The Entrepreneur’s Toolkit
Course Guidebook

Professor Michael G. Goldsby
Ball State University
Professor Michael G. Goldsby is the Stoops Distinguished Professor of Entrepreneurship and Executive Director of the Entrepreneurship Center in the Miller College of Business at Ball State University. Professor Goldsby earned his undergraduate degree in Business Economics and Public Policy from the Kelley School of Business at Indiana University, his master’s degree in Economics from Indiana State University, and his doctorate in Strategic Management and Business Ethics from the Pamplin College of Business at Virginia Polytechnic Institute and State University (Virginia Tech). While at Virginia Tech, he was awarded the Jack Hoover Award for Teaching Excellence.

Professor Goldsby’s current research interests focus on recognition and development of opportunities, design, innovation, and applied creativity. He specializes in offering guidance during times of creation, change, and growth. As such, he is a frequent speaker to companies, communities, and universities and offers consulting and workshop services. Professor Goldsby also is a member of many management professional organizations. He has served as vice president and a member of the board of directors for the United States Association of Small Business and Entrepreneurship (USASBE), from which he received a distinguished service award. In addition, he serves on the advisory board of the Indiana Small Business Development Center.

Professor Goldsby has produced 35 refereed journal articles and coauthored *Innovation Acceleration: Transforming Organizational Thinking*. His research has been reported by major international media outlets, including ABC, NBC, CBS, MSNBC, CNN, and the Associated Press. His study on entrepreneurship and fitness was covered by *Runner’s World, Prevention* magazine, *Muscle & Fitness*, and *Health* magazine, among others. His article in the *Journal of Applied Management and Entrepreneurship* won the Paul
Hershey Award for best paper in the journal. He also received the Editor’s Choice Award for best overall paper from the *Journal of Small Business Management* at the 2014 USASBE national conference.

In his spare time, Professor Goldsby enjoys athletic pursuits, such as running, triathlon competition, weight lifting, rock climbing, golfing, skiing, and cycling. He has run 25 marathons, including 8 Boston Marathons, and completed his first IRONMAN Triathlon in 2012. ■
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Scope:

According to the Small Business Administration, about half of all small businesses fail within their first five years of operation. How can you become one of the success stories? In this course, you will acquire the practical intellectual tools to build your enterprise from the ground up, allowing your new company to flourish even in the most tumultuous business environment. Your professor, an award-winning lecturer from one of the nation’s top business schools, will guide you through the process step-by-step.

The course starts with practical approaches to discover great business ideas all around you. Even if you already have a great business idea, these approaches will help you imagine it in a new way and make it even better. You will examine what entrepreneurship is and what entrepreneurs do.

The second lecture describes how to create a proof of concept that helps you develop and refine your business idea. Understanding who the real customer is and what the real problem is forms the basis for creating the proof of concept. Finally, we discuss how to prototype the idea and monetize the concept.

Eight lectures examine one of the greatest stumbling blocks for entrepreneurs—building and writing a strong business plan. All the key concepts are covered: how to grab your reader’s attention with an executive summary and a sound business description, how to conduct market research and analysis, how to line up a management team that will win investors over, and how to organize your operations. Even if you decide that your business doesn’t need a business plan, this section of the course will introduce you to all the key concepts you need to run your business.

You will learn how to take the business concept to market. Key topics include market forecasting, taxes and insurance, managing working capital, effective use of technology, identifying a strong location, and general strategy and
decision making. You will learn how to shape your customers’ experience to keep them coming back to your business and the importance of building a brand.

Along the way, you will build a toolkit of essential skills to help ensure that your business is successful. You can begin using them immediately, and they will continue to be useful long after you’ve finished these lectures. You will learn how to use Porter’s Five Forces Model, how to conduct a SWOT analysis, how to conceive a testable theory of business, and how to conduct effective primary and secondary market research.

The course finishes by looking at the personal challenges entrepreneurs face once their businesses are up and running, including the complexities of family businesses and the challenges of entrepreneurial leadership and entrepreneurial exhaustion, as well as the existential issues entrepreneurs face on reaching major success. By tracing this arc from startup to exit, you will become aware of the challenges an entrepreneur faces during all the stages of the business journey.
When you think about great business ideas, you might imagine the exploits of maverick entrepreneurs who hit it big. The obvious names come to mind of course: Bill Gates, Steve Jobs, Walt Disney. We hear about how they started in garages and basements and built huge, successful companies. Or you might imagine big biotech companies, with award-winning scientists and expensive research labs, bringing new ideas and new products into the world from the frontiers of science. This vision of successful entrepreneurs and great businesses might be as daunting as it is inspiring, especially if you’re thinking about starting a business of your own. But vast resources and brain power alone couldn’t guarantee that these people would come up with the next great idea. If access to resources could guarantee success, then the same companies would always remain at the top of their industries. But that doesn’t happen. The bottom line is that the great ideas that made Bill Gates and Steve Jobs successful can be discovered and brought to the world by anyone who’s willing to take the time to learn the right skills and build the right toolkit to get it done.

Think like an Entrepreneur

- Where do you find great business ideas? The answer is about keen observation: Look for what’s missing in the world and figure out a way to create it.

- Most people think about problems in negative terms, as a crisis, a disaster, or a barrier. For an entrepreneur, every problem that arises from daily life represents an opportunity, because the best way to create the next big product or service is to solve a problem and improve people’s lives. When you begin to see problems as opportunities, you quickly realize that great business ideas are all around you.
Find Opportunities in Problems

- This exercise is a real tool that you can begin using immediately: Every time you notice a problem or frustration in your life, every time you hear someone else complaining about a problem, record that problem in a notebook or on whatever piece of technology you favor. You want to start seeking out problems and creating a list of opportunities.

- Eventually, you will start thinking about the types of things that bother people as a chance to create a product or service that people are sure to love.

- When entrepreneurs solve customers’ problems, they improve their lives. If you can offer a great solution to a big problem for enough people, then you have the beginnings of a great business.

- Let’s look at an example:
  - Kevin Brooks is an airbrush artist in Louisville, Kentucky. He’s also an entrepreneur and has learned to think like one. He’s spent his working career custom painting cars in his shop and has been very successful, but he’d been looking for another revenue stream to add to his business. He struggled with finding a good idea, and then the answer practically fell in his lap, or maybe fell on his head.

  - Kevin’s a triathlete, and his friends and family come to his races to support him, but they’ve always had a hard time spotting him among the thousands of racers. After asking other triathletes, Kevin realized that many other people also had this problem.
Thinking like an entrepreneur, he recognized that this problem was really an opportunity and he worked on a solution. He used his airbrush skills to paint a unique picture on his bike helmet to make it easy for his family to spot him. Brooks Airbrush Studio now customizes helmets for top professional triathletes and recreational racers alike at $400 a helmet, and Kevin gets to mix his love of triathlons with his skills as an artist.

Find Your Customers

- Most people think of the customer as the person who pays for a product or service, and technically, that’s true. But it doesn’t necessarily mean that the person paying the bill is the person making the decision. Ask yourself who really chooses the Cap’n Crunch over the Special K: mom or child? Who is the real decision maker? Whose problem do you actually need to solve?

- Another way to define who your real customer is involves life circumstances. For example, a young man might fall in love with a used Porsche 911 and save enough money to buy it, but consider the following:
  - As long as he’s under 25, the cost of insurance will be prohibitive, and his parents will require a more solid, safer choice.
  - When he’s a family man, his wife and kids are going to need a minivan.
  - Not until much later in life will he be the real customer and be able to purchase his dream car.
• What if several people are involved in the buying decision? Analyze the network of people who affect the buying decision—the city council, let’s say, or a board of directors—to discover who your customer is.

• Success depends on knowing who your customer really is and what the problem really is.

Write a Challenge Statement

• A challenge statement reframes a problem so that you can think about it in a way that generates ideas and solutions.

• Start with the words, “How might I (or we) …” and refine the problem until you arrive at a specific point where you can focus your ideas and creativity. Let’s look at what Kevin Brooks might have written for a challenge statement:
  ○ “How might I be recognized by my family and friends during my races?”
  ○ “How might I be more visible in the race?”
  ○ “How might I establish a unique identity in a race with thousands of people?”
  ○ That final question offered factors that Kevin could capitalize on: (1) With a unique identity, he’ll stand out from the crowd and be spotted by his family, and (2) a unique identity will allow him to express himself as a person and a competitor.

Uncover the Unknown Problem

• Successful entrepreneurs believe they can surprise their customers with a solution to a problem they didn’t realize they had.

• Steve Jobs believed that customers consciously don’t always know what they want. Jobs was fascinated by Edwin Land, the inventor of the Polaroid camera, and his ability to create products other people
during his time couldn’t even imagine. Jobs met Land and applied his lessons in building Apple into an innovation powerhouse.

- Land himself said that the most important part of the process was not finding the solution itself—the camera—but finding the problem—how to provide instantaneous pictures. In Land’s words, the moral of the story is: “If you can define a problem, it can be solved.”

- For whatever reason, in 1877 Thomas Edison took it upon himself to tackle the following problem: “How might I record the human voice?” After sensing the opportunity, he quickly came up with the solution: a waxed disk. As ingenious as his waxed disk was, the real creativity in this invention wasn’t discovering the solution but discovering the problem.

- The most innovative entrepreneurs find problems others haven’t solved yet. And that can be accomplished by changing the way you phrase the problem. It’s an ingenious way to stand out in a market.

Questions to Consider

1. Consider three problems or challenges that you’ve encountered in the past week. Write a challenge statement for each one to see how it might help you create an opportunity.

2. Name a company that connects with its customers at a very deep human level. How does the company do this?
Entrepreneurs often invest a lot of time and energy developing an idea. They might be absolutely sure they’ve got a great business idea, guaranteed to succeed. They write a business plan and sink their life savings into executing it. Maybe they persuade their friends and family to invest as well. Anyone thinking about starting a business must be aware of this fact: 7 out of 10 businesses fail within the first few years of operation. Now, many mistakes contribute to these failures, but many are avoidable if you spend time planning, preparing, and getting to know the market before you enter it. The key thing to remember is this: A great business idea is still only an idea. In order to turn your great business idea into a great business, you must align it with the reality of the world around you and ground it in that reality before committing resources to it. This is called market research.

What Is Market Research?

- Market research helps you define your market and learn as much about it as possible.

- A market consists of
  - The customers: Who are they? Why would they choose your product or service?
  - The industry: What is it like?
  - The competition: Who or what is already in the market?

- As an example, let’s say you want to open a coffee shop near a local university because you drive by every day and see long lines of students waiting to get a cup of coffee.
Who Are Your Customers?

- Begin by creating a customer profile—a very specific description of the person most likely to become your customer. You know that if you could build a more efficient coffee shop, students would likely become your customers because they would no longer have to wait in long lines.

- In this example, you think your customers are college or graduate students between the ages of 18 and 25. The more specific your customer profile is, the more focused and successful your marketing will be.

- Among other things, your customer profile will guide your choice of marketing vehicles. For example, will you run print ads, advertise on Facebook, publish magazine articles, or launch a Twitter feed?

What Is the Industry Like?

- An industry is a group of companies that work together or compete with each other to provide a product or service.

- Like all industries, the coffee industry includes not only the shops or stores that sell coffee but the coffee itself, the growers, the plantation suppliers, the transporters, the distributors, and the suppliers to the coffee shops: dairies, flavoring makers, paper goods manufacturers. Clearly, an industry can be much larger and more complicated than it appears initially.

- The coffee industry is sensitive to trends: organic coffee, fair-trade coffee, green beans, mature beans. Knowing industry trends is essential to creating your menu to be competitive and offer what your customer wants.
**Who Is the Competition?**
- A direct competitor competes with you by selling the same primary product or service; in our case, the competitors are all the other coffee shops in the area.

- An indirect competitor offers a similar product or service as a part of a wider offering; in our case, indirect competitors would be other stores that sell coffee but don’t specialize in it, offer the same selection, or create the same atmosphere, such as convenience stores, grocery stores, or fast-food restaurants.

**Conduct Primary and Secondary Market Research**
- Primary market research is the information you gather yourself using surveys, questionnaires, focus groups, and one-on-one interviews. Secondary market research is data you gather from other sources.

- Government reports, chambers of commerce, and trade associations are good sources for secondary market research, as is your local Small Business Development Center, or SBDC, which offers free business advice to aspiring entrepreneurs. You can find your local SBDC through www.sba.gov.

- Google Trends can help you find seasonal sales patterns in your industry and tell you what’s going on in the industry as a whole. You can uncover population statistics and demographic breakdowns on government sites, such as www.census.gov, as well as private sources, such as www.hoovers.com and www.bloomberg.com.

- Conducting secondary research first will give you the basic information you need to start your business: where to locate, who your likely customers will be, and why they will be interested in your product. But you still must answer a number of other vital questions:
  - What about the older people in the university area, professors, administrators, staff, retirees, and the like? Might they also be a potential market?
○ Does this demographic group frequent coffee shops? If not, why not?

○ How might you draw them to your coffee shop?

- The answers to these questions come only from primary market research: Go out and ask your target audience. Ask people what they want and why they do what they do. You can gather invaluable on-the-ground intelligence that you can then examine for trends and patterns that will help you build a specific customer profile.

- In much the same way, you can use primary and secondary research methods to learn more about your industry. For example, you could take a part-time temp job as a barista in the existing university coffee shop to learn the ins and outs of the business day-to-day: the daily activities and different positions of the people who work there, the key players and their strengths and weaknesses, the way the shop works, and the frustrations of its customers.

Understand the Five Critical Success Factors

- Talk with industry experts, people who own or manage similar businesses, people who write articles for trade magazines or other publications, even suppliers for the industry—people who sell products and services to other people in the industry.

- Ask them what are the five critical success factors in that business—the next tool we add to our toolkit. Ask your expert, “If you could give someone advice on starting a company in this industry, what are the five things you absolutely must do to stay in business?” Every industry is going to have its own critical success factors and asking industry experts is the best way to learn them. When you complete this exercise, you will have a list of action items that you must address to build your business.

○ Trade shows are a great way of meeting industry leaders, becoming familiar with the current trends, and seeing what kinds of challenges and opportunities lie ahead.
Industry publications and journals offer a wealth of current information about what industry professionals are thinking: their concerns, ideas about the future of the industry, trends, and pitfalls.

As an assignment to accompany this course, why not sign up for an industry-related magazine subscription or plan to attend an industry-related conference?

Create a Competitive Landscape Table

- Suppose the five critical success factors for running a restaurant were quality of food, hours of operation, a family-friendly environment, excellent service, and a convenient location. Now go out and find the key competitors in your marketplace. With this information, you can make a competitive landscape table.
  - Make a table where the $x$-axis columns list all the restaurants and the $y$-axis rows contain the five critical factors.
  - For each critical factor, create a 1 to 5 scale for scoring.
  - Score each restaurant in your local market that you think you’re competing against.
• Once you’ve scored all your competitors, you’ll see what factor each company competes on and who else is competing against those dimensions. The table is a great tool for thinking about who is in your market and what separates them from each other. Then you can think about what part of the market you want to compete in.

• When you create competitive landscape tables, get as many people involved as you can. Your assessment of the competition will certainly be valuable, but if you really want it to get to the needs of your customers, ask them to fill it out as well.
  ○ Create your customer profile.
  ○ Find people who fit that profile.
  ○ Ask them to participate in a survey, using your competitive landscape table to rate their coffee-shop experience. What do they think is most important? How do they value the product or service provided? Always remember how valuable your primary market research is.

• The bottom line is that you need to take the time to understand your market. You can use these tools to help you uncover essential information about your business before you invest a lot of time, effort, and money in it.

• Starting a business is risky. It will always be risky—that’s unavoidable. But risk is manageable as long as you understand the risk you’re taking on. There are ways to answer questions when there are no “right answers.” There are ways to prepare for the risks you will face and navigate them successfully. Success hinges on how well you understand your customer, your industry, and your competition. Successful entrepreneurs take calculated risks, and they mitigate risk by doing their homework. Great entrepreneurs know that success is based on preparation.
Questions to Consider

1. Pick an industry that interests you and identify the five critical success factors a company must meet in that industry. Try to answer this question using primary and secondary resources. Find three articles to read and talk to three people in the industry.

2. Think of a business idea you or someone you know has had and ask yourself these three questions:
   a) If I develop this idea, what industry am I entering?
   b) Who would my customer be? Include as much detail about your customer as you can.
   c) Who would consider me a competitor?
Investors think you’re out of your mind if you approach them with a business idea that you haven’t proved. You can think of many products and services that customers would love to have, but making them happen would require too many resources or too much risk, or might be impossible to produce and distribute profitably. If you’re working out the details of how to build a hotel on the moon and get your customers there, please don’t stop. The point is that you have to be prepared to demonstrate that your idea is actually possible.

**Demonstrate Your Idea**

- The Air and Space Museum is a great lesson not only in technology but in entrepreneurship. At the museum, we can see the first airplane invented by the Wright brothers. The main challenge in those early days of flight was getting a heavier-than-air object off the ground to soar in the air for a while. Other challenges included figuring out how to propel the plane, lift it in the air, and control it while having a person onboard. For many people in those days, these challenges sounded just as impossible as building a hotel on the moon sounds to us today.

- Big companies of the day weren’t that interested in getting involved in figuring out how to make flight work because they didn’t want to address those difficult challenges. But after 1903, the U.S. government started to invest heavily in flight. Soon modern air travel became a thriving industry. What changed? The Wright brothers showed that flight was possible by building a prototype—a working model of how their idea would work.
Write a Theory of Business

- Coming up with a theory of business and building a prototype will focus your business idea, demonstrate that it’s possible to deliver, and most important, show that it supplies what your customer really wants.

- Theories are really explanations for why one thing causes something else—a very straightforward “if … then …” structure. But theories also go a step further to explain why something happened. If $x$ happens, then $y$ happens because of $z$: if … then … because … .

- A theory of business is not the same as a mission statement or business plan pitch. They serve a different purpose and they’re meant for a different audience. Your theory of business is meant to help keep you focused on what you’re doing, how you’re going to do it, and why.

- Let’s look at examples of business theories:
  - **Blockbuster:** If a company designs a store that offers a wide selection of the latest movies and has a clean, showroom-like appearance … Then people will visit that store instead of other stores … Because they’ll be sure to get the movie they want and they’ll have a great experience.

  - **Netflix:** If a company offers a video rental service that people can use from home and offers long-term rental times without the fees … Then people will rent from that service instead of Blockbuster … Because they will be able to save time and money.

- Blockbuster offered a big-box-store approach where people could browse for what they wanted to watch, and since a lot of people are busy, lazy, or forgetful, they’d often bring the rentals back late and incur fees that made Blockbuster a lot of money. Blockbuster’s theory worked for a long time, but then Netflix changed the customers’ expectations. Netflix’s theory explained customer behavior better than Blockbuster’s and led to some
hard times for Blockbuster. In the meantime, Netflix continues to thrive through adaptation to alternative ways of receiving entertainment content.

**Build a Prototype**

- Building a prototype—a physical expression of your business idea—shows you whether you’re on the right track. You are essentially constructing a proof of concept, proving that your business concept is feasible. Taking the time to build a prototype will make your idea significantly better, and whatever time and money you spend building it will pay dividends later in both savings and earnings.

- Building a prototype answers three important questions:
  - Is my idea economically viable?
  - Is it technically viable?
  - Is it what my customers really want?

- IDEO, the world’s leading design firm, has created products we use every day. Some time ago, IDEO built a prototype to develop a concept for a breakthrough medical instrument for nasal surgery.
  - IDEO met with the medical advisory board of the surgical company to discuss what surgeons wanted in the new device. Ideas were flying around the meeting about what the instrument should look like, but the group was having a hard time grasping the general design of the product.
  - Then one of IDEO’s young engineers bolted from the room and grabbed some materials he found lying around the office. He picked up a whiteboard marker, a black plastic Kodak film canister, and a clothesline clip. He taped the canister to the whiteboard marker and attached the clip to the lid of the film canister. The result was an extremely crude model of the new surgical tool. That initial crude prototype got the project rolling.
• One of the primary purposes of a prototype is to allow you to build something that the customers can see and touch to decide if it will actually give them what they want. Examples of great prototypes that made great business ideas a reality include the Super Soaker squirt gun and the Apple I computer.
  ○ The first Super Soaker was built with an air pump, a series of check valves, PVC pipes, plastic tubing, and a two-liter soda bottle.
  ○ The Apple I consisted of a motherboard and keyboard attached to plywood.
  ○ The Super Soaker tallied over $200 million in sales, and the Apple I provided the technical foundation for Steve Jobs and Stephen Wozniak to revolutionize the computer industry.

• IDEO was challenged to take something old and familiar—a shopping cart—and completely redesign it in just five days. Here’s what the company did:
  ○ Ask the people who are most familiar with shopping carts what they would do to improve the design. IDEO calls this part of its process “the deep dive”—total immersion into the customer’s problem.
  ○ Interview people who make, repair, and use shopping carts every day.
  ○ Talk to store managers and learn about child safety issues and how shopping carts are frequently stolen.

• IDEO learned that if it focused on four specific problem areas, it could redesign the shopping cart and resolve almost all the problems people were having. The company built four different prototypes to address each of these problem areas and then merged all the prototypes into one that included all the changes. By building this prototype IDEO learned what materials it would need and got a sense of how the cart would be assembled and how it might work.
Then IDEO took the prototype back to the original interviewees and let them inspect it and actually try it out. Putting a prototype into the hands of the people who will use it is invaluable. It gives people an opportunity to explore it from every angle. Their feedback on your prototype can be incorporated into your final design; they’ll tell you what works and what doesn’t.

By building a prototype you will have the opportunity to test the technical and economic feasibility of your idea. Is it possible as you originally thought of it? Or does it need to be tweaked to make it practical? These are the kinds of questions prototypes answer for you.

When an idea is just in your head, it’s often vague. But when it’s brought out into the real world, you can explore the intricacies of what you’ll be dealing with. It’s the difference between getting an idea of a city by looking at it on a map versus actually going there. You go from the conceptual to the concrete. If a picture is worth a thousand words, then a prototype is worth a million words.

**Conduct Market Research**

Quantitative market research is data driven and logical. Its purpose is to provide a measure of what people think from a statistical or a numerical point of view, and it usually takes the form of questionnaires and surveys. The questions are asked in a structured way, and the answers are measurable (degrees; strengths of feeling, such as strongly agree or strongly disagree; or scales, such as 1 to 10 or positive to negative). Framing questions in this way yields hard numbers to draw conclusions from and help guide decisions.
- Qualitative market research is about finding out what people think and why they think it. It focuses on how people feel and is personal and subjective. It’s about getting people to talk about their opinions, through in-depth interviews and focus groups, so you can better understand their motivations, associations, and behavioral triggers. Another method is to study your target audience, with their permission, in their natural habitat, like an anthropologist doing field research.

**Questions to Consider**

1. Write a theory of business for your business idea. Be sure to put it in the “If … then … because” format.

2. Think of one of your business ideas. How could you create a proof of concept to show the idea to others?
You can come up with a great idea, you can do the research and show there’s a market, and you can build a prototype to prove you can make your idea a reality. But if you don’t have a clearly conceived way for your business to make money, you will be in trouble. One of the first questions experienced investors and bankers ask is: “How does your company make money?” You’d better have a good answer if you want to hear from them again. Surprisingly, many entrepreneurs have not explored this question because they haven’t given enough thought to their business model. For an entrepreneur, a business model describes the way the business makes money.

**Business Model versus Business Plan**

- Tim Berry, a successful entrepreneur and author of numerous books on business planning, sums up the distinction between a business plan and a business model pretty well: Your business model is like a destination; the business plan is how to get there.

- There’s certainly some overlap between the business model and the business plan. Both describe your marketing strategy, both discuss attracting and retaining customers, and both discuss location and competition. But the focus of the business model is on how you make money, while the business plan describes the business structure, detailed financial information, and staff and equipment needs.

**Simple versus Complex**

- Five Guys Burgers and Fries has a simple and focused business model. It offers great hamburgers and great french fries to hungry people. The menu is simple; even the décor is simple: potato sacks and newspapers. It works, and how the business makes money is clear.
• Business models can also be quite complex, and it’s not always clear how the business is making money. Companies like Google, Facebook, and Twitter offer a free service to attract users and then get their revenue by promoting other companies and selling them advertising space and other services. For a while their business models were spotlighted regularly in the news because the source of their revenue stream was unclear.

• Companies can be creative with their business models and make profits in surprising ways, but for the most part, there’s nothing particularly magical about a business model. For example, look at a golf course:
  ○ A golf course makes its money in the rental cart business. The course fees you pay to play a round of golf cover the costs of the course’s fixed assets and maintenance. If everyone walked, the course would probably break even.

  ○ But few people walk a golf course anymore. At least 90 percent of the people who go golfing rent a cart. After you charge $20 to put some gas or electricity into one of those little vehicles, you’ve got a nice profit margin. When you sell beer to go with it, you make even more.

  ○ This example emphasizes one important fact: You need to think carefully about how your business will make money and about what you have to do really well to get people to buy from you.

Components of the Business Model
• Your business model includes much of the information you learned while doing your market research and making your prototype, but a few other elements will help you tie all your data together in a way that tells the story of how you plan to make money from your business idea.
A business model includes six basic components, and getting these right is essential. Here are the questions to answer:

- How are you different from your competition?
- How much will you charge for your product or service?
- How will you reach your customers?
- How will you sell your product or service?
- How will you produce and deliver your product or service?
- What steps will you take to be sure your customers come back?

**Component 1: Differentiation**

- The information you learned from identifying your direct and indirect competitors and by making your competitive landscape table will be useful while thinking about this part of your business model because that exercise helped you identify the strengths and weaknesses of the competition in your industry. What you need to know about your competition for your business model is how your product or service is positioned to highlight its true value. To determine true value, answer these two questions:
  - Which features and benefits of your product or service are most important to your customers?
  - Which of these features and benefits can your business do a better job of providing than the competition?

- The answers reveal what distinguishes you from the competition: a product or service nobody else has; the best customer service or the best location; better convenience or quality. The answers could be almost anything, but they should highlight specific advantages.
Component 2: Pricing

- The second basic component of your business model, how much to charge for your product or service, is critical because it announces what kind of market you’re pursuing and what its potentials and challenges might be. Building the prototype offered insight into how much the product actually costs to make; that knowledge will, to a large extent, determine your pricing decisions.

- To state the obvious, for your company to survive, your product’s price must exceed its overall cost. Some experts recommend adding 25 percent to 50 percent to each cost component to prevent underestimating.

- Location is another major consideration in setting your prices: Whether you are selling a product or a service, the location of your business will affect how much you can charge for it. A trendy bar in a high-rent district can get away with charging $10 for a beer; a pub in an industrial park cannot.

Component 3: Marketing

- The methods of reaching your customers are many and varied: commercials, print ads in newspapers and magazines, catalogs, and e-mail, for example. But all these methods cost money, so you must consider carefully the marketing strategy that makes the most sense for your potential customers.

- In an earlier lecture, we discussed making a customer profile that describes your potential customers in specific detail. This exercise will pay off when you construct your business model because the more you know about your customer, the more efficient and effective your marketing will be.
  - Collect demographic information, such as age, address, marital status, number of children, income level, shopping and purchasing profile, job or profession, ethnicity, politics, hobbies, and interests.
Avoid the two most common mistakes entrepreneurs make: (1) They imagine their market to be much larger than it really is, and (2) they fear that narrowing their target audience will narrow their chances of success.

Component 4: Sales

- Sales is about identifying a need and persuading people to try your solution and see if it works. It is worth investing in a few books or a sales seminar to polish your skills and develop a strategy for convincing people that your product or service is worth investing in or trying out.

- Practice your sales strategy. Changing your pitch, seeing what people respond to, and learning what misses the mark will hone your approach so that you can connect with people quickly.

- How you sell your product might be influenced by its price:
  - With a relatively inexpensive product you can target retail outlets, open a kiosk at a busy mall, or rent space at a local flea market on weekends. Websites like Amazon, eBay, and Etsy have created portals for entrepreneurs and small businesses to reach wide audiences.

  - If your product is mid-range, explore building relationships with industry resellers and other distributors who can help you showcase your product.

  - Expensive items require a dedicated sales staff and may require demonstrations, deep product and industry knowledge, and extensive follow-up. An expensive product is labor intensive and requires careful thought about location.

Component 5: Production and Delivery

- Choosing a production method is a big decision: Will you buy and sell yourself or produce through a manufacturer? If you need a place for heavy machinery and inventory storage, a warehouse or plant will be your primary location.
• If you offer a personal service, such as tutoring or music lessons, you may be able to work from home. But if your marketing relies on a highly visible location with access to pedestrian traffic, your costs will include expensive real estate in the center of town.

**Component 6: Customer Satisfaction**

- Happy customers are your best salespeople, and unhappy customers can lead to ruin. Thus, customer satisfaction is a key part of your business model. Building customer loyalty ensures that they will return again and again.

- Methods of building customer satisfaction and loyalty can be as simple as reward programs or as elaborate as frequent flier programs. All are aimed at customer retention. Other important issues in customer satisfaction include collecting feedback and handling complaints.

**Constructing the Business Model**

- Harley-Davidson Motorcycles offers a good example of a business model.
  - Honda and Yamaha offer scooters and mopeds, and Kawasaki and Suzuki offer dirt bikes and performance bikes. Harley is clearly different: It builds only big bikes called heavyweights.
  - Harley is at the high end of the pricing spectrum, yet people are willing to get on a waiting list to buy one. Harley’s customers are affluent professionals who buy Harleys for recreation.
  - Harley’s primary marketing strategy is to create a visible presence at big events for motorcyclists, such as the Sturgis Motorcycle Rally or Daytona Bike Week.
  - Harley acknowledges its high price by maintaining a well-trained sales staff in clean, attractive stores that showcase the bikes.
Harley markets its heavyweight motorcycles to affluent professionals who ride to escape the pressures of everyday life.

- Each Harley motorcycle is manufactured on a production line to customer specifications. Because the bikes are customized, production is slower than it is at other companies; customers place orders at franchised dealerships.

- One of Harley’s innovative customer satisfaction programs was the Harley Owners Groups (HOGs) that offer owners local clubs where they can socialize and ride with other owners, providing them a sense of community.

- Harley’s business model is as follows: “Harley-Davidson sells high quality heavyweight motorcycles at a premium price to affluent professionals using mass customization and selling through franchised dealerships.” It explains very clearly how the company makes money, and it is supported by Harley’s attention to the key components.
1. What’s the most ingenious way you know of a company making money?

2. If you have a business idea, how is your business really going to make its money?
Nobel Prize–winning economist Milton Friedman once said, “There is one, and only one, social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.” If you want to be in business, you have to play by the rules. And in business, the rules of the game are the laws and regulations you have to follow. As an entrepreneur, you won’t have the luxury of a staff of attorneys. But you won’t need many legal experts on your side. A good general attorney, an intellectual property attorney, a reliable accountant, and a dependable insurance agent ought to cover it for you.

Types of Business Structures

- One of the first decisions you make when starting a business is what type of legal structure it will have. Whatever business structure you choose determines which laws and regulations apply, so this decision will affect almost every aspect of your business, from how much you pay in taxes to how much risk you take and how you acquire that risk. You want to be sure you pick the right business structure to meet the needs of your business.

- The most common types of business structure are sole proprietorship, partnership, limited liability company, corporation, and nonprofit.

Sole Proprietorship

- A sole proprietorship is simply a business that is completely owned and operated by one person, who reports all business income and expenses on his or her personal tax return. In other words, the business is a source of income. In addition to a few tax benefits, a reason people choose this structure is that it guarantees complete
control over the business. This business structure works well for independent contractors, salespeople working only on commission, or freelancers, for example.

- The sole proprietor option is not without its downsides. The law recognizes no difference between the business and the owner, which means unlimited liability on the part of the entrepreneur. A suit against the business is a suit against the owner, and if the plaintiff wins, the personal assets of the entrepreneur are at risk.

- Although sole proprietorships are popular, very few business experts advise a startup to take this form. From a business standpoint, it lacks sophistication. It doesn’t project credibility to the customer or potential investors.

**General Partnership**

- A general partnership includes many of the same principles as a sole proprietorship, except that the risks and rewards are shared: The partners manage the company jointly, and they assume responsibility for the company’s debts and other obligations.

- Each partner reports partnership income on individual tax returns—the business does not pay taxes as its own entity. This is called a “pass-through entity,” and it simply means that the income from the business “passes through” the business to each partner.

- General partnerships can be a great idea when a number of people are entering a business together, and they do offer some tax benefits. But keep in mind that things can go drastically wrong with partnerships. Business can often strain a friendship. It’s one thing to decide what movie you want to see together over the weekend, and it’s another thing entirely to make decisions regarding a business.
Limited Liability Partnership
- In a limited liability partnership, or LLP, the limited partners act only as investors. They don’t get involved in the management of the company, and they don’t share the same liabilities as general partners.

- The LLP works much like a general partnership with one important exception: If one partner is sued, only that partner is liable for damages. The LLP is popular with businesses like accounting and law firms. There are definitely advantages that come with partnering with others, but the limited liability protects each member individually.

Limited Liability Company
- In today’s startup world, the limited liability company, or LLC, is the race car: It’s popular among knowledgeable entrepreneurs for a number of reasons:
  - It’s about as simple to run as a sole proprietorship or partnership.
  - You can apply for LLC status online in most states.
  - It’s not expensive.
  - You can get the paperwork done in minutes.
  - It can include one or more members.
  - Revenue is taxed like a sole proprietorship or partnership.

- The LLC is treated as an entity separate from the owner. Because the business and owner are not considered one and the same in the eyes of the law, the owner enjoys protection against personal liability without the difficulty and expense of creating a corporation.
Corporation

- A corporation is the most sophisticated business structure because the law recognizes it as its own entity. The stockholders are considered separate from the corporation, so the corporation pays its own taxes, and shareholders pay taxes on the dividends they earn from owning stock. Furthermore, if a corporation is sued, the stockholders are protected.

- Transfer of ownership is easy through the sale of stock, and funds can be raised by issuing more stock. Corporations are set up to grow and make money.

- The downside of corporations is that they are more complicated than the other business structures. They face more regulatory, taxation, and reporting requirements than any other type of structure. But if your company starts taking off, you might consider turning it into a corporation: Corporations can handle size better than the other forms.

Nonprofit

- Most nonprofits are designed to offer a benefit to people who need it. They can be set up to do charitable work, they might have a religious affiliation, or they might support educational or scientific programs.

- Unlike for-profit organizations, nonprofits often qualify for exemptions from certain types of tax, such as property, income, and sales taxes. All the money they receive must be applied to expenses or be reinvested.

There is a wide range of nonprofit organizations with a wide range of goals; most offer a benefit to people in need.
• Because of their tax-exempt status, nonprofits are prohibited from engaging in certain types of activities, such as advocacy or political campaigning.

**Determine Your Business Structure**

• To determine your structure, look at businesses that have business models similar to yours and at how other businesses in the industry are structured. Think about what resources you have and how you’re going to run your business. When you’re thinking about which structure to choose, think first about how you want to address risk. That’s the personal liability of owners for business debts. Your business structure will determine how you manage risk.

• You must file for a federal employer identification number, or EIN, which you can get by going to www.ein-gov.us. It takes only a few minutes, and the government requires it for tax purposes. You may also find that customers ask for your EIN when you do business with them.

• When you have property, you’ll need to address the following issues:
  ○ As an entrepreneur, you’ll need auto, fire, workers compensation, and public liability insurance. Workers compensation insurance protects you from incurring too much loss if one of your employees is injured on the job. Public liability insurance protects you from many of the unexpected crises that come from being in business, such as lawsuits regarding visitor accidents on your property, injuries using your products, and business disputes.

  ○ There’s a good chance that if you’re producing a product or have a physical location, you will have to follow worker safety guidelines, such as those provided by the Occupational Safety and Health Administration (OSHA). You must also make sure your facilities meet the requirements of the Americans with Disabilities Act (ADA).
Businesses that have a physical location or product must adhere to OSHA standards to ensure the safety of employees.

- Your industry also may be regulated by the government. Talk with others in your prospective industry to find out which licenses and certifications you need. You might also have to follow some environmental guidelines. The Environmental Protection Agency (EPA) website can help you.

- The Department of Labor’s website offers a very handy eLaws guide. By answering questions on the website, you will learn what you must do to comply with labor laws and regulations. The eLaws guide can get you up to speed on requirements, such as federal income tax withholding, state income tax withholding, Medicare taxes, and Social Security taxes.

**Bankruptcy**

- Two common types of bankruptcy in business are Chapter 7 and Chapter 11. When a company files Chapter 7, all its assets are liquidated to pay off debts. It sounds pretty harsh, but sometimes it’s the only option.

- Chapter 11 is an opportunity for a financially troubled company to reorganize without necessarily closing its doors. If the court thinks the company has potential to turn itself around, it is allowed to
stay open, regroup, and try again. Essentially the company makes deals with its creditors to pay them a negotiated percentage of what it owes. If the court approves the reorganization strategy, the company can execute the plan. It’s better for the system if the company doesn’t liquidate.

- Bankruptcy doesn’t mean that you can’t go into business in the future. In the real world, you get a chance to regroup, too. Some of the most successful entrepreneurs in history—Henry Ford, Walt Disney, and Milton Hershey, for example—went bankrupt early in their careers and went on to build fortunes. They hadn’t figured out their formulas of success yet, but they all credited their bankruptcies as having taught them a lot about how to build a business.

- Some startup experts in entrepreneurial communities see bankruptcy as a good thing: a chance for new entrepreneurs to learn some difficult but valuable lessons. Some investors say they don’t even look at potential deals unless the entrepreneur has experienced a failure at some point in life. The thinking is that if someone hasn’t failed, it means he or she hasn’t taken enough risks.

### Questions to Consider

1. Is bankruptcy a death sentence for an entrepreneurial career? Why or why not?

2. Assume you’re starting a technology business with your best friend. What type of legal structure would you select for the business? Why?
Entrepreneurship is a long journey; without some idea of where you’re going, you’ll stumble into some dead ends. The business plan helps you chart a safer and more efficient route. By thinking ahead about all the possible obstacles in your path and the resources you need for the trip, you’ll have a better chance of success. Although it’s common today to hear media gurus say that business plans are obsolete and it’s true that some of the most successful companies in history didn’t have a business plan, the business plan is an important tool. Most investors, bankers, and entrepreneurship professors still believe in its value.

Purpose of a Business Plan

- From an entrepreneur’s perspective, the business plan is necessary from the very beginning. It will not guarantee success, but it will help you avoid some common mistakes that cause businesses to fail. It will help you identify weaknesses in your idea and show you what you need to fix. And it will highlight areas that you might not have thought about that can save you money or make you money.

- Your business plan not only communicates your business goals, but it also outlines the strategies you’ll use to meet those goals. It predicts potential problems and explains how you’ll solve them. It lays out the organizational structure of your business, including the people who will run the business and their titles and responsibilities. It goes deep into important financial statements and the amount of capital you’ll need to finance the business and keep it going until it breaks even. It will include information about the market, your customers, your industry, and your competition.

- It’s important that the business owners and the people running the business be actively involved in conceiving and writing the business plan.
In an entrepreneurship program, students have to present their business plans to investors. Some students put the whole plan together themselves, but others go to family friends who are accountants and attorneys to help them.

Turning to others for help is a good idea, but the students who rely on family friends often struggle because they can’t explain or defend the numbers when asked what they mean. They missed out on one of the key benefits of writing a business plan: It helps you think through your business. The business plan captures your thinking. It lets others know what you think your business should be. But how can that happen if someone else writes it?

**Target Audience**

- Many people think that you only have to write a business plan if you need to borrow money. It is true that having a well-written business plan will help you get money from a lender, attract initial investors when you need startup money, or expand your business. While these are important reasons to write a business plan, there are many others.

- You might discover that your company would benefit from setting up a strategic partnership with another company. You’ll need a solid business plan to convince potential partners that you’ve got something they need.

- You may want to attract the attention of a big customer. Such customers have to believe that you have a stable business structure before they trust you to take on a big project.

- You may be surprised to learn that the primary audience for your business plan is yourself. The business plan can act as a guide to help you define and meet your business goals. You can use it to help you stay focused and to make sure everyone is working toward the same goals. When you need to make day-to-day decisions, having the details of the bigger picture close by is helpful, and research shows that when you have clear goals to pursue, you’re more likely to be motivated to work hard and take action.
Updating and Organizing Your Business Plan

- Your day-to-day experiences might force you to adapt your business plan. Your business model might change. As your business changes, you need to update your business plan and your business model, as well. This will keep your business plan relevant and alive.

- The parts of the business plan are the executive summary, the business description, marketing, the management team, operations, financial information, risk analysis, milestones, and the appendix. Some sections are more labor-intensive than others, but all are important.

Executive Summary

- The executive summary is an overview of the business: what will be sold, target customer, key features of the market, capital needs, and basic financial projections. It’s a very important section of the business plan because it may be the only part of the plan that a potential investor reads. Putting time and thought into writing this segment of the plan is imperative, so write it last, pulling the more interesting points from the rest of the sections to highlight up front.

- The executive summary must convey a lot of information in a few pages. The writing should get attention and arouse curiosity to read more, but it must be concise, as well. The key is to write it in an engaging and clear way that describes the problem the business solves and why that problem is worth solving. Avoid flowery language and vague promises. The whole executive summary should be one to three pages.

- Include attention-getting insights from your market research, showcase how well-planned the financials are or how creatively you intend to compete in your market. The business plan is the story of your business—it’s an adventure—and the executive summary is your opportunity to tell it.
Give reasons why you’ll be able to deliver a unique solution, such as proprietary information, intellectual property, or access to a valuable resource that gives you an advantage over your competitors. Thinking about these issues will help you convey what you can do that others cannot.

In the executive summary, you supply an overview of your financial information, including how much product you believe you will sell and what revenues you project for the first few years. These figures justify the company’s value. You want to persuade your readers that you have a good opportunity and the ability to seize it with their help. That’s called the “ask.” For example, you might say you need $500,000 to help give the company what it needs to achieve its important milestones. That’s what you want to get across in the executive summary: the business opportunity, the business, and the investment opportunity.

When your potential investors are finished reading your executive summary, you want them to have a clear sense of who you are, what your business is, what you need, and why you’ll succeed. Most of all, you need to demonstrate that you have found an opportunity that people are going to love. You want them to say, “Wow.”

**Business Description**

In this section, you provide the basic facts about your business: name, industry, main activities, and any intellectual property you may own. You may want to start with an analysis of the industry and then narrow the focus to how your product fits within it:

- What market are you aiming for within that industry?
- Where is your customer?
- Is your customer the end user or is your business selling to other companies, distributors, or suppliers?
• You can learn a lot about an industry by identifying its SIC and NAICS codes, acronyms that stand for Standard Industrial Classifications and North American Industry Classification System, which include exhaustive descriptions of the categories of business that fall within each industry. You can find both listings at the websites of the U.S. Census Bureau and the U.S. Department of Labor, along with a good deal of other useful information.

• Next, focus on the product itself:
  ○ What is it?
  ○ What makes your product or service unique?
  ○ What unique features does it offer?
  ○ Who is going to use it?
  ○ How is it going to be distributed?

• For a good business description, think about what your business really is and what you want to be known for. Let’s say you want to have a wedding planning business. Is your real business putting together all the details of a wedding? All wedding planners do that. More interesting and inspiring would be to think you were really in the business of creating memories for couples and their families. In that case, your business is to be a memory maker. Describe that unique perspective early in the business plan.

• What has to come across in your business description is that you understand what business you’re really in and what industry you’re really competing in. When you can make that clear and logical, potential investors will see what they are really looking for in a business plan—signs that you know what you’re doing and that you’re different from other entrepreneurs they’re considering.
Let your enthusiasm for your business idea guide your writing. If you truly believe in your idea, then that will become clear in your business description and your executive summary, and it’s likely that others will begin to share your enthusiasm.

Questions to Consider

1. Why is writing a business plan a helpful exercise for an entrepreneur?
2. What makes a good business plan?
Market Analysis and Marketing Strategy
Lecture 7

Ralph Waldo Emerson said, “If a man has good corn or wood or boards or pigs to sell or can make better chairs or knives, crucibles or church organs than anybody else, you will find a broad hard-beaten road to his house, though it be in the woods.” This quote is more popularly known in its misquoted form, “Build a better mousetrap, and the world will beat a path to your door.” As brilliant as Emerson might have been, entrepreneurs and great marketers will point out that he overlooked an important step. Without a well-planned and well-executed marketing plan, even the best mousetrap ever made won’t find a single customer.

Write from the Research

- The marketing section is typically broken into two parts—one based on your research, the market analysis, and one that describes how you will market your product or service to your customers.

- The research you did early on to learn about your customer, your market, and your industry will be brought to bear in writing this part of your business plan. Let’s look at an example of market analysis:
  - Bill is a middle-aged professional looking for a place to get his hair cut. He’d like to go to a place where he can relax for a short time during his busy day. His office is 30 minutes away from his home, and he usually picks a barber shop close to work. He’s been going to franchised salons, and he has been unhappy with his experience. Often the stylists talk about things he’s not interested in, or they don’t give him useful grooming tips.

  - Bill makes around $50,000 a year and doesn’t want to spend a lot of money on a haircut, but he’d still like that special touch he remembers from childhood at the corner barber shop. Bill and his wife spend a lot of time with the kids going to museums and participating in outdoor activities like hiking and camping. He also enjoys reading, listening to public radio, and
going to local sporting events. Currently, 435,000 professional men work in the greater metropolitan area.

- The two top choices for customers like Bill are Sport Clips and independent barber shops. Sport Clips is designed around a sports theme. While the environment is inviting for the customer, the stylists interact with customers in a manner similar to other large hair franchises and to the independent barber shops in the area. That’s where Metro Groom comes in. Metro Groom is a hair salon designed to deliver an experience reminiscent of the corner barber shop but with modern updates and professional efficiency.

- If the average professional man gets his hair cut once a month, then there are 5,220,000 haircuts per year in the greater metropolitan area. Research on the hair salon industry suggests that with 10 chairs operating at an average of 75 percent capacity for 310 business days per year, with an average of 20 haircuts per chair per day, Metro Groom could provide 46,500 haircuts per year. Thus, the first Metro Groom store is expected to capture just shy of 1 percent of the market in the first year. At an average price of $20 per haircut, $930,000 in revenues is projected in the first year, or $93,000 per chair. The industry average is $80,000 per chair.

- Once the model of the first store is refined and its final configuration established, five more locations will be opened over the next three years, which will result in a $5 million operation in a short time. Eventually, franchises of Metro Groom will be sold across the country.
This example demonstrates how you might use information from your market research to give a description of the customer and target market. It spins together primary, secondary, qualitative, and quantitative market research to create a story of who the target customer is.

- It was probably primary market research that discovered that Bill has been unable to find a salon where he’s comfortable. But it was most likely secondary market research that revealed that 435,000 professional men like Bill work in the greater metropolitan area.

- It was probably qualitative market research, such as an interview or focus group, that revealed that Bill wanted his salon to be more like the corner barber shop he remembers from his childhood.

- And it was probably quantitative market research that helped Metro Groom realize that Bill is not connecting with the stylists, and “they don’t give him useful grooming tips.”

**Add Industry Context**

- This example also includes an explanation and breakdown of the industry and describes the business in the context of the larger industry. It discusses the customer, the pricing, and the competition.

- It also points out that a critical need isn’t being met and includes some important demographic information about the customer—a middle-aged man living in the greater metropolitan area. It also mentions how many haircuts the average professional man in that area gets—one a month.

- Predictable purchasing trends can have a real impact on how and when companies do business. If your industry runs on schedules, you need to include that information in this section of your business plan, discuss fluctuations in the revenue stream, and explain how you will manage the peaks and troughs.
Calculate Market Size and Share

- To calculate market size and share, Metro Groom multiplied the number of professional men in the metropolitan area, 435,000, by the average number of haircuts these men get every year: 12. This calculation revealed the size of the market: 5,220,000 haircuts.

- To calculate how much of that market it intends to capture, Metro Groom used information gathered from industry standards to conclude that each chair in the shop has a maximum capacity of 20 haircuts per day, that barber shops are open 310 business days per year, and that the average chair operates at 75 percent of its maximum capacity. Doing the math, Metro Groom arrived at a market share just shy of 1 percent in the first year.

- Calculating how much of the market share you hope to capture can be tricky. Make this estimate based on your best information and explain the logic behind your conclusions. Market share can be calculated in revenue, in number of customers, or in both.

Establish a Pricing Strategy

- Pricing services, such as piano lessons, tutoring, tax services, or carpentry, includes four factors: your desired annual salary; overhead costs; profit margin; and billable hours.
  - Your desired annual salary is self-explanatory. It does not count as part of your company’s profits because it is a cost of doing business.
  - Your overhead costs include any costs you incur to do business: computer costs, telephone bills, rent, supplies, insurance, and so on.
  - Your profit margin is revenue over and above your salary and overhead expenses. A goal of 10 to 20 percent is most common.
  - Because of such factors as annual and sick leave, administration, marketing, and accounting activities, 25 to 35 percent of your time will not be billable to the customer.
These four factors make up your hourly rate: desired salary (S), overhead costs (OH), profit margin percentage (PM\%), and billable hours (BH). Here’s the formula:

\[
\frac{S + OH(\text{PM}\%)}{BH} + S + OH = \text{hourly rate.}
\]

If your market research shows that other businesses in the area charge less for the same services, your goal to be profitable and competitive is out of balance. Examine how to either cut costs to reduce your rate or offer a better service to warrant the higher cost and describe your decision in your business plan.

Product pricing is influenced by location, which is an overhead cost. Your plan must explain your pricing decisions, including costs, such as materials, distribution, advertising, and overhead, as well as the profit percentage you expect. If your marketing plan includes special introductory offers, coupons, discounts for referrals, free trials, and the like, then include that strategy as well.

Choose a Marketing Strategy

This part of the marketing section of your business plan outlines your market penetration strategy, a growth strategy, a strategy to reach your customers, and a sales strategy. Metro Groom laid out its penetration, growth, and sales strategies very clearly:

Once the model of the first store is refined and its final configuration established [penetration], five more locations will be opened over the next three years [growth and customer reach], which will result in a $5 million operation in a short time. Eventually, franchises of Metro Groom will be sold across the country [sales].
• If you rely mostly on a sales approach, you will need to map out how you’re going to get in touch with your prospects. Will you have a sales force? Will you rely on outside distributors and resellers? How many salespeople will you need? How will you pay them? If you will be your only salesperson at first, explain how you will manage that along with all the other responsibilities of running the business.

• If you rely mostly on a marketing approach, some of the most common ways to reach your customers include print ads, broadcast advertising, and direct mail.
  ○ Some say that print advertising is a thing of the past, but it’s still part of many successful marketing strategies. Magazines and newspapers can provide you with detailed information about the demographics of their customers that can help you decide whether print is effective for you.

  ○ While broadcast advertising on national television and radio can be expensive and usually doesn’t make sense for most entrepreneurs, local radio and TV can be surprisingly affordable. Here you’re buying both an audience and specific time slots. You’ll want to consider the cost in terms of cost per thousand people you can reach.

  ○ Direct mail includes catalogs, brochures, letters, postcards, and many other kinds of printed advertisements. When you develop a direct mail program, you know exactly who received your ad and when, and you can create a database of names and addresses for future marketing efforts.

• There are many other ways to reach your prospective customers: online marketing tools, paid search items, and display advertising, for example. These are great options even for small businesses because they are inexpensive and effective. Consider as many avenues to your customer as you can before committing to a strategy.
Questions to Consider

1. How did you first hear about your favorite product?

2. How did you first hear about the company that provides your favorite service?

3. What do you think is the best way for a company to market something to you?
Logistics is as important to business as it is to winning wars. The companies that win in the marketplace are usually those that compete better on the ground. Being a brilliant inventor is one thing; executing a strategy is an entirely different matter, and execution in the marketplace is the factor that separates winners from losers. The logistics of getting the product to the customer is execution. Management guru Peter Drucker said in 1962 that logistics was an untapped source of innovation and opportunity, calling it the economy’s “dark continent.” He predicted that operations and logistics would bring great opportunities and his prediction has come true.

**Define Logistics versus Operations**

- Logistics is the management of the flow of resources between the point of origin and the point of consumption. Many entrepreneurs look at logistics as finding a place to store their inventory and getting trucks to ship their goods. But it’s much more than that. Companies that treat logistics as an essential component of their go-to-market strategy have a much better chance of getting off the ground.

- The logistics of getting resources from suppliers, turning them into your product or service, and delivering it to customers is described by your operations.

- This section of your business plan will explain the business you’re in and help potential investors understand the key factors involved in running it successfully. Many companies find their competitive advantage in how they run the business. Companies like Wal-Mart believe logistics serves as a focal point in their competitiveness. Finding operational efficiencies has been critical to Wal-Mart’s success.
• The operations section of your business plan should include the sources of your supplies, how your product is made, and how you deliver it to your customers, as well as a clear description of your processes, systems, and operational controls. Also include information about your location and whether your business is subject to regulation.

Describe Your Business Processes
• Define all the processes involved in running your business, including all the details of the day-to-day operations. To document your business processes, break them down into tasks and note the time each task requires. Given this information, how many units of your product are you able to produce in a given period? This is your capacity. Then turn your attention to delivery: where and how you ship your product. This is systematic thinking about operations, capacity, and delivery that every company should engage in.

• The experience of building a prototype early in the process will enable you to answer critical questions:
  ○ How long does it take to produce one unit?
  ○ How much does it actually cost you to make one unit?
  ○ When can you start offering your product or service?

Construct an Operations Flow Chart
• An operations flow chart is a pictographic chart that shows how your product gets from your suppliers to your customer. If you can, include times in each picture: how long it takes for an item from your supplier to reach you; how long it sits on your shelves before it is assembled or shipped; how long an order takes to get to your customer. This chart can show you how to find efficiencies.

• One of your goals in this section of your business plan is to demonstrate that you understand the manufacturing or delivery process for your product or service. Include such specific details
as the hours of operation, how many days you will be open, and whether yours is a seasonal business.

**Explain the Support Systems**
- In this section, you will describe what computer systems you intend to use to receive orders, place orders, handle accounting, and process payroll. If you’re starting an Internet-based company, this section could be complex. You might be receiving orders on your own website, or other companies, such as Amazon or Etsy, might be taking orders and fulfilling them for you.

- Provide the details of all the equipment you use to create and deliver your product, including how much of each item you need and how much it costs. This list should include assets, land, buildings, inventory, furniture, and vehicles.

**Establish Operational Controls**
- An example of operational control is how you maintain inventory levels. If inventory levels are too high, too much money is tied up in products that are not moving quickly enough. If you have too little inventory, customers have to wait for products, leading to a bad experience with your company. Describe how will strike that balance.

- Having control systems in place also helps you manage when things go awry. What happens if a supplier delivers something late? Do you have a backup supplier? What if a piece of equipment that you rely on fails? How long will the operation be down and what will you do? Showing that you can control the levers of your business...
is an important part of ensuring that your day-to-day operations go smoothly and can be flexible.

**Manage the Supply Chain**

- To become good at getting the product from your supplier to the customer, you have to think bigger than just inventories and trucks. Getting the product to customers is more than just supplies, manufacturing plants, and trucks. It’s building the relationships with those who meet your supply, manufacturing, and delivery needs.

- When thinking about your go-to-market strategy, you must have a broader perspective of supply chain management. Logistics might be the nitty gritty of business, but supply chain management is building relationships that make it possible. Thoroughly understanding this distinction affords you a huge advantage.

**Consider a Contract Manufacturer**

- Contract manufacturers are specialists in making a number of different products. Because they have a lot of customers, they get volume discounts from suppliers and distributors that drive down the costs of making products that they can pass along to you.

- If you do decide to work with a contract manufacturer, require a signed a non-disclosure agreement to protect your business before getting into specifics. To find a contract manufacturer you can trust, who will do quality work and follow through on all the details of the contract, do your due diligence.

- Contract manufacturers usually find all the supplies needed for your product, but you may decide you want to do the final assembly yourself. This option might save you money while you’re getting your business off the ground.
Engage Your Suppliers

- The customer you have to sell in the early days of a startup isn’t just the end user but the supplier. The fact is your business is small and has no real track record in the industry. Taking time to deal with you might divert attention and service from existing customers. You have to convince your supplier that working with you will bring in a lot of business over the years.

- Although the supplier will probably want you to make your payments in 30 days, try to negotiate for 90 days. This three-month period gives you time to make sales that will generate cash to pay off the contract manufacturer and the suppliers.

- In the early days, keep fixed costs to a minimum. Your goal is to be aware of cash flow. Put out just enough cash to get the job done while bringing in enough cash to stay ahead of obligations you’ve made.

Address Location and Distribution

- If customers do not have to visit your location, you might be able to work from home, your vehicle, or maybe a warehouse or plant in a less expensive and usually remote location. If customers visit your location but you’re teaching piano lessons or providing some other service, that also can probably be done at home or an inexpensive location.

- If your business requires a more exclusive location, look at where your competition is. If all your direct competitors are in the center of a commercially thriving area, you probably want to be there, too, if you’re after a similar customer profile. The alternative would be to find a neighborhood quickly becoming the type of place that your ideal customer would frequent. This approach is a little riskier, but if your market research is good, this foresight might give you an advantage.
• You should also think about location in terms of access to resources, such as the type of worker you will need or whether your business requires special supplies. Outline all this information in the operations section of your business plan, along with blueprints of the building, copies of the lease, cost, zoning restrictions, and whether you have received all the permissions your business might need.

• You have several options for distribution. Contracting with a company like Amazon to do marketing and distribution fulfillment affords you access to Amazon’s amazing web presence, easy customer user experience, and established supply chain system. Amazon takes a big chunk of your revenues for providing this complete service.

• For a lower cost, you could use Amazon as a marketing provider that sells your products on its website and handles orders for you, but you will have to get the product to the customers yourself. Your two main options are to handle drop shipments yourself or contract with an outbound distributor. Remember, the bigger your sales volume, the more negotiating power you have.
  ○ For small orders, you can charge the customer a shipping fee and have UPS or FedEx carry those orders.
  ○ If your sales grow, you may have to find a distributor with warehouses and territories to deliver products to handle the shipments for you.
  ○ If your orders come in batches, you might use a “less than full load” trucking company to fulfill orders.
  ○ If business is really taking off, you’ll probably need a full load trucking service. You’re still contracting distribution because you want to avoid the fixed costs of owning a truck and the maintenance and insurance costs of keeping it on the road. And like all other points in the supply chain, you’ll want to negotiate with trucking companies and distributors, too.
• Developing relationships that help you build your supply chain in a cost-efficient and cash-flow-positive way is the difference between companies that get off to a great start and those that go out of business in a year. The supply chain is the foundation that your business will build on. If the economics of your supply chain is weak, your business will founder.

Questions to Consider

1. What company do you think has an excellent system for delivering quality products and services to a wide range of customers?

2. What enables this company to do this well?

3. Imagine you’re thinking about starting a company that manufactures cooking utensils. Should you manufacture the products yourself or outsource to a contract manufacturer? Why?
Organizational Structure and Management Teams

Lecture 9

There’s an old saying in business that investors prefer an A team with a B idea over a B team with an A idea. This statement shows just how important it is for you to assemble the right team to execute your idea and build your business. A great idea is nothing if the management team doesn’t know how to bring it to market and, more important, doesn’t know how to run an organization effectively. Your business plan must make clear that you are the right person to make it happen, that you’ve assembled the right people with the right skills to create and build the business.

Aim to Impress

- With your business plan, your goal is to impress investors and bankers with the idea that you possess something special and different from others seeking money from them. You must demonstrate the smarts, the drive, and the discipline to pull off what you say you will. You’re not only trying to show proof of your concept. You’re trying to show proof of yourself.

- This section of your business plan is your opportunity to convince your audience that you and your team are the right people to make your business idea a reality. It will explain the organizational structure of your business and who your management team is. It serves to build credibility and legitimacy for you and your team.

Construct an Organizational Chart

- One of the best and most effective ways to lay out the structure of your company is to draw up an organizational chart, a simple diagram that includes all the key roles in the organization and the names and credentials of the people who will fill them. An organizational chart looks like a stack of boxes shaped like a pyramid.
• At the top is a single box naming the president or chief executive officer (CEO). Beneath that box may be two or three others representing the executive management team, including vice presidents of various functions, such as finance or human resources. The third level consists of middle management: the line supervisors for such functions as overseeing plant operations or administering employee benefits.

• The boxes are connected by lines that show clearly the chain of command so that looking at the chart will convey a clear picture of your organizational structure.

Introduce Your Key Personnel

• While the organizational chart gives the overall picture, potential investors will want to know more about who will be overseeing each aspect of your business. This section will describe each department, position, and function in greater detail. For each key person, include a thumbnail sketch of his or her background, experience, education, previous employment that prepared that person for the position, and any special skills, awards, technological expertise, or intellectual property he or she brings to the task.

• If you’re going to get investors, customers, suppliers, or potential partners to invest in you or to believe in you, you must convince them that your team has what it takes to weather the storms and navigate the rough seas of entrepreneurial life. This part of your business plan is crucial for that purpose.

• This section is critical to the success of your business plan because it must answer potential investors’ most important questions:
  ○ Why should they back your team?
  ○ What do you bring to the table that will enable this business to succeed even if the market conditions are tough?
• You will not include complete résumés of your team at this point; they will appear in an appendix at the end. Here you want detailed, concise, and compelling highlights of your team’s experience and skill. Anything that sends the message that you’ve got talent onboard boosts the chances of investors putting money into a company. Having someone on the team with a proven track record building, growing, or running a company can reassure investors that grown-ups are involved to keep the team on track.

Describe Your Business Structure
• In this context, business structure refers to the legal entity that your business takes on, whether it’s a sole proprietorship or a partnership or some other form of ownership.

• Explain who owns the company, what percentage of the business each person owns, and how it’s owned: stock, partnership shares? Clarify how involved the owners are in running the business. All of this information is important to investors because they want to see what their investment will get them.

Build on Your Strengths, Support Your Weaknesses
• Take some time and really think about your strengths and weaknesses. Write them down and ask a few people to read them and point out aspects about you that you might not realize. Ask them to be honest. You might be a great salesperson. It may be that you understand how to make a business work, but you lack the communication skills to engage people in what you’re trying to do and why it’s important.

• Consider just a few famous founding teams of great companies. Steve Jobs couldn’t program a computer or engineer products as well as others, but he knew what his customers would respond to and he recognized what made a product great. But Steve Wozniak was a brilliant electronics engineer and computer programmer. Throughout his career Jobs relied on great engineers and programmers who could design the products, and he also hired top leaders from other companies to help build the business.
Bill Gates is another good example of how entrepreneurs play to their strengths and work with others who complement them. Gates was not as artistic as Jobs, but he was more business savvy. The Windows operating system and applications are very functional tools that have provided the platform for everything we do in the digital world. Gates, unlike Jobs, was more of a builder. He built the digital infrastructure that runs most of the programs on our computers. Through savvy decision making and strategy, he created a company that dominated the software landscape.

- But he didn’t do this alone. While Gates was a world-class computer programmer, his boyhood friend Paul Allen was behind a lot of the development of the products. Gates understood programming and could communicate clearly what needed done. He could also contribute to the programming when needed. But his key contribution to Microsoft was setting the vision of where the company should go. Gates made things happen in a way that most programmers aren’t capable of doing.

- Keep in mind that Gates was still a technology person. Getting on stage and giving pep talks was not part of his skill set. For that he turned to his college friend Steve Balmer, a cheerleader extraordinaire for Microsoft. His keynote speeches to the Microsoft community are legendary. It also shows Gates’s genius in building a company. He recognized what he needed and was willing to let Balmer take the stage to sell the company. You can do the same thing with your entrepreneurial projects.

- You have to acknowledge your strengths and weaknesses and deal with them. Many entrepreneurs struggle with this. They’re a little too confident that they can take on anything. Confidence is great, but don’t let it be your weakness.

- As you’re assembling your management team, think about your weaknesses and hire people whose skills complement yours. If you’re enthusiastic and persuasive but struggle with the nuts and bolts, hire someone or partner with someone who loves attention
to detail. This very simple lesson is too often ignored. When you look at people who were keenly aware of their strengths and weaknesses and who made smart decisions because of it, you see successful businesses.

- By consciously recognizing your strengths and weaknesses, you can be a step ahead of other competitors in your market. You have a much better chance of making your business work if you actively seek the help of others. Get help from people who have started successful businesses in the past. Get help from mentors at the Small Business Administration. Get help from people within the industry that you’re working to be a part of. This bigger lesson of entrepreneurship plays into how you build your management team and how you might think about this section of your business plan.

- One excellent way to lend credibility to your management team is to build an unpaid board of directors or an advisory board. Invite people who are successful entrepreneurs, industry leaders, or business managers to sit on your board. Then you can consult them for advice. If you create a board like this and make them part of your business, you can also mention them in your business

An advisory board comprised of successful business leaders will lend credibility to your management team.
plan. Especially if you don’t have a lot of experience, building a board of directors or an advisory panel of people with a good track record allows you to borrow their reputation to gain credibility. It shows that you’ve got access to people who can help the business be successful.

- As an entrepreneur, it’s your goal to build something. And many times you’re trying to build something that’s too big or that requires too many different skills to go it alone. It might help to think about your job this way: Maybe your goal isn’t to build a company; maybe your goal is to build a team who can build a company. This sounds much more manageable, and thinking about it this way just might make the difference between being successful and being one of the businesses that fail.

Questions to Consider

1. If you were going to create a board of directors for your business, who would you want to be part of it and why?

2. Thinking about your own strengths and weaknesses, what type of people would you want to go into business with and what skills would you want them to have?
Many people become entrepreneurs because they want to be their own boss or because they are passionate about an idea and want to bring it into the world. But to avoid trouble, you must understand the realities involved in your business by getting a grasp on its economics and make careful decisions about how and where to spend money. Think of financial statements as diagnostics of the health of a business. If the numbers look good, the business is probably a good operation and is pleasing your customers. If the numbers are bad, something is wrong and you have to find a cure.

**Build an Income Statement**

- As an entrepreneur, you must develop a working understanding of two of the most important financial statements: the income statement and the balance sheet. With these statements, you will have a clear idea of what’s going on in your business. They will help you understand how it works, or why it doesn’t, and you’ll be able to communicate those insights to others.

- Many entrepreneurs fear the numbers side of business. But if you understand a few basic principles, you can gradually build up a more thorough understanding of how entrepreneurial finance works.

- An income statement for a business that is not yet operational is called a pro forma income statement. Pro forma financial statements are predictions of what you think the business will do. They show what the business could look like when it’s up and going.

- Income statements also measure a company’s financial performance over a specific time period. In building the financial section of your business plan, look ahead to the first five years of your business. For the first year, you should include monthly or quarterly projections; for years two through five, provide annual projections.
The income statement, also called the profit and loss statement, translates revenue into net income. Revenue is the total money received from the sale of products and services. Net income, or net profit, is revenue minus all the expenses of running the business.

Estimate Your Expenses

- The first step in understanding your expenses is doing research on which to base reasonable assumptions. The better you understand your expenses, the more accurate your financial statement will be. Underestimating expenses is a common mistake, and it can be costly.

- The first expense is cost of goods sold, or how much you spend on making a product or delivering a service. It includes the materials, labor, and manufacturing expenses of creating your product or service. Here again, thorough market research demonstrates its worth: If you know the industry standard costs for your business, you’ll be able to make informed decisions. Catch problems when they’re small and you can do something about them before too much harm is done.

- Next is operating expenses, which can be grouped into two main categories: selling expenses and general and administrative expenses.
  - Selling expenses include sales staff salaries and commissions, fringe benefits, advertising, travel, entertainment, catalogs, promotional materials, and rent, utilities, postage, and telephone expenses related to the sales department.
  - General and administrative expenses are related to the overall administration of the business. They cover the day-to-day operations, such as salaries and wages for accountants, lawyers, management, and human resources staff; depreciation; office supplies; postage; rent; utilities; and telephone costs related to running the business.

- Next look at depreciation costs: the estimated useful life of your fixed assets. Fixed assets include vehicles, buildings, building
improvements, machinery, office equipment, computers, furniture and fixtures, computer software, and other property or plant. Each of these items has a different estimated useful life expectancy.

- As an example of how depreciation works, say you buy a new truck for your business, paying $50,000. But the truck is only expected to be useful for 10 years. After using it for 10 years, you’ll probably be able to sell it for $5,000. To calculate depreciation from a purchase price of $50,000, subtract the expected sales price, $5,000. This gives you a total loss over 10 years of $45,000. Divide your total loss by the number of years you’ll use the truck to get the depreciation of the truck per year, which equals $4,500. Each year, you’ll deduct $4,500 from your income statement.

- Finally, you must consider taxes, interest, and insurance. These expenses are easy to overlook, but you must identify them in your research and obtain reasonable estimates for these costs. To make these estimates, you will have to conduct more research.
  - For property taxes, you could check the website of the county where your identified building is located to find out what characteristics of the building contribute to calculating the property taxes. For example, this might include square footage, number of bathrooms, and the actual location. You might also contact businesses near your selected building that are relatively the same size and ask what property taxes they pay. Or you could possibly contact realtors in the area and see if they have any estimates.
• For interest rates on a bank loan, call a couple of banks, describe your business and the amount of the loan you’re seeking, and ask what type of interest rates they would offer for different lengths of loans.

• Many new entrepreneurs do some rough calculations on price and cost of goods sold and don’t take all these other expenses into account. That’s a big mistake: If the operating expenses grow, your margins will get squeezed, and you’ll have to sell many more products to stay in business. Better to run an efficient operation and keep costs down. With that perspective, you can see why the actual operations and the financial numbers are tied together.

• Good financial oversight is important. One or two of these expenses might not wreck a business, but getting sloppy on little things all through the company can really add up. The best-run companies track all their expenses. If you’re thinking about starting a business, put some thought into the best sources of information for estimating these expenses. Added up, they will have a huge impact on your bottom line.

• Financial statements aren’t abstract. They capture real activity, and it’s important to know and understand that. Supplementary statements track financial information that will be used in different parts of your financial statements. Useful supplementary statements include cost of goods sold; salaries, wages, and payroll-related expenses; depreciation expenses; amortization; inventory; and bank loans.

Calculate Your Breakeven Point

• In the financial section of your business plan, you should include a breakeven analysis. Breakeven analysis is simply identifying the moment when your business will be able to cover all its expenses and begin to make a profit.

• To do your breakeven analysis, identify your fixed and variable costs—expenses that you incur regardless of how many sales you
get. Divide your fixed costs by the price of your product minus the variable costs to arrive at the number of units you have to sell in order to break even.

- You might break even your first year or you might not. Many businesses don’t. They just need a strategy that maps out how they’re going to grow, cut their costs, or raise their prices. This equation allows you to play with those variables to see your available options.

**Build a Balance Sheet**

- The balance sheet is a statement that reports a business’s financial position at a specific moment in time. It looks at the business’s assets, liabilities, and owner’s equity.

- There are two types of assets: current and fixed.
  - Current assets can be liquidated quickly. They can be sold or used up during a normal operating cycle. Current assets might include cash, accounts receivable, inventory, and prepaid expenses.
  - Fixed assets remain with the company for an extended period of time and are more difficult to liquidate. These include land, buildings, equipment, and so on.

- Liabilities are claims that creditors have against the company. And just like assets, there are current and long-term liabilities.
  - Current liabilities are obligations due and payable during the next year or within the operating cycle: accounts payable, notes payable, taxes payable, and loans payable.
  - Long-term liabilities are obligations due or payable after at least one year or outside the current operating cycle: a bank loan, for example.
Owner’s equity is the amount of money initially invested into the company plus any retained earnings. It is what is left after you subtract the liabilities from the assets. It’s made up of contributed capital, which is the value of the stock in the business, and retained earnings, which is the accumulated net income over the life of the corporation to date. In other words, retained earnings is the sum of the net income that’s been building up inside the business.

The purpose of the balance sheet is to describe where a business stands financially, what it owns and what it owes. The income statement shows how much profit you make after you cover your expenses. These statements give a good overall view of the health of the business.

Questions to Consider

1. What is the difference between an income statement and a balance sheet, and what types of questions can each answer?

2. Create an income statement and a balance sheet for an imagined business. Then consider what insights this exercise gave you about your own finances.
Most businesspeople consider finance to be the language of business. If you don’t understand the language, you will not be embraced by the native speakers. But if you can talk money with experienced businesspeople, they might just give you a shot they wouldn’t give to other new entrepreneurs.

**Understand Accounting Methods**

- There are two primary methods of tracking income and expenses in accounting: accrual and cash.

- The accrual method records income when it is earned and expenses when they are incurred. It does not record whether cash actually changed hands.
  - If you earn a sale or a contract, but the customer won’t pay you for another 30 to 90 days, accrual accounting will count the sale or contract as income, even though you have not yet received any cash for it. These sales are called your *accounts receivable*.
  
  - If you buy inventory from a supplier, but you don’t have to pay for 30 to 90 days, the amount owed will still be on the books as an expense, even if you haven’t actually paid it. These expenses are called your *accounts payable*.

- The cash method does not count income until cash is actually received or expenses until they are actually paid.

- Income statements and balance sheets are prepared under the accrual method of accounting. They report revenues and expenses. They tell you what you owe and what you own. They even tell you if your business is making money. They don’t tell you if you actually have the cash you need to pay your bills and invest in new equipment.
Build a Cash Flow Statement

- A cash flow statement is one of the three essential financial statements in your business plan. It focuses specifically on converting the accrual method of accounting to a cash basis. While income statements can show you if you made a profit, the cash flow statement can tell you whether you generated cash.

- In essence, the cash flow statement shows the effects of a company’s operating, investing, and financing activities on its cash balance.

- The operating activities section measures the cash inflows and outflows caused by core business operations. Operating activities are those related to the production, sale, and delivery of your product. They could include costs for raw materials, inventory, marketing, advertising, salaries, and shipping.
  - Consider inventory as an example. Maintaining inventory properly is essential for the successful operation of your business, and it greatly affects your cash flow. Think about inventory as money sitting on your shelves: You have already paid for the supplies, but until they become a product that’s sold, no cash is coming into the company.

  - With sophisticated supply chain awareness and tracking, companies usually try to have as little inventory as needed during briefer windows to ensure they have cash available for other uses. If you found yourself in a cash crunch, you might sell your inventory. Although you might have to break even or take a loss on it, getting cash for it is better than letting it become obsolete on your shelves.

Keeping inventory as low as possible enables you to have cash available for other uses.
- The second part of your cash flow statement should report investing activities. This section tracks the cash flow related to long-term investments, such as land, buildings, equipment, and vehicles—how much cash you actually spent on these types of investments and any cash you brought in for the sale of these kinds of assets.

- The third section of your cash flow statement will examine your financing activities, most commonly selling stocks or bonds or borrowing money from banks—payments for dividends, repurchasing company shares, and so on.

**Use the Cash Flow Statement**

- What are cash flow statements good for? Besides making sure that you have enough money to survive another day, they can answer questions like this:
  - Is the company generating sufficient positive cash flow from its ongoing operations to remain viable?
  - Will the company be able to repay its debts?
  - Will the company be able to pay its usual dividends?
  - Why is there a difference between net income and net cash flow for the year?
  - To what extent will the company have to borrow money in order to make needed investments?

- For the first few years, a startup might run at a loss while it builds its customer base. This financial phenomenon is called a company’s burn rate. You’ll hear prospective investors asking about the burn rate of a company to know if it can turn the corner before it runs out of cash. Your cash flow statement will give you a clear sense of how long you have to turn a profit and start putting cash back into your coffers.
• In the early days of a business, when you’re trying to get it off the ground, customers may not know you yet. But as long as you have cash in the bank, there’s always hope. If the company is struggling, it still has the chance to turn things around. And if things are going well, it has the luxury of building on its success. Cash makes both scenarios possible.

• You must know and believe that these financial numbers are not some abstract entity useful only for accountants. They’re tied to the reality of the business; the more comfortable you become with these concepts, the better you’ll run your business. The key point is this: The decisions you make and the way you run your business go hand in hand with the financials. They’re not mutually exclusive concepts: They affect each other deeply.

Know Your Working Capital
• Working capital equals current assets minus current liabilities. Current assets include cash and items you can convert to cash: inventory of accounts receivable, for example. Current liabilities are debts or obligations that are due within a year, usually debts to creditors or suppliers due within a short time.

• Positive working capital indicates that you can cover liabilities in the short term. If working capital is a negative number, which means current assets do not exceed current liabilities, you may run into trouble paying creditors in the short term.

• To explain working capital as a ratio, divide current assets by current liabilities. If the result is anything below 1, you have negative working capital. Anything over 2 means that the company is not investing excess assets properly. A working capital ratio between 1.2 and 2.0 is usually sufficient. This ratio gives investors an idea of your operational efficiency.
• A declining working capital ratio over time could indicate larger problems within the business. For example, it could mean the company’s sales volume is decreasing, so its accounts receivable continue to decline.

• But if working capital is increasing, a potential reason might be that the business is slow at collecting receivables. You might have some customers who are slow to pay, and you have to be aware of your cash flow sources to make sure you’re not hurting your business. Don’t let this happen to you. If you see your accounts receivable taking off, follow up with your customers and see what’s going on. This is a good example of seeing how understanding cash flow can pay off.

Review Your Returns

• Two related measures used to track a business are return on investments and return on assets, also known as ROI and ROA. You should always be thinking about ROI and ROA because everything comes down to whether you are putting your money in the right places. Just because something is making your business profitable doesn’t necessarily mean it’s the right thing to do: You might be able to deploy your assets on even better revenue-generating opportunities. Investors and banks will want to know that you understand the best uses of their resources.

• To see how profitable your company is relative to its assets, there’s a simple equation. Divide your net profit by your total assets to get a percentage. That percentage represents your ROA. If your net profit is $50,000, and your total assets are $500,000, then $50,000 divided by $500,000 will give you 0.1, or 10 percent. It’s up to you whether you think 10 percent is a worthwhile return on your assets, but this equation is a quick and easy way to get a sense of what your ROA is.
• ROI offers a slightly different insight. ROI might give you a ratio instead. The equation to calculate ROI is as follows:

\[
\text{ROI} = \frac{\text{earnings} - \text{initial investment}}{\text{initial investment}}.
\]

• If you’re testing the value of a particular investment, begin by finding the cost of the investment. Then, determine the gross earnings you received from the investment. Those are the only two variables you need. Let’s say you spent $10,000 on an investment and earned $40,000 from it. Subtract $10,000 from $40,000 to get $30,000. Divide that by $10,000 and get 3, or a ratio of 3 to 1.

Construct a Pro Forma Statement

• While entrepreneurs often use financial statements to track progress in the company, they can also use them to make predictions of how things might go, called projections. Pro forma statements are not fact. They are informed guesses about what you think could happen if the business runs the way you hope over a three- to five-year period.

• Pro forma financial statements are very useful for the entrepreneur and the people who are considering injecting money into the business.
  o A good reason for entrepreneurs to take the time to build three years’ worth of financial statements is that it helps them get a good idea of whether launching the business makes sense. The pro formas are a reality check. Do the numbers add up? How long will it take to turn a profit? How much money do you need to get it going? After creating pro formas, you’ll get a better idea of whether you should actually start the business.

  o Pro forma statements are also useful for bankers and investors because they can see the assumptions the statements are built on. Units, pricing, costs, trends, and financing can all be tested in a good pro forma statement.
If you can put together pro forma statements built on reasonable assumptions, you will impress people. Your credibility will be high, and you’ll have a much more receptive audience for that loan or investment. You’re more likely to be trusted with investors’ money. And at the end of the day, that’s what preparing financial statements does for you. It shows that you care enough to learn the language of business.

Questions to Consider

1. It has been said, “Happiness is a positive cash flow.” Why is a positive cash flow important for a company?

2. Many companies start out being unprofitable, and yet still receive substantial investment. Why does this happen?
All business ventures involve risk, so acknowledging risk actually makes you look capable and prepared for the challenges you face in starting your business. Including a risk analysis is crucial when you’re starting your business because acknowledging these risks and having a plan to navigate around them will add credibility to you and your team. Because you haven’t demonstrated your ability to survive in adverse conditions, you have to outline how you plan to do so.

Address Critical Risks

- The critical risk section of a business plan is similar to a flight simulator for pilots. Its goal is to disclose how you think about critical situations, and it should demonstrate that you have considered the issues and are reasonably prepared to handle risks if they occur.

- By understanding potential risks, you can find ways to minimize their impact. The key is not only to identify the risks but to offer creative and effective solutions.

Apply Porter’s Five Forces Model

- The Porter Five Forces Model gauges the competitive dynamics of an industry, and it’s a tool you can use to analyze the risks inherent in the industry you’re entering. Applying economic analysis to competitive dynamics reveals five forces present in any industry: the threat of new businesses entering the market, the threat of substitute products or services, the threat of customers gaining bargaining power over you, the threat of suppliers gaining bargaining power over you, and the threat of intense competition.

- Let’s say you’re thinking about opening a hair salon. Applying Porter’s Five Forces Model could help you identify inherent risks in that industry in your market.
○ First examine the threat of other new salons opening in your market in the future. Is that possible? In most places, probably yes. There are low barriers to entry in the salon industry. If you get a cosmetology license and the appropriate certificates, you can probably go into business. And very little proprietary knowledge exists to keep hair stylists from having what they need to open a store.

○ The threat of substitute products or services would be products or services that potential customers could use instead of your salon to get their hair cut. Is that possible? Again, yes. Hair clippers and shears are on sale at any CVS or Walgreens. It’s not against the law to cut your own hair, and many people do.

○ What about the bargaining power of customers? Salon customers have many stores to choose from. Unless you’re a world-famous stylist, you probably have to keep your prices in line with your competition.

○ What about the threat of suppliers’ bargaining power over you? In the case of the hair salon business, hair product suppliers probably do not have monopoly control over stylists. Some high-end products require certain certifications from the company to allow them to be stocked, but for the most part, salons offer a wide range of products at the register for purchase. This area is where salons make a good deal of add-on revenue. Because the salon has many choices of hair care products, it can negotiate for good wholesale prices and get a good margin on them by charging a much higher retail price.

○ Finally, is the competition in the industry intense? In most places, yes it is. Hair salons in most areas are in a bitter contest for the best stylists, but they’re often wooed away by other shops.
This analysis is useful not only for the potential investors reading the plan; it’s good for you, too. You have to consider each force very closely in deciding whether to enter a market. Simply put, competition in the industry may be so difficult that it may not be worth the risk. But after analyzing the industry, you might think your plan has a chance and decide to give it a go.

One important takeaway from Porter is that you must always be thinking about barriers to entry. From your perspective, do you offer something that can make it harder for competitors to take business away from you? That might be intellectual property, such as patents and trade secrets, or it could be access to resources that others don’t have. Thinking about competitive issues may be difficult, but you’re more likely to make well-informed decisions by doing this market research.
Conduct a SWOT Analysis

- SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. It’s a technique predominantly used in business strategy, but it can also be helpful as a tool for startup companies.

- First, gather a diverse group of stakeholders connected to the startup: the owners and management team, people who represent good examples of future customers and employees, suppliers, distributors, and investors or bankers. By having them help you identify critical risks of the company, you will learn what you need to tackle and acquire a good overall understanding of what the company might be facing.

- Capture every idea that someone throws out and write them down in full sentences. For example, someone might say that a weakness of the company is “weak supply chain relationships.” Spell this idea out more clearly: “The company has not found a reliable supplier for our key ingredients.” Or, “We need to find a warehouse near our key customers.” You can see that both of these statements refer to the supply chain, but they offer more insight into what “weak supply chain relationships” means. Continue until the group comes to a standstill. Remember, there are no wrong answers when you brainstorm ideas. The key is to capture as many ideas as possible.

- Once you reach consensus, draw a line under the Strengths column and write underneath it “Core Competencies.” Core competencies are a particular type of strength that can help you offset or address the risks of a company—specific factors your company does well that are central to the way you deliver benefits to customers. Core competencies distinguish your company from your competition and can offset risk.

- Now ask your group if they have ideas about addressing the key weaknesses you identified. By shoring up these weaknesses, you might come up with innovative solutions for a process or service no
one in your industry has discovered yet. You could turn a weakness into a future strength. Do the same with threats. Ask the group to consider how the company could prevent threats from hurting it.

Consider Potential Risks

- You might have to cope with a variety of lesser risks, as well: product risks, market risks, people risks, financial risks, competitive risks. Following are some specific examples and how you might address them:
  
  - Perhaps your management team is inexperienced. If you’re new to an industry or straight out of school, potential investors might question whether you have what it takes to run a business. Think about the skills it will take to run your business and furnish examples of having applied the same skills in your life. It may not be a direct business comparison: Maybe you played college sports, demonstrating your discipline and ability to work well on a team. Leading a club on campus might show leadership quality. These aren’t exact matches, but if you have a good idea, a solid business plan, and experiences that show discipline and leadership, you might get a serious look from an investor.

  - Challenges from competition can also pose problems. Maybe competitors will try to recruit your best employees. How will you ensure that you can retain them? You need to become a student of competitive dynamics to develop a clear understanding of all the ways other companies will try to take your customers or run you out of business.

  - Another risk is economic recession. The business cycle usually runs 7 to 10 years, during which the economy goes up and then down. You might have challenges from large-scale economic downturns. Do you have a plan in place to ensure you have enough revenue and cash flows to weather the storm?
• Once you’ve identified when, where, why, and how each of these risks might take place, turn them into what-if statements. What if one of your key people got really sick? What if one of your suppliers experienced a setback and couldn’t give you the supplies you need? Then answer the questions.

• One way to mitigate risks is to get others to join you in addressing them. These types of partnerships are known as strategic alliances and they’re very popular with big businesses. Big companies recognize that they can’t do everything well, so they turn to others to help them out, and they offer their partners services to help them, too. It’s a savvy way to reduce risk. And if it works for big companies with a lot of resources, you can imagine how useful it is for small startups.

• You want to keep the flow of your business plan smooth and interesting, but you should still do a thorough risk analysis. Research the common risks in your industry. Dig into online archives to find stories about your competitors. Did they face any crises before you? How did they handle them? Is there a pattern of these types of problems in the industry? If so, what is your innovative way of avoiding the problem?

• Coaches often say that the will to win is less important than the will to prepare to win. The critical risk section of your business plan is your preparation to win. Just as coaches want their players to know what their future opponents have done in the past, investors and bankers want to know that you’re aware of some of the pitfalls you could face in your business or industry.
1. Research the common risks in your industry. Dig into online archives to find stories about your competitors. Did they face any crises before you? How did they handle them? Is there a pattern of these types of problems in the industry?

2. Imagine you’re starting a new business. Consider Porter’s Five Forces Model to measure how risky the business will be.
Probably the only part of entrepreneurship that is as exciting as opening a business is selling a business. Selling a business is a landmark event in the life of an entrepreneur—a big payoff for all the hard work and money sunk into the business. Selling a business is also known as harvesting, like a farmer planting and growing a crop and then taking it to market. Once the crop is off the farm, it’s out of the hands of the farmer forever. Businesses often go through the same life cycle.

Establish Your Harvest Strategy

- Your harvest strategy is a plan for how you might sell your business one day. Investors are interested in this section of your business plan because if the business gains market value over the years, they may sell it for a large return on their original investment. Alternatively, they want to know how a successor could run the business should your involvement with it end.

- Entrepreneurs usually start businesses for one of two reasons. They either want to be their own boss, in which case they start a lifestyle business that they intend to operate for the long term and perhaps pass down to family, or they start a business with the intention to harvest it for a lump sum payment. Investors want to know which strategy you intend to take.

- Most investors are looking to buy a healthy business: They don’t want to lose their money on a bad bet. One of the main purposes of discussing your harvest strategy is to show investors how and when they’ll be repaid.
Demonstrate Soundness

- A company that’s attractive for harvesting will project substantial and consistent revenue into the future and demonstrate that it is sustainable and will continue to be run properly—that is, a sound business.

- First and foremost, a potential investor will examine the track record that supports your revenue projections. Evidence here includes unique resources, intellectual property, special knowledge, or some other competitive advantage; industry trends; and market share potential.

- After looking at revenues, an investor will review your gross and net margins. Gross margin is the amount left to cover your operating expenses after the cost of goods sold. You could have big revenues but a slim gross margin that might scare off an investor.

- Your track record of success is laid out in your income statement and cash flow statement. The numbers don’t lie, so potential investors will put those statements under a microscope and look for even the smallest weaknesses.

- Finally, an investor will want to see how much debt the company is holding and what an investment in the company will be worth. The more equity an investment will bring, the more interest an investor will have. In fact, some companies try to clean up their balance sheets by paying off debt so that they can make themselves more attractive to an investor.

Turn It Around

- If your revenues are down and the trend shows that they have been declining for a while, you may still be able to sell the business. Falling revenues can often happen because an owner gets caught up in the drama and crises of running a business. After dealing with these problems day in and day out and then going home exhausted, the owner begins to overlook weaknesses that start to accumulate.
But an objective eye from the outside with time to look over the books can often spot these weaknesses and create a plan to fix them. Some investors make a great living buying troubled businesses, patching up the problems, and instilling discipline into the system to make sure the weaknesses don’t recur.

Of course, you prefer that your business be successful. The harvest price for it will be higher if it’s doing well. But even if your business is struggling, a savvy investor may be seeking a business ripe for turnaround.

Value the Business

- Business valuation is a process and a set of procedures used to estimate the economic value of an owner’s interest in a business. A common method of valuation is the discounted cash flow method. This approach involves three forecasts: the future cash flows of the business, the window of time you project the cash flow, and the discount rate.
  - Most times, investors will project cash flows out 5 to 10 years. If you project out 10 years, you might also factor in business cycles; more important, you’ll estimate how much cash the company will generate per year over that time, based on its sales trends. These educated guesses must be reasonable and supported with sound thinking and research about your industry. You should find these numbers in your financial statements and make further projections as needed.
  - The discount rate is the process used to translate future dollars into today’s dollars. It is based on two factors: (1) the fact that a dollar is worth more today than it will be in the future, and (2) the riskiness of the business. The higher the risk, the higher the discount rate. Essentially the discount rate indicates that since projections about future cash flow are not guaranteed, you are reducing the projection by a given amount to account for this risk.
For example, look at the discount rate of Treasury notes and other government securities, which are considered very safe investments. The discount rate is small, so a dollar in the future of a Treasury note will be close to current dollars. You’re guaranteed a minimal return in the future. Because they are the standard for low-risk investing, Treasury note rates are often used as a gauge for other investments. For a startup without much track record, risk is much higher, so the discount rate will be much higher. But if the startup actually works and makes reliable revenues in the future, it can provide a much larger return.

- Risk and discount rates are fundamental concepts that play major roles in valuation and negotiations. Investors looking for a big return are going to look at the startup. If they can get in early with a company that becomes successful, they can make a lot of money. As an entrepreneur, you’re trying to show evidence that your risk is low, because with less risk comes a lower discount rate and less ownership that you give to the investor.

- Another common method used in harvesting companies is multiples. The name is exactly what it implies. A multiple means you multiply the company’s revenue streams by a number between 4 and 10. Let’s say the company has revenues of $50 million. Using a multiple of 5, the value of the company is $250 million; a $25 million investment would give the investor 10 percent of the company.

- Keep in mind that all these approaches of valuation are negotiated. These are important concepts because discount rates and future financial projections drive much of the negotiating for what money you get and under what terms. Thus, a basic understanding of valuation is very helpful to you as an entrepreneur.

- The second important factor in harvesting is a company’s overall performance. Obviously, that means that its employees are performing well and its business processes make sense. But external
factors are also important: relationships with customers, suppliers, and distributors; partnerships that enhance supply chain operation; and expansion into new markets, for example.

- What helps you get a good valuation is accomplishing goals that reduce risk for your company. These accomplishments are called milestones, and each time you hit a milestone, you’re closer to making a business successful. As you reduce risk, your valuation goes up, and as your valuation increases, you have a better business to harvest.

- The harvest section presents the case for your valuation of the company. State what that calculation is based on. Justify why you think your company can get to the point where it will be harvested.

**Achieve Your Milestones**

- Milestones are events that occur throughout the projected history of the business. Common milestones include completing a product design, building the first prototype, manufacturing the product, making the first sale, and breaking even. Scheduling design, production, operations, and marketing places expectations on the company to move forward and start taking action. In an ideal situation, the entrepreneur has met some of the milestones before presenting the plan. The key is laying out a plan to show investors that you know what you’re talking about and that you mean business.

- As you hit each milestone, you reduce risk, which you now know increases valuation. You have actually accomplished something. It’s not a projection. You are closer to hitting revenue projections, risk declines, the discount rate goes down, and valuation increases.

- Develop a timeline of all the big events in the company’s projected future. A good milestone schedule demonstrates your understanding of what it takes to make your business successful. Incorporate a short discussion of each milestone in this section. Some milestones might include the following:
○ Achieving 20 percent increases in revenue for each of the first five years.

○ Breaking even.

○ Opening multiple locations.

○ Becoming a franchise.

○ Qualifying for additional funding.

• Provide specific start dates and end dates and monitor your progress. If you hit your targets, see if you can expand on that success. If you miss them, try to figure out why. If you have a startup team, think about assigning specific people to specific goals. Make someone accountable for overseeing progress toward each milestone.

Wrap It Up

• The final section of the business plan includes the appendix and bibliography. Put as much thought into these as you did the previous sections because this is where investors will look for further information on the fine points.

• The body of the business plan includes only essential information. The appendix is where you demonstrate all your research and add details about the product, customer, operations, location, team members, and financials. Be sure you reference the appendix in the body of the business plan as the place where further material is available.

• The bibliography sets out the sources of all the research in the plan. Some of the information may come from primary research you’ve done on your own. If you’ve interviewed people or done market studies, be sure to include the names of the people you interviewed. Also cite outside sources from secondary research coming from databases, the Internet, or traditional media sources.
A good business plan will read well, tell a story, highlight the business’s key points, ensure that there are no inconsistencies between the sections, and be backed by solid research in the appendix and bibliography.

Questions to Consider

1. What is the significance of a harvest strategy?

2. Why is it important to have one?

3. How can the appendix of your business plan have an impact on potential investors?
One of the primary concerns of entrepreneurs is how to acquire money. Many entrepreneurs believe they have a great idea, and if only they could get the money they need to get off the ground, they’d succeed. And entrepreneurs are concerned for good reasons. Funding your business is one of the true tests of whether you’re going to succeed, because much of what defines the entrepreneurial process is resource acquisition.

**Prepare a Capitalization Strategy**

- Acquiring the resources to start your business is called a capitalization strategy. It calculates how much money you need to keep yourself going, and it outlines how you’ll spend that money so as not to run through it too quickly.

- Capitalization strategies help you determine the best funding source for each stage of your company’s development: pre-startup, startup, growth, maturity, and expansion or decline. To understand this process, you must understand two key concepts: equity financing and debt financing.
  - Equity financing is money received from a lender in exchange for part ownership of the business. The lender might bargain for common stock, which includes a vote on business decisions, or might settle for preferred stock, which does not.

  - Before agreeing to equity financing, think about how much control and how much ownership of the company you’re willing to surrender. The most common sources for equity financing are venture capitalists and private investors.

  - Debt financing refers to taking a loan and paying it back plus interest; it does not involve company ownership. Sources of debt financing include banks, commercial lenders, friends, family, and your personal credit.
Seed the Pre-Startup

- Potential investors and bankers rarely look at a business if the entrepreneur has not invested in it first. To determine how much of your own resources you are able to invest, start with a personal balance sheet listing all your assets and liabilities. Your assets might include cash, real estate, cars, and IRAs. Your liabilities might include credit card debt, your mortgage, auto loans, and monthly bills.

- Another source of self-financing is credit cards, particularly in the early stages when you have limited options. It’s probably not the first option you’ll want to use, but if you believe in your idea enough and need the funds, you might use them to start the first run of supplies and production.

- A good piece of advice regarding credit cards is to apply for them while you’re still working. You have income and hopefully a good credit rating, so that’s a good time to apply for cards with high maximums and low interest rates.

- Your goal in this stage is to run lean and think carefully about what you need. This is called bootstrapping. It means that you’re stretching your resources as far as they can go. You might work out of your home, rent whatever equipment you can, and buy only what you must. You have to do just enough to show others that you’re serious about your business.
Consider Crowdfunding

- A new development in financing, called crowdfunding, is gaining popularity. It is known as peer-to-peer, or P2P, lending, and it is a social approach housed on the Internet in which lenders pool money from investors willing to lend capital at agreed-upon rates. The average size of these loans is $7,000 to $25,000.

- For a minimal investment, an entrepreneur can promise a donor an early version of the product or some other gift. When the targeted amount of money is hit, the company uses the investment to bring the product to market. Crowdfunding is turning into a great way for unknown entrepreneurs to get their names out into the world.

Involve Friends and Family

- Investors and bankers will also check whether anyone who knows you loaned you money or invested in your business. Investing your money, your friends’ money, and your family’s money is a key indicator that you believe enough in your idea to bear the risk.

- When you borrow from friends and family, make it professional and put the agreement in writing. This will protect your relationships with them and, depending on how much they lend you, they might face tax consequences that you didn’t know about. Make sure that you’re aware of all the ramifications before money changes hands.

Prove the Concept

- What you’re really developing in the pre-startup stage is your proof of concept. You’re trying to do all you can to prove that your idea is a good one, so you need funding to prototype and test it. But the product isn’t the only proof of concept you’re evidencing in this stage. By figuring out your product, getting to know potential customers, and coming up with a plan for making and selling the product, you’re also proving that you’re willing to hustle and do the hard work needed to get the business off the ground.
• Business is first and foremost a human enterprise. You’re trying to get people to buy into you and your idea. Everyone loves a good bootstrapping story. If you do a good job of bootstrapping in this early stage, you’re well on your way to being one of the seeds that sprouts into a big tree one day.

Finance the Startup
• Perhaps you’ve still got a little money from the seed stage. If not, you may have to keep working to finance your new company. This is a time when you have to be extra creative and approach people you don’t know. You can often find these potential relationships inside the supply chain: your suppliers, manufacturers, and distributors. Think about what case you can make that your business is going to be successful.

• You have to convince potential supply chain partners that you’re somebody they’re going to want as a customer. Explain to them how the partnership is going to be a win/win; that is, make it clear how you can make their companies more money. If you can demonstrate that, more doors will open. They might be willing to front the supplies or supply the financing you need.

• Customers also can be a great source of financing a startup. If you can get them excited about your product, they can help you get it to market. Demonstrate that the product or service is going to be a game changer for them so that they’ll agree to pay for the product before they get it or become investors themselves.

• Next you might look for funding from small investors, often known as angel investors. Typically these are wealthy individuals looking to get involved with startups. For a variety of reasons, they will help the company get off the ground when bigger investors won’t look at it. Getting in on the ground floor of what becomes a large business can turn a nominal five- or six-figure investment into millions.

• As a startup, you’re probably too risky for the banks to want to lend you money, but they’ll be happy to get you the contacts you need
to get going. Commercial lenders often know who and where the angels are. Ask them if they know if there’s a venture club in the area. Starting a relationship with commercial lenders now is a good idea. When the day comes that you need their help, they’ll know who you are.

- A few other sources of financing for the startup stage are the following:
  - The Small Business Administration (SBA) is a great resource for many things and can help you with financing, as well.
  - Consider also university and community sources of money.
  - Business plan contests, Small Business Innovation Research grants from the government, and community seed funds are all worth looking at.
  - Commercial finance companies make loans against your current assets: inventories, accounts receivable, and equipment. They’re a last resort because they often charge high interest and are pretty severe in penalties if you delay payment.

**Support the Growing Enterprise**

- The growth stage is one of the hardest parts of being an entrepreneur. If you don’t grow carefully, your business will come to a screeching halt. You have to figure out how to make more customers happy without hurting the quality and service you’ve become known for. This is perilous territory for an entrepreneur.

- Because you have demonstrated your capability and, more important, the company has assets that can become collateral for loans, banks might be more willing to grant you loans or offer you bigger lines of credit. You might also approach the SBA to back a loan for you. Banks often grant SBA-backed loans because the government is ensuring that the bank can receive money for failed loans if the company goes out of business.
• If your business is growing exponentially, venture capitalists might want to get involved. Venture capital firms are groups of high-end investors who put big stakes in growing companies. They expect a lot, but their expertise and resources can take a company to the next level.

• Many people are cautious about taking venture capital money. Negotiating takes place in a document called a term sheet that lays out the details of the deal. The amount of the investment, market capitalization, milestone targets, expected returns, and ownership are spelled out in the term sheet. Enter agreements with venture capitalists carefully, and when you get to that stage in your financing, seek professional help from an attorney.

Steer the Mature Company

• When your company reaches its mature, established stage, you have to run a professional organization while still thinking like an entrepreneur. You must think of new markets to enter, new products and services to design, and better ways to serve your customers, but you’ll have access to more resources to accomplish your goals.

• If you’re seeking financing, you might consider more sophisticated venture capital financing or an IPO. IPO stands for initial public offering, which occurs when a company reaches a point at which it can sell shares to the public. IPOs are usually issued by young companies seeking the capital to expand or by large privately owned companies looking to become publicly traded.

• Decisions about financing can be difficult. Do you want to do it on your own and have the whole pie? Or do you want to enlist the help of others and share the pie? Only you can make that call. But when you’re in a position to make that decision, you will know that your business is a success.
Questions to Consider

1. What are the advantages and disadvantages of raising capital through debt?

2. If you start your business, how much ownership would you be willing to give up for a good investor?
At 367 Addison Avenue in Palo Alto, there’s a little, nondescript garage. But it’s not just any garage. It’s the garage where Dave Packard and Bill Hewlett started the electronics firm Hewlett-Packard in 1939. That little garage is now a national landmark called the “Birthplace of Silicon Valley.” And if you go down the road to 2066 Crist Drive in Los Altos, you’ll find another little garage that started a revolution. That’s where Steve Jobs and Steve Wozniak started Apple Computers. Because of these two examples, many students from the universities surrounding Silicon Valley have passed up six-figure salaries to take the pilgrimage that Hewlett, Packard, Jobs, and Wozniak took.

Base at Home—Advantages

- Starting a home-based business is one of the trendiest things to do in business today, and it can make a lot of sense. It’s the ultimate form of bootstrapping—the practice of building a business with minimal capital outlays. What could be a better example than using what you already have in your house to help launch your business?

- Another popular form of bootstrapping is keeping your day job at first. Many startups are financed by this income, and insurance and retirement benefits are often covered by that job. With this approach, you have benefits, cash flow, and startup operations with minimal costs. You may not be able to do this forever, but it’s a great way to start.

- When possible, set up some dedicated space just for work. This will help others know when you’re on the job and when you’re in your family role. Dedicating space to your company also has financial benefits: tax deductions for space and materials used for work, such as the office area, supplies, furniture, equipment, software and subscriptions, mileage, travel, meals, entertainment and gifts,
insurance premiums, retirement contributions, Social Security contributions, and telephone charges.

**Base at Home—Disadvantages**

- When work and home are permanently melded, it can become a little bit overwhelming. You might do too much work or too little, and either scenario can be stressful. Establishing a strong separation between your business and personal life is healthy, and when you work from home, this can be particularly difficult.

- Getting work done in home offices can actually be hard. It’s easy to get caught up with family duties or other distractions or to procrastinate by cleaning the house or mowing the lawn. You have to be clear that when you’re working, your focus has to be on the company.

- Many entrepreneurs love working from home for the flexibility it affords them. But your family must be involved in this process with you. Make it clear that when you’re working, you need to focus on work. On the other hand, be sure that when you’re not working, you’re fully present with the family, as well.

**Plan Your Website**

- In today’s business world, having an online presence is absolutely essential. Your site should be attractive, informative, easy to navigate, and user-friendly. Your site must also comply with Section 508 of the Rehabilitation Act, which requires that all electronic media be accessible to people with disabilities. A usability-testing professional can help you with these issues.
• Other critical issues include content, design, and currency.
  ○ Getting the right level of content is important: You want your website to answer any questions a potential customer might have. Ask yourself why people would come to your site. What do they want to know? What will engage them?
  ○ Create an outline or storyboard to be sure to include all the information you want to convey. Look at competitors’ websites and other sites you visit frequently. Note their strengths and weaknesses and build a website that integrates what they do well and eliminates the unnecessary or confusing.
  ○ When you’re designing your site, keep it simple. Think about websites you enjoy visiting. Which ones do you go back to time and time again? Why? A good website keeps customers coming back, and a bad one may chase them off forever.
  ○ Your site must be consistent and updated frequently. If you think you have neither the time nor the money to devote to updating your site, build a basic, conventional one that will need updating only when you make changes in the business that the customer should know about.

Build an Online Presence
• You have three options for building your website: Hire a web designer, use a social marketing consultant, or do it yourself.
  ○ If you’re looking for a unique web presence dedicated to your company, hiring a web designer is the way to go, but it will cost: Expect to pay anywhere from $5,000 to $50,000. When you’re just starting your business, that amount of money is a lot to spend, even on something as important as your website.
  ○ Turning to a social marketing consultant can help you determine what type of web presence you need. Then the consultant can use existing tools and platforms to help you build an identity. This option will run you in the neighborhood of $2,000 to $20,000.
Making the website yourself has never been easier, and by dedicating some time to learning the basics, you can build a decent site. The tools are readily available, and you can pick up plenty of helpful pointers by doing searches on YouTube and Google. Internet domain registrar and web hosting companies like GoDaddy allow you to search and secure a domain name and build a website for a very small price. Most web hosting companies offer templates and options, as well as tutorials, for building your website, and there are plenty of easy-to-use manuals at your local bookstore.

- If you want an online business, web hosting sites enable you to allow customers to place orders by purchasing “shopping carts” and online payment options to add to your site. You can even track purchaser information to build a client database.

**Stand Out in the Crowd**

- A good website is useless if no one can find it. Search engine optimization—SEO—refers to positioning your website so that it appears high on the list of options when someone searches certain keywords online. Google makes this pretty easy by publishing a Search Engine Optimization Starter Guide to help you maximize your web presence.

- Two other terms to know about are your URL and your domain name.
  - URL stands for Uniform Resource Locator and is simply your online address. Your domain name is part of your URL. For example, the URL for The Great Courses is http://www.thegreatcourses.com, and its domain name is thegreatcourses.com.

  - Your domain name is important because it is how people can find you, and it’s best if your domain name is the same as your business name. As you’re thinking about a name for your business, you should look ahead to see if the domain name has already been registered.
Name That Business

- Keep your business name short and simple. You want your name to be memorable, like Apple, eBay, Nike, and Facebook.

- Pick a name that gives some kind of clue about what you do. For example, if you had to guess what 1-800-Flowers does, what would you guess? Companies like Yahoo and Google have done well with names that don’t give the faintest hint what the business does, but as a general rule, this is a risky approach.

- Some businesses have had great success merging two words in a way that creates a new word that’s simple and informative, such as Geeklist, a social network for techies. Or they’ve added prefixes or suffixes to a word, such as Spotify. Some companies have even chosen to use misspelled versions of words, such as Tumblr or Xoom.

- If you find that you just picked the wrong name, and it’s been brought to your attention by customers or someone else, don’t be afraid to change it. It’s tough to change your name, but the benefits of cutting your losses and making the change will far outweigh the costs of keeping a name that’s working against you.

Exploit Social Media

- Social media sites give you an opportunity to build strong relationships with customers. By using social media services, such as Facebook, Twitter, and Instagram, you can keep your customers engaged with your company.

- You might want to keep a blog to share information about your company and industry with your customers. This is a chance to continue telling your story whenever and wherever your customer wants to hear it. Social media can offer the same benefits for customer engagement as a printed newsletter in a less expensive, highly interactive way. You can post videos and articles, create discussions, and engage potential customers or investors in what you do.
Using social media tools also generates new leads by generating traffic to your website, thus increasing revenues. You can easily gather information about your customers through social media that was difficult or impossible to learn before. And social media sites offer new and less expensive ways to market to your customers.

• Your company’s name is linked to your company’s website, your company’s website is connected to your social media presence, and all are integrated into your marketing and your customer’s experience. The more time customers spend on your sites, the more you’ll be involved in their lives.

Questions to Consider

1. Brainstorm great names for your business and then do some research online to see if you can get a domain name that matches your business name.

2. Have you used social media sites? If you have, what do your favorite businesses do to get you engaged?
While we don’t have an official aristocracy in the United States, we do have our business versions of royal families. They’re the families who built the infrastructure of our country: the Vanderbilts, the Rockefellers, the Morgans. They’re the families who created popular culture: the Disneys, the Hefners, the Jacksons. They’re the families who made the materials and consumer products we use every day: Procter & Gamble, the Kochs, the DuPonts. Ford, Marriott, Heinz, Estée Lauder. These are all names of companies that started out as family businesses.

**Trust and Succeed**

- Entrepreneurship scholars spend a lot of time thinking about what makes family businesses so successful. Some believe that the chief reason is their long-term orientation. The family business becomes part of the family history, and much of the time that the family spends together is spent building and running that business. The family is bound by a common struggle, a common goal, shared victories and success. They share common fears, failures, and setbacks, as well. They can bond in the pursuit of a common goal in a unique way.

- There’s more at stake in a family business than money: the family name, a desire to leave a legacy, the family reputation and pride. This sense of connection to the business motivates the family leaders to make decisions that put the company in good shape to be handed down to future generations. Simply put, long-term orientation in business is the surest way to build wealth, and family businesses often have this in abundance.

- People are more concerned with the future of their children and grandchildren than they are with the future of the company they work for. With family businesses, these two ideas are bound together. The future of your business is the future of your family.
Its success is connected to your family’s success, and this can be a huge motivator to pay attention to the business and to your customers.

- Another strength of family businesses is that they are typically more resilient than other companies. When the company hits hard times or goes through an economic downturn, a family will sacrifice and work together to make it through to the better times. E. & J. Gallo, Porsche, and Ritz-Carlton are all world-renowned companies that got started during the Great Depression. Although they were started during tough times, the families who started them persevered, and the companies have endured.

- Many times family businesses don’t have to manage by the quarter or worry about stockholder returns. They can afford to make decisions that may take a while to play out but will benefit the company in the long run. They’re focused on building a legacy, and that plays into consumer response, as well. People tend to trust companies that sound like family names and to believe in stories about what the company stands for and where it comes from.

- Consumers have an inherent trust that Bill Marriott, Walt Disney, and Henry Ford would want their families to keep doing things the right way and that the family will want to live up to that legacy—that honor comes with carrying that name.

**Plan for the Future**

- Some family businesses struggle once they are passed on to future generations. Second- and third-generation family members may work in the business but put forth less effort than their elders did, drawing a paycheck but not necessarily earning it. When non-family
members carry the weight and are not rewarded for keeping the company afloat, it won’t take long before nepotism destroys it. The best family businesses avoid this fate by giving relatives specific job titles and responsibilities. Family members should not play by a different set of rules than the other employees and managers do.

- Grooming a family member for a leadership position makes sense, but it’s another thing entirely to put someone in a leadership position just because he or she is family. Management lines must be crystal clear, and being in the family should not trump them. Family members cannot reprimand non-family members who may outrank them or employees who don’t answer to them.

- Many family businesses don’t experience collapse, yet many families have been torn apart because of business success. Sometimes this is due to disagreements in the family about inheritances or between siblings as to who should run the business when parents retire or die. These problems can be avoided if your family business has a succession strategy.

- Some family leaders avoid devising a succession strategy on the grounds that they’re too busy, or they want to avoid making anyone angry with what they decide about the future of the organization. The best reason to think about this issue is that you don’t want your family members to have deal with it during a time of crisis. Here’s an example:
  o Before Disneyland opened in 1955, there was a theme park in southern Indiana called Santa Claus Land. It opened in 1946, started by a retired industrialist named Louis Koch. It was a free park with a Santa Claus that families could visit, a toy shop, a restaurant, and children’s rides. Over time the park was taken over by Louis’s son Bill. Bill added the first Jeep-Go-Round ever manufactured, a new restaurant, and a deer farm that became home to 14 European white fallow deer. Over the years the park changed its name from Santa Claus Land to Holiday World. It’s a very well-respected park in the industry. Bill passed the park on to his son Will.
Unfortunately, Will Koch died suddenly from drowning in the family swimming pool. His death was a total shock. Everyone thought Will would be running the park for a long time, so there were no real plans for what would happen if he died.

Will’s ownership share went to his wife, which was to be expected. But since blood relatives had always run the park, Will’s brother, Dan, took over as president of Holiday World.

But Will’s widow wanted her part of the family to run the park. Lawsuits ensued and Will’s widow won. Dan was fired, and the company’s board put a former general manager of the park in place as its new president. It was a long, painful process. The once great story about a family-owned business turned into one about betrayal and fighting. The Koch name will never be the same.

There are a lot of lessons in this example. You see a successful family business passed down to a third generation. It was well-respected in the local community and in the larger industry of which it was a part. For decades it brought happiness to people visiting the park. But you also see some of the issues to be aware of. A good succession strategy created with all the key players at the table could have prevented this drama.

- A good succession strategy addresses the many possible scenarios that could occur at any time. If the unexpected does happen and no succession strategy is in place, families can be destroyed and the business can lose the human touch that made it so special.

Avoid the Pitfalls
- It’s important to draw clearly defined boundaries between the world of your business and your family life. Mixing business and home life can be taxing and problematic. Limiting business discussions to the office or at business-sponsored events will help you create that boundary and give everyone a well-deserved break.
• Too many family businesses bring in family members with no clear plan for what they will be going to contribute and what their compensation will be. You need to make this clear from day one by putting business roles in writing to avoid misunderstandings or hard feelings down the road.

Follow the Dream

• The story of a man who created a golf course in a cow pasture illustrates how a business can bring a family together. This man worked third shift as a maintenance worker at the local General Motors foundry. It was a good job, and over time he was able to buy up a lot of beautiful farmland around his house. At some point, he started to take a liking to golf, but the closest golf course was 20 miles away. He used to go out in his cow pasture and hit golf balls. It wasn’t long before people driving by saw him hitting balls in the cow pasture, so they started to go out there and hit balls, too.

• Then he went out and bought some greens flags and buckets. He got everyone together at the gate of the cow pasture and showed them a hand-drawn layout of a golf course. Nine buckets marked where the tees were, and nine flags marked where the greens were. It wasn’t long before he’d have 20 or 30 people out there on a Saturday afternoon playing his course in the pasture.

• This success persuaded him to turn his makeshift course into a real one. He ordered a golf course construction manual from the PGA, and with the help of family members and fellow workers from the General Motors plant, he turned that pasture into a real golf course. It was long, hard work, but it was worth it. He had built something together with his family.

• Family businesses have done a great deal for this country. In many ways, building a family business represents some of the most fundamental values driving the American Dream. A family business often becomes much more than a business. It’s about pride and love. And it’s amazing how much can get done in the world when you have those ingredients working together toward a common goal.
Questions to Consider

1. Why did so many large companies start out as family businesses?
2. What problems can occur in a family business?
3. How can these problems be avoided?
Buying a Franchise or Other Business
Lecture 17

McDonald’s, Supercuts, Subway, 7-Eleven, and Anytime Fitness are just a few of the many franchises we see every day when we’re driving around our communities. You can build a business on a good idea, but you don’t have to build from scratch to be in business. Franchises offer another way to be your own boss. You can buy an already existing business, whether it’s a franchise or another established business.

Become a Franchisee

- Technically, any arrangement in which the owner of a trademark, business name, or copyright authorizes others to use it in selling particular goods or services is a franchise. The person who sells that right to the franchise is the franchisor, and the person who buys it is the franchisee.

- McDonald’s is the model of an international franchise. If you travel, you know that a Quarter Pounder with cheese and fries tastes the same in Kuala Lumpur as it does in Kansas. McDonald’s first designed the end product; then it designed the process of making it so that every piece of meat, every slice of onion, every bun, every piece of fried potato would be identical, turned out in a precisely timed and fully automated process.

A lot of discipline has gone into building the McDonald’s brand, so franchisees must follow strict guidelines to minimize variability.
A lot of refined thinking and innovation go into delivering a predictable product. More important, a lot of discipline goes into building the franchise’s brand. To make this system work reliably and prevent variability, the franchisee must agree to strict terms.

The franchisee agrees with the franchisor to commit to a financial obligation, which you can often find by inspecting its Uniform Franchise Offering Circular or by going to just about any franchise’s website, where its opportunities section lists what is required from potential franchisees. Normally, franchise fees consist of an initial fee and a royalty payment that must be made annually. Be careful what you commit to because the royalty payments can cut into your margins pretty quickly.

The reason entrepreneurs decide to buy a franchise is that the franchisor offers a proven system, and good franchises make the startup process much easier than building a business from scratch. By buying a franchise, you tap into a mature supply chain and benefit from large economies of scale.

You also benefit from brand recognition. With a franchise, once you put up a sign and open the doors, people will know what you’re about. Because a franchise makes its money by maintaining a consistent image of quality products and service, the franchisor will probably require you to use its precise techniques and processes, so you should expect to attend training classes on how to run the business.

The community of owners and the relationship with headquarters is another often-overlooked strength of owning a franchise. Many franchisees in a chain will help each other out with tips and support, and a good franchise chain offers coaching and financial assistance. With all these benefits, it’s no surprise that so many people buy franchises. But a few words of warning:

- Franchises can be very expensive. It’s not uncommon to be faced with fees of $50,000 to $1 million.
○ Another frustrating aspect of franchises is the control the home office exerts. In order to maintain a degree of uniformity from location to location, you might be limited in what you can do. Many people get into business to be their own boss. But with a franchise, although you own it, you report to someone who can fire you if you don’t fulfill your contract.

○ Do your due diligence. Not all franchises are run the same way. Some offer good support, while others are notorious for not fulfilling the promises they make to the franchisees.

### Buy Out a Winner

- If you want to be in a particular line of business, buying a company is often a great way to get started. Much like a franchise, the business owner has eliminated the time and effort of a startup. The business also has a track record, a customer base, and a name in the area.

- One reason to buy a business is that you might be able to get it for a bargain price. The owner may want to sell it quickly for a variety of reasons. If you can find a seller in this situation, you may be able to make a great deal.

### Turn It Around

- One of the surest ways to build a fortune is to buy a struggling business at a low price, rehabilitate it, and then sell it. Here’s some sage advice from a turnaround specialist:
  ○ Seek companies that are good at what they do but undervalued by the market. Examine the company’s books and tour the facilities. If you see potential, start diagnosing why the company is struggling.

  ○ Once you find the problems, assign current management the mission to fix them, and make them accountable.
○ Track specific metrics and follow up continually to make sure the business is moving forward. If the numbers are off, ask managers why.

- Accounts receivable and payable are good indicators of cash management, so turn to those first in your financial analysis. Then analyze the potential to expand the product line. A factory is a fixed cost, so a better return on investment is possible if you find complementary products to build and sell.

- Finally, remove any intangibles and goodwill from the company valuations so your negotiation is based on the true performance of the company.

**Kick the Tires**

- If business turnaround appeals to you, there are a lot of people you can consult to find opportunities. One of the best sources is business brokers who represent the owner of the company. They put the business on the market and help the owner find a buyer. Business brokers are helpful to both sides in getting deals done.
  ○ For the owner, a broker reaches out to a much larger group of potential buyers.
  ○ For buyers, the broker shares information that helps them learn more about opportunities.

- When you locate a business you might be interested in buying, examine its assets. Any seller should be willing to open up the books of the business and show you around the facility.

- If you buy the business, you get the inventory that’s in stock, so check its condition, age, quality, and salability. If it’s in good shape, you may have to pay a little more. If not, you might be able to get a better price.
• Examine the facilities, the furniture, the equipment, and the fixtures. Are they all in good shape? Walk around the building. Will electrical wiring need to be redone? What about the water system? You buy the problems with the business, and if you spot them on your own, you might be able to bring the price down.

• Pay special attention to the accounts receivable: age of outstanding debt, credit standing of customers, and so on. Perhaps with more discipline in managing paperwork and following up on customers, cash flow could be greatly improved. Another important question to ask is whether the business has a lot of accounts payable that need to be caught up.

• If the company owns intellectual property, check whether it has any trademarks, patents, or copyrights of value. If it’s a technology company, you might be able to buy some intellectual assets at a good price.

• Be sure to check out the reputation of the company in the community.

Engage the Staff

• The early days of acquiring a business are critical. Employees might be wary of a new owner. Learn about their work ethic and skill sets to decide whether you want to retain them or bring in a new crew. You’ll want to project a confident but respectful image when you visit the plant during tours and negotiations. You have to give the employees the feeling that the future will be positive.

• At the same time, you need to communicate to company managers that problems must be solved. Everyone approaches this differently. Some entrepreneurs like to set the tone that there’s a new sheriff in town; others like to present a sense of working together to save the company. Whichever approach you take, what works in turnarounds is authenticity. When you deliver a message to your new team, mean it.
Negotiate the Deal

- Buying a business is a lot like buying a house or a car. The seller wants to get the highest price possible, and the buyer wants to get the lowest price possible.
  - The seller will probably value assets based on what everything would cost if the buyer started the business from scratch. For example, maybe a full stockroom of inventory would cost $100,000, the equipment would cost $400,000, and the building would cost $1 million to build. That’s $1.5 million.
  - The buyer will counter that these assets are not brand new and offer a price based on what the actual assets would fetch if the business were liquidated. Maybe research shows the same type of inventory is available for $30,000, the equipment for $100,000, and the building for $500,000. That comes to $630,000.
  - The seller won’t go for the $630,000 price any more than the buyer will for the $1.5 million price. But now they have a range in which negotiations can take place.

- But if there’s one tip to help the negotiations go as well as possible it’s this: Listen, listen, listen. If you can get the other side talking, you can often uncover information useful to you in the deal. Ask a lot of questions and listen for any inconsistencies in answers. Anything that you can uncover that might bring down the price is a good thing.

Get a 360° View

- If you’re seriously interested in a business, have your accountants look at the books, as well. Their expertise can help you find the right price—and may protect you from a serious mistake.

- If you’re thinking about buying a franchise or a business, answer these five questions:
  - What do the owners or franchisers claim are the strengths of owning their franchise or business?
○ What do franchisees say about owning the franchise? In the case of buying a business, what do the current employees say about working for the business?

○ What do customers say about the franchise or business?

○ What trends are dominating the industry and what do the trends look like? Is the industry trending upwards or is it in a slump?

○ What does the competition look like, both globally in the industry and locally?

**Questions to Consider**

1. What franchise have you seen growing rapidly?
2. Why do you think it’s becoming so popular?
3. What’s your favorite franchise?
4. Why do you like it so much?
What do a smart phone, a company logo, and a best-selling book all have in common? They’re all examples of intellectual property—things you own that are products of your mind. That powerful concept is one of the most important drivers of our capitalist system. Without the ability to protect intellectual property, entrepreneurs would have little incentive to create groundbreaking products and services. The U.S. Constitution protects your rights to have and own original ideas for products, logos, images, and creative works in Section 8 of Article 1: “The Congress shall have power to promote the progress of science and useful arts by securing for limited times to authors and inventors exclusive rights to their respective writings and discoveries.”

**Research Existing Patents**

- Interpretation of the law evolves over time, but there’s no doubt that intellectual property protection has spurred innovation. For proof, compare the innovation in countries that respect intellectual property with those that don’t. The contrast is startling. To build true wealth with legal products that consumers want, you have to be accepted into the larger global economy.

- For potential investors, an idea that involves a patent brings an air of legitimacy and seriousness to the discussion, and the investor may assign the idea an increased market value because a patent adds a barrier of entry to possible competitors.

- If you have an idea for a new product, technology, or service, search the existing-patent databases for similar products and technology. This is important for a few reasons.
  - First, you want to know whether your idea has been patented. You don’t want to waste time on something that already exists. Even if it does exist, you might be able to learn from the earlier
work. A patent is public information, and those ideas might serve as a lesson for how you can create your own product.

- A patent can also give you ideas for improving what’s already on the market. By looking at other companies’ patents, you can find the weaknesses in their designs and create ideas for a better product. In a sense, when a competitor files a patent it is releasing its product playbooks to the world.

- Had you been looking into the patents filed with the U.S. Patent and Trademark Office, USPTO, in March 2004, you might have found patent #D504889. The pictures included in the patent show figures using a rectangular tablet computer. One shows a man touching what’s clearly a shiny glass screen with his finger. The revolutionary iPad was not released until April 3, 2010.

- What does that patent mean for you as an entrepreneur? If you were planning on competing in the tablet computer market, it would have given you a hint of what was coming. You could strategize from that information about where you might want to place yourself in the market or think about how to coexist with the new product by developing supporting accessories.

- The tools for finding out if a patent for your invention already exists are at your fingertips. Search databases on your computer. You can do a fairly thorough search using Google Patents at www.google.com/patents. You can find the essential elements of any patent, and the site contains easy user interfaces. The USPTO is the official agency that reviews, grants, and posts patents. Its website can be found at www.uspto.gov.

- Catching existing patents early is important because the patent process can be very expensive, costing at a minimum $8,000 to $15,000 and potentially much more.
Make a Case for Your Patent

- Understanding what a patent is will help you determine if you need one. In a provision in Title 35 of the U.S. Code are two requirements for what can be patentable. The first requirement is that the invention must be a new and useful process, machine, item of manufacture, or composition. Although the requirement seems straightforward, it is not: The words “new” and “useful” are vague and open to interpretation.
  - You have to be able to make the case in your patent filing that your invention is indeed new. One important element of doing this is to refer to existing patents in your invention space. You cite what already exists and explain how yours is different.
  - You also have to make the case that the invention has a practical application in the real world. If it’s too fantasy-based or impractical, the patent won’t be granted.
  - If you’re thinking about filing for a patent, hire a good intellectual property attorney. A good IP attorney has seen just about every type of patent you can imagine and will know not only whether your invention is new and useful but also how to write the patent request so that the examiner will think it is, too.

- The second requirement of your invention that has to be met to get a patent is that it must be non-obvious and reproducible by one skilled in the art. Again, it sounds straightforward, and again, it’s not as simple as it sounds.
  - To prove that your invention is non-obvious, you have to prove that some original thought went into the idea. The invention has to be different from what others would invent if they thought about it.
  - To prove that it is reproducible by one skilled in the art, you have to be able to explain how the invention can be reasonably manufactured.
Understand the Type of Patent You Need

- Three different types of patents can be filed: utility patents, design patents, and plant patents.

- Utility patents protect how something works, and there are four general types: chemical compositions, articles of manufacture, machines, and processes. If you get a utility patent, you have exclusive rights to that invention for 20 years from the date of filing.

- Design patents cover how something looks. You can patent different shapes and details on products, such as the Coca-Cola bottle. These patents last for 14 years.

- Plant patents are issued for engineered flowers and foods that did not exist in nature until scientists came up with them.

Know What Isn’t Patentable

- An idea alone is not patentable. You have to actually be able to explain in detail how you will bring an invention into the world.

- Laws of nature are not patentable. Making a breakthrough discovery of a phenomenon never before seen does not grant you ownership.

- Scientific principles cannot be patented. Gaining understanding of how the universe works does not confer you the right to keep that knowledge from others.
Methods of doing business cannot be patented. Although you can patent new digital tools for online business and commerce, you can’t patent general ways of competing in markets.

**File Your Patent**
- Filing a patent is a complicated bureaucratic venture that typically takes 18 months to two years from the date of filing to patent award. Here again, a good IP attorney is a wise investment.

- You don’t have to wait to be awarded a patent before you start making your product. Once you file, you can classify your invention as patent pending. Your IP attorney can make sure you make the right decisions about how you time your production and protect your ideas, as well as advise you on whether an invention should be patented.

- Be aware that the government is constantly changing the requirements to get a patent. Old patent laws followed a first-to-invent philosophy. This meant that the company that could show evidence that it came up with an invention first was granted a patent on it. If a competing company filed before you did and you brought forth testimony, media sources, and product notes showing you had the idea first, you were awarded the patent. Now the government is following a first-to-file philosophy. This means the first company to file a patent gets it, regardless of who had the idea first.

**Consider Alternative Protections**
- A trademark is a name or logo for companies, products, and services. More specifically, a provision in Title 15 of the U.S. Code states that trademarks are any word, name, symbol, or device that identifies the goods or services of one entity from the goods or services of another in interstate commerce.
  - If you file for a trademark and are granted one, your logo or name is given the symbol ™ to go with it. Filing a trademark is relatively easy and not nearly as costly as the patent process.
Not only logos and company names are viable items to be trademarked. Catchphrases, slogans, and taglines are all fair game, too. For example, the NBA coach Pat Riley made a small fortune when he trademarked the catchphrase “Three-peat.” Every time that catchphrase is put on a t-shirt, Pat Riley gets a royalty on it.

A trademark can be an excellent tool for setting you apart from your competition. It’s also important to know that, unlike a patent, you can have exclusive rights to a trademark forever, as long as you continue to pay the government registration fees.

Copyright is a very commonly used intellectual property tool. A provision in Title 17 of the U.S. Code provides protection for creative products. More specifically, the government states that it grants automatic protection to printed works, software, artwork, photos, video, and virtually everything on the Internet once it is “fixed in any tangible medium of expression.” You can register with the U.S. Copyright Office at www.copyright.gov. The duration of protection for a copyrighted item is 70 years.

A method or formula that a company wants to keep from others is called a trade secret, like the secret formulas for Coca-Cola and Kentucky Fried Chicken. Unlike a patent, you don’t file for a trade secret. You fight to protect a trade secret, which takes great discipline on the part of a company adopting this strategy.

In order to be recognized as having a trade secret, the company has to let everyone on the inside know there are swift legal consequences if the secret is revealed. The secret must be guarded, and only those with a “need to know” will know how something is done.

A strategy must be in place to keep a trade secret from public disclosure. When a company infringes on another company’s trade secret, the damages can be in the millions of dollars. And while patents give a company exclusive rights to sell something for 17 years, trade secrets can be forever.
Questions to Consider

1. When should you file a patent for your product?

2. How can you find out if someone already has a patent on your idea?
Entrepreneurs often complain that issues with their employees and management team consume more of their time and energy than anything else. Dealing with people is a complex part of being a leader, no matter what the situation, yet people issues often sneak up on entrepreneurs. Perhaps the biggest reason is that people issues aren’t given much thought during the early days of a startup, when you’re figuring things out as you go along.

Expect Growing Pains

- In the beginning, the workplace may have an informal feel, like an adventure. That environment is fine when the company is small, but when you hire more employees, the workplace starts to change. When this happens, it doesn’t take long for tensions to mount. Focus shifts away from the customer and a downward spiral starts:
  - Internal office conflict leads to less attention to customers’ needs.
  - Unfocused employees perform their tasks less well, so quality starts to slip.
  - Slipping quality generates substandard products that require costly reworking; worse, faulty products are shipped to the customer.
  - Leadership must spend more time putting out fires and less time on strategic issues.
  - Blame spreads and cliques form.
  - You spend sleepless nights thinking about how to fix the people problems.
Fortunately, a whole field of management, human resources, or HR, is devoted to these issues. It provides practices and policies to help you recruit, train, and retain your workforce. With awareness of the importance of HR and a strategy plan in place, you can prevent many of the people issues that lead to disasters for other companies.

**Recruit the Right People**

- Jim Collins, the author of *Good to Great*, said:

  Leaders of companies that go from good to great start not with “where” but with “who.” They start by getting the right people on the bus, the wrong people off the bus, and the right people in the right seats. And they stick with that discipline—first the people, then the direction—no matter how dire the circumstances.

- A critical component of good recruiting is recognizing what your company needs. You want to hire people who fit into the culture but who are a little different from the current staff. You want them to bring new perspectives and skills to the company without rocking the boat. Think hard about the areas where you could really use help, and hire those skills.

**Use Job Descriptions**

- Write a description for every position in your company, from your own to the receptionist’s. Write a profile of who the ideal candidate would be. Think about what skills he or she should bring and what experience would be useful.

- In these profiles, describe not only the skills, credentials, education, and experience that each position requires but also its roles and responsibilities. Think about the kind of personality that would match the requirements of the job.
To attract attention to your job opening, you have a number of tools: postings on local and national websites, such as Monster or Careerbuilder; classified ads in newspapers and trade journals; and referrals from such sources as professional or community organizations. Networking with trusted professional colleagues may be your best bet.

Interview Carefully

- Never take a résumé at face value and make a hire without talking with the candidate. Entrepreneurs who build great companies take great care in this process. They want to know that the applicant has not only the right skills but the right demeanor and values to fit into the company.

- Look for the talent you need by posing hypothetical situations like the ones a candidate will face in the job; ask how he or she would handle it. While this exercise may seem stressful to some candidates, the better ones will thrive on the challenge.

Successful entrepreneurs take great care in the interview process, making sure the candidate is competent and a good fit.
The interview process doesn’t have to be the Inquisition to be successful. Focus on providing a positive experience. Remember that the best talent is usually in high demand, which means that they have many options and are less tolerant of cavalier treatment. If you’re interested in a candidate, follow up with calls and e-mails to let the candidate know where he or she stands in the process.

Check Up

- Do a background check on candidates that interest you. Talk to people who might know them. Call references and compare what the applicant told you with what the references tell you.

- Most important, find out what past employers have to say. If you want to know whether someone will make a good employee for you, learn about his or her performance at previous jobs. This information may be more difficult to come by nowadays, because many employers are reluctant to divulge more than the dates when your candidate worked for them.

- You’re looking for indications of work ethic, professionalism, and trustworthiness. Bringing people onto your team who have made honest mistakes is fine, as long as they can explain how they learned from those mistakes and used those lessons to make themselves better.

- Keep in mind that the better candidates are doing their due diligence on you, too. Almost all candidates will test the validity of what you’ve told them by visiting your company’s website. If the message they get there differs from what they’ve heard from you, you’ll lose them. Make sure your website is up to date and consistent with your expressed values and mission.

Tell Your Creation Story

- An often-overlooked aspect of the HR process is orientation. Take the time to properly introduce new employees to the company; the early days of employment are crucial for setting the tone of what it will be like to work for you.
• Every company has an origins story. Businesses were started by people who took risks. Make your story compelling. Tell new hires why you took that risk; explain to them why what your company provides to the world is important.

• You want new employees to know where the company comes from and why it’s special. Let them know how their role fits into the greater picture of what the company is trying to accomplish.

• Provide new employees with the basic tools of the job. Educate them on its different aspects and how to do it well. Give them the standards that will measure their performance. Supply job descriptions, policy manuals, safety manuals, and operating standards. Let them know what to monitor to gauge how they’re doing.

Reward Good Performance

• You will, of course, structure compensation and incentives that work best for your company. Effective compensation management is a way to link pay with performance in order to encourage employees to focus on what matters for themselves and the company.

• Incentives can take many forms, such as stock options and equity plans, profit-sharing, pay raises, and bonuses for meeting performance targets. Non-monetary options, such as time off, flextime, autonomy, group lunches, gym memberships, and other special benefits, can be motivators, as well. If the company does well, the employees are rewarded, creating a high-performance, satisfying work environment.

Prevent Discontent

• When you get down to it, human resources is an important tool for creating a workplace that generates high job satisfaction and employee motivation. Yet consider these statistics:
  ○ 46 percent of new hires quit within the first year of employment.
○ 85 percent of employees experience sharp morale decline after their first six months on a job.

○ 30 percent of managers say motivating employees is their toughest challenge.

○ 67 percent of retail hourly employees leave for another job each year.

• Why? High on the list of reasons is how you treat employees in front of others.
  ○ Publicly criticizing employees is sure to turn them against you. Always correct employees in private. On the other hand, if an employee is doing well, give public praise.

  ○ Failing to follow up on promises is another demoralizer. Owners of businesses do get busy and distracted, but if you make an agreement with an employee, make sure you adhere to it.

  ○ Make sure that performance targets, deadlines, or goals are achievable. Definitely challenge employees to stretch, but don’t make it impossible. If you’re going to challenge employees to hit a big goal, provide the support and resources they need.

  ○ If you must reprimand an employee, explain why. Not explaining yourself leads to confusion and frustration, but making the meeting an opportunity to help the employee grow from the experience can be a positive event.

  ○ Micromanagement is a huge source of discontent. If you give the front-line employee directions different from what the middle manager did, the employee will feel confused, the middle manager will feel disrespected, and you will have created a chaotic environment. If you build a chain of command, respect it.
Conduct Periodic Reviews

- It’s better to make the hard call of firing someone than to become a micromanager who doesn’t trust the leadership team. Good performers want to work with other good performers. Consider these statistics:
  - 33 percent of managers and 43 percent of staff think their companies don’t deal with underperformers appropriately.
  - 87 percent of employees say that working with a low performer has made them want to change jobs.
  - 93 percent of employees say that being around unproductive people decreases their own productivity.

- The performance review is one of your best defenses against poor work and demotivation. Every manager and employee should receive a performance review at least once a year; more regularly is better.

- You can take a number of steps to make performance reviews useful for both you and the employee.
  - Be sure you match the review to the mission of the company. Explain how the employee’s work contributed to or detracted from that mission.
  - Prepare for the review by listing specific and documented points for discussion.
  - Keep the focus on work rather than on the person or your relationship with the person.
  - Avoid one-sided reviews. Let the employee review his or her performance, as well.
○ Use the meeting to learn how you can make the workplace better for the employee. What resources are needed to ensure that he or she can do a good job?

○ Finally, discuss what goals the employee should pursue over the next work cycle.

- Consider this statistic: In the average company, only 59 percent of a manager’s time adds value to the company. Of that time, 41 percent is spent dealing with employee issues. But with careful handling of HR, you can beat those numbers.

**Questions to Consider**

1. Think about the best employment experience you ever had. What made it so special, and what could other companies copy from it?

2. Think about the worst employment experience you ever had. Why was it so bad, and what could the company have done differently?
How can you fully imagine your customers’ experience to ensure that they receive world-class service every time? You don’t want the turnaround specialist of your industry showing up at your business telling you what you need to do to save it. That’s where you’ll end up if you don’t take the right steps as you are getting started. Building a brand is a related idea: Brand is ultimately how customers remember you. It controls what associations they have with your business.

**Imagine Your Customer’s Experience**
- Walk through every step of the customer experience, from the first time a customer reads your ad to long after you’ve delivered the product or service. Imagine what the ideal experience would be at every stage. Storyboard the experience in the pre-startup and startup stages of your business, and continually monitor the customer experience, especially as you grow.

- Engineers use a principle called modularity to break a system down into components to understand it better. By taking a modular approach, the engineer can study how each individual piece works together. The point is that innovation often takes place simply by recombining existing elements and adding touches to make the system unique.

- Thinking like an engineer, you can tweak your business as you discover what your customers respond to. Let your creativity go wild. You might have some unrealistic ideas, but finding a compromise between what’s ideal and what’s realistic can be the source of an elegant solution.
Forge a Relationship

- Many businesses seem to be cutting costs in customer service to save the company money. This is a big mistake. The 80/20 rule claims that most of the results in any situation are determined by a small number of causes. In this context, it suggests that 80 percent of your business comes from 20 percent of your customers.

- The problem is that you might not know which 20 percent will be the loyal customers, so you must treat every customer like that all-important 20 percent: 80 percent of your revenue depends on whether some of those customers return. When you look at it this way, you realize that the sale is only the beginning.

- Shifting your thinking in this way is vitally important to your success. What you really want is to establish a lasting relationship with your customer. Once you’ve done that, you treat it as you would any important relationship: with respect and attention.

- Research has shown that if a customer has a bad experience and you correct it in an effective and meaningful way, the customer might actually rate the experience higher than if you’d provided flawless service in the first place. How you handle a difficult situation might increase respect for your business.

- Here’s a cautionary tale about customer service from a restaurant in Muncie, Indiana. It was a good, basic steakhouse where you could expect a decent steak, a baked potato, and a beer after a long week. Over the course of a few months, a shocking transformation took place:
  - The food and service were terrible; the kitchen ran out of staples, such as potatoes, ketchup, and butter; the restrooms were filthy; and the restaurant’s floors were littered.
  - The restaurant’s manager was not available to talk to the customers, but a waitress was. She said many customers had noticed the decline since the restaurant had been sold. The
new owners were never visible, so the general manager started slacking on his oversight of the servers and kitchen.

○ The operation got sloppy and fell apart. The restaurant started to lose business in just a few months, and once that trend got started, it never recovered.

- We’ve all had experiences with companies we once loved that turned into losers. What they did was fail to consider the customer experience. Perhaps they saved money on inventory. Perhaps they saved money on staff. But if you do this at the expense of the customers’ experience, your business will fail.

Consider the customer experience when making cost-saving decisions.

Maintain the Relationship

- How can you maintain the relationship after the transaction is over? If you have your customers’ contact information, you have some options:
  ○ Send them a monthly newsletter about specials and promotions.
  ○ Give them something interesting, such as a newsletter about industry trends or an e-mail about an event, festival, or trade show they might like to attend. The more personal you make it, the greater impact you’ll have on your customer.

- Informing your customers this way offers them something they value and suggests that you’re in the know. It gives you credibility and tells them that you care about the same things they care about. This type of engagement is invaluable to customers and they’ll thank you for providing it to them.
• If you don’t have contact information, try to get it. Offer something that your customers value in exchange for their information: A business card raffle for a free lunch is a popular method. This approach can work at trade shows as well, where you can reward winners with a free product sample and then follow up a few weeks later to ask how they like it.

• Ask customers to fill out a survey about their experience with your business and offer them a gift for their time. This will both acquire their contact information and give you valuable feedback.

• Loyalty cards that offer benefits to returning customers are a way of retaining those who are reluctant to part with their contact information. They feel appreciated when you show them that your business values their business.

Ask for Feedback
• Customer surveys and feedback on your business are an essential part of your market research in the early stages of building your business, and they become more important once you’re open.

• When you were conducting your market research, you were getting people’s opinions about businesses you targeted as competitors. That feedback obviously wasn’t good because you saw an opportunity. Don’t let another entrepreneur find weakness in your customers.

• If your customers are happy, potential competitors will see that the niche is filled and move on. You want great relationships with your customers, and feedback is essential to giving them exactly what they want.

Build Your Brand
• Brand is a powerful concept that shapes our decisions at a very deep level. You’ve created a brand when a customer associates your product or service with a specific idea, characteristic, feeling, image, experience, belief, or attitude. A brand is how someone remembers who you are and what you do.
• A brand can be created and expressed in a variety of ways: the company’s name, a logo, a tagline, colors, tastes, sounds, even fonts. All of these elements are purposeful: to build associations in the mind and become more familiar and recognizable.
  ○ Apple’s logo is one of the most recognized in the world.
  ○ Just the shape of McDonald’s golden arches conjures up all the feelings, good or bad, that we have about the restaurant.
  ○ Sounds can make great branding elements. Consider the “thinking music” on Jeopardy, for example.

• Done well, branding creates a personality for your business. It communicates your business’s fundamental purpose for being through its products, services, employees, marketing, packaging, distribution, and pricing. It communicates this purpose through your customers, too: When your customers buy your product or service, it makes them think a certain way about who they are or who they want to be.

• To create a brand, you must decide on the identity of your business and what it stands for. What’s your purpose for opening the doors every day? What can you do that nobody else can do? What are the most important elements of your product or service? To align your purpose with the values of your customers, you must know what those values are. Your brand has to signify something. The way you get that meaning is by repeating your message consistently over time.

• Before you open your doors, have a good answer to this question: “When people think about my business, what do I want them to think of first?” When you know the answer to that, you’ve got a good idea about what you want your brand to be. But don’t stop there. Before every work day, ask yourself and your team what you’re going to do to ensure you deliver on that brand and make the
customer experience better. At the end of the work day, ask them what went well, what didn’t go so well or could have gone better, and what they learned that they didn’t know before.

- You, your team, the customer, and the brand are all connected. When the customer sees you the way you want to be seen and the employees are engaged, you’ll know you’re clicking on all cylinders. People will remember you. And that’s not only good for business; it’s good for you as a person.

### Questions to Consider

1. What is your favorite product? What makes it so special?
2. What is your favorite service? Why do you like it so much?
Entrepreneurial Perspectives
Lecture 21

Entrepreneurs tend to fall into one of four main categories, depending on how they observe, seize, and act on opportunity. Whether they think abstractly or concretely, whether they explore opportunity or capitalize on it, they have an idea and are willing to do whatever it takes to make their idea a reality. This is the core of the entrepreneurial perspective.

Find Your Perspective

- All entrepreneurship is about opportunity: seeking opportunities, recognizing opportunities, and acting on opportunities. And opportunity is about two things: how we think about it and how we act on it.
  - Some people think about opportunity abstractly: They like to work with big ideas, move people with their thoughts, and connect at a deep level. Abstract thinkers know what drives people, and they’re in touch with people’s emotions.
  - Others think about opportunity concretely. They focus on the practicality of ideas and like understanding the reality of a situation. Concrete thinkers look at the facts and test the feasibility of ideas.
  - Some people are really good at exploring opportunities. They’re comfortable with ambiguity, and they enjoy seeing where a creation can go. They follow opportunities; perhaps they chase them, even if they’re not sure where those opportunities will take them. They enjoy the challenge of seeing things others have overlooked or not recognized.
  - Others enjoy exploiting or capitalizing on opportunities. They make things happen on a grand scale, marshaling resources and motivating people to bring their vision into the world. As
opposed to the explorers, who enjoy subtleties and nuances, exploiters believe in “the bigger, the better.”

- When we take these two dimensions—thinking about opportunity and acting on opportunity—we can create a profile of the categories of entrepreneurs. Take each element—abstract, concrete, explore, exploit—and combine them to yield four types:
  - First are the Abstract Explorers. Let’s call them artists.
  - Second are Concrete Explorers. They’re the scientists.
  - Third are Abstract Exploiters. They’re passionate, so let’s call them evangelists.
  - Fourth are Concrete Exploiters. These are the builders.

**The Artist**

- In the business world, the artist will have a great appreciation for the finest details in a product. Artists focus on quality and on the aesthetic of a product: how it looks; how it’s used. An artist produces products that people love. Above all, artists see themselves as craftsmen.

- Steve Jobs embodies the entrepreneur as artist. No one spoke more explicitly about business as an art form than Steve Jobs. This perspective drove everything Apple created. He was eloquent about how you can improve products and services when you approach them with the perspective of an artist.

- To know what great artists do, you have to study them; by studying them, you can understand what goes into great art. When you understand Jobs as an artist, this makes sense. He was aware of aesthetics and of what people were attracted to. As he designed new products, he let this aesthetic sense drive him.

- Jobs was comfortable with the ambiguity that comes with creating a new art form. In fact, he embraced it. He knew that being in that
state of psychological discomfort where you’re trying to pull ideas and forms together out of the deepest recesses of your heart and mind is where great breakthroughs happen.

- Artists suffer for their work. They wrestle with themselves and others to bring the best ideas forward and shape them into something no one has ever seen before. And it’s through this advancement of new art forms that progress is made in the world. Art can change the world.

The Scientist
- Entrepreneurs with the perspective of the scientist think concretely and enjoy exploring opportunities. While the artist focuses on producing products that people love, the scientist focuses on making sure the product works. They’re not impressed by pie-in-the-sky ideas; they want to make sure what they produce will work reliably and make money. They’re focused on the details of a design, but they’re more critical and try to find its shortcomings. They approach every idea as if it were a hypothesis to be tested. After a scientist has worked with a business idea, its economic and technical foundations will be solid.

- Elon Musk is a perfect example of the entrepreneur as scientist. He studied economics and physics in college and is willing to immerse himself in a new field to learn how the technology works. Musk’s interest in the Internet, renewable energy, and outer space have led to the creation of PayPal, Tesla Motors, and SpaceX. All three are revolutionary and they’re in three totally separate types of industries.

Elon Musk used physics and economics principles to build a company that secured a $1.6 billion contract from NASA.
• Musk looks at what already exists in the world and studies up on it. Then he looks for problem areas. With the mind of a scientist, he tries to come up with solutions that not only work but make business sense. When Musk wanted to enter the space industry, he studied U.S. rockets and old Soviet rockets and decided that there hadn’t been much advancement in the field for many years. Then he read everything he could find on the subject and built a world-class team to solve the key problem of building an affordable, reliable, and reusable rocket.

• Operating from a physics framework, which teaches you to reason from first principles rather than by analogy, Musk learned that the materials cost of a rocket was around 2 percent of the typical price of the rocket. Thus, Musk discovered a huge opportunity to bring costs down on rockets if he could do it differently from the way NASA and the Soviet space agency had done during the space race. With a scientific approach using physics and economics principles, he was able to build a company that secured a $1.6 billion contract from NASA.

• Like a scientist observing a new phenomenon, you can systematically break the big problem down into smaller problems and solve those. It involves a lot of trial and error, but when you come up with the magic formula, you can be very successful. When you think like a scientist, your discoveries can change the world.

**The Evangelist**

• The artists explore the deep recesses of the human heart and mind to connect with their customers in new ways. And scientists explore the world around them to find problems that can be solved better. But making great art and discoveries isn’t enough to be successful in business. You also have to able to do something with your ideas. You have to bring these new findings out into the world. And to do that you have to be able to sell your ideas and to build a system that can deliver on your promises.
Evangelists are entrepreneurs who think abstractly and enjoy exploiting opportunities. They’re very good at spreading a message about the company, and they’re great at getting others onboard. While the artist connects in a more subtle and understated way with the customer, the evangelist is loud. Evangelists create excitement for a company. Every person they meet gives them another opportunity to talk about its strengths. Every venue is a stage where they can preach the good news about the company. An evangelist with a compelling message can motivate others to change the world.

J. D. Sumner was a real-life evangelist. He’s known by many as a backup singer to Elvis Presley during the King’s later years, but it was what he did before Elvis that had an impact on the music scene. He brought a professionalism to the gospel singing groups that had never been seen before.

○ Before Sumner, gospel groups rode to their shows in cars. It was uncomfortable and made touring hard. Sumner introduced a luxury touring bus to his group, the Blackwood Brothers Quartet. The bus not only increased the range of their tours, but it also helped them perform better because they were better rested and relaxed.

○ Sumner was always looking for new ways to stretch the genre by putting together new quartets that became legendary, including the Sunshine Boys, the Blackwood Brothers Quartet, the Stamps Quartet, and Master V.

○ Sumner also created the National Quartet Convention that brings in crowds that you’d expect to see at stadium rock concerts.

Sumner’s obituary printed the reason he put so much of his heart and mind into the southern gospel industry. He said, “Gospel music was designed by Christian people as a means of reaching the lost. I wouldn’t be on the road as much as I am, staying away from my family, if it were not so. If we can inspire people to live better lives, we’ve performed a ministry.”
And ultimately, that’s what evangelists do. They take their message to the people. They want more people to experience something they love and believe in.

**The Builder**

- Builders are entrepreneurs who think concretely and enjoy exploiting opportunities. Builders get things done. They make things real, and they like to grow businesses into a large scale. If resources are needed, they’ll figure out how to get them. Builders are very well organized, and they understand what’s needed to get a business up and going. Builders manage others to meet deadlines. You could say they’re the generals of business. With this disciplined approach, they can take a good business idea and turn it into a very successful enterprise.

- Andrew Carnegie, J. P. Morgan, and John D. Rockefeller were builders. Their names are often mentioned in connection with entrepreneurial fortunes. What made these businessmen so successful was that they built great organizations.

- These captains of industry weren’t great inventors. But they knew how to take others’ inventions and get them out to the world. These titans of business were really the first modern CEOs. They ran businesses professionally and, competing against mom and pop companies, they quickly dominated the landscape.

- A builder sees the organization as having its own identity. The entrepreneur and the company are no longer one and the same. Or put another way, the builder focuses on the business of the business. Being a builder of a large company isn’t for everyone. But being a builder provides a larger stage for the company to do more frequent and groundbreaking innovation. Perhaps the most sustaining impact an entrepreneur can make on the world is to build an organization that lives on long after he or she is gone.
Questions to Consider

1. Which entrepreneur do you think is a good evangelist for his or her company?

2. How does this entrepreneur excite others about the company?

3. Think about business leaders that we read headlines about regularly: How are they artists, scientists, builders, and evangelists for their businesses?
A possibly surprising reason that businesses fail is entrepreneurial exhaustion. If you’ve got energy, passion, and drive, that’s great. But never underestimate the demands of being an entrepreneur or the consequences of constantly working overtime to meet those demands. Many people overlook the connection between personal health and the health of the business. But taking on an overloaded work schedule for an extended period of time can have a severely negative impact on your health, your personal life, and your social life, and it can ultimately cause your business to fail.

Recognize the Effects of Stress

- Many companies close down not because they’re not profitable, but because the entrepreneur is exhausted. For some entrepreneurs, even if they’ve been successful, they decide enough’s enough and sell off the business or shut it down. In 2006, a study at the University of California–Irvine demonstrated the following:
  - Working more than 51 hours per week over an extended period can triple the risk of having a heart attack.
  - Working long hours increases stress and can lead to insomnia and high blood pressure.
  - Stress can lead to poor decisions.

- Other research has found that entrepreneurs experience great stress from role ambiguity and work–family conflict.
  - Role ambiguity occurs when the entrepreneur floats throughout the company without a well-defined set of responsibilities.
  - Work–family conflict occurs when entrepreneurs feel torn between the two most important elements in their lives—their companies and their loved ones.
You can have both your health and a successful business if you take steps to prevent exhaustion. Learn why it happens and what to do about it.

**Avoid the One-Man Band Syndrome**

- Many entrepreneurs are like the one-man band. They want to be in charge of everything. And there was a time when they might have had to do it all. It might even have been the smart thing to do.

- Because they were bootstrapping operations, they did whatever they could do to keep costs down. This approach helped them learn the different aspects of the business, and it was what they had to do to get the business off the ground.

- To make music, the one-man band has to exert an inordinate amount of energy. It would be a lot easier to have other people play some of the instruments.

As an entrepreneur, there is a connection between your personal health and the health of the business.
Adapt to Growth

- If you’ve been doing everything right in starting your business, you’ll reach a point where things change. If you want to continue being successful, you have to change, as well. The first big change is to let go of some of the tasks that you used to oversee so carefully.

- Many entrepreneurs have a hard time trusting anyone other than themselves to get things done. They can’t allow others to take responsibility for key aspects of the business, even when they’ve hired capable, reliable managers.

- It’s understandable: They care deeply about quality and service, so they continue to run the organization the way they did when they built it. They’re scared of change and don’t want to disrupt the formula that got them where they are.

- But here’s the paradox: The very approach that made them successful leads to their downfall. It’s one thing to have a leader who pays attention to details and holds people accountable. It’s another to have a leader who doesn’t trust the capabilities of the employees.

Learn to Delegate

- Chain of command is important. You want employees to respect their managers and work through them to deal with company issues. Similarly, the owner must respect the managers and handle employee matters through them.

- Savvy entrepreneurs promote or hire managers into leadership positions and slowly increase their responsibility to keep them motivated. Smart performers want to perform. Hold them accountable to get the results you want and let them loose.

- Former General Electric CEO Jack Welch once said, “If you’re a leader and you’re the smartest guy in the room, you’ve got real problems.” Welch was talking about hiring people who know their jobs better than you do and letting them get on with it.
• Your goal should be to arrive at a point where the business wouldn’t notice if you weren’t there. Slowly build your business so you are less and less necessary to its operations. Why? If you got sick or if any crises occurred, you don’t want your business to fall apart. The less the business relies on you to keep it going, the stronger and more secure it is.

• Whatever your reason for becoming an entrepreneur, it probably wasn’t to work yourself to exhaustion and have a heart attack. As your company becomes larger, you have to accept this premise: You can’t do it all.

• Instead, you should spend your time addressing challenges that prevent you from doing what motivated you in the first place. Once you know what you really want, you can put others in the roles that you’re less good at.

• Many business owners are so concerned about the consequences of their businesses failing that they don’t think enough about how they’re going to manage success. And not knowing how to manage success can lead to failure.

Recognize Hubris
• Hubris is at work when leaders overestimate their abilities. It occurs with entrepreneurs because, up to this point in their lives, they may have been very successful. They’ve worked hard and made good decisions. And from this experience, they gain confidence.

• But if you build your business in a way that makes you essential to all the key operations, then you’re building your business with a giant weakness—and you’re it. History is full of once-great leaders who let hubris get the better of them. Don’t be one of them.

Clone Yourself
• But what if customers and employees believe in and like you, the entrepreneur? How can all your employees share your motivation and passion? How do you clone your dedication and attentiveness?
Your employees and managers certainly don’t have to be exactly like you, but they do have to deliver the same degree of service and consideration to customers.

- A good example is a small-town travel agent called Jamie. She specializes in Disney World vacations and delivers great service to all her clients, and that’s where her problems began. Because she is so good, people from all over the country want to book their vacations through her.

- As her business got bigger, Jamie hired a few agents; they did a good job, but keeping up was still a problem. Jamie was worried: She enjoyed setting up memorable vacations for her clients, but if she spent all her time with the clients, she couldn’t build the business.

- A business consultant told Jamie that her business had to grow up. She had to hire some experienced managerial talent to help her, and she had to figure out what she did well with her clients and teach that approach to her agents. The business had to get to a point where the clients felt as if they got great service whether they talked to Jamie or to one of her agents.
  - Jamie developed a protocol for how she wanted her agents to talk with clients on the phone.
  - She taught them sales management software that helped them build a profile of each client and what he or she liked on a trip.
  - She realized she was getting a lot of business from her website, so she hired a social media expert with branding experience.

- These changes allowed Jamie to concentrate on building her business without losing that personal touch that made her so successful. As a result of this strategy, Jamie’s business grew from a few agents to 15, and her business is in the top 1 percent of recognized Disney travel agencies in the country.
- You want to develop your managers and staff into great leaders. To do this successfully, you must reflect on the values the company is based on and how operations are supposed to run, train others to meet those standards, and reward managers to ensure they meet key performance indicators.

- When this process is done right, you can begin to step away and leave the daily operations in the hands of trusted lieutenants, allowing you to focus on more strategic issues and think about new frontiers. Better yet for avoiding exhaustion: When you build a more professional organization, you can devote more time to the activities you love—some inside the company and some not.

**Embrace Change**

- Another example teaches a lesson about being willing to change as your business changes. It involves a woman who had a successful small business manufacturing and selling bird feeders, mostly online. She felt that she’d plateaued in her sales, so she wanted to grow the business into more retail outlets.

- She asked for advice on how to make that happen and was advised to attend a trade show where she could meet with different retail managers and show off her product. She learned that the trip would cost $20,000 and decided not to go; yet if only one retail chain picked up the product, the trip would be worthwhile.

- Then she was introduced to an owner of a True Value home center. He encouraged her to participate in a charity event where she could sit down with a buyer from the chain for half an hour to talk about her product. The donation was $500, and again, she turned down the opportunity.

- She wasn’t willing to try new things. It’s essential to keep in mind that as your company grows, you must change. You must constantly adapt and try new things to make your business work.
Get Out of the Office

- Recent research explored whether an exercise regimen would help or hurt entrepreneurs, using the hypothesis that entrepreneurs want their companies to succeed. Would time away from the workplace be time well spent, or should entrepreneurs devote all their energies to the business?

- The findings were that entrepreneurs who exercised not only outperformed non-exercisers on sales, but they also felt better. If you’re an entrepreneur, take the time to exercise regularly. Your stress is released and you have some quiet time to let your brain recharge.

- A social life outside of work is another good stress reliever. Stimulate other parts of your brain. Go to art museums, take a walk in the park, or travel. These activities will help you come back to work refreshed, and you might even come across some ideas you can use in your business.

Questions to Consider

1. Can you delegate responsibilities to others well? Why or why not?

2. Why do so many entrepreneurs burn out?

3. “Success can kill a business.” What does this mean? How can it be prevented?
Approaching life with an entrepreneurial mindset can make you successful in any situation or organization. According to George Bernard Shaw, “The reasonable man adapts himself to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man.” In this context, entrepreneurs probably come across as unreasonable people because they believe the world can be different and that they’re the ones who can make it so.

Dream and Do

- Entrepreneurs discover and capitalize on opportunity. In other words, an entrepreneur creates value for others and is rewarded for it.
  - An entrepreneur could be a minister who grows his congregation from 50 to 500 members by finding an approach that really connects with people and generates excitement about attending services. The congregation tithes more money to its operations, and the minister has more funds to deliver his messages in settings that are fulfilling and powerful.
  - An entrepreneur could be the schoolteacher who starts an afterschool program. If the program is innovative and changes lives, corporate donations and community funds ensue. Maybe it becomes a national model for other cities, and the schoolteacher receives offers to lead bigger programs elsewhere. If she’s hired a good staff, she can turn the reins over and take on bigger challenges elsewhere. The community is better for her efforts and she gets closer to her dream job.

- Entrepreneurs are always looking for a better way to build products, to deliver services, to create memorable experiences, to give people spiritual fulfillment, or to motivate school performance. Entrepreneurs want to change the world.
• They don’t wait to be told what to do. They take risks, try new things, and sometimes make mistakes along the way. They learn. They adapt. When they know the answer, they try to get it to as many people as they can. And the world rewards them for doing things others couldn’t dream or weren’t willing to do.

Seek Challenges
• A man who embodies the entrepreneurial mindset is Nick Saban, the head football coach of the Alabama Crimson Tide. After Bear Bryant retired, the Crimson Tide endured many bad seasons, and big-name coaches were avoiding it like the plague. Saban took on the challenge to bring the discipline and organization of a Fortune 500 company to his team and redesign the way a team was run. He thought about the components of a winning program and made changes:
  ○ He structured the players’ daily routines to maximize training, diet, and rest.
  ○ Recognizing that everyone is different, he hired nutrition experts to tailor each player’s diet to his needs.
  ○ Physical therapists, strength coaches, and trainers structured weight and flexibility workouts to address players’ weaknesses.
  ○ And Saban ensured they went to class and made their grades.

• Saban believes that success in football doesn’t come from making big plays. It comes from all players fully concentrating to the best of their abilities on the task in front of them at that moment. Because of Saban’s innovations, the athletic department nearly doubled its annual revenues.

Learn to Take Action
• All great entrepreneurs lead themselves to the results they want. Being an entrepreneur requires action, research, planning, building, and doing. To fulfill the opportunities that come to you, you must have a vision of where you want to go and the grit to persevere.
If you have an idea, write down what you can do to learn more about it. Create an actions list that will bring your idea closer to reality. Don’t just think about your idea; don’t just dream about it. Get out there and take some steps.

It may be tempting to think that the great entrepreneurs are just gifted or wired differently from the rest of us, but the field of self-leadership is based on solid research that we can all get better at with perseverance.

Believe You Can

The social cognitive framework of Albert Bandura is suggestive of specific skills you can use. Psychologists have given much thought to motivation and whether it is external or internal. Bandura believed that the answer is both. His model incorporates the theories of such scientists as B. F. Skinner to explain how behavior, thinking, and environment intertwine. We shape our environment and it shapes us.

The social cognitive model also says that our thoughts play a major role in our behavior. What we imagine, what we believe, and how we talk to ourselves affect the behaviors we choose, and vice versa. In entrepreneurial terms, even though you may not yet believe that you’re a great entrepreneur, if you learn what great entrepreneurs do and model yourself after them, you will eventually believe you can do it, too.

Read biographies of great entrepreneurs, watch documentaries and movies that chronicle how companies were built, and try to meet experienced entrepreneurs. Find places where experienced entrepreneurs and investors socialize. If possible, ask if you can shadow them in their work and ask followup questions about what
you saw. Over time their behavior will start to rub off on you. You’ll pick up their lingo and mannerisms, and people will start to treat you differently.

- Research conducted at Arizona State and UMass–Amherst found two common and contrasting patterns of thinking about the world around us: opportunity thinking and obstacle thinking.
  - A person who engages in opportunity thinking focuses on constructive ways of dealing with challenging situations. Such people will exert more effort and persist during the course of their work.
  - By contrast, a person who engages in obstacle thinking focuses on the negative aspects of challenging situations. These people find reasons to give up and retreat from problems or challenges.

- Even the most well-intentioned can lose the entrepreneurial edge under day-to-day pressures and administrative demands. But opportunity thinkers tend to fare better because they’re more likely to believe in change, complexity, and fatigue as necessary elements of progress. They work hard to recognize and develop the capabilities necessary to achieve positive change.

**Visualize the Achievement**

- Visualization, or mental imagery, is another useful tool of self-leadership. It refers to imagining the successful completion of a goal before it’s actually completed. Research in management, sports psychology, counseling education, clinical psychology, and other fields has suggested that visualization can serve as an effective performance enhancement technique.

- In terms of entrepreneurship, positive visualizations may lead to more new products, services, and processes for the company and to greater innovation, risk taking, and proactive behavior by the entrepreneur. Imagine in detail what your life will be like when you achieve your big goals. These images will serve as fuel to keep you going.
• Bandura’s work and self-leadership have been linked to the concept of self-efficacy: the extent or strength of one’s belief in one’s ability to complete tasks and reach goals. It can be seen as the ability to persist and succeed. People with high self-efficacy, who believe they can perform well, are more likely to view difficult tasks as something to be mastered rather than avoided.

• From an entrepreneurial standpoint, you often find that what seems like an overnight success story is actually the result of years of paying dues. These entrepreneurs acquired skills and belief in their work ethic that might not directly apply to those early jobs but that translated well into another field. Their entrepreneurial rise is based on hard work and the self-belief that brings success.

Share the Excitement

• Many problems of new entrepreneurs stem from dysfunctional thinking that can hinder personal effectiveness and lead to various forms of stress and depression. Successful entrepreneurs tend to maintain consistently positive beliefs and assumptions that can be summarized as an entrepreneurial mindset.

• The first component of the entrepreneurial mindset involves framing the challenges you want to take on. In other words, you must clearly define the project you want to complete. It’s important to think about and reiterate the challenge regularly.

• Next, entrepreneurs have the responsibility of absorbing the uncertainty perceived by employees, investors, and other stakeholders. Opportunity thinkers make uncertainty less daunting by creating the self-confidence that convinces others that they’re onto something good.

• The entrepreneur must create an environment of excitement and enthusiasm for the other people in the company. Employees must not become overwhelmed by the complexity and uncertainty of a new opportunity. It’s up to the entrepreneur to define the reality of the situation for them.
• The entrepreneurial mindset and opportunity thinking are all about seeing opportunities where others see barriers and limits. Opportunity thinkers are undaunted by what other companies are doing. They embrace competition and realize that it’s a part of the process that keeps their efforts honest and makes them better.

• Successful entrepreneurs use creative tactics; political skills; and the ability to regroup, reorganize, and attack from every angle when necessary. They believe that solutions can be delivered in any situation and that, with good teamwork and thinking, their company can prevail.

• Keep your finger on the pulse of the attitudes of everyone in the company. This involves constructive monitoring and control of the developing opportunity and continual encouragement of staff. The entrepreneur is designing not only products and services but the culture of the company. Everyone feeds off the leader’s example, so the entrepreneur has to exude confidence, calmness, and enthusiasm.

### Improve Opportunity Thinking

• Research has suggested that effective use of five self-leadership strategies can give you the tools you need to handle the challenges that come with pursuing any opportunity.

• First, observe and record your existing beliefs, assumptions, self-talk, and mental imagery patterns regarding change, innovation, and entrepreneurship.

• Analyze how entrepreneurial and creative these thoughts are. What do your entrepreneurial heroes do differently? How can you adapt the behaviors and approaches you admire in them in your own life?

• Identify and develop entrepreneurial and creative thoughts to substitute for negative ones. The more you replace negative thoughts with entrepreneurial thoughts, the more opportunities you’ll perceive.
• Try substituting creative and entrepreneurial thinking when faced with an opportunity, crisis, or challenge.

• Finally, continue monitoring your beliefs, self-talk, and mental images. Be sure to maintain your entrepreneurial mindset.

Questions to Consider

1. Do you consider yourself an opportunity thinker or an obstacle thinker? Why?

2. Why are successful entrepreneurs first and foremost good *self*-leaders?
Many people bring a business to a certain point and recognize that it’s time to pass it on to someone else to take the next steps. Sometimes people are fascinated by starting something new, but once the challenges are met, they’re ready to move on to something else. And sometimes people who are good at starting things aren’t so good at running them. You may find yourself in such a situation unexpectedly. The very company that you poured your heart and soul into, the one you built, may not be part of your life anymore.

Think about What’s Next

- Professor Dean Shepherd at Indiana University has discovered that losing a business causes an entrepreneur to go through the same grieving process as an actual person’s death. That might be hard to believe, but many people describe it this way. It’s like you’ve lost someone near and dear to your heart.

- Let’s say you are displaced from the company. Be aware that you will go through a grieving process. Losing it will be painful for a while as you process the change. As you come to grips with the loss, use the experience as an opportunity to grow as a person and as an entrepreneur. If you use that time to see what lessons you can garner from the experience, you can actually come back smarter and better because of it.

- After Steve Jobs was ousted from Apple in 1985, he struggled with what to do next. He thought about his options. He could live out his life pursuing his personal interests, but for him, the good life was found in building great companies that create innovative products. Thus, he started NeXT Computer and Pixar. He put a lot of money into both, and his investment worked out. Apple bought NeXT for $429 million and 1.5 million shares of Apple stock, and Disney bought Pixar for $7 billion. But more important, the NeXT deal brought
him back to Apple, where his second run was better than the first. He saved it from bankruptcy, and it became the biggest turnaround in business history.

- Jobs used his tough times to get better. Not everyone does. If you find yourself going through a similar situation with your company, seek the same type of guidance and assistance you would for any other type of personal loss. People who hold onto the past never move into the future.

**Become a Social Entrepreneur**

- Perhaps from a business standpoint everything is going well, but you decide it’s time to leave. If you’re stable financially, these should be the happiest days of your life. But what often happens is an existential crisis. You might have thought that financial security was a sure path to the good life, and it wasn’t. Nothing is keeping you from doing what you want to do, so the fault probably lies within yourself. That’s a hard thing to process, and it can be embittering.

- One way to address this issue is to become a social entrepreneur: a person who takes a business approach to solving a social problem overlooked or unsolved by government and traditional nonprofit organizations. Social entrepreneurs are often people who have a sincere interest in seeing the world become a better place. These former businesspeople believe in getting results, but they’re not seeing any results out of Washington, so they decide to tackle a problem their way.

- Social entrepreneurs use the principles of good entrepreneurship: They recognize an unsolved problem festering in society; they immerse themselves in the field; they connect with experts who deal with the issue. And they’re able to apply their perspective to make the world better.
They try to understand who the real customer is and who really affects the problem. Working with experts and the afflicted, they try to locate the real causes of the problem. Then they use their innovative abilities to design solutions to tackle the causes and measure their progress. They put metrics to everything they’re trying to achieve, and the more progress made toward hitting the metrics, the more money they invest in the social enterprise. A good example is the Bill & Melinda Gates Foundation.

**Practice Creative Capitalism**

- This is not an entirely new trend: Thousands have checked out books from a Carnegie library or received a degree from such schools as Vanderbilt or Stanford. But this type of philanthropy fell off during the 20th century, when Fortune 500 companies focused their resources on building company value and generating dividends for masses of stockholders.
• Then, in the 1980s, the computer revolution shook up corporate America. New companies popped up, led by self-made entrepreneurs. By starting companies from scratch and holding onto significant amounts of stock, they amassed great fortunes. Many transitioned out of running their companies and, finding themselves with massive wealth, heard the call of philanthropy.

• This phenomenon is not philanthropy as usual. This is creative capitalism: solution-focused. Social entrepreneurs are looking at the hard problems in the world with an honest, nonpartisan, scientific mindset. Creative capitalism applies design thinking not to products but to public health and education. It is a philosophy that pays homage to the competitive spirit of the free market and applies the aggressive approach to conquering markets to social problems.

Expand Your Circle of Influence

• In The 7 Habits of Highly Effective People, Stephen Covey differentiates between things you care about and things you have influence over. Imagine two circles—a small one inside a bigger one. The smaller circle represents things you can affect: That’s your circle of influence. The larger circle represents things you care about: That’s your circle of concern.

• The magic in this concept comes from where you decide to focus your time and energy. Where should you focus your efforts—on the things you can control or the things you can only worry about? Obviously, you work on what you can control. But as you get results on things you can control, your circle of influence grows, and it starts to move farther into your circle of concern.

• People who get results garner more resources, attention, and respect. Their financial, social, and reputational capital increases, and now they can tackle problems farther out in their circle of concern. Now problems that they once wished they could affect are within their circle of control.
Find Meaning in Life

• Finding meaning in life is something entrepreneurs can potentially do very well, because entrepreneurs are ultimately in control of their destiny. They decide what their mission will be, what values they will stand for, and what impact they’ll have on the world. Steve Jobs said he wanted Apple to make a dent in the universe, and it did. His satisfaction in life was tied closely to the quality of the products he gave his customers.

• If the day comes when you’re no longer involved in your company, you may face that existential question of “What now?” A lot of research today focuses on the subject of happiness, and researchers have found that some of the deepest satisfaction in life comes from helping others. The giver actually gets more out of the giving than the person receiving the help. That’s quite a powerful finding.

• Another social entrepreneurship movement capitalizes on this position. It seems Millennials are embracing a form of social entrepreneurship in which they create successful companies that contribute all or part of the profits to social problems. They’re using the free market as a way to generate more resources for their causes.

• A good example is TOMS Shoes, founded by Blake Mycoskie. On a visit to Argentina, Mycoskie was affected by the poverty he saw there, so he founded TOMS Shoes as a way to distribute shoes to the poor. For every pair of shoes you buy, another pair is sent to a poor person in another country.

Go for It

• Entrepreneurship can be your vehicle to build something that allows you to fulfill your dreams. For some, that means becoming wealthy. For others, it might be to be your own boss or to build a company that helps you do something you enjoy. Or it might be all of the above. Regardless of your reasons, entrepreneurship allows you to blaze your own trail.
Entrepreneurship is about making something new happen and doing it your way, throwing your entire mind, body, and soul into it. You become an artist, and the company is an expression of yourself. Because of this, entrepreneurs operate at one of the highest levels of creativity, productivity, and achievement in civilization. Entrepreneurs have created more wealth, jobs, and progress than anything else the world has ever known.

Chances are that down deep you believe that there are new places to explore and new things to learn, and that’s what entrepreneurs do. They find opportunities everywhere. They roll up their sleeves and immerse themselves in new technologies, new markets, and new social trends. They make things happen. And the world needs more people like this.

If you’re nervous about getting started, that feeling is normal. But take heart: Action can alleviate that feeling. People change when they start a company, because the entrepreneur not only shapes the company, but the company shapes the entrepreneur. The experience you gain by doing will shape you. As you start and grow your company, you will change. You’ll see yourself differently. You’ll see the world around you differently. And, probably most important, the world will see you differently, too.

Questions to Consider

1. Let’s say your business is fabulously successful and you sell it for a fortune. What would you do with your time after exiting the business?

2. What problem in your community could you address with an entrepreneurial mindset?


