articulate—and get—what they really want. To me, the best salesperson listens to what customers ask for and then carefully and thoughtfully convinces them that the product for sale meets their true requirements. Yet this same great salesperson does not ignore the customers' requests and desires, and faithfully relays their input back to the home office. (See Gifts Cards 3 and 4.)

> <u>Products are to sell, not to validate us as people.</u> One of the hardest things to master as a salesperson is managing the personal side of selling: how far to push a prospective customer and still stay disentangled emotionally. In general, salespeople are often too focused on becoming *friends* with their customers. They overpersonalize selling, feeling that a rejection of their product or service is a commentary on them as people in general. This debilitates selling capacity. Sales reps must separate their own identity from the product.

The goal is not to gain a new friend but to gain a new customer. However, treat each customer with great respect. Keep asking for the order, as long as they haven't flat-out said no. The sales rep must be willing to reach the necessary point of possibly annoying a potential customer. Understanding how to be simultaneously friendly and personable while pushing for the sale is key. For entrepreneurs, it is even more important, because you are probably also your own top salesperson.

❖ Business Plan Card 21:

Implementation:
Marketing Materials

Contributed by David Camp

Once you have defined the essence of your brand and its promise to your constituents (see Business Plan Card 19 on building your brand), it's time to begin extending the brand message to your customers. For most entrepreneurs the primary means of doing this is through marketing materials. As the primary "points of touch" of your brand, marketing materials should be carefully considered and developed with care. These might include: business cards; stationery; Web site; general company brochure; product or service ("offering") brochures; "press kit" (see Business Plan Card 26); marketing video; direct mail pieces.

Often, a customer's first interaction with your business and brand is through one of these materials. While small businesses are typically capital constrained and cannot invest in all areas of the business up front, you should not underinvest in the development of a couple of key marketing materials. First impressions are critical and lasting, and you will have a limited number of opportunities to "connect" with your customers.

Ensure consistency. All your marketing materials should work in concert with each other. In visual design and language, all your materials should look and feel alike.

Be a perfectionist. Be sure that the overall impression of your materials is one of professionalism and perfection. Professional-looking materials help engender a feeling of confidence and trust among your customers. If your materials look dated or haphazardly designed, or if your language is imperfect or sloppy, your brand image suffers.

Let your customers guide your choices. Don't let your own sensibilities and preferences guide decisions regarding design, style of language, and overall positioning of your marketing materials. Test your materials on actual or potential customers.

You get what you pay for. Beware of cheap deals. Seek out design firms that have a solid reputation and a tangible body of experience in your area of business. Ask to see examples of their work and to speak to their past clients.

❖ Business Plan Card 22:

Implementation:
Customer Service

The importance of maintaining a constant dialogue with your customer(s) is a theme that appears at various points throughout this kit. Most entrepreneurs grasp this quite well when it comes to marketing or selling their product. But the entrepreneurial track record is not nearly as good when it comes to postsale customer care. The most successful business owners have a nearly maniacal focus on their customers' needs, including (perhaps especially) their needs *after* the initial sale has taken place. Here are some general principles for excellence in customer service.

Be easily reachable. Make sure that all of your collateral materials (brochures, Web sites, customer mailings, advertisements) have your customer service phone line (and e-mail address, if appropriate) prominently listed. Customers should never have to search for more than thirty seconds to find a number to call. If your business has more of a consultative or services-based selling model, it probably makes sense for clients to have after-hours access to a service person's cell phone or home phone number as well. If it is not practical for you to provide 24/7 customer service, make sure that customers who try to contact you after hours or on weekends are clearly informed of service hours (through a recorded message, for example) and do not simply feel ignored.

Have a customer satisfaction policy. Too many small businesses lack a customer satisfaction policy. Even if you choose not to allow product returns or refunds (both of which are recommended), make sure you have some sort of policy in place. This could include credit toward future purchase, a partial refund, merchandise exchange, or even a call from the CEO. Customers and employees alike should know what the policy is at the point of purchase, which means it needs to be straightforward and written down. Allow for some degree of flexibility when drafting your customer satisfaction policy, even if it's kept private among the team. While you might not allow refunds in general, for example, there should be some discretion allowed to the account person, store manager, or other executive. Bureaucratic formalities should never stand in the way of appeasing a truly abused and irate customer.

Be proactive. Don't look at customer service as a "complaint line." You should not be waiting by the phone, in anticipation of a customer calling to tell you when/if the machine he or she bought from you broke down. Make outbound calls and check on how your customers are doing. Make it part of your policy (see above) to call customers within a day, a week, or a month (whatever's appropriate to your business) of making a purchase, to see if they're satisfied and everything's working all right. Don't be afraid of bad news. Seek it out. Your customers will appreciate your effort, even if they're unhappy with your product. Follow the maxim that communication with your customer is *always* a good thing.

❖ Business Plan Card 23: Implementation: Customer Service (continued)

Process feedback. One of the worst things you can do in customer service is solicit customer feedback and then do nothing about it. There is no more sure-fire way to lose customers than to ask their opinion and then ignore it. Create mechanisms (written reports, conversations with superiors, notes in a database, etc.) that capture customer feedback accurately and make sure someone is responsible for regularly reviewing it and giving the feedback to the appropriate people responsible for product development as well as sales. Even if you are a one-person operation, you need to create procedures to make sure you are integrating customer feedback into future versions of your product or service.

Don't be afraid to share the customer. The aim of customer service is to make sure the customer is content. If this means sharing information with other vendors, business partners, retailers, wholesalers, etc., then so be it. Do not get possessive when it comes to satisfying your customer. Sometimes it takes a joint effort with other companies in the supply chain (think of a vending machine supplier who cooperates with the concessionaire where the machine is located) to make sure the final customer is happy.

Be humble and admit mistakes. There is nothing worse than an egotistical customer service representative. People performing customer service functions (from the CEO to a call center operator) must be able to get their ego out of it and live by the dictum that the customer is always right. The default option should be to assume the blame. Even if your customer is off base, make him or her feel good about the situation. You can politely explain the reasons why the customer is, or could be, wrong, but always finish by acknowledging that the customer's satisfaction is what really matters, not who is wrong or right. Always admit to mistakes and commit to do better the next time. Often, the most loyal customers over the long haul are the ones who have been burned once but have been treated like royalty in resolving their satisfaction issue.

❖ Business Plan Card 24:

Implementation:
Quality Control

Quality control bears many similarities to customer service: It is critical to be humble and open, to have a constant dialogue with the customer, and always to admit mistakes. However, quality control in products and services is achieved by outside communication as well as *internal* policies and procedures.

Give it the respect it deserves. Don't limit quality control to your list of things to do when everything else slows down. Creating a system—for example, a database for people to register problems—is critical. It is best to have one person in an organization be responsible for quality control, even if he or she also has responsibility for another area. You should separate out the responsibility of quality control from the person(s) responsible for developing the product or services. Combining the two can represent a conflict of interest.

Solicit and process customer feedback. Constantly solicit customer input. Ask specific questions about the product or service and encourage answers that are as specific as possible. Do not tilt your questions so as to elicit positive feedback. Learn to crave constructive, hard-biting criticism.

Pay attention to others who "touch" your product. You may have resellers, shippers, marketing or implementation partners, even suppliers, who "touch" your product or service on its way to the end customer. Because of their unique vantage point, they often anticipate problems or negative quality trends before your end customer does.

Do things two, three, four times. The best quality control operations in the world (such as Wal-Mart, General Electric, Microsoft, and so on) admit that the reason for their success is repetition as opposed to brilliance. Even if a given service has yielded 100 satisfied clients already, you must assume that the 101st will be a terrible experience. Test the heck out of every aspect of your customer experience. Assume a Murphy's Law attitude (that everything may turn out for the worst).

Reward discovery. Don't punish people—whether employees, marketing partners, or your own customers—for discovering problems with your product or service. To the contrary, you should make it a practice to reward people who discover defects in a product, or point out a flaw in a service rendered. This reward can be verbal (thank-yous go a long way, even in today's age) or financial.

❖ Business Plan Card 25:

Implementation:
Public Relations

Contributed by Samantha Ettus

Public relations (PR) is a powerful, cost-effective tool for entrepreneurial enterprises. It can be used to introduce a product, drive sales to your business, and communicate your message to existing and potential customers and other key stakeholders. A successful PR campaign can promote and solidify confidence in your brand, services, or product, and could be the extra step that differentiates you from your competition.

Unlike advertising, which promotes a product or service through paid placement, PR secures third-party endorsement for your business through the editorial side of media—in a newspaper article, a magazine feature, or a news-driven TV program. There are three potential targets for a PR campaign:

- ✓ Potential and existing customers
- ✓ Trade/industry players (including competitors)
- ✓ Existing and potential investors/lenders

Reaching each of these targets requires carefully honed messages and approach via a variety of mediums.

Establish discrete objectives and strategies. Before you embark on a PR campaign, it is essential that you have a firm understanding of the goal. This could range from making the phones ring to attracting potential new investors. Then you must figure out which methodology or strategy will help you achieve those goals.

Press releases. Press releases are announcements that are issued when there is "news": You merged your firm with another, hired a new senior sales executive in your field, or launched a new product. Press releases can be sent to a few targeted media outlets, or you can pay to have your press release distributed on a wire service such as PR Newswire (www.prnewswire.com). Any significant change that is relevant to people in your industry or to your customers can be a worthy reason for a press release.

Pitching. Promoting your product or brand to reporters or producers at a media outlet:

❖ Business Plan Card 26:

Implementation:

Public Relations (continued)

✓ *Who?* There are four major media sectors: radio, television, print, online.

✓ *What?* It is important to hone your message before you begin to pitch. Your goal is to make the recipient of your message want to write about it, talk about it, or use it on the air or in print. It helps to be creative by tying your message into an industry trend, current events, or a broader issue, so that you are helping to craft the story in which your brand or product is weaved in. And remember, brief is better!

✓ *How?* Pitching consists of contacting editors, reporters, or producers in your targeted media outlets and giving them a compelling reason to listen to your story and then to use it.

<u>Press kits.</u> A press kit is a package of promotional materials encompassing your message. These materials can include executive bios, company fact sheet, product information, and past press coverage. Sending a press kit can be either the first or last step in the pitching process. Often, it is sent before a follow-up phone call or e-mail and sometimes is used to seal the deal after the initial contact.

❖ Business Plan Card 27:

Implementation:
Using the Internet for Marketing

Contributed by Deborah R. Schultz

Until recently, entrepreneurs were extremely challenged when trying to extend their marketing reach beyond their existing geographic boundaries with small marketing and advertising budgets.

With the advent of the Internet, the World Wide Web, and an ever-increasing array of new technologies, a small company can now compete on a global scale, establishing itself very quickly in the marketplace. An integrated marketing technology strategy enables a small company to leapfrog over larger, less nimble organizations by communicating directly with its customers at a fraction of the advertising and marketing budgets of a larger organization. The proper marketing technology strategy can enhance your brand, increase sales, and reduce marketing overhead.

Once you have determined the attributes of your brand (see Business Plan Card 19 on building your brand), you are ready to develop your marketing strategy. Technology is a valuable and essential tool in your company's marketing communication mix. As you plan your technology marketing strategy, consider the following guidelines.

A Web site is an essential, efficient, and cost-effective marketing tool. Think of your Web site as your 24/7 marketing presence. On the Internet, all companies large and small compete on equal playing field. Your Web site enables you to reach customers economically and efficiently, all the time. Utilize the Web to connect with your customers, gather feedback, plan future product and service updates, communicate new initiatives, and grow your mailing lists and customer database. Information can also be updated on an ongoing basis, reducing printing costs.

Keep in mind that your Web site may also be the first interaction a customer has with your company. It should reflect your company's marketing, branding, and customer service goals. However, the Internet also presents some unique marketing challenges. Placing a Web site on the Internet can be thought of as the equivalent of opening up your office or store in the middle of the night without any staff, managers, or receptionists to greet your customers. You need to anticipate your customers' questions and concerns; make sure your Web site is clear and direct, and ensure that information is up to date and easy to find. Always have a phone number for your office prominently displayed.

❖ Business Plan Card 28:

Implementation:

Using the Internet for Marketing (continued)

E-mail is a powerful marketing communications tool. By gathering e-mail addresses on your customers and potential customers, you can create a direct dialogue with them at a fraction of the cost of traditional advertising and direct print marketing campaigns. Make sure to include e-mail addresses in all your outbound and inbound communication with your customers. In today's economy, e-mail has surpassed the telephone as the primary communication vehicle for many businesses. As you gather e-mail addresses and create your customer database, you can begin to send out periodic e-mails and/or create an e-newsletter for ongoing dialogue and company information.

Plan, plan, and then plan again. Technology is complicated. When done right it can be integral in catapulting you to the top of your competition. It can enable you to talk directly to your customers and compete with companies 100 times your size for extremely low prices—but it's not simple. Without the proper preparation and planning, a poor marketing technology plan can be the downfall of a fledgling company. Make sure that you bring on an expert (either as an employee or a consultant) before you get started and make sure that the proper infrastructure and resources are in place to support your ongoing marketing technology initiatives. Just because a local high school senior says he can build your

Web site does not mean he should. Building a Web site and planning the proper technology support are not the same thing. A minimum amount of planning up front can save you major headaches and possible public relations nightmares down the line. Good planning will also save you time and money as you grow.

Respect your customers. e-mail gives you the ability to contact your customers easily and constantly—but beware of overcommunication. You would never consider calling your customers nightly during dinner, so e-mailing them daily with information that is irrelevant to them is equally rude. Every time you communicate with your customers, you should have something important to say or offer them. Otherwise your communication will be considered spam, the digital equivalent of junk mail. It is standard industry practice to allow your customers to opt in to (or choose to join) any e-mail list you create. You may also want to ask your customers what their preferred means of communication is: e-mail, phone, or postal mail.

❖ Business Plan Card 29:

Implementation:

Recruiting and Hiring Employees

Contributed by Michael T. Eagan

Beware, entrepreneurs: Few things will drain momentum faster and more permanently than hiring mistakes. The root causes of these hiring mistakes are:

- ✓ Impatience
- ✓ Most entrepreneurs don't like disciplined recruitment
- ✓ Most entrepreneurs aren't very good at disciplined recruitment
- ✓ Lack of an orderly recruitment process
- ✓ Playing with someone else's (investors' or lenders') money

The solutions lie in understanding the realities noted above, and embedding an orderly recruitment process in a company's culture early on—one that is followed every time, with no exception! Below are critical ingredients to this process.

<u>Expectations.</u> What single, long-term goal will the person being added be expected to accomplish? What objectives must be achieved on the way to reaching that goal? How long will it take them to become acclimated to the new position?

Profile. Determine your company's relative emphasis on each of the following seven attributes: chemistry, culture, ability, character, experience, knowledge, and skill. The primary causes of new hire failure are lack of chemistry and/or culture fit.

Interviewing. Interview initially by phone. Follow with thorough face-to-face sessions involving multiple interviewers (involve trusted friends and advisers if you're a one- or two-person company) and ask similar questions each time.

References and checks. Thoroughly interview (as opposed to just check) references. Verify degrees and previous employment claims. Engage an expert to conduct a thorough background check, if it's a senior hire. Conduct a drug screen, if you're hiring a lot of field personnel. Take nothing for granted. You can be nice and sweet later. Assume the worst when hiring.

Plans and offer. Agree to written expectation and acculturation plans prior to final offer. If possible, present the final written offer in person. Nothing in it should be a surprise; all key points should have been previously discussed.

Do *not* trust your initial instincts. If you can avoid it, do not hire friends and relatives (see Observation Cards 1 and 2 for a dissenting point of view). Do not hire 'em cause you like 'em. *Do not allow impatience to get in the way.* The other side of the coin: Even if your candidate is the salesman of the year, if you can't stand him, don't hire him.

❖ Business Plan Card 30:

Implementation:

Leadership

Contributed by Charles H. Seely

Leadership has many components, including the ability to attract talented individuals, motivate them, and then leave them alone to implement on a predetermined plan. A critical part of leadership is building trust with your team. Employees will crawl over broken glass for managers whom they trust and admire. Key to building trust is a manager's ability to absorb criticism from employees, as well as an ability to lead by example.

> Building trust exercise. Jack Welch, known as the autocratic—and terrifically successful—former CEO of General Electric, was also known for setting up a process whereby everyone who worked together in the organization, no matter how junior or senior, reviewed each other's performance. He understood that he could be a truly effective leader only if he created an environment where people were encouraged to learn from each other. So he set up sessions with his top managers where they openly critiqued each other's performance and worked collaboratively on their shortcomings. Michael Dell of Dell Computer encourages similar peer reviews. In fact, after he heard criticism from employees that he was impersonal and emotionally detached, Dell stood up in front of all his managers and offered a frank self-critique, including painful admission of his deeply ingrained

shyness. He went on to show a video of this admission to thousands of employees in the company and placed a reminder on his desk to encourage him to communicate more closely with his employees. The result was employees who felt energized and even more willing to implement the instructions of their leader.

Managing by example. You may be the founder and CEO, and while those titles afford you certain decision-making rights and privileges, they do not confer authority. Authority comes through setting the right example. When Thomas Monaghan sold Domino's Pizza for $1 billion in 1998, he played the tycoon for a while, awarding himself a spectacular three-thousand-square-foot office, bedecked with leather, silk, and stained glass. Not surprisingly, that didn't set a good example with the employees, compounded by the fact that he was hardly ever around. When David Brandon came in as the new CEO of Domino's, he won immediate admirers for abandoning the office. As mayor of New York City, Michael Bloomberg got used to sitting in a cubicle in the midst of other city workers. The CEO of Wal-Mart, H. Lee Scott, has been known to share a hotel room with his CFO on business trips. As an entrepreneur, you have even more reason to act frugal, lead by example, and be accessible, or you will find that your employees will lose faith and you will lose the ability to manage them effectively.

❖ Business Plan Card 31:

Implementation:
Handling Conflict

Contributed by Margaret Ratchford

Conflict, if handled well, can strengthen relationships, inspire innovation, and increase knowledge. This is especially true of entrepreneurial contexts where conflict, when it arises, is more likely to engulf all or a large proportion of the stakeholders. The problem with conflict resolution as a discipline is that we all have different styles of dealing with it. Some entrepreneurs like to directly address conflicts head-on, and others prefer to ignore them. Neither extreme is effective. If you avoid conflict, difficult situations will grow and fester. If you are too confrontational, you will alienate others and cut yourself off from team-based solutions. The next time you are facing a conflict, try this:

> <u>Maintain an open and curious posture—both physically and mentally.</u> Conflict presents an opportunity to learn; be calm and see the conflict in front of you as a potentially rich gift.
>
> <u>Put aside the tendency to think in terms of right vs. wrong, or win vs. lose.</u> Focus the conversation on *values* (what matters to each of you) and *needs* (what motivates each of you).

Focus on *understanding* rather than on emerging victorious. Listen carefully and actively with this in mind. (Listen to the other person as well as yourself.) Once you have a clear understanding of the issue from both sides, the answers tend to surface naturally. What you thought you wanted at the outset of the conflict might have changed, as you focused on openness and learning. That's okay.

Keep communicating until the conflict is resolved. As long as your primary values have been expressed and the other person's primary values have been expressed, and your primary needs are being met and the other person's primary needs are being met, the conflict is resolved. If not, keep trying.

Acknowledge what you learned through the conflict situation you confronted. (You can do so directly to the other person, privately to a business partner or a loved one, or to yourself in your Workbook). Through conflict with a customer, you may find a better way of providing customer service; through conflict with a business partner, you may hit on a more effective way to communicate your strategic plan to employees.

Don't punish yourself for forgetting or botching any one or more of the steps above. Handling conflict is a skill that improves with practice. Conflict will always raise its head in business. Rest assured you will have more opportunities to learn from conflict.

❖ Business Plan Card 32:

Implementation:
Decision Making

Contributed by Margaret Ratchford

Entrepreneurs, especially, tend to make decisions in a vacuum. Yet it's critical to open up decision making to the vigor of debate and the insight of others. Here are some tips for more successful, open decision making.

Dissect the "problem." We think in terms of problem and solution, without any steps in between. This may be necessary in emergency situations, but on the day-to-day level it can mean quick fixes that cause more problems than they solve or that don't really get to the source of the problem. Before you decide on a solution, consider the following:

- ✓ Who is affected by the problem?
- ✓ What is the true source of the problem?
- ✓ Who will be involved in implementing the solution?
- ✓ What could be the unexpected effects of the solution?

Involve others in the "solution." Involve the people who are close to the situation in analyzing the problem and coming up with a solution. This doesn't mean that you are making decisions by consensus, and you can be clear about that up front. It does mean that you will have a wider perspective in making your decision and built-in buy-in from the people (employees, partners, suppliers, customers, etc.) who will carry it out.

Always solicit feedback. One of the most powerful actions that a leader can take is to invite feedback from employees and other key stakeholders. This does not mean that you are unsure of your position or that you are going to change your direction. When you demonstrate that you are open to feedback, you build confidence and gain trust. Create a culture that makes it easier for everyone to give and receive feedback and to communicate more openly, and you open the door for better information flow, optimal performance, greater commitment, and higher morale. The next time you complete a meeting with a key employee, or give a directive, conclude the conversation with, "Give me some feedback. How is this sitting with you? What are your thoughts?" Then just sit back and listen. You may not get the full answer right away, but when you do, you will gain insights that may not have been available otherwise. And that employee will feel more valued and more confident on the job as a result.

❖ Business Plan Card 33: Implementation: Avoiding Organizational Politics

Contributed by Allison Dunn

Organizational life has always been, and will always be, characterized by politics. This is as true for five-person entrepreneurial ventures as it is for Fortune 500 companies. People with different interests and agendas inevitably compete and come into conflict in order to interpret information, make decisions, allocate or claim scare resources and rewards, structure or restructure the organization, and design work processes and policies. The challenge for new companies is ensuring that politics do not stifle their ability to adapt and grow. To gauge the political climate of your organization, watch for telltale signs of destructive office politics and address them immediately.

Open up communication. Are people censoring themselves, hoarding and distorting information? Are people (including yourself) deliberately misinforming one other? To combat communication problems, build feedback processes into the culture of the organization. Hold open discussion forums, model candid and tactful exchanges, train people (including yourself) to exchange performance feedback, and use your authority to reward open communication.

Stay focused on your business: customers and competitors. In destructively political organizations, people obsess over internal dynamics such as their individual and group status and become paranoid about perceived slights, instead of advancing the business. Identify political backstabbers and punish those who seek personal gain at the organization's expense. Don't be afraid to identify this behavior in yourself as well, and encourage your venture's outside advisers or board members to censure it. Carefully design reward systems so that rewards and power accrue based on performance and competence rather than for arbitrary or political reasons.

Apply sunlight. In overly political organizations, it's often difficult to separate reality from hype. Rules are enforced selectively and inconsistently, and employees lose faith in the organization as credible, equitable, or principled. Set measurable goals and time lines for every initiative. Celebrate milestones and report tangible results in a public forum. Hold everyone accountable to the same standards and criteria. Corporate performance is complex and multifaceted, and there is always some degree of subjectivity in evaluating individual and group contributions. However, the more transparent and objective performance is (the more "sunlight" is applied), the less politicking there will be about taking credit and avoiding blame.

❖ Business Plan Card 34:
Implementation:
Overcoming the Unconscious

Contributed by Benjamin Dattner

Unconscious processes are always at work in organizations large and small. However, in small, growing organizations, unconscious processes can have a truly formative impact on structure, culture, and success. Here are some basic notions about unconscious processes to keep in mind as you build your business.

<u>Hiring.</u> Be mindful of unconscious biases in hiring in general and interviewing in particular. Research has shown that people make very rapid judgments about one another, and these judgments are usually superficial, unconscious, and based on non-job-relevant factors such as physical attractiveness and perceived similarity. Easy steps you can take are to make sure every candidate is interviewed by several members of your organization (or by informal advisers and even friends if you are just blossoming beyond a one-person company), and to apply consistency in what candidates are asked.

<u>Favoritism.</u> Be mindful of unconscious biases that lead you to favor certain employees (or other stakeholders, like customers) over others. We all have a tendency unconsciously to favor people who support our worldviews or make us

feel good about ourselves. However, one of the worst things an entrepreneur can do to hurt staff morale (and debilitate leadership authority) is to have "in" and "out" people that he or she treats differently. This can lead to individuals being unfairly singled out and scapegoated, which can be both hurtful to the victims and damaging to your organization. Monitor your treatment of your staff and ask for their candid and direct feedback about any real or perceived ways that you favor some people over others.

<u>Groupthink.</u> Every group is affected, for better or for worse, by unconscious processes. The psychologist Irving Janis described the dynamics of groupthink—a dangerous tendency toward conformity and absence of individual challenge in thought and behavior that he believed could explain things like the failed Bay of Pigs invasion and the *Challenger* Space Shuttle disaster. In a more mundane sense, groupthink can discourage innovation in your business and blind you to the dangers in the entrepreneurial path. You need some degree of dissension in the ranks. Create an open forum where your team can reality-test, assign a devil's advocate to argue for alternative points of view, and bring in outsiders to help you safeguard against these dangers.

❖ Business Plan Card 35:

Implementation:
Vendor Relations

It's intuitive to most entrepreneurs that the customer's always right; you generally don't have to do too much convincing of the importance of systematized customer service and quality control (see Business Plan Cards 22–24). However, many entrepreneurs don't give their relationships with the companies and individuals who provide the critical ingredients for their product or service offering enough, or the right kind of, attention. Here are some types of "vendor" relationships and tips to keeping things running smoothly:

Office and infrastructure vendors are often mistreated or ignored. You never know when you'll need their flexibility in billing or services, and it is important to keep good relations. They include utilities; travel services (agencies, airlines, rental car companies, hotels, etc.); insurance providers; purveyors of machinery, tools, office equipment, and supplies; overnight delivery services (like FedEx); and many more.

Freelance contractors work on contract, sometimes on a fully dedicated basis. This is a very common alternative to normal employment arrangements for small businesses.

Corporate subcontractors perform services on your behalf, even providing services directly to clients in your name. These include staffing agencies, which you might use to find individual freelance contractors in your business. An offshore contract manufacturer that makes your product, or a component of your product, also qualifies.

Professional service providers provide legal, accounting, marketing, public relations, Web site design, or other services.

Component producers are classic "suppliers": the providers of the actual parts that go into your final product.

Irrespective of the type of vendor relationships, there are several rules of thumb to keep things positive and maximally productive:

Be extremely selective. Invest the time up front to comparison shop and get to know all the relevant vendor options out there. Never be bullied into a vendor relationship. If cost is your primary criterion, say so and drive a hard bargain. Get help from someone else if you find it tough to negotiate.

❖ Business Plan Card 36:

Implementation:

Vendor Relations (continued)

Set expectations up front. The best entrepreneur/vendor relationships are built on clear expectations and ground rules. Both parties should know what is expected of them, and what the consequences are for non- or underperformance. When working with nontraditional office and infrastructure vendors, use concrete milestones set down on paper and agreed to by both parties. Never leave things vague.

Set billing rules and stick to them. Unpaid bills are the most common causes of disagreements and broken relationships between entrepreneurs and vendors. Get into only those service relationships you can manage financially and be realistic up front about how long you will need to pay your bills (typically no more than ninety days, but usually closer to thirty days).

Agree on reporting mechanism. Relationships with contractors, professional service providers, and component producers are at the very core of your business. Make sure you include them on your organizational chart (see Business Plan Card 7) and make sure all individuals involved understand their reporting responsibilities as if they were a regular employee of your company. Successful vendor relationships of this type do not distinguish between who's "outside" or "inside" the company—it's all part of a seamless process.

Overcommunicate. When in doubt, communicate. You should have a constant "line in" to your vendors.

Deliver bad news right away. Whether it's a bill that's going to go unpaid or a project you're not pleased with, let your vendor know right away. Disputes get worse when people wait for days or months before bringing up a concern.

Anticipate switching costs. Switching vendors is part of being in business, but you need to plan ahead. Line up the new help *before* letting the old one go. The ideal scenario—which is not always possible—is to do some transitional training, where the old vendor spends some time (on the clock, of course) explaining to the new vendor how things work.

❖ Business Plan Card 37: Implementation: Corporate Partners and Affiliates

Relationship management is key to successful entrepreneurship. Other Adviser Cards address employee relations (Business Plan Card 29 on recruiting and hiring employees, Observation Cards 11–12 on working agreeably, and Business Plan Cards 30–34 on various management subjects), customer relations (Business Plan Cards 22 and 23 on customer service), and vendor relations (Business Plan Cards 35 and 36). Many of the same principles apply when managing corporate partner and affiliate relationships (so you should study those cards as well), but there are more specific guidelines to consider. Here are some of the corporate partner and affiliate relationships common to an entrepreneurial project and some tips on how to make sure things go smoothly:

Development partners are corporate entities that team up to develop a product or service. These are very involved partnerships, where each party learns the "guts" of the other's business, and there is an exchange of highly confidential, proprietary information. Example: a designer and a furniture maker getting together to launch a new line of contemporary living room sets.

Sales and marketing partners are the most common type of corporate partnership. Companies get together to jointly approach a marketplace. They may run advertisements jointly, or even share sales forces and customer databases. Example: a baker and bartender jointly pitching catering services to local businesses.

Industry partners are two or more corporate entities (even direct competitors) who team up to achieve a goal that requires group participation—including lobbying for a common cause vis-à-vis the government, or testing a concept with a particular demographic. Example: three competing janitorial services firms banding together to oppose changes in a city's professional licensing requirements.

Customer service partners are firms you team up with to serve customers more effectively. Example: a flower shop teaming up with a local contract delivery service to enhance its area of coverage for at-home delivery.

Here are some things to consider when beginning or managing a corporate partner or affiliate relationship:

Background checks. Always do thorough checking on prospective corporate partners or affiliates. Ask for personal and business references. Use credit bureaus (like Dun & Bradstreet) to check past payment history and financial wherewithal. This is especially important if you are going to make purchases on their behalf, or customer funds are going to pass through them to you.

❖ Business Plan Card 38: Implementation: Corporate Partners and Affiliates (continued)

Gestation period. Don't dive into a formal partnership; start to work together first. Set up a beta, or test run of whatever it is you intend to do together. Give things time to gestate: By the time it is written, the partnership agreement should reflect a relationship that already exists in practice.

Milestones and incentives. Your partnership agreement should lay out detailed goals for each entity. You should have concrete performance milestones and the consequences of non- or underperformance should be spelled out ahead of time.

Dispute mediation. Good partnership agreements anticipate problems. Your arrangement with a partner or affiliate should always include agreed-upon methods to resolve disputes if they arise. This could include escalating the dispute to a superior in one or both companies, third-party mediation, or simple "walk-away" provisions—both parties might be released from certain obligations to each other.

Project management. Good partnerships have project, or relationship, managers assigned from both sides. Even if you have a sole proprietorship, you should have a clear understanding with regard to who on the side of your partner firm is the responsible party able to make changes, resolve problems, etc.

Breaking up. By the time a corporate partnership arrangement ends, you might have common customer, supplier, and other relationships. Make sure to have a good plan going in to the partnership as to how things will be settled up once it's over.

❖ Business Plan Card 39: Implementation:
Approaches to Business Negotiations

Contributed by Arnie Herz

Negotiation, the back-and-forth communication through which we try to compel action, resolve differences, or get things we want, is a vital but often misconstrued business tool.

After years of hearing clients say that they walked away from this or that negotiation with everything they set out to get but still felt dissatisfied, I discerned a common negotiation pitfall: Favoring a quick fix and instant gratification, many entrepreneurs simply don't take the time to ensure that the course they chart through the negotiation process best serves their business needs. There's a way to avoid this problem. As they say: It's all in the preparation.

The following checklist will help you prepare for your business negotiations. Giving yourself, or your representative, sufficient opportunity to prep is crucial, even where time is of the essence. Rushing to negotiate is the surest way to do your business a great disservice. So take a deep breath, and don't start negotiating until you have:

✓ Clearly articulated goals for the negotiation that align with your overall business objectives for the present and the foreseeable future

✓ Your own, or your representative's, commitment to pursuing proactive, and not reactive, strategies

✓ A thorough analysis of the interests and leverage of all the parties involve

✓ A realistic perspective on the likelihood of achieving your objectives within acceptable cost and time limits

✓ A detailed game plan for realizing your goals that overrides the temptation to shoot from the hip

✓ The resolve to maintain your focus, overcome impasses, and be balanced in compromise

✓ The ability to complete the negotiation with a detailed, enforceable agreement that ensures the parties are of one mind and willing to be held legally accountable

Finally, depending on the nature and sensitivity of the negotiation, you may want to involve an arm's-length mediator, agreed to ahead of time by both parties.

❖ Business Plan Card 40: Implementation:

When to Litigate Your Business Disputes

Contributed by Arnie Herz

Although litigation has a bad rap in today's world, it's not inherently evil. Like many other things, litigation can be a tool for doing good but is often tainted by abuse and excess. People typically race to their lawyers at the first whiff of a dispute, convinced that any wrong they supposedly suffered can be righted only by a day in court. When that day turns into years and the years translate into huge legal bills, the same people become incensed with the very monster they helped create. As an entrepreneur with limited time and financial resources, you must beware of the litigation trap.

The real challenge for businesspeople is to strike a balance between litigation's bright and dark sides—between its benefits and overuse—by identifying those situations where the win-lose dynamic of a lawsuit is the best and only way to restore business health. Most must-litigate disputes can be discerned by candidly addressing the following questions:

- ✓ Do you know exactly what you want, and are you sure that this serves your real business interests?
- ✓ Do you understand your chances of success and failure in the courts?

✓ Are you aware of the investment of money, emotions, and time that litigation requires, from filing to disposition to collection?

✓ Is there an acceptable less costly alternative that might better meet your overall needs?

✓ Have you tried to resolve the dispute through negotiation or one of the current modes of nonbinding alternative dispute resolution (ADR), such as mediation, to no avail?

✓ Have you examined the viability of different forms of binding or adjudicative ADR as alternatives to court?

✓ Is ADR a nonoption because of any of the following conditions?

A significant power imbalance between the parties, such as a history of coercion or abuse

A steadfast unwillingness on one party's part to resort to ADR

A need to commence an action to avoid a time-barred claim or to prevent irreparable harm

For more help in navigating the litigate/don't litigate decision tree, see www.lawyers.com or Internet Legal Resource Guide at www.ilrg.com.

Beware the Butterfly Swarm:

Staying Focused and Implementing Your Business Plan

SELECTED RESOURCES

BOOKS

- *Built to Last: Successful Habits of Visionary Companies* by James C. Collins and Jerry I. Porras. The authoritative work on how to transition from entrepreneurial enterprise to a long-term, sustainable company.

- *In Search of Excellence* by Thomas J. Peters and Robert Waterman. The quintessential management book. Not aimed at entrepreneurs.

- *The One Minute Manager* by Kenneth H. Blanchard and Spencer Johnson. Simple goal-oriented leadership techniques for managers.

- *Execution: The Discipline of Getting Things Done* by Larry Bossidy, Charles Burck, and Ram Charan. Addresses the often-overlooked "missing link between aspirations and results."

- *Raving Fans: A Revolutionary Approach to Customer Service* and *Gung Ho! Turn On the People in Any Organization* by Kenneth H. Blanchard. Tell you how to really motivate your customers and employees.

- *Selling the Invisible: A Field Guide to Modern Marketing* by Harry Beckwith.

- *Getting Business to Come to You: A Complete Do-It-Yourself Guide to Attracting All the Business You Can Enjoy* by Paul Edwards, Sarah Edwards, and Laura Clampitt. Chock-full of practical tips on how to do your own advertising, public relations, direct mail, and sales promotions.

- *Business Plans That Work* by Joan Gillman and Sarah White.

- *Competitive Strategy: Techniques for Analyzing Industries and Competitors* by Michael Porter. For a start-up entrepreneur, a must-read.

ONLINE AND OTHER RESOURCES

- Bplans.com (www.bplans.com). Cash-flow calculators, marketing plan templates, legal advice, and more.

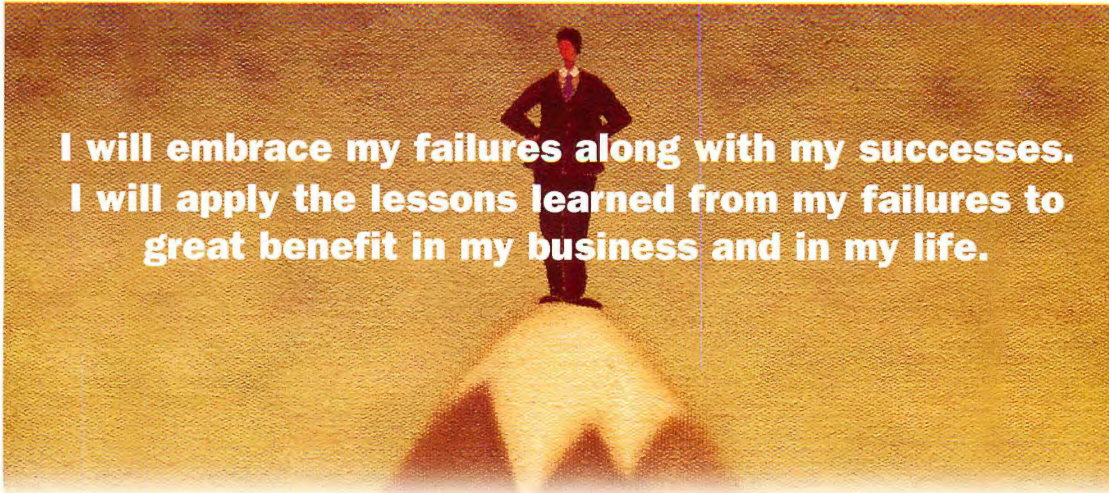
- U.S. Small Business Administration (www.sba.gov). Rich with resources.

- Venture Architects (www.venturearchitects.com). Outside help in developing your first (or second or third) business plan.

- Dattner Consulting (www.dattnerconsulting.com). Outside help building your team and improving your management skills.

❖ Gifts

the
entrepreneur's
success kit



I will embrace my failures along with my successes. I will apply the lessons learned from my failures to great benefit in my business and in my life.

Alignment ❖ Getting Your Ego Out of It ❖ Power of Intention ❖ Freedom

For the definition of "success" and a discussion of the positive power of "failure," see pages 136–142 of the Guidebook.

The Peaks and Valleys exercise, on pages 150–152 of the Guidebook, helps identify the "gifts" that have come from your most difficult moments in life. The written exercises on each of the four major gifts, on pages 144–151 of the Workbook, will help you.

These orange Gifts Cards are companion material to Chapter 5 of *The Entrepreneur's Guidebook for Success*. They will help you identify your failures, turn them around, and use them to your benefit. You will learn:

- ✓ How to create and maintain balance between your personal and professional life
- ✓ How to improve your relationship with partners, employees, vendors, and others
- ✓ How to turn a lost customer into a champion for your business
- ✓ And more . . .

❖ Gifts Card 1: Alignment

Being in "alignment"—self-aware, in touch with your inner currencies, and in work/life balance—is akin to magic, when the entrepreneurial juices flow most freely and success feels effortless. Being out of alignment, however, can be terrible: You feel blocked, frustrated, and out of touch with your core drivers. Being out of alignment is very much like being caught in the forgetfulness (self-delusion) trap. What follows are some telltale signs of being out of whack, and things you can do to get back in alignment. (Also see Achilles' Heels Cards 6 and 7 on finding yourself again.)

Not having fun anymore. There is nothing simpler, or truer, than the measure of whether you are still having fun in your business. This is one of the central themes of this kit: The entrepreneurial journey is to be enjoyed, above all. Although the path has more than its share of difficulties, and mundane—even painful—moments abound, when you are in entrepreneurial alignment you feel a deep sense of contentedness. It is the feeling of being engaged in the "right" thing, the thing you should be doing at this moment in your life. Losing this deep sense of contentment can happen gradually and sometimes unawares. We wake up one day and the joy is gone; the entrepreneurial adventure suddenly feels like a chore or just another job. It is like the color leaving a canvas, this feeling of sudden emptiness.

Feeling distracted all the time. Entrepreneurs in general have a problem staying focused (see Chapter 4 of the Guidebook and Observation Cards 35 and 36 on focus), so it sometimes can be difficult to distinguish between the normal tendency of the entrepreneur to try to do too many things at once and the extreme that is reached when things are truly out of alignment. If you are finding it difficult to concentrate on the basics of your business (writing a client proposal, going through your end-of-month numbers), especially when these are the critical acts that keep your business afloat, you know you have a problem. However exiting your idea or preoccupation of the moment, there is no excuse for being distracted from carrying out your most basic functions as a small-business owner. It is a clear sign of being out of alignment and can lead to the failure of your business.

Lethargy. Another symptom of lack of alignment is simply being tired. Entrepreneurs constantly spread themselves too thin, fail to take needed vacation and rest, and generally "hit the wall." The result, even after some recuperation time, can be like operating on perpetually low batteries. One too many long nights at the office or stressful conversations can put you over the edge, to the point that you become desensitized and generally lethargic.

Blocking out communication. One of the clearest signs of being out of alignment is shutting your ears to wise counsel. I have seen too many entrepreneurs react to the stresses and strains of their fledgling business by effectively going into

❖ Gifts Card 2: Alignment (continued)

a "fortress" mentality—setting up barriers to outside voices and inputs, whether from customers, investors, lenders, coworkers, or loved ones. If you feel put off by people trying to give you help, or become impatient with others' points of view, your business will surely suffer.

Lack of balance in work/life. One of the easiest ways to get out of whack is to let the pendulum of time management swing too far to either of two extremes: obsessiveness around your work, or too much time away from the office. The former is far more common, as many entrepreneurs are chronic workaholics. But sometimes a frustrated entrepreneur who has lost enthusiasm for the venture, or is feeling burned out, checks out for stretches of time.

If you are out of alignment—not having fun, distracted all the time, feeling lethargic, blocking out sage advice, or working too much—there are things you can do to bring yourself back to center.

Take breaks. Although you want to be careful, it is critical to punctuate your entrepreneurial experience with regular rests and vacations, even though it is more difficult truly to disconnect from your daily work as an entrepreneur than in any other profession.

Create boundaries. Whether it is shutting off your cell phone at 8 P.M., or having a policy that customers who lose their temper are cut off from doing business with you, create rules and boundaries that are respectful of your basic human needs. You are not a machine, and you need to create an entrepreneurial lifestyle that allows you to have fun and stay healthy. Creating these types of boundaries often feels difficult (or even potentially damaging to your business) to enforce. Trust that it can be done successfully. You will be much more successful over the long haul.

Hand off responsibility. Feeling out of alignment can be a clear sign that it is time to bring in outside help. At the extreme, it may be time to sell or merge your business with a competitor. Be open to the acts of delegation and handing off of responsibility that will help you get back to being focused and enjoying the journey. (See the discussion in Chapter 2 of the Guidebook on the Holding-on Trap, and Achilles' Heel Cards 8–10.)

Seek out advice. It is imperative that you seek out mentoring relationships as an entrepreneur. These relationships—with seasoned entrepreneurs, angel investors, business partners, and others—function as anchors when you are in danger of floating out to sea. (See Achilles' Heel Cards 6 and 7.)

❖ Gifts Card 3: Getting Your Ego Out of It

Entrepreneurs must learn how to use the positive aspects of ego (charismatic leadership, courage, self-confidence) while avoiding its pitfalls: pride, fear, pettiness, and spite. Battling the ego's negative tendencies can be a full-time job. Here are some places to look for the insidious presence of the ego and ways to combat its ill effects.

<u>Relationship with coworkers.</u> Some of the best ideas for needed change in your entrepreneurial venture will come from people in your business *other* than yourself. Whether you employ dozens of people or just yourself, ask yourself if you are clearly open to feedback from team members. Whatever their stated policy, many entrepreneurs set up unconscious barriers to open communication among team members—either by the way they talk to people in their business, or by severely limiting the amount of time they make themselves available to others. In order truly to benefit from the contributions of others on your team, you need to actively solicit feedback (even highly critical feedback) and encourage dialogue in general.

<u>Relationship with customers.</u> The same thing that happens with employees/team members happens with customers: Communication is unconsciously discouraged through attitude or lack of availability, and valuable feed-

back is missed. As discussed on Gifts Card 6 on trust and surrender, dissatisfied customers can be the greatest asset for learning and improvement your business will ever have.

Disclosure. Entrepreneurs have an unfortunate tendency to severely limit disclosure—whether of poor financial results to an investor or lender, or of product deficiencies to existing and future customers. (See Achilles' Heel Cards 4–7, Observation Cards 13–14, and Gifts Card 5 for further discussion of entrepreneurs' problems with disclosure.) The ego is the primary driver for the entrepreneur's keep-it-close-to-the-vest reflex when under fire. It is the fear of being embarrassed that freezes the entrepreneur's hand. Lack of proper disclosure in building a business can be fatal, as it undermines trust and breaks (at least the spirit and probably the letter of) contractual relationships. If you are having a problem facing up to necessary disclosure in your business, begin gradually, by talking through the issues with a trusted adviser or confidant. He or she can counsel you on how to approach others.

Innovation. The ego does a strange thing to a business: It chokes off innovation. Since innovation means moving from an old way of doing things to a new way of doing things, anybody who doesn't feel totally comfortable with the new paradigm is likely to throw up resistance. This may take the form of resisting a new accounting system, rejecting a new marketing image (without being able to artic-

❖ Gifts Card 4: Getting Your Ego Out of It (continued)

ulate why), or voicing general (but unjustified) discomfort with a new product introduction. Look very closely at where in your business you may be stifling innovation as a result of your ego-based fear. It may sound overly simple, but if you're not sure whether you're being rational in your opposition to a particular business shift, list all the concrete pros and cons of the proposed change. Don't let things be amorphous. If you can't identify clear cons, they probably don't exist.

Changes in control. One of the strongest bastions of the ego on the entrepreneurial path is in relation to potential changes of control in a business. These include bringing in an outside partner or executive to whom significant responsibility will be delegated, selling a large stake in the equity of the business, or even selling the business to another company. The ego almost always resists these changes and comes up with all sorts of ways to justify this resistance, including you are the only one who really understands the business, things will fall apart if you aren't in full control, or you simply know best. Be very wary of these arguments. There are always appropriate moments to cede control in a business, even if that moment hasn't come for you yet, and handing off responsibility and ownership from the original founding team can be a critical element of long-term success. (See Achilles' Heel Cards 8–10, Observation Cards

41–44, and Gifts Cards 1 and 2 for further discussion of handing off leadership and responsibility.)

❖ Gifts Card 5: The Power of Intention

You are already familiar with the power of intention: You have taken a leap—even by simply purchasing this kit—and have embarked on the entrepreneurial journey. What follows are some practical methods for realizing the power of intention.

Set your intention daily. The most successful entrepreneurs the world over have adopted the practice of setting their entrepreneurial intention every single day. Whether it is one minute alone rereading your business plan's statement of purpose, or a half hour with your whole team, find a way to consciously invoke the power of intention. Be consistent and faithful in this. Repetition has great power, and words spoken often, and with conviction, become reality.

Share your intention. Entrepreneurs too often close themselves off to outside input and take on a "fortress," me-against-the-world mentality (refer to Achilles' Heel Cards 3–5 and Gifts Cards 1 and 2). Businesses are most successful when everyone in the company—from the CEO on down—can clearly articulate the company's statement of purpose. Even if yours is a one-person enterprise, share your intention with all of your stakeholders. Communal goals are achievable goals.

Follow the examples of others. I find it incredibly helpful in my own entrepreneurial journey to pick out heroes whom I can learn from and emulate. Some I only read about in books, and some I seek out as counselors and advisers. It is best to pick other entrepreneurs who share, in some respect, the intention of your current business. They do not need to be famous: Often the best entrepreneur is someone who is accessible to you and whom you respect, who is willing to openly share his or her experiences with you.

Stay close to inspiration. The last card in this deck is a recommended reading list for entrepreneurs. While there is no silver bullet when it comes to inspiration, you should search there and elsewhere for works of literature, philosophy, and art that inspire you. To succeed as an entrepreneur you must keep your entrepreneurial intention fresh and focused (see Gifts Cards 1 and 2). One of the best ways to do this is stay close to the sources of inspiration and uplift in your life—literary, philosophical, musical, or other.

Stay close to your currency. In order to succeed as an entrepreneur, self-knowledge comes first. Setting your business's intention, its statement of purpose, must be done on the bedrock of your primary currency. Otherwise, you will probably not succeed.

❖ Gifts Card 6:
Freedom (Trust and Surrender)

True freedom is knowing how to surrender and learn from forces greater than ourselves. On the entrepreneurial path, this means trusting that even our most painful moments in building our businesses happen for a reason and surrendering to the lessons that these difficult moments bestow on us. What follows are a few of the painful experiences—or valleys—of entrepreneurship, together with the opportunities they provide for surrender . . . and learning.

Valley: Lost customer(s). One of the most frustrating experiences is losing a customer. For a fledgling venture, every client is part of the company's lifeblood. Every time you lose an important customer—due to dissatisfaction with a product or service, underpricing by a competitor, poor customer service, or any other reason—it is like taking a body blow. Many entrepreneurs react in defensive mode, firing a salesperson or customer service representative, or desperately seeking out competitive intelligence.

Opportunity: Creating a future champion. There is no more ardent spokesperson for a company's products or services than a customer who has been lured away . . . and has come back. Every time you lose a customer, see it as challenge, an opportunity to learn how you could do your business better and win that customer back. Instead of getting angry or thinking about getting even, see the customer's act of abandonment as a wake-up call. Many world-beating businesses—from Dell Computers to Wal-Mart—owe their very existence to a maniacal obsession with lost customers (or, more to the point, an obsession with *why* customers left them and a burning desire to get them back). If you become completely focused on the customers who leave you, I can almost guarantee that you will be successful in business.

Valley: Lost money. Most entrepreneurs fail two or more times before their first really successful venture. Even when you get it right, or close to right, on your first entrepreneurial try, you are likely to experience firsthand what it feels like to lose your own, or others', money along the way. If you're like me, it is more painful to lose someone else's money than your own, and this is underscored many times when it is the money of trusting family and friends. Yet this is the reality of entrepreneurship: It's a high-risk path, and more than 75 percent of new businesses fail in their first several years. Most entrepreneurs, when going through a failed venture, react emotionally—with feelings running from shame and powerlessness to anger and denial.

Opportunity: Discipline. There is nothing quite like the feeling of losing someone else's money. But the good thing about an experience as painful as this one is that it sticks with you. There is no better way to learn fiscal discipline. If you fully analyze the experience of losing money—including the feelings of shame and anger—you are likely never to do it again! Although it is difficult to carry through, the best thing you can do after losing others' money is sit down and do a full accounting: Why did this happen? What could I have done to prevent it? What were the specific decision points that precipitated the conclusion? What would I do differently next time? These are the critical questions, and the answers—even preliminary answers, right after the fall—should be shared openly and shamelessly with the investors and lenders who trusted you. As with customers who've left and returned, there is no stronger proponent for an entrepreneur than an investor who has previously lost money with him or her . . . and come back to the table.

Valley: Bruised relationships. One of the most common complaints entrepreneurs have is the way their business tends to encroach on important personal relationships. Even the best-intentioned entrepreneurs tend to take their work home with them and let it percolate into every part of their life (see Gifts Card 2). As a result, family members, loved ones, and friends often feel like they are taking a backseat to the entrepreneurial venture. This can be particularly frustrating for us: we are pained by people around us who fail to understand the importance of our entrepreneurial dream chasing, or we rationalize to ourselves that we are "doing it for them." Relationships with loved ones who are *not* involved with the business are not the only personal relationships that end up bruised in the entrepreneurial fray. More than half of all businesses are started with friends, and these friendships tend to get stretched and strained under the pressure of starting a business. Many entrepreneurs I have worked with over the years count busted relationships with business partners/friends as the single most painful aspect of their experience. Sometimes the breakup of the relationship was necessary from a business perspective, but that does not make it any easier.

Opportunity: <u>Prioritization.</u> It's hard to find the positive side to bruised personal relationships, but as with every painful experience, there is an embedded blessing. For the entrepreneur open to the lessons that life is dealing, falling out with a business partner or being reproached by a loved one can snap things back into perspective—or alignment. On the entrepreneurial path, the best way to learn how critical it is to prioritize personal relationships above business is to go through the consequences of *not* doing it. And if you are able to articulate this hard-learned lesson to the loved one who became deprioritized or the friend who was disenfranchised, the relationship will often recuperate and flourish.

Enjoy the Journey:
Embracing Success and Failure

SELECTED RESOURCES

BOOKS

- *Who Moved My Cheese? An Amazing Way to Deal with Change in Your Work and Life* by Spencer Johnson. Presented through a simple parable, a guide to seeing change in your life as a blessing rather than a curse.
- *More Balls Than Hands: Juggling Your Way to Success by Learning to Love Your Mistakes* by Michael Gelb. Accelerate your learning and be open to mistakes.
- *Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time* by Howard Schultz. Schultz walks you through his peaks and valleys as an entrepreneur and big-company CEO.
- *The Startup Garden: How Growing a Business Grows You* by Thomas Ehrenfeld and James C. Collins. A nonformulaic book about the journey of entrepreneurship.

- *How to Change the World: Social Entrepreneurs and the Power of New Ideas* by David Bornstein. Courageous and inspiring entrepreneurial leadership in the not-for-profit sector.

- *The Five Dysfunctions of a Team: A Leadership Fable* by Patrick M. Lencioni. A story of how to overcome leadership challenges.

ONLINE AND OTHER RESOURCES

- Zen Entrepreneur On-Line Course (www.zenentrepreneur.com). An e-mail-based course designed to help you balance spiritual and work life, and find your own "career warrior's path."

OTHER

- Siddha Yoga Meditation (www.syda.org). Courses and seminars on meditation and centered living, taught throughout the world.

- Life Learning Institute (www.lifelearninginstitute.com). Consulting help for individuals and organizations on finding balance in corporate life.

- *Startup.com* (2001), directed by Jehane Noujaim and Chris Hegedus. If you want to see your author's past travails, try this documentary on one of my business's dramatic ups and downs. Yes, Tom and I are still friends.

Top 25 Reading List for Entrepreneurs

There are lots of business reading lists out there, for both entrepreneurs and traditional corporate managers. The following list is not "tool kit" oriented—it does not purport to include everything you need to know. Instead, it draws from various genres and has been selected based on a combination of relevance, readability, and broadness of scope/applicability. Many of the following titles are listed on the Resource Cards at the end of each Adviser Card section.

ANECDOTAL/INSPIRATIONAL

- *The Alchemist* by Paulo Coelho. Discover your "personal legend."

- *The Greatest Salesman in the World* by Og Mandino. Some consider it to be the best self-help book of all time. A great self-discovery tool.

- *Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time* by Howard Schultz. Schultz walks you through his peaks and valleys as an entrepreneur and big-company CEO.

- *Siddhartha* by Herman Hesse. Based on Buddha's path of self-discovery. Read with an open mind, and an eye toward the bigger picture.

- *The Soul of a New Machine* by Tracy Kidder. This story of entrepreneurial energy—and determination—is timeless.

- *The Tipping Point: How Little Things Can Make a Big Difference* by Malcolm Gladwell. How minor advances in products and ideas can tip the scales toward enormous popularity. Inspiration for innovators of all stripes.

- *Touching the Void* by Joe Simpson. This true mountaineering story exemplifies with astounding power the invincibility of the human will.

GENERAL MANAGEMENT

- *The 7 Habits of Highly Successful People* by Stephen Covey. Tips from the master on how to leverage your strengths, blunt your weaknesses, and prioritize.

- *Built to Last: Successful Habits of Visionary Companies* by James C. Collins and Jerry I. Porras. The authoritative work on how to transition from entrepreneurial enterprise to a long-term, sustainable company.

- *In Search of Excellence: Lessons from America's Best-Run Companies* by Thomas J. Peters and Robert Waterman. Not aimed at entrepreneurs or start-ups but a need-to-read nonetheless.

- *Getting to Yes: Negotiating Agreement Without Giving In* by Roger Fisher and William Ury. The classic book on how to create win-win outcomes.

Top 25 Reading List for Entrepreneurs (continued)

- *The One Minute Manager* by Kenneth H. Blanchard and Spencer Johnson. Simple goal-oriented leadership techniques for managers.
- *The Essential Drucker: The Best of Sixty Years of Peter Drucker's Essential Writing on Management* by Peter F. Drucker. Not aimed at the entrepreneurial class but still the best overview of general management issues.
- *Who Moved My Cheese? An Amazing Way to Deal with Change in Your Work and Life* by Spencer Johnson. Presented through a simple parable, a guide to seeing change in your life as a blessing rather than a curse.
- *Servant Leadership: A Journey Into the Nature of Legitimate Power and Greatness* by Robert K. Greenleaf. A challenging book that helps leaders find their inner power and moral authority to lead.
- *Execution: The Discipline of Getting Things Done* by Larry Bossidy, Charles Burck, and Ram Charan. Addresses the often-overlooked "missing link between aspirations and results."
- *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail* by Clayton M. Christensen. How large companies and entrenched practices can get displaced by entrepreneurial enterprise.

- *Competitive Strategy: Techniques for Analyzing Industries and Competitors* by Michael Porter. Even for a start-up entrepreneur, a must-read.

ENTREPRENEURS

- *How to Think Like Leonardo da Vinci: Seven Steps to Genius Every Day* by Michael J. Gelb. The title tells it all.
- *Feel the Fear and Do It Anyway* by Susan Jeffers. How to overcome doubt.
- *The Startup Garden: How Growing a Business Grows You* by Thomas Ehrenfeld and James C. Collins. A nonformulaic book about the journey of entrepreneurship.
- *Getting Business to Come to You: A Complete Do-It-Yourself Guide to Attracting All the Business You Can Enjoy* by Paul Edwards, Sarah Edwards, and Laura Clampitt. Chock-full of practical tips on how to do your own advertising, public relations, direct mail, and sales promotions.
- *Selling the Invisible: A Field Guide to Modern Marketing* by Harry Beckwith.
- *Business Plans That Work* by Joan Gillman and Sarah White.
- *What No One Ever Tells You About Starting Your Own Business: Real Life Start-Up Advice from 101 Successful Entrepreneurs* by Jan Norman. Anecdotal but helpful; rife with stories of mistakes to avoid.

Top 25 Other Resources for Entrepreneurs

Here are some other resources that I have found useful, from helping me to get motivated in general to locating appropriate accounting software. Many of the following resources are also listed on the Resource Cards at the end of each Adviser Card section.

FREE RESOURCES

- Bplans.com (www.bplans.com). Cash flow calculators, marketing plan templates, legal advice, and more. (Paid products sold here as well.)

- *Entrepreneur* magazine Web site (www.entrepreneur.com). Constantly updated, comprehensive site on various issues of practical interest.

- vFinance (www.vfinance.com). Search for prospective angel and institutional venture capital sources.

- Venture Reporter (www.venturereporter.net). Database for searching venture capital activity by industry, geography, time frame, amount, etc.

- Fortune Small Business Web site (www.fortune.com/fortune/smallbusiness). Aimed at post-start-up businesses only.

❖ U.S. Small Business Administration (www.sba.gov). Rich with resources.

❖ Small Business Center (www.smallbusinesscenter.com). Basic links to government grants for start-up businesses.

❖ Ashoka (www.ashoka.org). Leading social entrepreneurship development organization. If you have ever thought of turning your energy in a not-for-profit direction, this is a great place to start.

❖ Siddha Yoga Meditation (www.syda.org). Courses and seminars on meditation and centered living, taught throughout the world. (Paid seminars advertised here as well.)

PAID PRODUCTS/SERVICES

❖ Venture Architects (www.venturearchitects.com). Outside help in developing your first (or second or third) business plan. Be ready to spend, however.

❖ Dattner Consulting (www.dattnerconsulting.com). Outside help building your team and improving your management skills.

❖ The Enneagram Institute (www.enneagraminstitute.com). Identifying your personality type using the Enneagram system.

❖ Career and Personality Tests Online (www.discoveryourpersonality.com). Various self-assessment tools, including official Myers-Briggs Type Indicator.

Top 25 Other Resources for Entrepreneurs (continued)

- The Company Corporation (www.corporate.com). Self-service corporate registration (LLCs, S-Corps, C-Corps, etc.).
- Internet Legal Resource Guide (www.ilrg.com). A free legal documents archive.
- US Legal Forms (www.uslegalforms.com). Choose from more than 25,000 legal forms, for personal and business use.
- American Bankers Association (www.aba.com). Assistance in searching for a commercial banking relationship.
- QuickBooks software (www.quickbooks.intuit.com). The most popular small business accounting tool.
- *Entrepreneur, Fast Company, Fortune Small Business.* General-interest monthly magazines aimed at the entrepreneur/small business manager. More of a technology bent: *Business 2.0, Wired.*
- U.S. Chamber of Commerce (www.uschamber.com). The Chamber's Web site includes a useful Small Business Center (www.uschamber.com/sb), but the greatest value is making a connection with your local branch.

MOVIES

- *The Gladiator* (2000), starring Russell Crowe and Joaquin Phoenix. (Be aware that it is violent.)
- *Jerry Maguire* (1996), starring Tom Cruise, Renée Zellweger, and Cuba Gooding, Jr.
- *Touching the Void* (2003), with Joe Simpson and Simon Yates. This striking mountaineering story parallels the path of entrepreneurship.
- *Groundhog Day* (1993), starring Bill Murray and Andie McDowell. We learn that we can create wholly different realities based on the same set of original choices—the entrepreneur's secret.
- *Startup.com* (2001), directed by Jehane Noujaim and Chris Hegedus. If you want to see into your author's past travails, try this documentary on one of my business's dramatic ups and downs. Yes, Tom and I are still friends.