Getting Unstuck 101

Transitioning From Employee to Entrepreneur

Serhat Pala

ISBN-978-0-9993532-2-6

DEDICATION

This book is affectionately dedicated to my beautiful wife. I have no idea what I did in my previous life to be so lucky. You have been an amazing life, business and family partner. Your beauty, sense of humor, rich heart and leadership make each day with you a present.

And, to Arden and Kenan, the best sons I can imagine. You have been a gift to us and the world from the beginning.

ACKNOWLEDGMENTS

I would like to thank Rob Swystun for his editing and contribution at every level. I am grateful to his patience, ideas and the amazing "but hidden" writing machine he claims to have in his basement.

Special thanks to Marshall Goldsmith, John Maxwell, Davc Ulrich, Steven Synder, Dave Anderson and Ray Dalio for their great leadership books that touched my life when I needed the most.

TABLE OF CONTENTS

Chapter 1: How do we do this?

The bus lurches through the streets of Istanbul. Holding a cage close to my body, I try to make the trip as smooth as possible for my little passenger. Lifting a corner of the cloth I have draped over the bars to keep him calm, I see him hunkered down in a corner, sniffing the air, and looking around frantically with each bump.

I let the cloth drop and look back up to see several people scowling at me; their eyes full of both equal portions of surprise and disgust. Perhaps they're cross with me for adding the odor of a hamster cage to the already swirling mosaic of smells on the bus, or maybe they're just not fans of domesticated rodents. One aged lady in a blue headscarf with a mass of wrinkles on her world-weary face and cigarette-stained fingers catches my attention in particular. Her curious eyes study the cage as she tries to figure out what might be inside.

We approach the hill that indicates my stop is coming soon. This is Istanbul's Old City; its exotic history is encapsulated within these old walls. I hardly ever come to this part of town, but today Sashimi, my hamster friend, and I have to be here. All the major publishers of Istanbul have offices here and we have appointments with two of them. While he huddles in the cage and confounds elderly ladies, I practice in my head what I'm going to say during these meetings. A strong opening is necessary so I can convince these publishers to offer me a contract. This book is going to -- as they say in the publishing business -- "fly off the shelves."

What does Sashimi and his stinky little cage have to do with starting your own business, you ask? We'll come back to him …

Your Story

I cannot say there was ever a “moment" for me while growing up, a moment when I knew my destiny would involve entrepreneurship. In the summers before third and fourth grade at my small town's largest grocery distribution center, I carried boxes of cookies to customers’ cars (I would sometimes ‘accidentally’ drop them in the hopes that the manager would let me keep one of the now unsellable boxes). In the summer before fifth grade, I sold kitchen laminate to farmers who came into town to sell their produce at the open market. From sixth to twelfth grades, I worked at my school’s student-run cafeteria. Even with all that early childhood work experience, I still thought it would be would be a nice, white-collar job that would be the start of my rags to riches story.

Yet this is not what happened.

But, this book is not about my story. It is about the story of the rest of *your* life. My story is just a tool to reference once in a while, an example of how it can happen for you. If I did it, you can do it, too.

Does the following describe you?

You’ve realized that you don't want to continue doing what you’re doing for a career. You know something has to change because you’re not as happy as you should be. You constantly feel unfulfilled. Mornings suck, lunch is a bore and evenings are no better. The only thing you want to do when you are by yourself is to grab a drink and relax so you can create a mildly numbing buffer between yourself and the world.

The best moment of the week is Friday morning since you know the weekend is near and you love that feeling of expectation. When the actual weekend arrives, though, you find that you are still not happy. Each pointless moment gets you closer to the dreaded Monday morning, back to the soul-leeching job you have come to despise. You wish you could start over and live your life differently. Be your own boss this time, work for your own dream instead of someone else's.

Maybe this does not describe you exactly, but most of you see a little bit of yourself in there somewhere. You might not be that miserable in your job and you might not seek solace in drink, but if you merely feel trapped in a dead end job then this book is for you.

You should find this book useful for:

1. Tips and guiding principles you can use to build your business. The road on your entrepreneurial journey is going to be full of forks. Filling your decision making toolbox with guiding principles will serve you well. Hell, it might even save your business at some point.
2. Keeping focus on the big picture. When you are building your business, you will sometimes be so focused on taking care of urgent tasks and getting immediate results that you'll forget about the long-term picture and why you started this whole endeavor. There will be moments when your business will take over your life and your priorities, and it will start driving your life. In those moments it is important to understand that your business exists because of you and not the other way around. You can get back in control and be the one driving the business if you lead with purpose in mind.

Here we go

Recognizing the need to change. Looking at why you have to change and what you are not happy about.

Should take: 2-5 Days

(Some of the first few chapters have guidelines for what you will be doing in that chapter and approximately how long that should take, as seen above.)

Let's begin …

You've no doubt heard or seen some variation of the quote: "The definition of insanity is doing the same thing over and over and expecting different results."

When you saw it, this quote was almost certainly attributed to Albert Einstein, Benjamin Franklin or Mark Twain. However, it was not said (at least not originally) by any of these great men.

I bring this up for a few reasons:

1. Often, things aren't as they seem.
2. Even a quote like this -- one that has been in so many books and articles -- can be wrongly attributed. Ergo: it is ok to be wrong and make mistakes.
3. Lastly, and most importantly, this quote is true, regardless of who said it first. You cannot expect your life to change while you continue to do the same thing. If you want it to change you have to change your behavior.

What this quote should mean to you is that you *have* to change. If you are not willing to change then you are not going to get unstuck.

Changing your life is not easy, nor is it meant to be easy. We all know that and it is exactly the reason you are reading this book.

But, just because you're reading this book doesn't mean you're actually going to start that entrepreneurial journey. Some of you might still require convincing. For you, I have a quick exercise that I hope will give you the confidence you need to start changing your life.

Motivational Exercise

If you feel like you have the required motivation, you can simply skip this exercise and go on ahead. For those of you who need it, please take out a piece of paper and write this down:

I want to change.
I want to change because ___________.

Fill in the blank with your own personal reason. Here are some suggestions if you can't verbalize it:

... *I am not happy.*
... I feel like I am not going anywhere in life.
... I am scared of where I am headed in life.
... I'm afraid if I don't change soon, it might be too late for me.
... I feel lonely.
... I feel insignificant.

You can write down as many items as you need to. And when you're done, write this down:

I will change.
I will change because _________.

I encourage you to think of some of your own reasons, but if you still need help after you've given it some thought, try some of these:

… I know I can.
… I have changed for the better in the past and I know I can do it again.
… I want to change.
… I have the desire to change myself for the better.

Now read what you have written aloud. If there is one thing more real than writing words on a piece of paper and holding it in your hands, it is hearing those words spoken. Your brain wants to believe you and is very much inclined to believe what goes through those ears of yours. Let's use that to our advantage.

Read it aloud one more time. It feels weird, doesn't it?

The next thing is going to feel even weirder, but that is the point.

Open the voice recording app on your phone and record yourself reading what you wrote aloud, with conviction.

Now listen to it. Uncomfortable, isn't it? You hear your own voice differently when you're speaking than when you hear it on a recording. This little exercise is to show you that you perceive your voice differently than others. Just imagine what else you perceive differently about yourself.

All the things you think of as "you" are in your head. The life you live now, that sense of emptiness you get from your current job, all the mistakes you've made, all the successes you've experienced, they are just the accumulated debris of your past holding you down (yes, even the successes).

What if you woke up in a hospital tomorrow morning without recollection of your past? The people there tell you that you used to be an olympic gold medallist runner and a rich business magnate that gave all your money to the poor. You have an IQ of 135 and were one of the happiest souls that ever lived.

Armed with this new knowledge about yourself and a complete break from your past, just imagine what you could do! There would be no internal voice saying: “I can’t do that. That’s not me.” Everything that is stopping you from changing is in your head and that is exactly where we need to start. You are going to lead yourself to change.

That is exactly how it happened for me.

My Story

Full disclosure: when I started my first business, I wasn’t trying to get unstuck from a well-paying, but ultimately unsatisfying corporate job. I was trying to get unstuck from unemployment. The first few rungs of the corporate ladder were easy enough. After graduating from college, I did an internship at a Japanese think tank and another one at a lobby group that specializes in economic policy. Those led to positions as a product manager and then later a strategic manager at an international bank in Istanbul. With two promotions in two years and a constant presence in the boardroom to give presentations to the movers and shakers at the bank, I thought I was on the fast track to a cushy corner office.

But, my dreams went way beyond that bank. I gave up my position and the accompanying handsome paycheck to move to the United

States with my new wife so we could go right back to being hungry students while we got our Master's Degrees.

We overcame the obstacles thrown at us, including running out of savings -- that were supposed to last for two years -- in just a few months. A few obstacles that seemed impossible, though, were being international students with Turkish accents, having no American work experience and having absolutely no connections in the USA. We couldn't even hop on LinkedIn because that wouldn't exist for another fifteen years. All our applications went unanswered, even the ones for internships. Companies just didn't want to deal with international students and the paperwork they generated, even when those students were willing to work for free.

After so many failed applications, I was thrilled to finally get a bite with a new, venture-funded web platform that targeted international trade. This was a perfect position that would utilize all my qualifications and experience and I was lucky to have gotten it … except I didn't. My interview was on a Friday afternoon and I received a verbal offer for an amazing position with a starting salary that would instantly make our lives comfortable. My wife was still finishing up her studies and things were getting a bit desperate financially, so this offer couldn't have materialized at a better time. The official written offer was to come Monday or Tuesday.

By Wednesday the next week, I was sure something was up and I went into stalker mode trying to get ahold of somebody at the company. Finally, I managed to reach the COO that Friday, who told me that after careful consideration, my lack of US-specific experience had caused them to change their minds. (I never did get an adequate explanation as to why they thought simply not talking to me would convey that decision.)

I sheepishly returned the new $80 computer bag I had bought so I didn't have to take my old, ratty one to the office, and lamented the expensive celebration dinner my wife and I had gone out for.

This was the first red flag for me. The second came soon after when I called my father to hear that after 25 years of loyal service to one company, he was being demoted because there was a change in leadership at the top of the company. It was difficult to listen to my dad lament the hard work he had put in for the past quarter of a century only to have it rewarded with utter indifference. He had poured his heart and soul into that company and the new management team had just shrugged. I had always pictured my father as a powerful force in my life, but I now realized that he felt powerless in his own career. No matter how much hard work he put in, his destiny was out of his control. Now he felt stuck in that position.

Working for a company was starting to seem less and less desirable. I loathed that feeling of not having any control over decisions. I wanted to be in control of the decisions that would affect me professionally instead of being at the whim of a corporate machine.

That was it for me. I decided to start my own business. Having my own business would get me unstuck from unemployment and guarantee that I wouldn't get stuck in the corporate machine like my father.

Now, my job search was curtailed slightly so I could spare time to research how to start a company. One piece of advice that stood out was to get some experience working in a startup, which I had never looked into because I had always concentrated on applying at large companies.

Once I opened my search to startups, it didn't take long to snag an offer from a little three-person operation that had almost no funding and no office. Pay was barely over minimum wage and if the company didn't manage to procure another round of funding it would cease to exist, but there were still two good reasons for taking the job: Even though it wasn't much, I needed the little bit of money that it provided and it also allowed me to see the inner workings of one of these new internet retail businesses. (It was the '90s.)

When you're working for a three-person company that has almost no resources, you learn a lot about bootstrapping and scraping together funding. I essentially became the CFO, COO and chief marketer of the company. It was like five years' worth of startup experience condensed into five months. And then it folded.

Jobless again. But, this time was different. Rather than feeling desperate and nervous, I felt calm and in control. Still had no money, but at least I had knowledge, startup experience, business ideas and entrepreneurial desire.

Oh, and I also had a friend who was basically a genius when it came to computer programming, which was invaluable in the '90s. Together, we launched our first business; an internal website search engine (basically like the defunct Google Site Search). We were several years and a few technological developments too early. Unable to sustain ourselves through sales and with no funding coming in, our bubble officially burst along with the dotcom bubble in 2000.

This failure taught me that just because I was doing my own thing that didn't mean I was free from the decisions of others affecting me. This time, instead of corporate managers, it was investors.

Although I was part of two failed internet ventures and the dotcom bubble had just popped, I knew internet retailing was going to be huge and that's what I decided to stick with. I did my research and found that anything pertaining to printer ink was a good seller online, so I got into the online printer ink retailing business with just a few thousand dollars of funding from my own credit card.

The printer ink business ended up being a huge success, turning that little bit of credit card debt into a million-dollar business in under a year. It stayed successful right up until the printer industry died. But, I am always looking for ways to diversify my entrepreneurial portfolio and I've started numerous online retail businesses. Some of them flopped and some became successes, selling for millions of dollars.

The "big one" for my wife and I came when we noticed the drug testing industry was being underserved in the online retail realm. We started not one, but two companies that specialize in drug and general health testing. One sells to individuals and the other to businesses.

One of these businesses, Confirm BioSciences, landed us on the *Inc. 500* list of fastest growing companies for 2007 and they're both going strong today and winning awards. Confirm BioSciences has been named as one of San Diego's Best Places to Work by the *San Diego Business Journal* for four consecutive years. It's also landed on the *Inc. 5000* list of fastest growing companies for five consecutive years, something that only one percent of companies on that list manage to accomplish.

Paying it Forward

Entrepreneurialism helped me get unstuck and now I want to pay it forward by helping others get unstuck. Even if there is just one person out there who will be empowered enough by this book to get unstuck from a dead-end career, that would be enough for me.

Starting a business is not the only way to determine your own destiny, of course. It is merely a path for some. There are thousands of great companies out there to be a part of and still truly be free, happy and productive. There are many hobbies and passions that can take you places where you can support yourself and your family doing what you want. For those of you who have an indomitable entrepreneurial spirit and know that starting a company is where your life path is leading you, this book is for you.

Over the past fifteen years I have encouraged, advised and logistically helped many friends start businesses. Most of those people were in middle management with ten to twenty years of work experience in white collar jobs who eventually realized they were stuck in those jobs. They were people who knew they wanted to change, knew they wanted to be happy and knew they were heading in the wrong direction. They simply did not know how to start the process of getting unstuck.

How We're Going to Do This

Each chapter in this book is meant to tackle one important aspect of starting and establishing your business. They will help you find and develop a business idea and then start a successful business based on that idea.

Rather than a step-by-step manual, these chapters are meant to be more of a guide to give you the background and tips necessary for getting started. They will point out common pitfalls and emphasize factors you'll need for success.

There is a resource list waiting for you at the back of this book that will give you the names of various websites, apps, tools, etc. In the interest of keeping that list as up to date as possible, there will also be an online resource center for you to access. There are also various appendixes that will give you more details about some of the subjects covered in this book.

A quick overview of the material we will cover:

- What defines a company
- Which type of business will suit your needs more: lifestyle or build-up
- The elements required for a successful business
- Coming up with business ideas
- The right business idea for you
- Simple feasibility analysis for your idea
- Getting feedback about your business idea
- Planning your business
- The first steps to starting your business

Whether you use a memo app on your phone or you do it the old fashioned way and use a pen and paper, keep some notes jotted down as you read this book so you can keep track of what we cover and do the exercises sprinkled throughout. This will help you retain the ideas generated from reading this book.

Let’s get started.

Chapter 2: What is My Picture of Success?

Defining the picture of your success. Outlining what you would like to accomplish, what kind of company you want to

build, what success will look like for you, and how you are going to understand when you've reached that level of success.

Should take: 3-10 Days

I'm going to start this chapter off with a personal anecdote.

Experience

It is 1997, and I am working as a strategic planning manager at a small but growing bank in Turkey. On a tour of the Southeast region of the country near the Syrian border, I had to travel from a branch in Adana to one in Gaziantep; roughly a 150 mile trip. I hired a friendly, local driver to take me from one city to the other. He owned a Fiat that was little more than a glorified wind-up car.

No matter how many times I told this guy there was no rush and I prefered safety over speed, he kept passing every vehicle that dared to be in front of us. The road was mostly two lanes and had several sharp turns, none of which slowed him down. With only two months until my wedding, I was damned if I was going to let this numbskull with some kind of driving inferiority complex kill me and likely take out a bunch of other people along with us. Just as I was about to demand that he let me off at the next available stop, he slowed down. The reason? He had passed all the vehicles he could see ahead of us and gotten to the front of the imaginary lineup he had in his head.

Instead of doing what needed to be done in a calm and logical manner, that driver allowed himself to be driven by his emotional goals. He didn't realize how fast he was going and he didn't even realize that he was risking my life, his life and several other lives that day. All he knew was that -- for whatever reason his little inner voice told him -- he *had* to be at the front of the imaginary lineup of vehicles going to Gaziantep.

When there were no cars in front of us, he preferred to go at a reasonable pace and enjoy the drive, but every time we would see a vehicle ahead in the distance, he had to speed up until he caught up to it so he could pass it. You could say it was his goal to get to Gaziantep as quickly as possible, but in those circumstances that wasn't a logical goal. It was purely emotional and instinctual. He had no reason to be in Gaziantep other than the fact that he was being paid to go there. He fell victim to that little voice in his head, which was apparently telling him that he was in some kind of race with all the vehicles on the road. Driving fast and passing every vehicle in sight was a form of emotion-driven instinct kicking in, making for a dangerous situation.

Unfortunately, this story is familiar to most of us -- not the part about being an unwilling participant in an imaginary race taking place in the head of one of Turkey's worst drivers -- but the lessons learned from it. We all have those experiences where we are driven by emotions and instinct rather than logic and common sense. I'm not saying there is never a time to rely on emotions and instinct, but you have to know when to rely on them and for most people who are trying to get unstuck in life, logic and common sense are the way to go.

We all have those introspective days where we look back and imagine we could have been a lot happier if we had taken a different path; like leaving a certain job earlier, or pursuing some other kind of professional dream.

In most cases, this sense of not being completely fulfilled with our current lives is because we don't know what we want, or where we want to go. Just like we often don't truly listen to others, we often don’t spend time and effort to truly listen to ourselves. Do you truly know what you want?

The best way to start finding out what you want is knowing what you do *not* want.

- You don’t want to work for someone else’s dream. = You want freedom.
- You don’t want to feel like a tiny cog in a soulless machine. = You want self-respect.
- You don’t want every Monday morning to feel like the worst thing ever. = You want fulfillment.

Once you know what it is that you want to do we can start the process of making that come true.

If you and I are going to work together for the next few chapters and next several months to start this new business of yours, then we have to come up with your general picture of success.

You don’t want to be that aforementioned driver, making all your decisions based on emotional goals and taking big, unnecessary risks. You want to be the person taking calculated, well-planned risks.

Before we start talking about starting a successful company, let’s talk about what a company is.

What is a Company?

Have you ever wondered why the word “company” is used to describe a commercial enterprise? Why, out of all the words in the English language, would “company” evolve to have that usage? The answer to this question will give you one of the few keys for successfully starting one.

The English word “company” has its origins in the Old French military term “compaignie” (first recorded in 1150), meaning a "body of soldiers.” It was originally from the Late Latin word “companio,” which translates to “Companion,” which means “one who eats bread with you.”

So how did that word come to describe “a number of persons united or incorporated for joint action, especially for business?” I believe it’s because for a commercial enterprise to exist successfully there needs to be:

- A leader
- A purpose
- A group of close knit individuals with various skills and resources
- A sense of unification in order to focus those individuals’ various talents towards that purpose

When you consider it this way, a company sounds a lot like a military unit, doesn’t it?

If that *is* a company, then what is *not* a company?

An individual, for one. Alone, you cannot be the company that you want to create because a company is not one person. Microsoft is not Bill Gates, Apple was not Steve Jobs and Oracle is not Larry Ellison.

An idea is also not a company. If it was, you would have one by now. Everyone over the age of twelve would probably have one.

Even one person and one idea together is not a company. You will start with one person and one idea but to become a company you will have to go beyond that and recruit others to join you for your purpose.

Freelancing or having an individual practice where you need to be the one doing the work, like preparing tax returns or writing copy, is not a company. Thinking that having a solo practice or being an individual consultant is the same as running a company is a common mistake. Even if you technically have a legal entity that can be called a company, you are not really running a company if you have to be there personally doing the most critical part of the work. You are still just selling your time and expertise. You might not be selling it to a corporation that gives you a wholesale deal to work for them, but you are still selling your time in smaller chunks to whoever is willing to pay for it. Freelancing like this *can* be a good springboard to running a company later, so it is valuable experience.

It is possible to have a company where you are the only employee, but that kind of company has to essentially run on its own and keep bringing in revenue even if you are not actually working. For example, you could run a nice little website where you post marketing training videos and charge people a membership fee to access them. You'd be the only person in the company, but you wouldn't have to be actually selling your time to bring in revenue.

Your company is where you are the leader, there is a common purpose based on serving others and there is a close-knit team working for that purpose. The leader -- you -- is important, but you are there to serve the team and fulfill its purpose.

This is what a company is.

What Kind of Company is Right for You?

You are about to decide one of the most important things of your life: What kind of company you want to start. This is akin to finding the right person to marry. If you marry the wrong person, you may find the marriage is all work and no fun and it may end up costing you a lot (both financially and emotionally) when it fails.

Now, take a deep breath and let's look at that decision.

The following categories are almost as different as the type of sport you choose to play. Some are team sports, some are more physical, some require more equipment, and they all require different skills.

Let's take a look at the categories of companies:

Lifestyle Companies

These businesses are set up and run by people who have a passion to be in a particular industry, who want to be their own boss and earn a decent income from their own business. Growth isn't a huge priority for these companies. Doing something that you will love for the rest of your working life is the top priority.

Examples of Lifestyle Companies include:

- Independent coffee houses or restaurants;
- Niche retailers and service providers; and
- Niche product manufacturers.

Pros:

There is little pressure to grow these companies. Obviously, they need to grow enough to be sustainable and make a profit, but once they've hit a comfortable level, they don't need to constantly be thinking about getting bigger. They just need to address any threats in the market and maintain their position to be considered successful.

Another big pro about running a small lifestyle business is the fun of working in an industry you really want to be in.

Cons:

Since these businesses tend to stay small, it can be a real struggle to keep them going through rough patches in the market. You don't have the resources of a big company to ride out major fluctuations.

There's also a real chance that you might suffer from burnout if you're in an industry for a long time and you haven't grown to the point where you can step away from the company and hire a competent team to run it.

A lifestyle business usually isn't going to bring in massive amounts of revenue, so when it comes time to exit the business, they generally don't sell for huge sums of money and often just shut down and sell off their assets.

Build-Up Companies

Unlike a lifestyle company, a build-up company is not started to support an individual's lifestyle. Rather, it is to make a change in an industry or create value for the founders and shareholders with some sort of exit strategy in mind, preferably a sale of the company. Growth is a priority for these companies and the ultimate goal would be to grow the company so it is valuable enough to be purchased by a larger corporation for a handsome profit.

Examples of buildup companies are:

- Any type of business that can be grown. Usually, these companies will sell one type of product or offer one type of service for as long as they're in business. They are often purchased by larger corporations and kept as a subsidiary of the purchasing corporation or they go public. Software and web application companies are a good example. A new type of software or web application is developed over the course of a couple of years and then a major player comes along and buys it for millions of dollars. Think Facebook buying Instagram or Google buying YouTube.

Pros:

If you've managed to identify a gap in the market and grow your business well, it could net you a handsome profit.

Burnout isn't likely because build-up companies are meant to grow to the point where a founder can hire a team to run the company. If the business owners grow it properly, they won't own it indefinitely. This will allow them to retire or move onto other projects.

Cons:

Since these businesses are started with the goal of eventually selling them or passing them along to family members, growth is always a key priority. This constant focus on getting bigger can become weary, especially if the company doesn't grow quickly.

If the company isn't in an industry the founder is particularly passionate about, it may seem much more like work than if the founder was starting it purely out of a desire to get into that industry.

Growing a company quickly and efficiently enough to sell it for profit requires stellar leadership and business skills. If you are not a natural leader or you lack business acumen, it may become a real struggle getting this type of business to flourish.

There is a third type of company that is generally not started by first-time entrepreneurs, but I will just briefly outline it here so you're aware of it.

High Growth Target Companies: These companies are where the growth and sale of the company (either as an acquisition target or during an IPO) are the top priorities. In most cases the founders are either entrepreneurs that have built and sold companies before or executives/managers with successful professional track records or inventors/scientists.

Franchises

Before we go on with founding your own company, I just want to talk about franchising for a bit. Most of you probably know what a franchise is, but the brief explanation is that franchises are corporations that allow business owners to use the corporation's brand for their own individual business as long as those business owners run them according to how the corporation wants.

For example, instead of opening your own, independent pizza shop and calling it Joe's Pizza and doing everything your own way, you join the national pizza brand Pizza Hut and you run your pizza shop according to the Pizza Hut way of doing things while also reaping the rewards of being part of a recognized brand.

I've had some experience with franchising, both as a franchisee and a potential franchisor (meaning, I decided not to become a franchisor in the end). What I learned was that franchising can be a good idea if your goal is to build a company and run it for continuous steady cash flow and not worry about growing it too much (although you can grow your franchise business by purchasing additional franchise locations or, if you prefer, you can step back and take on more of an investor role and maintain a portfolio of franchise businesses).

My advice about franchising can be summarized as :

- Evaluate your goals and yourself to see which is a better fit for you, independent business ownership or joining a franchise, which can still be a great option for anyone wanting to own their own business.

- If you decide to go with franchising, perform an immense amount of research about any franchise you're thinking of joining. Consider using the services of a franchise broker (a person who connects franchisors and franchisees). Companies franchise virtually everything nowadays and for every super successful franchise that you see everywhere, like a Subway or McDonald's, there are dozens of franchises that pop up, flounder, and then disappear. While most franchisors are out to build a strong brand and help would-be entrepreneurs realize their dream, other franchisors see their franchisees as their way to make money. Don't end up being someone else's business model. Do your due diligence and conduct your research.

Although you should only join a franchise if you truly want to be a part of that company, running a franchise can be a good "practice run" for operating your own independent business later. You'll get some valuable experience about operating a business. Be warned, though, that you won't be able to just quit a franchise and then immediately open your own business doing the exact same thing you were doing as a franchisee. Most franchises have a no compete clause built into their franchising agreements.

Lifestyle or Build-up, which one is for you?

Now, with that little aside out of the way, let's get back to building your own business. Should it be a lifestyle or a buildup company? Deciding which type of company would work better for you depends on whether you want to build something with the potential to provide you with equity and establish a legacy (build-up) or have a modest income, but do something you love (lifestyle).

If you've identified a gap in a market that you feel confident you can exploit, getting a build-up company off the ground quickly can lead to relatively swift success. If you just want to turn one of your hobbies into a business, that can just as easily lead to a successful entrepreneurial career.

For the lucky ones, they will identify a gap in a market they are truly passionate about and reap the benefits of both. To help you decide between a lifestyle and build-up company, ask yourself these questions:

- Can I and do I want to turn one of my hobbies into a business?
- Am I passionate about the industry I want to get into or am I taking advantage of an opportunity in an industry that I'm only marginally interested in?
- How much effort do I want to put into this business?
- Will I realistically be facing many threats once the business begins and if so, will I have the drive to fight them off to keep my business successful?
- Am I getting into this business to solve a problem I deeply care about?
- Do I enjoy the thought of being a part of the industry I want to be involved with?

- Is this a potentially billion dollar business or is it likely only going to grow enough that I will be able to provide for my family and live comfortably?
- Do I want to run this business by myself or with people I know or am I comfortable with bringing in outside investors?

Answering these questions will give you an indicator of whether you should pursue a lifestyle or build-up business and whether you will be able to make that business a success. Speaking of successful businesses ...

Chapter 3: Elements of a Successful Business

There is one undeniable element you need when starting a successful company: Knowing what success is. Not knowing what success is is will leave you no way of gauging if you've achieved what you want to achieve. Success varies depending on which type of company you want to start.

For your company to be successful as a lifestyle company, it has to support the initial goals of:

A. Enabling you to operate as the founder in an industry that you enjoy being a part of.
B. Providing you the opportunity to enjoy life with flexibility and freedom while operating this business.

For your company to be successful as a build-up company, it has to:

A. Grow rapidly.
B. Generate value as it grows so there will be a way to exit the business at some point.

As you can see from the goals above, there is a general understanding of what a successful company needs to accomplish depending on the initial goal. With a lifestyle business, the criteria of success is clearer since there are no numbers and time tables to follow for determining size or when to exit.

These points are not clear and quantifiable in the case of the build-up company. The goals are more general and indicative of direction rather than defining of a framework.

Take the concept of size, for example. Is the size of the company based on how much revenue it generates or is it based on the number of employees? Is a good rate of growth five years, ten years or twenty-five years?

If we look at some statistics it may help us define success:

- Only three percent of US businesses have 500 employees or more. In fact, more than 60 percent of businesses have two or fewer employees.
- As of 2012, according to the US Census Bureau, more than 60 percent of all businesses have less than $400,000 annual sales and more than 90 percent of them have less than $800,000.
- Only the largest 0.3 percent of companies in the US have more than a billion dollars in sales and more than 3,000 employees on average. The second tier of companies, in terms of revenue, make up 1.5 percent of all companies in the US with an average of 200 employees and slightly less than $50 million in revenue. And we don’t know how many

of those companies are profitable or will even be around in three years.

So are these the successful companies?

What about profit? After all, that is how the value of a business is usually defined. According to a March 2015 publication from the Bureau of Economic Analysis, more than 25 percent of all profits made by US corporations -- over $2 trillion -- are made by Financial Corporations whereas less than 10 percent are made in either the retail or wholesale trade, and less than three percent is made by Food & Beverage companies. Does that mean you have a better chance to create a successful company in the financial industry?

How important is the worth of the company and how should that worth be measured? By market cap, balance sheet, net worth, or some other form?

This successful company thing is getting awfully complicated isn't it? How about we settle on this: If you are trying to build a Lifestyle business and you are able to do what you love while making a positive difference in the world, and you are able to make a decent living from it, that should be considered success for you.

If you are trying to create a Build-Up company and are able to build up a financially healthy company that is constantly growing in revenue while making money by filling a need or taking advantage of an opportunity in the market you operate in, that should be considered success for you.

For success to continue:

- Your employees should be happy to be a part of your company.

- Your customers should be happy with your product or service.
- Your investors and community should be happy to be associated with you.

Your new company does not have to be the next Google or Tesla to be a success story. You do not even have to hit a seven digit revenue number. All you need is to build something that will survive and grow, something you can be proud of. There are thousands of successful businesses all around us. Some of them we know by name and some of them we will never hear about. Starting one is more achievable than you probably realize.

The Elements

All successful businesses share some common elements. Any business that lacks one or more of these elements is going to have a difficult time succeeding.

These elements are:

- Founder(s)
- Idea
- Money
- Team/Employees
- Mission
- Culture
- Process
- Serendipity

Founder(s)

These are the makers, the creators, the ones who see an opportunity and take action to make it happen. Many times they are innovators and they can even be inventors or rebels who just dared to do something different in an industry that was too complacent.

Idea

This is the reason the company exists. It is the light bulb that brightens the founder's mind and puts them into motion. Without the idea, the company simply does not exist. That's not to say the idea can't or won't change and evolve before it comes to fruition. Keep in mind that even an amazing idea doesn't guarantee success. A lot of hard work goes into that idea before it becomes a success.

Money

Money is not just currency when you're talking about starting a business. It represents every single resource you need to bring your company to life. From the vision in the founder's head to a physical location filled with a team of people making that vision a reality, money is the resource that makes it all happen. It can be the number in a checking account, a limit on a line of credit or a favor from the founder's web developer friend to work for free for a few hours (to save money). No matter how you look at it, money is the "resource" in a founder's resourcefulness. You don't have money, you don't have a business.

Team / Employees

If the founder is the creator, the team and the employees are the disciples. They are the ones who make things happen. The founder is usually just one person (or a small group of people). Their ability to change the world around them or at large by themselves is limited. Their main ability is to influence others to make those changes. The team they have working for them are who they influence directly and, in turn, who make the changes in the world around them.

Mission

The mission is the goal, the ultimate destination where the leader wants to take their following. It is the change in the world the idea is meant to bring about and what gets your team excited to be working for your company.

The mission is the declaration of what is important and what will stay important, as long as the desire to get to that destination does not change for the organization. It is what helps the team and the founder prioritize as they face major decisions.

Culture

Culture is the beliefs and behavior and the unwritten rule book of the company. It is the culture that determines how business transactions are made, how priorities are assessed, and how interactions are handled.

The team and the leaders make the culture together but they don't control it. Often it is the other way around. It is the culture that controls (or at least strongly influences) the company. And that is exactly why it is the first thing true leaders look at when they want to change the company. It is often unwritten, sometimes even unspoken, but it is always present in every facet of the business.

Process

Business process can be formal or informal, but it has to be there for things to get done in any organization. Process is often what defines the maturity of an organization from infancy to adulthood. As time passes, experiences accumulate and the team develops a set of defined activities and tasks. These become the processes used to accomplish organizational goals.

Even though there is often resistance to a change of processes, they still change more frequently than culture, mission or the core idea. Processes are the first things to be affected by new technology and the last things businesses tend to change when they are trying to become more successful.

Serendipity

This is the fancy-pants way of saying “luck.” Being in the exact right place at the exact right time or meeting exactly the right person can have a huge impact on whether or not a business succeeds or even gets off the ground.

This last element is the most difficult to pin down because it’s the only one you have no control over. You might even say that there is no such thing as luck or that talk of luck has no place in the cold, hard logistics of business, but it can undoubtedly play a part.

I believe luck is what you create and then recognize. Opportunity may be the one to knock on your door, but luck is the one that makes sure you’re home to hear the knock.

Inspiration

How The Elements were Key to Starbucks’ Success

Here is a short and extremely simplified version of how Starbucks got started that I think illustrates how these various elements play a part in business.

When it first started, Starbucks was a single location in Seattle’s historic Pike Place Market that only sold whole coffee beans. It had been founded in 1971 by three partners: English teacher Jerry Baldwin, history teacher Zev Siegel and writer Gordon Bowker.

Current CEO Howard Schultz visited that original location in 1981 as a sales executive for Swedish kitchen equipment manufacturer Hammarplast. His mission: Find out how this dinky coffee bean retailer in Seattle could sell more of its fancy coffee making equipment than the mighty Nordstrom.

Back then, Starbuck's goal wasn't to sell people overpriced coffee, it was to teach people the art of making great coffee and then selling them the equipment and ingredients to do that. Schultz absolutely fell in (business) love and knew he wanted to work for Starbucks, even if that meant taking a hefty pay cut. So, in 1982, he quit his highly lucrative job with Hammarplast and took a position at Starbucks as the company's marketing director (after he promised to grow it gradually rather than rapidly, as was his initial intention).

In 1983, Schultz travelled to Italy for a housewares show to check out new coffee making equipment, but what he returned with was so much more valuable; an appreciation for Italian cafe culture. Rather than socializing at awful fast food restaurants like in the United States, Italians did their socializing at cafes.

Schultz pitched the idea of serving espresso to the owners of Starbucks (down to just Baldwin and Bowker by then) and they reluctantly tried it as a pilot program. It was too successful. The Starbucks owners envisioned their beloved bean store losing its identity and becoming a restaurant, which they wanted no part of.

Disappointed, Schultz left to start his own cafe in 1985. With some help from the two Starbucks owners in the form of capital funding and occupying spots on the new company's board, plus some funding scrounged up elsewhere, Schultz opened his cafe, 'Il Giornale,' in January of 1986.

Shortly thereafter, Schultz drummed up more money to expand as quickly as he could to prove that cafe culture could work in the United States. The two remaining owners of Starbucks decided they wanted to pursue other ventures and sold Starbucks to Schultz, who ditched the Il Giornale name and rebranded everything to the Starbucks we know today.

Schultz, the *founder*, had the *idea* to bring cafe culture to the United States. Although at first the *team* he was working with resisted his *mission* to expand the company quickly, they eventually relented and got behind his vision in their own way (by stepping aside and letting him take control and helping him out by joining his board of directors). They also provided him with *money* to reach his goal of expansion. Once he was in control of the Starbucks brand, he instituted his own corporate *culture* and the necessary *processes* to spread cafe culture and the Starbucks brand. And, lastly, it was a bit of nice *serendipity* for Hammarplast to send Schultz to that original Starbucks location in the first place.

Sometimes, that little bit of initial luck is the exact thing you need to get a business going. You meet the right person or you walk into the right place and inspiration strikes you. Although you can't control luck, you can increase your chances of something serendipitous happening to you by increasing the amount of dots and lines you use to generate business ideas.

Let's take a look at what these dots and lines are and how they help you come up with business ideas.

Chapter 4: Coming Up With Great Ideas

Starting to build your list of ideas for what you want to do. (This stage takes a long time since you have to read, meet people, network and read some more. This is not something you can rush, but feel free to read ahead while you are doing this.)

Should take: 45 - 365 Days

Inspiration

January 18, 1943 isn't a date you'll learn in a textbook, but for a brief while it was the day the American government was forced to enact one of the most draconian measures the country had ever seen: a ban on sliced bread.

The ban, put in place by the Secretary of Agriculture, was meant to help America's efforts in World War II by conserving resources like waxed paper and steel.

It caused a huge uproar.

The general public was just not willing to part with their perfectly sliced loaves, war effort be damned. Less than three months after it was enacted, the sliced bread ban was rescinded on March 8, 1943, so strong was the public outcry.

Believe it or not, pre-sliced bread had only been sold for 15 years at that point. In a decade-and-a-half, pre-sliced bread went from non-existent to something so cherished that people weren't willing to part with it despite its ban potentially helping the country defeat the Nazis.

Let that sink in.

Otto Rohwedder invented the first bread-slicing machine in 1928. He had a degree in optometry and worked in the jewelry industry prior to inventing his machine. How did he come up with a machine that would revolutionize the baking industry when he wasn't even involved with it?

Simple.

He was presented with a series of dots and he simply drew the lines to connect them. The good news is that you can do this, too.

Let's take a look at these dots and lines that our hero used to come up with his invention:

Connecting the Dots

We'll almost certainly never know the story of the 'aha' moment for Rohwedder, but I like to imagine that in the Hollywood biopic of his life that we'll never get to see, the eureka moment would be a scene where he goes to make himself a sandwich some time in 1912 and gets frustrated with his attempts to cut two uniform pieces of bread. He begins grumbling about how he wishes bakers would start selling sliced bread and then spots a piece of the jewelry he's made with one of his own machines on the counter. The (figurative) light bulb turns on -- with inspirational music swelling in the background, of course.

That's almost definitely not the way it actually happened, but we can still easily identify the dots that Rohwedder connected and lines he used to connect them:

- It would be good if we could have loaves of bread with uniform slices ...
- A machine could cut uniform slices of bread ...
- I invent machines ...
- I bet I could make one ...

- BOOM!
- Idea.

In the case of Rohwedder's bread slicing machine, the dots were his knowledge and experience with machinery, an inkling that people would be willing to buy pre-sliced bread if they could and either ignorance of or disregard for the fact that bread would go stale faster if sold pre-sliced.

If developing business ideas is all about connecting dots, then what you can do to get better at coming up with ideas is to have *more dots* and *more lines*. Dots represent exposure to different experiences and know-how while lines represent the ability to hone your thinking so you can see how these experiences and know-how will fit together.

Better Ideas come with More Dots and More Lines

Entrepreneurs come in all shapes and sizes, but they all have one thing in common: Change. Entrepreneurs create lasting change for themselves and others around them and that change starts with exposure to new knowledge and ideas.

The key to getting more dots is (mostly) in this quote from journalist Charles Jones: *"We will be the same person in five years that we are today except for two things: the people we meet and things we read."*

As true as this is, Jones missed one key piece that will make us different from who we are today: the things we experience. For those three things: reading, meeting people and having experiences, the same two principles apply: diversity matters and active listening is crucial.

Diversify Your Reading

Whether it's books, websites or magazines, we tend to only read about what we like. But, when trying to come up with business ideas, reading broadly rather than narrowly helps. Don't ignore subjects you assume you won't be interested in because you never know where that next idea is hiding.

Finding books and magazines to read is easy. You can check best-seller lists, look at what your mentors or people you admire are reading and search for publications about subjects you've always been curious about, but had never bothered to look into before.

Videos and podcasts are also a great resource to learn about subjects.

Diversify Your Acquaintances

Meeting new people in a variety of industries will also add more dots and lines to your business idea factory.

Listen to people who have something to contribute to you because:

- They possess knowledge that is useful to you.
- They have experiences you can learn from.
- They know you and support your aspirations.

Friends, family, mentors and teachers can all be located easily. As for those outside of your immediate social circle, try:

- Trade Shows and Conferences: Even ones from industries you don't think you'd be immediately interested in.
- Business Groups: Chambers of commerce, trade associations, local meet up groups of a particular profession or industry.

- Professional Development Organizations: Like mastermind groups or Toastmasters International.
- Service & Civic Organizations: Such as Rotary International, Kiwanis or Lions. Not only will you meet a diverse range of people, but they do some amazing work in their communities and around the world.
- Business Networking Events: You probably already frequent these, but try going to some new ones.
- Self-Improvement Events: They're like self-help books come to life and they tend to have a great energy because everyone is there for the same goal of becoming a better person.

Be discerning with who you talk to and look for value in all the conversations you have. Give where you can, heed the good advice and politely nod and smile at the bad advice. If a conversation doesn't seem to be going anywhere, you can always throw a smoke bomb and slip away (or politely excuse yourself, but that's not as fun).

Diversify Your Experiences

The best way to diversify your experiences is by living abroad. Staying just a few months in a completely different culture will provide a wealth of eye-opening experience. You can still get some diversity in your home country and city by doing things that get you out of your routine like:

- Attending classes or workshops for hobbies you never thought you'd be interested in.
- Trying different types of ethnic food.
- Hosting an exchange student or international guests in your home.
- Volunteering with organizations in different parts of the world.

- Watching foreign movies.
- Visiting museums with exhibits that have an international focus.
- Dating someone from a different culture (if you're available, of course).
- Reading books written by international authors.
- Reading history or travel books about a different culture.
- Watching documentaries about different countries and cultures.

Stepping out of your comfort zone and opening yourself up to new ways of thinking will help you create those dots and lines you need to come up with a unique and profitable business idea.

Building a List of Ideas

Rather than just having one idea, you'll want to have several ideas to choose from. Start writing your new business ideas in a notebook. This book is a little safe haven for your ideas. There is no "but," "impossible," or "where am I going to find the money?" When writing down ideas in this book, everything is legitimate. The goal here will be to build a long list of ideas.

Looking at the Future

One of the best ways to come up with viable, long-term business ideas is looking at what we expect the future to be like. Nothing is for sure, obviously, and many incredibly smart people have made big mistakes when prognosticating about the future. But, even incorrect predictions can hold clues as to what the future might look like.

When thinking about the future for business ideas, you're more likely going to come up with build-up company ideas than lifestyle company ideas. And basically all of the ideas proposed in this section are of the build-up variety. If you need help coming up with business ideas, this section about looking to the future and the next section about looking at what venture capitalists are investing in may help you.

Why look to the future?

- Because the future has not happened yet, and we don't know exactly how it *will* happen, this levels the playing field for a company that is just starting. The chances of a small, new, agile player operating successfully against a larger, slower, more established player is much higher.
- Markets of the future have not yet been captured by any major players and are expected to grow. It is easier to gain market share when the market is growing.
- You, as a startup, do not have "The Innovator's Dilemma," but established companies in the industry do. The Innovator's Dilemma is a concept developed by Harvard professor and businessman Clayton Christensen. He suggests that successful companies often put too much emphasis on their customers' current needs and fail to adopt new technologies that will meet their customers' *future* needs. So, it is often the newer companies that take action on these new technological developments and how they transform into future customer demands.
- Industries are born, grow, mature and die. If you get into an industry earlier in that lifecycle, you have more time to change and transform your business as the industry matures.

Remember that before Netflix became the streaming powerhouse that it is today, it started as a mail-order DVD rental business. Someone looked at the then-current DVD rental model and said: "In the future, people will choose what movie they want at home and receive it by mail instead of going to the rental store." Then, that person said: “In the future, people won’t bother renting DVDs at all. They’ll just stream all their movies.” That person was right again. What might you be right about?

You can read future predictions in business or technology magazines or books by futurists, and you can get an inkling of what’s coming up by following major venture capitalists (VCs with the most recent successes in the industries that interest you) and public companies (the ones with the highest market capital value).

The reason I put VCs on the list is because the most successful VCs always have new businesses in their pipeline they are investing in and those investments will give you clues of what industries might be hot and are expected to provide huge market opportunities. Here are a few good examples of what you might have noticed if you did that (and signs of market trends that could have benefitted you).

These are just quick outlines of the potential business ideas I’ve come up with while thinking about the future. For further reading on them, please see *Appendix A* at the back of the book.

Electric, Self-Driving Cars

May open up business opportunities for:

- Membership service where non-car owners can order a car to drive them around for a period of time. Similar to renting, but for more day-to-day usage.
- Service to help gas stations transition into other types of businesses.
- Services or products to keep people entertained while their cars drive themselves.
- Business services to deal with a glut of parking garages that will likely be used far less.

Telehealth

Telehealth is basically remote healthcare done via technology. The future of telehealth may hold opportunities for:

- Health-specific technology that will help doctors and caretakers remotely attend to patients.
- Wearable technology for monitoring health and administering therapy like massages or certain types of medications.
- Personal coaching or physiotherapy services that can be done remotely.

Augmented Reality

Pokemon Go has already shown the world just how big of an impact augmented reality can have. Putting virtual elements into our real world via our phones or other gadgets is going to be huge for the future. Some ideas that may come out of it are:

- Other gadgets that haven't even been invented yet.
- Accessories and add-ons for those gadgets.
- AR windows that can show you things on the panes when you look through them.

Blockchain

In my opinion, Blockchain has the potential to impact banking, capitalism, national economic and political systems and change the world as we know it. A technology that helps ensure trust between parties online, it's perhaps best known as the digital ledger that tracks Bitcoin transactions without any corporate or government oversight.

The business opportunities are numerous and include:

- Currency
- Payment Infrastructures
- Digital Assets
- Digital Identification
- Verifiable Data
- Smart Contracts

Some other more distant but important applications of Blockchain are:

- Accounting Ledgers
- Voting Systems

Other areas of interest for business ideas :

- Internet-of-Things
- 3D Printing:
    - Food
    - Organs
    - Accessories
    - Designs
- Nanotechnology

As I mentioned earlier, you can find more details about these areas and where I think business ideas may sprout from in the appendix at the back of the book. Suffice to say, you should be thinking about the future when thinking about business ideas.

No matter how or where you get your business ideas, try to come up with several so you can contrast and compare them. Your little notebook for ideas should be filling up now. Remember that at this stage you're not vetting them, you're just writing them down no matter how improbable they might seem. Even the act of writing ideas down may trigger more, so keep that pen moving.

Chapter 5: You've Got Some Ideas - Now What?

Vetting your ideas and paring them down to a short list to see which are the best candidates for starting a business.

Should take: 15-45 Days

Things are starting to get serious now. We've talked about figuring out what you really want, what getting unstuck might really mean for you, what would potentially make a successful company and how to come up with great ideas for a business.

Let's pick an idea and stick with it.

Selecting the One

If you've been taking the time to put this book down and actively do the activities I've been describing, you should have a long list of ideas by now from reading, conversing, researching and experiencing. Let's break that list down a bit.

Remember when we talked about the kind of business you want to start: lifestyle or build-up? We are now going to put your choice to use in deciding on your business idea.

Keep those two types of businesses in mind while going over the questions below one-by-one. Try to be objective, but in case you don't fully trust yourself for objectivity, you can take your top results and have someone you trust (and someone who will give you an honest opinion) go over it for you one more time.

You'll be asked to give a score between one and five for each idea. When we're done, we'll be adding the scores up to see which is the best idea for you to pursue. I trust you that you can build a good business, so I trust you can score yourselves to put your ideas in order of viability.

And, to help you out even more, I'll do this exercise with four potential business ideas of my own to show you how it's done.

Scoring Exercise

Here is the list of questions. We will go over them more in-depth below:

1. **Does your business solve a problem and if so, is it a Painkiller, Vitamin, Candy or Super-Painkiller?**
2. **Is your target market large and still growing?**
3. **Do you now have or can you easily obtain the money you will need until your business can be cash positive?**
4. **Do you have a clear idea on how you are going to make enough money in your business to be profitable?**
5. **Imagining the worst case scenario that could happen in the market you want to enter, how likely is that scenario to happen?**
6. **Will you be able to perform a proof of concept for this business and provide the service or build the product**

firsthand when you start your company with your current resources?

7. **How passionate about and experienced in this specific industry are you?**
8. **Are you or were you ever a member of your target market?**
9. **How much of the product you are going to be making or the service you are going to be offering is completely new and how readily available are alternatives to that?**

My potential business ideas are:

- **99 Poker:** A special $99 poker set where the poker chips have RFID tags embedded and the tablecloth can detect the movement of poker chips and amounts. At any given moment anybody can turn and look at the embedded screen to see how much each person has in their pile and how much is in the middle.
- **1.99 Bar:** A $1.99 organic snack bar that is designed to appeal to kids who hate veggies.
- **299 Birthday:** A $299 kid's birthday party arrangement service where you arrange the birthday party of your clients' kids. As the kids grow each year you offer new, age-appropriate themes.
- **199 Dog Door**: A $199, lockable, electronically controlled dog door with a camera, speaker and treat release function that you can control from an app on your phone. You can talk to and see your dog, unlock the door to let it outside and release a treat and call to it when you want it to come back inside.
- **499 Video:** A $499 video advertising preparation package where you or your employees go to a local small business

and take a bunch of 60-90 second video template shots. You upload these videos to online review places and do a little advertising from your own pocket. The goal is to get them to like it so they will ask you to do more advertising, and you can sell some add-on business services.

Here are the nine questions for you to answer with more in-depth explanations about each of them along with my own scoring for the sample business ideas:

1) Does your business solve a problem and if so, is it a Painkiller, Vitamin, Candy or Super-Painkiller?

(I did not conceive of these business categorizing concepts in this first question and unfortunately could not track down where they originated.)

Vitamin: Something that is "nice to have," but not "need to have." Vitamins make things better but are not essential in a way that would make you want to buy it as a customer.

Painkiller: Alleviates a pain point for people and makes their lives better.

Candy: Something that is super fun and makes people feel good for a short while, but in the long run doesn't serve any actual purpose (and, in fact, can be bad for them).

Super Painkillers: Don't just alleviate the pain point, they completely eradicate it. The good thing about these business ideas is they're bound to be popular. The bad thing is since they completely eradicate a pain point, people will only need to purchase/use whatever the business sells one time.

To keep a super painkiller business viable, you have to have a lot of people with that same pain point or you need to find some other way to make money besides solving that one problem.

Using a scale from 1 to 5 where five is the best and one is the worst, how would you score your idea?

A painkiller should get a high score, a super painkiller slightly less, a vitamin less than that and a candy should score the least.

My business ideas:

- **99Poker**: A candy that does not solve any problems and would only attract a few tech geeks who also happen to be live poker enthusiasts. - **1**
- **299Birthday:** A painkiller that would help busy parents, but only those who could afford it and who don't like planning parties. Strong repeat business possibility - **3**
- **1.99Bar**: A painkiller that helps out parents and isn't that expensive. - **5**
- **199DogDoor** - A vitamin. People have been doing just fine without app-controlled dog doors for centuries and there's no real reason a person would need this, but it would be helpful for people who could afford it. - **2**
- **499Video**: A painkiller that helps out small businesses and has good repeat business possibilities. - **5**

2) Is your target market large and still growing?

This may take a bit of speculation and primary research on your part if you can't get ahold of any concrete numbers. But, even if you have to guess, you could probably still at least answer this question. In this context, a "large" target market is one that will allow you to sustain and grow your business.

The market size should allow you to get established and be broad enough to keep attracting new customers over time. It’s crucial to know that “everyone” is not a market. You have a particular segment of the population you are selling to and that segment needs to be of an adequate size and not be too narrow.

My business ideas:

- **99Poker**: Targets early adopter tech geeks who also happen to play poker. Probably not a huge market. - **1**
- **299Birthday:** Parents is a huge target market, but parents with enough money to pay for a birthday planner shrinks it quite a bit. Location would be key. - **3**
- **1.99Bar**: Targets the parents with picky eaters market, which is massive and always growing. - **5**
- **199DogDoor**: The pet market is a growing one, but this particular market is an intersection of pet owners, tech enthusiasts and people willing to spend money not only on this product, but having an entire door replaced. I don’t think that market is particularly big. - **2**
- **499Video**: Location and technological advances would be key with this one. As long as the economy is doing well, I should have a big enough market where I live. But, it’s getting easier by the year for non-professionals to make decent videos, so that’s a concern. - **2**

3) Do you now have or can you easily obtain the money you will need until your business can be cash positive?

It may come in the form of a bank loan, borrowed and begged from friends or even a credit card, but you will have to somehow get the funding you need not only to start your business, but to run it for at least a year and possibly a few years until you can break even and then start turning a profit.

Starting your business may include such things as buying equipment, renting office or storage space, having prototypes made, manufacturing products, purchasing inventory and many other potential expenses. It's best if you can perform the main service you're selling or create the main product you're selling on your own at least for the first little while that you are in business.

My business ideas:

For this question, I am going to score based on how much funding I think would be necessary.

- **99Poker**: A prototype would need to be created and then some kind of manufacturing deal struck along with distribution and promotion. An expensive endeavor. - **2**
- **299Birthday:** Planning parties would take minimal startup funding. I would need to buy some equipment to have on hand for generic parties and I could charge extra if parents wanted anything special like a particular theme or a bouncy castle or something like that. - **5**
- **1.99Bar**: Would take a lot of research and development and then a manufacturing deal, promotion and distribution. - **2**
- **199DogDoor** - This would be a difficult and expensive prototype to make for me and I'd have to find a manufacturer that could deal with all the physical and electronic components. It would also be difficult to test because I'd have to replace an entire door to do it. - **1**
- **499Video**: Initial equipment investment probably wouldn't be too much. After that, it would largely be promotion. - **4**

4) Do you have a clear idea on how you are going to make enough money in your business to be profitable?

Some ideas have an obvious business model built into them. If you sell a product, for example, it's the sales of that product that are going to bring in revenue. Other ideas have a less clear model. If you offer a service, there may be a number of potential ways to make money. You'll have to know which of those ways is your "bread and butter" for bringing in revenue. Once you get established, you can diversify your offerings, but you'll need to have a consistent way of bringing in money.

My business ideas:

- **99Poker**: The business model here is obvious. Sell the product. Just some question about the best way to sell it. - **4**
- **299Birthday:** While party planning is the main service, there is room for confusion over what the initial price covers and how contracting services (ie renting a bouncy castle) should be dealt with. - **2**
- **1.99Bar**: Another straightforward one. - **5**
- **199DogDoor**: The obvious way to make money here is to sell the product. There may be other revenue streams available if I partner up with door manufacturers or app developers. - **4**
- **499Video**: Some question here as to what the initial charge will cover and how much time I'd be willing to work for that fee. Might take some trial and error to get the core offering down. - **3**

5) Imagining the worst case scenario that could happen in the market you want to enter, how likely is that scenario to happen?

A severe economic downturn is something that affects most industries, but aside from just general recessions, you should think about what specifically could happen in your industry that might cause your business real problems.

This is another area where thinking about the future will help, because it's often new technology that plays a part in an industry's demise.

My business ideas:

- **99Poker**: Potential problems: General lack of interest in the product, trouble finding a good manufacturing partner, poker has hit peak popularity and the interest in it has fallen, technology used to make the chips could become obsolete virtually any day. Biggest one is lack of interest and it's fairly likely to happen. - **2**
- **299Birthday:** Potential problems: Disputes with parents or contractors over money, potential injuries to kids, potential lawsuits from branded theme parties if the brands are litigious, not many barriers to entry for this market and local competitors can pop up quickly, possible restrictive regulations for dealing with children, potentially only a seasonal business. Biggest one is probably the potential for money disputes, which might negatively affect your reputation among potential clients. If you take enough precautions, the likelihood of it happening is small. - **3**
- **1.99Bar**: Potential problems: Established brand might come out with something similar, trouble finding reliable manufacturing partner, research and development might go nowhere, general lack of interest in the product. Biggest one would either be a lack of interest or a larger brand swooping in with a similar offering and having the marketing and distribution clout to put me under. The more successful the business is, the more likely that scenario becomes. - **2**

- **199DogDoor**: Potential problems: General disinterest, it's a rather expensive product, would require someone to either completely replace their door or drastically alter a door, which adds to the expense, dogs would have to be trained to react to the door. The most likely of these problems would be the expense and the hassle of having to replace a door putting people off. - **2**
- **499Video**: Potential problems: Disputes over what fees cover, technology continues to render video production easier so businesses might opt to try it themselves instead of hiring a service, small business activity in a given area might be too slow to sustain this service. The most likely of these problems would be businesses opting to make their own videos and with apps and other technology coming out that is making video production easier, which seems likely to happen. - **3**

6) Will you be able to perform a proof of concept for this business and provide the service or build the product firsthand when you start your company with your current resources?

For items like new products, you have to somehow get a prototype built. Even if it doesn't end up being like the finished product, you still have to have something to show people the basic concept of the finished product. You can't just get a prototype manufactured since the product doesn't exist yet. Rather, you'll have to make one with available materials that is a close approximation to what the finished product will be.

You'll also need to prove that enough interest exists in the product or service to make it worth pursuing. Performing small batches of sales and collecting feedback through surveys are common ways to perform a proof of concept.

My business ideas:

- **99Poker**: Making a prototype would be a bit tricky, but could be done. To gauge interest, I might be able to talk with people on poker and tech forums in hypothetical conversations to see how many people respond favorably to the idea. If I can get a small batch manufactured, how quickly it sells might give me an indication of the interest level. Getting a small batch manufactured would be expensive, though. - **1**
- **299Birthday:** It would be fairly easy to do a proof of concept by talking with friends and neighbors to gauge interest and offering the service for a set period to see how many takers I have with some limited promotion. If interest seems strong in my limited trial, it's a good indication it would work on a larger scale. **- 5**
- **1.99Bar**: Gauging interest might be a bit tricky, but I could try doing some kind of survey somehow. It would be difficult to check on the actual bar I intend to sell without having a prototype done, so I'd need to do some research and design of the bar and try to make a batch to sell or test with people. Not easy considering I'm no baker. **- 2**
- **199DogDoor**: I would be able to get some feedback through pet forums and might be able to gauge interest through some kind of survey or by putting this up on Kickstarter to see if I can get any backers. Building a prototype would be expensive and difficult because there are so many different components. Manufacturing a small batch to sell would likely be costly. - **1**
- **499Video**: This would be another simple POC to perform. I could ask the small businesses in my area about how likely they'd be interested in a service like this. I might also be able to rent some video equipment and do a trial run of it before making a commitment to invest in equipment. - **5**

7) How passionate about and experienced in this specific industry are you?

Seeing a gap to fill in an industry is a good way to start a successful business and if you're not even remotely interested in the industry, you can still make it work. Although there are infinite stories out there about people following their dreams and opening businesses because they were passionate about something, there are just as many other stories out there about people seeing a gap in a market they're only a little bit interested in and making a successful business out of filling that gap. Those stories aren't as exciting, so they don't get told quite as much.

Now, having said that, there is an advantage to being passionate about the industry you're planning to enter. And there's even more of an advantage with having experience in that industry. Starting a business is a lot of work and your passion will help you push through the times you'll feel like giving up. Experience will mean you'll be able to read the market a little better than someone who has no experience in it.

- **99Poker**: Although I love technology, I've never had much of an interest in poker. - **2**
- **299Birthday:** I'm a parent with kids and I've had to plan birthday parties, so I have a tiny bit of experience. To say I am passionate about it, though, would be a stretch. - **2**
- **1.99Bar**: I'm quite passionate about health and nutrition, especially for kids, but I have zero experience with any food related products and I'm not big on baking. - **3**
- **199DogDoor**: I'm a dog lover and anything that can make dog's lives better, I'm all for it. Although I do love technology, I don't know if I love it this much. - **3**

- **499Video**: Video marketing is also another area I'm quite interested in (but not passionate about). Alas, I have no experience with videography. - **3**

8) Are you or were you ever a member of your target market?

Another way people get into certain industries is because they've been a customer of that industry and have felt underserved in some way. Being a customer is an ideal way to spot deficiencies in a market because they'll be the things you complain about most. If you find yourself complaining about something to do with a specific market a lot, then you've identified a gap to fill.

In addition to spotting gaps, having been a customer in an industry means you will be able to relate better to the customers you're serving and you'll have an insider's knowledge about the market. If you've never skateboarded, you can still create some kind of product or service for skateboarders and be successful, but the better you can relate to your target audience, the easier it is.

- **99Poker**: I only appreciate tech that is truly useful and I'm not a poker player. - **1**
- **299Birthday:** I'm a parent with two kids and I could afford to pay for this service. - **5**
- **1.99Bar**: My kids aren't particularly picky eaters, though, and they are also quite health conscious even without my intervention. - **3**
- **199DogDoor**: Although I'm a dog lover and I'm always in the market for things that improve my dogs' lives, I don't think I could be convinced to buy this if it wasn't my own idea. - **2**
- **499Video**: I'm a small business owner who has used video in the past and could benefit from this service. - **4**

9) How much of the product you are going to be making or the or the service you are going to be offering is completely new and how readily available are alternatives to that?

This question is a bit wordy, so let me break it down a bit. Is your product or services absolutely brand new? If it is, what are people currently using to perform the function of your new product or service and how easy is it for them to access what they're currently using. As an example, let's look at Uber. At the time, Uber was completely new. There was nothing else like it around. People were using taxis or putting up personal ads to get personal rides before Uber existed and they were (relatively) plentiful, depending on where you lived, of course.

For your ideas, you have to think about whether you're introducing something new or whether you're just introducing a new element to something that already exists or a new way of doing something. If it is completely new, what are people using right now in its place and will your product or service become the preferred alternative? Basically, will your offering be a better option than what's available now?

- **99Poker**: With this, I'd only be offering a new element to poker chips, not an entirely new product. The alternative is regular poker chips and those are readily available. - **2**
- **299Birthday:** Not new. There are lots of party planning services around. The alternative is to use a different one or for parents to plan parties themselves. Either option is readily available depending on the location. - **1**
- **1.99Bar**: There's nothing on the market that's exactly like what I'm picturing, but the healthy-food-disguised-as-fun-delicious-food market is pretty big, so there are lots of alternatives available. - **2**
- **199DogDoor**: Although I'm not aware of anything exactly like this, there are, of course, regular dog doors that are

readily available and there are electronic, app controlled devices for talking to your dog and giving them treats when you're away. A person could have that particular combination fairly easily. - **3**

- **499Video**: There are lots of video production companies around, so my location is key here. Another alternative is for small businesses to do their own videos and technology is making that increasingly easy. - **2**

The Results

Let's score these ideas and see which ones make it according to these scoring ranges:

Under 21: Skip
21 - 30: Maybe
31 and up: Good

Idea	Total Score	Verdict
99Poker	16	Skip
299Birthday	29	Maybe
1.99Bar	29	Maybe
199DogDoor	20	Skip
499Video	31	Good

These scores were for me, personally. If you did this exercise with my business ideas, you may end up with completely different scores depending on your passions or how easily you may be able to whip up a prototype of the three that require prototypes.

For me, personally, the **499Video** idea would be the most viable, with the **299Birthday** and **1.99Bar** being “maybes.” If I were better with electronics and working with my hands, the **199DogDoor** might rank higher.

What you should do now is put your own business ideas through this exercise and see how they score. It will give you a better idea of which ideas are worth pursuing for you.

Then, when you’ve done that, see which ones are “lifestyle companies” and which ones are “build-up companies” (from Chapter 2) because that will give you further insight into which ones you should seriously consider. If you come up with two ideas that score in the “good” range, for example, and one of them is a lifestyle and one is a build-up, and you’ve decided lifestyle companies would be better for you, then that one would get an extra boost.

For my ideas, **299Birthday** and **499Video** are lifestyle companies that likely wouldn’t grow much and would just be dissolved once I decided to exit them. Unless you go the franchising route, which comes with a whole new set of challenges, scaling up a service business is difficult.

The other three ideas, **99Poker, 1.99Bar** and **199DogDoor** are all build-up company ideas. Providing there is enough demand for the products, the businesses could be scaled up with increased manufacturing and sales capacity.

As I prefer build-up companies, that would give an extra boost to the **199DogDoor** and put it in the “maybe” category for me.

Get out your list of ideas, put them through the scoring exercise and see which ones float to the top and which ones sink. Get some outside help if you think you'll need some, particularly to check if you're being impartial enough.

Good luck!

Chapter 6: I Just Chose the Idea. Where do I Start?

Getting feedback and new information from trusted people, visualizing your goal and calibrating your mind for success.

Should take: 15-365 Days

Choosing the idea is just the first step to starting a business. Now the real work begins. We go from theoretical to practical, from in-your-head to on-paper. The best part of having your idea is that now you have more of a solid goal to work toward. Instead of just wanting to start *a* business, you want to start *this* business.

Path to Success

Once you have the idea you need to begin the next chapter of your life, you will encounter one of the most daunting obstacles of your journey: the struggle against inertia.

Until now, you've had the wish and a vague vision in your mind to get unstuck and change your life by building something new that will last. You were in the visualization stage, but now the destination is more clear. Even though you don't know where exactly you want to go and how you want to get there; at least you know which direction you need to head and what vehicle you will take.

Were you envisioning your vehicle as a sports car? Sorry to disappoint you, but your vehicle is a large container ship, because it is slow and takes a lot of energy to get going. Without a tremendous amount of horsepower it is hard to move and get it travelling across the ocean. Care and planning are needed from the beginning, including what you stock for the journey, what route to take, who will be in the crew, and many other things that need to be considered. You have to work extra hard to get the ship going and fight against inertia.

Idea Validity

You need to live with your business idea a bit to make sure it is the right one. You can compare this to having to live with your future partner before deciding to marry. The best way to decide if your partner is the one you want to be with for the rest of your life is to do something with that person that is outside of both your comfort zones. Whether it’s camping, taking a trip somewhere new or trying an activity that makes you both nervous, nothing will tell you you’re right for each other more than being challenged together.

The equivalent of this for your business idea is going to a conference and/or tradeshow for the industry you plan to enter. Talking with experts who are already in the industry and getting their feedback on the feasibility of your idea will be priceless. (But, be careful who you divulge your idea to.) While at the conference or tradeshow, do more research and make some connections with vendors and service providers so you can start to formulate some budget numbers. If you survive your conference/tradeshow trip with confidence in your idea intact, (or, better yet, increased) then it’s probably the right idea.

Feasibility Analysis

Once you are confident about your idea, the next step is to gauge its feasibility. It's time to take the information you gathered during your trip and put it all together with some numbers. By this point, you should already have some preliminary numbers, and now you are going to try to solidify them.

Your goal is to understand how much cash will be required and when that is needed, and how much time you will need to get your business off the ground. Since many of these numbers and predictions will be dependent on assumptions and, in some cases, complete guesses, I would suggest you do these calculation twice: once with conservative assumptions and then another with more optimistic projections.

It will be the more conservative scenario you should assume will be the more likely one to play out and you should be able to live with that if it does. The more optimistic projection is to give you something to work toward.

Go beyond putting numbers into an Excel file. Instead, create a PowerPoint presentation and start putting the concepts in your mind onto some organized slides as if you were tasked with giving a presentation to potential investors (because you actually might be doing that at some point). You can consider this presentation an informal business plan. It may come in handy later on if you are required to create a formal business plan. (We'll talk more about that later in the book.)

Make 10-15 slides that cover these areas:

- **What is it?** Talk about the idea, what you want to do.

- **What kind of company will it be?** Talk about the mission of this company and what the company will achieve in five to 10 years.
- **Why it will work?** Talk about the market, market trends, market size, what the market is missing and what makes this a good idea for this market at this time.
- **How you are going to achieve your goals?** Talk about the strategy and tactics you will use to reach them.
- **What are the risks and threats?** Things that you fear will or will not happen like competition or things that can happen in the market that could impact you.
- **Numbers?** Discuss how much money you will need, when you will need it, how much you will charge and how much you will make.
- **What is the business model?** Include the way the business will financially thrive and grow.

Most likely, you will only feel comfortable filling in one or two of these sections, whether that is marketing, finance, logistics or technology. Fill out what you can and include a lot of detail (in the spoken part of your presentation, not the actual slides) in the areas where you feel comfortable.

True, people are starting to move away from these kinds of presentations and many people dread hearing the words "slide presentation," but the point in doing this is to make things clearer to you, not necessarily create an actual presentation. Although, creating one can be helpful in case you do need it.

Tip

Focus on your strengths, not your weaknesses.
Use what you're good at doing as a pillar to build your business and then shore up the areas where you are weak. If you are a marketing

genius, but don't know much about finance, use your marketing to build your business and when you have enough resources, hire a stellar finance person. If finance is your thing, but marketing is like another language to you, use your financial savvy as a pillar and hire a top-notch marketer.

Planning - Divide Things into Pieces

In the early stages, the amount and variety of tasks to be done can be overwhelming. Since there will be so many things to do, your instinct might be to start doing whatever you can whenever you can. But don't.

To create momentum, you need to feel productive. You need to be in control and be able to see noticeable progress towards your predetermined goal. To do that, start making a list of every single activity you need to do. Organize these individual tasks under to-do-lists and add more to them the moment you think of any other tasks you need to accomplish so you have them written down. Using a project management tool like *Basecamp* or *Wunderlist* can help with this.

Review and organize your to-do-lists while keeping in mind this isn't managing priorities. They will take care of themselves, you just have to identify them. Each week focus on your to-do list, and each day tackle two or three of those tasks. Once again, to be productive, you need to feel productive, be in control and proceed towards your goal in a visible way.

Your success will depend on:

- Identifying the tasks that need to be done. (Find a manufacturer for a device.)

- Organizing what you need to do for those tasks. (Decide on criteria for finding the right manufacturer.)
- Reviewing and researching how to do the tasks right. (Look at competing product manufacturers.)
- Preparing the information pieces you need. (Find prospective manufacturer lists, emails and contact information.)
- Using the information pieces to perform the tasks. (Email them, call them, leave messages.)
- Completing the tasks. (Talk to a few manufacturers and gather information, make appointments for visits.)
- Revisiting the tasks before you mark them complete. (Decide if you should arrange the freight or leave it to the manufacturer.)

Helpful Quotes

"Once you know what you want to happen and why, then the next question is: 'how.'"

- *David Allen, Getting Things Done*.

Getting Things Done is full of great tips and tools to accomplish tasks. David also says in this book: "Vision provides the actual blueprint of the final result." That is another reason why you can never visualize what kind of company and product you want too much. When it comes to visualization, it is the "what" that matters more than the "why." It is the "what" that gives you the focus.

Feedback & New Information

A big part of visualization is to make it as real as possible in your mind. Living with the notion, thinking of it while showering or driving the car or waiting in line at the grocery store. Please note that what I am referring to is *not* dreaming, but visualization. The difference between the two is that with dreaming, you think of the benefits and payoffs of success, whereas with visualization, you think of the “whats” and “hows” of success, like what you need to do to get this company off the ground, how your product or service works, what obstacles you’ll face and overcome, how the company will operate, what your booth at the tradeshow will look like, how you will come up with funding and even what your office design should be.

The difference between dreaming and visualizing is important to note. You don’t want to go around talking to different people telling them about how you are going to start a company that will change the world and how you hate your job but that will soon be over. This is dreaming, and no one likes to talk to a dreamer for more than a few minutes at a time because it’s easy to recognize someone who is just talking without real ambition. If you are sure you are not dreaming, but visualizing, then you are ready to talk and get feedback from people around you. Only if you want to, though. Some people do not like to talk about their plans and that is ok, too.

There are two prevailing theories on the question of whether you should talk about your plans with people or not, just like whether or not you should tell people you’re going on a diet. Some prefer to commit themselves and believe that telling friends and acquaintances will make it more real and more motivating. Others prefer to internalize the process. It is the introvert vs. extrovert question and it has no right answer to it. It is perfectly ok for you to keep it more personal if you don’t want people to know. It’s all about motivation. If you think it will motivate you to tell others, do it. If you know yourself well enough to know that you’ll be motivated even without telling others, then don’t.

Even if you are an introvert and you are also extremely cautious since you want to keep your plans to yourself as long as possible, though, you still you need feedback. You might very well have questions about what you should do and when you should do it to make your business successful.

If you're in this situation, you can get your feedback by reaching out to people who you may not know, but who would know the answers to your questions, like people who have already done something similar, people who have been around and have seen others accomplish what you're trying to do and people from the industry you're trying to get into.

If you reach out to some successful people asking for their expertise in simple, natural, conversational emails (or via LinkedIn), you will find a few individuals who would be willing to help you. (I estimate 30 percent of the people you reach out to will be willing to help you.)

Here are a few tips for reaching out to these people:

- **Be concise**: Your emails or messages should be no more than 100 words. Tell them (with one direct short sentence each that does not include the words or phrases: "but," "really," "in reality," "when," "however," or "great"):
    - Who you are.
    - What you are trying to do.
    - Why you decided to reach out.
    - What you think they can do for you.
    - A statement of understanding that shows you won't waste their time while valuing their input.

- **It is a numbers game**: I might be right with my 30 percent estimate above, but that does not mean you should expect everyone you contact to give you a positive response (or any response at all). So, be prepared to reach out to several people (just be careful you don't get accused of spamming).

- **Research matters**: Don't just contact anyone. Do your research well and have a good reason to contact that person. Customize your message according to your findings.

- **Be strategic**: LinkedIn is a great tool to reach people, but only if you are strategic about it. Once you identify who you would like to get feedback from, join some of the same groups as them and follow them on LinkedIn and other social media sites. Interact with them by making comments on articles they've published or retweeting things they tweet.

- **Get help**: Every city and many smaller towns have resource centers dedicated to helping entrepreneurs and small businesses. Find them and see what you are eligible to receive. Simply enter the name of your city, state or province and something like "small business resources" and you should be able to find workshops, documents, support strategies and much more. Universities, local Chambers of Commerce and local governments often have programs for small businesses. See what you can find.

Helpful Quotes

"If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle."

- Sun Tzu, Art of War

There is a reason why the book *Art of War* is still being taught in West Point and other major military academies. You don't have to think of the titular war as a fight or the enemy as an actual person. In every kind of challenge where there is a goal and there are obstacles, Sun Tzu's ageless tips can give you much needed perspective. Make sure you read this book, and if you already did at some point, read it again. You can find it free online.

Calibrate Your Mind

The more people you talk with and get feedback from, the more you digest the business idea and the sooner it will start feeling more real and more complete. Your success will depend on how well you visualize your goals and internalize the steps you need to follow to accomplish those goals.

Your efforts spent on getting feedback and formulating your business model will not be wasted. Some people might spend a year at this stage, some maybe a month. My own experience and that of entrepreneurs I know has been around three months at least. Since you cannot keep sitting down and taking notes, work on your slides and Excel files day after day. Each little step toward your goal counts.

Even if you don't have any milestones to reach or external motivation pushing you (aside from succeeding), the act of preparing applications for small business incubators, presentations for investors and slide decks for people whose opinion you value will be great experience. Even if you get nothing but rejection or indifference from most people, you should be able to get some beneficial feedback from others that you can use.

If you keep telling yourself that you are doing all this work not for other people, but for yourself, it might help ease your pain when you get negative responses. All the hours you spend to prepare for a presentation for someone who does not even show up or who tells you “no” is still not wasted. Through the work you’re doing preparing for these presentations, you might get that one extra idea that can be the magic marketing method to grow your company, forge a partnership or find a vendor that can make a major difference to your success.

Even though the goal of this stage has been finalizing the idea and getting ready for materialization, you still might end up not being absolutely sure about your business idea. Things might change, like your resources, the calculation of your estimates or something external in the market. You might receive a piece of feedback that makes you believe your idea isn’t as feasible or good as you originally thought.

When you do get feedback that makes you doubt your idea, your instincts might tell you that you are getting scared for no reason and to just go ahead because you believe in the idea. It could also be the case that everyone has told you it’s a good idea and they’ve reassured you about it, but you still find yourself doubting your ability to pull it off and you end up getting cold feet.

The voice inside your brain telling you the idea might not be as good as you think and that you should just give up before you fail might just be your own sense of self-preservation trying to trick you into giving up on this idea, hoping that if you do, you will give up the notion of change entirely so you can continue living your status quo life.

So, in these moments of doubt, how do you know if it’s the idea that’s bad or if it’s just you getting scared?

If that voice inside your head is saying: “*Forget about it. This was not something you could do anyway. You just saved yourself a lot* *of trouble by not doing this*," that is a sign that it's not the idea, but just your fear giving you cold feet.

How can you be sure? Well, you can't.

But, if you decide not to go ahead with your idea and not bother trying to come up with another one, don't be afraid of that decision. Just know what you're giving up. You're not just giving up your business idea, you're also giving up your desire to change. You can still live a happy and fulfilling life, but you'll always wonder "What if … ?"

If you do decide to go ahead with your idea and it turns out the idea *is* actually bad,
I guarantee that you will realize your mistake and stop before it is too late (before you run out of resources and waste too much precious time and money). Your survival instincts will kick in and take over.

Write these things on a piece of paper and stick it on your wall in a highly visible area, and read it everyday:

I have the true desire and ability to change my decision in the wake of new facts and evidence.

I have no absolute certainty about business. I might be wrong and I might be wrong often.

What I think is true can be incorrect, no matter how confident I am.

At each turn and each intersection I will stop and consider the other perspectives.

If you decide not to pursue this idea, but you don't lose your desire to change, I am absolutely sure you will find another idea to pursue. You might lose time, but it's better to lose time and pursue a good idea rather than spend that time on a bad idea (because that time will be lost in the end anyway and pursuing a bad idea might lose you a whole lot more than time).

If you come to believe your business idea is bad or you lose your desire to create a business, then abandon it and either start on a different idea or continue with your current job and life, but don't just stay the course because you are on a course. It's better to recognize when an idea should be abandoned than to just keep going with it because you feel obligated to since you've already started.

Before you've actually taken steps to start the business (and even a while after you've started) you can always change the idea, the scope, the offering etc. if you need to. If you pivot your business idea, that doesn't change your goal of actually starting one.

Chapter 7: A Quick Note on Leadership

Let's review how we got here:

1. You recognized that you needed to change. You looked at why you have to change and what you are not happy about.
2. You defined the picture of your success. You've outlined what you would like to accomplish, what kind of company you want to build and what success will look like for you, and how you are going to understand when you've reached that level of success.

3. Ideas, ideas, ideas. You started building your list of ideas for what you want to do. This stage takes a long time since you have to read, meet people, network and read some more. This is not something you can rush.
4. You've vetted your ideas and have pared them down to a short list to see which are the best candidates for starting a business.
5. You found "the one," (or at least you think you have). This is the stage from the previous chapter where you get feedback and new information from trusted people and then visualized your goal and calibrated your mind for success.

Where we started from was a long journey itself. It should take anywhere from three to 18 months for most of you.

As you prepare to get your business off the ground, there is one trait you have to make sure you have before you move forward: Leadership.

Now we are at the stage where you have to recognize yourself as "The Leader" of the change that is to follow. If you are going to create a new company, and lead a team of individuals to accomplish something big, you have to start by leading yourself and then leading others.

Leadership is to see a vision and make your team believe in a goal and give them the desire to reach that goal so you can make that vision a reality with the help of your team. The first person that you need to make believe in the vision and recruit is yourself. That is where we are in our journey; leading yourself out of the place where you are stuck.

The good thing about leadership is there is not a single way to be a good leader. Who you are and what you are good at will determine the best way you can be a good leader. You can only be a leader if you are one in your own skin and true to yourself.

Helpful Quotes

"Do you know the difference between leaders, followers, and losers? Leaders stretch with challenges. Followers struggle with challenges. Losers shrink from challenges."

- John C. Maxwell, The 21 Irrefutable Laws of Leadership: Follow Them and People Will Follow You

This quote is from John C. Maxwell, a leadership expert and author of the best selling The laws described in his book are not tactics or tricks, but define how you can develop yourself to be the person who earns the buy-in from others so you can take them where they need to go.

Attributes of a Leader

When I say it is time for you to be a leader, I am asking you to be ready to showcase the following attributes:

Responsibility

It is you and only you who will make this business happen. You are where it starts and where it ends. Every time something is not going the way it is supposed to and something needs to change, the first place for you to start looking is in the mirror.

Guidance

You will be the one navigating the path, deciding on the direction and ensuring the survival of your group as you journey to your destination. If you don’t know whether you need to go right or left, you will somehow need to discern that without stressing the rest of your group. You can ask them, but never look in doubt. No one follows a guide who does not know where they are going.

Coaching

You don't have to be fastest, have the best shot, or be the one with the most talent, but you need to be the one who knows how to win. You are the one who recruits and fires. You are the one who decides not only who is going to be on the bus, but who makes sure everyone is in the right spot. If you find out someone is not the right person to be on the bus, then you will have to make sure they step out without bothering or hurting the others.

Parenting

You are the one who will care not only about the business, but about the people in it. Make sure everyone has what they need. If they don't have what they need, you will be the one they talk to. You will be the voice of reason, the peacekeeper, the deal maker.

Servitude

You are not there to benefit from the fruits of your success. You are not there to be the first in line to pick up from the lunch tray or get the closest parking spot to the door. Everyone else is first. You are last. A leader's job is not to be served by others, but to serve others. It is not a title or position but an act of serving.

Without recognizing and accepting these things, you will not be ready to get started.

If you have not been in a leadership position enough in your previous work experience to be able to develop your own style of leadership, you will have to develop one in time for your new life. Think of your strengths and observe yourself and those around you to see when you feel most natural influencing others. Observe the moments you make the most impact in connecting, influencing and coaching. Change can only come with leadership. You have to start change from within if necessary. If you cannot lead yourself, you cannot truly lead others.

What kind of leader are you?

A great book and tool to understand what kind of a leader you are is *Strengths Based Leadership: Great Leaders, Teams and Why People Follow* by Tom Rath and Barrie Conchie from Gallup. I am not an academic, but I can give you in my own view what their concept can help you with.

Per their research, Gallup has come up with four different types of leaders who use four different areas of strength for leadership purposes:

- **Execution**: These people know how to make things happen, and work hard to get things done. Leaders with strengths in this domain know how to "catch an idea" (not necessarily come up with one) and either through discipline, or their "overachiever" and "arranger" role they find a way to make their team bring visions to life. Some of the keywords people will think of when they think of leaders with strengths in this group are:

    - consistent, deliberate, focused, responsible, achiever, arranger.

- **Influence**: The strengths of leaders in this domain are in "selling the idea" to their team and those around them. They know how to move larger groups of people with great communication. Words we think of when we think of the strengths in this area of leadership are:

    - activator, maximizer, woo, significance, self-assurance, command.

- **Relationship Building**: Leaders with strengths in this group are able to create groups that are much larger than the sum of their parts. How do they do that? By becoming the glue and central point that holds the team together and empowers them. We think of keywords like:

    - harmony, developer, connectedness, adaptable, empathy, positivity.

- **Strategic Thinking**: These leaders are the ones that keep the groups focused on what it is and what it could be. They constantly learn, observe, absorb and analyze. They help their team generate ideas and make better decisions. These are the kind of leaders that make the future stretch. When we think of the leaders with strengths in this area, we think of keywords like:

    - analytical, futuristic, input, intellect, learner, strategic, ideation.

You can take the paid test on the Gallup website to identify your leadership strengths better. It can help you understand what kind of leader you are and what type you can become. The most important aspects of leadership are knowing yourself and knowing the people around you. All great leaders are leaders in their own skin with their own style. Yet there are a few common traits that apply to most great ones. I suggest you keep them in mind in your journey to become one:

- Honesty & Trustworthiness
- Vision & Foresight
- Inspiration & Communication

- Competence & Intelligence
- Coaching & Empathy

Without these, it will be difficult to lead because:

- If you cannot instill a sense of trust in your followers, you cannot expect them to follow you.
- Leadership is a journey to a destination. If you don't have a destination and you've spent too much time and focus on where you are and not enough on where you are going, your leadership will be undermined
- It does not matter how great your vision is. Unless you can communicate and inspire, you will not be followed. You must make your team believe in your dream, make them want it and want to be a part of it.
- Unless your team believes you can take them with safety and assurance to where they want to go, they cannot give you their full confidence when tough decisions are to be made. They need to know you are intelligent and competent enough to decide. They need to feel proud to serve you and they cannot do that if they don't believe in your capabilities.
- The greatest form of leadership is probably when you are followed because of what you represent and who you are. Your team needs to feel and believe that you care about them.

Now that we're done with this brief look at leadership, I hope it gives you more of an understanding of how important this is going to be to the success of your business. If you know someone who you believe is a good leader, look to them for inspiration and see what you can learn from them. And, on the other hand, if you know someone in a leadership position who you believe is not a good leader, you can learn from them, too, by learning what *not* to do. (It still counts as learning something.)

Before we go on, we also need to talk about partnerships.

To Partner or Not to Partner

This is one of those questions that almost every entrepreneur has to consider at some point -- most likely at the beginning of their entrepreneurial adventure. Some of you will believe you have a choice of whether to partner or not. Others will feel like they have no choice but to find a partner; most likely due to financial reasons.

When I say partner, I am not talking about investors or silent partners, who don't actually help run the business. I am talking about someone who -- even if they own less than 50 percent of the business -- is going to be by you day in and day out, and help you shape the company every step of the way.

Usually, the decision to take on a partner happens before someone actually starts the business and it is often driven by a lack of resources and experience and/or fear of tackling all those unknowns alone. Theoretically, it would be easier to perform all the tasks that need to be performed if someone else were there to help. When partners are chosen, it's often a natural process and the partner ends up being someone you already know.

Sometimes the decision to partner with someone else happens after you've already started and this is where things can go sour. Unlike a partnership that is entered into before the business starts, these kinds of partnerships are born out of desperation and the decisions are often emotional rather than logical. Regardless of whether you're the one proposing the partnership or the one having the opportunity presented to you, after the business has already started, there isn't much time to sit and think about it strategically like there would have been if you had thought about it prior.

The *best* time to consider a business partner is before you get started and when you are considering whether to partner up or not, you should ask yourself the pertinent question: “Can I start and run this business without other people involved?”

There are three possible answers to this question:

1. Yes.
2. Yes, but it would be better/faster to have someone else involved.
3. No.

It’s possible that you could run your business yourself, but you still want to have someone partner with you. This could be because you believe your idea will be a huge success and you like this person and want to share that success with them. It could be because even though you feel like you could do it by yourself, you feel like it would be lonely and you want someone to share the journey with. Or it could be because this person has skills that will save you some money, so you decide to invite them on board to take advantage of that.

While having a friend or colleague around to share the excitement with is great, sometimes the decision to partner with someone is strategic in nature. If you bring another person on board, you may be able to grow the business quicker and be even more successful than you would if you tried to do it alone. So, if that’s the case, the follow up question you have to ask yourself is: “Why do you believe this person would help you grow the business quicker or make it more successful?”

The third way of answering this question, “No,” gives you the reason for engaging a partner. If you believe you won’t be able to start this business alone, then it’s absolutely essential that you bring someone else aboard. But, in the interests of knowing exactly why you want to partner with someone, you need to again ask yourself why you believe this person would be so beneficial for your business. Is it some experience in their past? Is it because they have access to funds that you don’t need to ask a bank for? Is it because you just feel like they would make a good entrepreneur? Starting a business is often about going with gut feelings, so even if you just have an inkling that the person you want to partner with would do well at it, that is enough. However, as is the common refrain with choosing to partner up, know your reasons.

You should be able to answer the question: “Why do I want to partner with this person?” definitively. Once you know your reasons, you can more easily consider the following:

Increased Complexity

Every partnership, even if it is near-perfect, brings a layer of complexity to building and managing your business. You have to spend time, resources, and even money to keep your partnership strong. This applies when making important business decisions, dealing with conflicts (even if they are not between you and your partner), or simply discussing day-to-day matters.

Confusion in Leadership

You don't have to be equal partners to create confusion in the leadership of your company. There is nothing as important as good leadership for the success and survival of an organization. When you are starting a company the mission is clear, and everyone in your small team knows it: Get this company up and running. But, once the company is established and you are ready to take it to the next level, things are different. Now, you are growing a company culture, you have guiding principles and you need complete trust, loyalty and commitment from everyone.

Just like what can happen in a family when a mother and father have different principles, priorities and goals, a partnership that is not aligned when it comes to leadership style can cause confusion. A duality in leadership will not only cause confusion, but it can also cause divides and conflicts among the team. Leadership style will affect many things from who you hire to how you empower your employees. A mismatch in honesty, communication style, trust or any other critical part of leadership can be fatal for your business.

Personality Matters

A partner is going to be with you at all the important moments of your business. They are going to be there at those memorable achievements that will make your company what it is. You will be spending hours at the office together. You will hire people together and attend all social activities with the team together.

Partners don't have to agree on everything but they have to know how to deal with their disagreements. They need to know when to push and when to let things go. They have to communicate what they think in a constructive way and stand up for what they believe in. They have to like each other and they have to respect each other.

Why Partner?

There have been many great partnerships in business and having a partner does take some of the burden off of you when it’s a copacetic partnership. You and your partner might complement each other’s skill set and experience. Most of us aren’t good at everything. That’s why we hire professionals to handle the tasks that we can't. But, if you're not good at doing something that will be critical to the day-to-day operation of the company and you find a partner who is, then you can avoid hiring someone to perform that task, thus saving you money. Compatible partners also keep you energized, motivated and challenged.

If you do decide to partner with someone, make sure you consider the possibility of the partnership failing. Put together a plan on how to separate or buy each other's share out if a breakup occurs. Don't forget the best time to fix your roof is before it rains.

I've had a few potential partnerships fall through. One time I was trying to start a business with someone and we decided that we required a decent phone system to start this business. Because he was much more knowledgeable about the subject and I was busy getting our business plan together, I told my would-be partner that I had confidence in his decision and whatever phone system he recommended, I would be fine with.

Several hours of research later, he took me away from the crucial task of laying the framework for our business and sat me down for a lengthy presentation on the pros and cons of various phone systems so we could make the decision together.

This was enough of a red flag for me and I dismantled the would-be partnership shortly afterwards. I know he just wanted to be thorough and include me in what he thought of as an important decision, but the whole episode told me that I wasn't going to be able to work with him.

I've actually dissolved a few other partnerships before they got started because I realized that working together with the other person was going to be neither fun nor fruitful. Lest I seem like I'm completely opposed to partnerships, though, I will also mention that working together with my wife has been a pleasure and I have worked on some highly enjoyable side projects with partners.

And I would be remiss if I didn't mention that when partnerships don't work out, sometimes you end up losing something even more important than the business; the friendship. Going into business with a friend is an unfortunately quick and efficient way to end a friendship or any other kind of relationship. A downturn in business or a major disagreement can even put familial ties at risk if a lot of money and potential are wasted. So, choose your partner carefully and ask yourself if you're willing to risk the relationship if things don't work out.

Something else you should choose carefully is your business model.

Chapter 8: Deciding on a Business Model

Getting unstuck is no easy task. Unlike getting stuck, which almost always happens without you noticing, getting unstuck is an active act.

If you want to go somewhere you have never been before and achieve things that you have never achieved before, that means you have to do things you have never done before. It will feel uneasy, because change, by nature, is uncomfortable.

Doing things differently and doing different things are possible only when you change your thinking and to change your thinking, you have to condition your mind. Think of it like riding an elephant. Your mind, like the elephant, is powerful and it instinctively wants to live a predictable life in the interests of safety and security. To get either the elephant or your mind to react and go the way you want it to, you can use one of two things: pleasure or pain.

You can whip or somehow cause physical pain to an elephant to get it to go where you want, but not only is that morally reprehensible, it's less effective than trying to coax it in a certain direction with treats. The same concept goes for your mind. You could berate yourself to try and get motivated, as in: "Come on you chicken. Do it!" But, it's much more likely that you, like the elephant, will respond better to some gentle coaxing to get your mind to go where you want.

With the elephant, you can use treats. With your mind, you can use progress. Each time you get a bit closer to your goal, you will get a sense of pleasure that you are making steps in the journey. Use that feeling of pleasure to your advantage by using it to condition your mind. Each step you take toward getting unstuck makes you feel a little bit better. You want to pursue that feeling by taking more steps toward your goal. Form good habits that will keep you moving toward your goal and you will have conditioned your mind accordingly.

A common mistake to make when starting to build your first business is to start spending most of your time and effort on the things you like or know the most about your business. If you are an engineer that could be working on the technical aspects of your product and if you are a marketing person, that could be working on the marketing tactics you're going to use.

True greatness will not materialize by doing what you have been doing for years. Doing what you have been doing is not going to take you where you have never been. You can use what you know and where you have been, but the destination you want to get to requires you to take a new path.

Your strengths are going to be instrumental, but if you immediately focus on doing what you know best to start building your company, chances are high you will miss critical steps. Doing what we know to get to where we have never been before creates a “reactionary workflow.”

Rather than being proactive with our energy, we will be spending our time and focusing our attention reacting to what is incoming, essentially letting our autopilot take over. Even if the solution lies in what we know already and our current strengths are going to be our ticket to getting unstuck, we have to do this with a fresh eye and an open mind.

Helpful Quotes

A woodsman was once asked, “What would you do if you had just five minutes to chop down a tree?” He answered, “I would spend the first two and a half minutes sharpening my axe.”

- C. R. Jaccard, “Objectives and Philosophy of Public Affairs Education”

You’ve probably seen a similar quote attributed to Abraham Lincoln, but thanks to QuoteInvestigator.com, I’ve ascertained this is probably the first instance of this quote. So, two lessons here; question everything you see and the more time you prepare, the less time you’ll need to spend doing whatever it is you’re preparing to do.

Your Business Model

Your business model is essentially the answer to the question: How is your business going to make money?

Sometimes the answer is obvious, but not always. Even if you have an obvious way of making money (selling a product or service), you can also come up with some non-obvious ways to make money, too.

We all take it for granted that we have to pay for checking in our luggage or pay for drinks on commercial flights or pay a subscription fee to watch as many movies or listen as many songs as we want. We've even gotten used to clicking on ads in search engines, knowing someone is getting paid for our action. Less than two decades ago, though, all of these things were abnormal to do. Companies developed these ways of making money as they and the industries they were in either drastically changed or came into being. Businesses developed "closing costs" on loans, the need for several levels of insurance for renting cars and even fifteen dollar bottles of water at hotels. There is no one way to make money doing what you do. There are better and worse ways, but those are yours to discover.

The way you make money depends on the value you create and how you manage your costs and profits. Your business model is the way you put all the aspects of your business together to give it the best possible chance at survival. It is not just about making money today, but also how to keep making money even when someone else copies your ideas and sells them for less.

Defining a business model is not easy and that is why in his book *The New, New Thing*, Michael Lewis refers to the phrase business model as "a term of art," something you can't really define but can tell whether it's bad or good when you see it.

You can find hundreds of examples of business models. Many of them are common and you see them in major companies all the time. The "add-on" model, for example, is where you have a relatively affordable core product or service, but you have a lot of extras consumers can add to that product or service that will increase the price. When you buy a vehicle, for example, there are many add-ons you can purchase with it.

A traditional business model might work for you or you might try a less conventional one or you might be one of those pioneers who creates an entirely new business model that has never been tried before in a given industry.

Some more examples of business models:

- Membership model, where you charge people a fee to get exclusive access to whatever service or products you are selling.
- Subscription model, where people sign up to receive regular products or services from your company for an ongoing subscription fee.
- Razor blade/printer ink model, where you sell something affordably, but have one part of it that needs to be constantly replaced and you make money off the replacement of that piece.
- Android model, where you create something and give it to other businesses for free and take a cut out of the money they make with it (apps in the case of Android).
- Freemium model -- popular with web services -- where you give away the main part of your offering, but charge users for the premium version.
- Vehicle model, where you have an affordable, base model of your offering, but charge more for higher end versions of it with more bells and whistles.
- Curator model, where you curate products for a specific niche and send them to people, usually for a subscription fee.

- Middleman model, where you facilitate the purchase of certain products or services for others who would have a difficult time purchasing those things.
- Simplify model, you simplify or take out some of the less important but significant cost drivers of a product/service and make it cheaper.
- Complicate model, where you make something more exclusive and sell a product at a higher price with more inherent value.
- Single aspect model, where you focus on one aspect of a product or service and offer the best value, design, convenience or technology in that one aspect of the product or service.

The business model for my own businesses is pretty straightforward. With Confirm BioSciences, we sell drug testing other other types of diagnostic testing kits directly to businesses via the internet and with TestCountry, we sell the same directly to consumers.

When we started, our business model was considered unconventional. Nobody else was selling drug testing equipment over the internet at the time, so we were ahead of the competition at that point and we managed to cement ourselves as the leading authority on drug testing equipment online. Now, of course, our business model is seen as conventional because everything is sold online.

I have started businesses that failed because of the business model. Just recently, some partners and I tried creating an app that would essentially consolidate all dog-related businesses into one app. We set it up so that dog owners could easily find and exchange information with vets, pet stores, rescue organizations, dog accessory manufacturers, dog walkers and any other businesses that pertained to dogs. We were planning to offer a free version of the app and then have subscription versions for it for dog owners and also collect fees from businesses for being listed on the app.

This isn't really an unconventional business model by today's standards, but as a wise person once told me, if you require another business for your business to work, then your business probably won't work. In order for us to have made any money, we needed other businesses to register on the app. This reliance on other businesses -- and their subsequent reluctance to register -- is ultimately what killed the business. Because I'm such a dog lover, this one was kind of a personal project for me and I probably didn't approach it with the same scrutiny as I normally would have if I wasn't so personally invested in the project.

Novel Business Models Require Hand Holding

When you have a novel business model that people don't see on a regular basis, you'll have to hold the hands of your customers until they get used to it. You'll need to explain why you charge differently and adjust your sales and customer service practices along with your operational processes.

We are creatures of habit and would rather do things the way we have been doing them for years. This is why it's so hard to become unstuck. With business models, this translates into people not wanting to change the way they are used to paying for the services and products they get. You need a compelling reason for people to make an effort to understand and change the way they do things.

Beyond a compelling reason, people will also need:

- Clarification and guidance on how things your company does are different and what consumers will need to change on their end.
- Momentum, or an “it factor,” to give people incentive to change to the new way of doing things (usually in the form of public ad campaigns).
- Targeting of the right first-adopter and influencer segments of the market so they can lead the rest of the market.

It sure sounds like a lot of work to come up with and implement a new business model for an existing product or service, but it can be the difference between success and failure.

However, you have to make sure it is worth it to create an entirely new business model. There is a reason why most restaurants run the same way, whether it’s a pay upfront or pay after the meal model. It is simple, it makes sense and it works. A model where you pay mid-meal or you get an invoice for the meal a week later or something like that would be novel, but also ridiculous. Don’t try to be novel just for the sake of novelty. You may believe that your business, your product or the way you serve customers is so unique that it would benefit from a non-conventional business model, but even if that is the case, look at what is working first and see if that’s true.

Ask yourself these questions, in this sequence:

- Why has this business model become the standard in this industry?
- Why would it not work for my business?
- What aspect of my business and value creation requires and/or justifies a new, unconventional business model?

Sometimes the value creation *is* the unconventional business model.

Take the case of *Dollar Shave Club*. The industry was well-established (shaving blade cartridges), but the founder of this company believed there was something structurally broken within the industry.

Dollar Shave Club made their business model a subscription based one. Without their different business model, this business would be just another product retailer. There would be only slightly different brand positioning that sets them apart rather than the business model which truly disrupted the industry they're in.

Understand the Changeable Elements of the Business Model and Their Trade-Offs

Designing a business model means looking at all elements of your business and deciding which ones to accentuate and how to do that. Accentuating one element of your business will often lead to diminishing another element because it's a trade-off.

- **Cost Structure:** How you choose to manufacture and sell the product or service you are offering will determine your cost structure; both in terms of incremental cost and economies of scale.
    - Having a different cost structure than the industry standard will give you a chance to use your unique cost structure to differentiate yourself.
    - The cost is determined not at the level of your creation, but also how you run your company, such as who you hire and how you serve your customers.

- **Customer Service & Support**: Less or more, informal or formal, with or without limits, via phone or on social media. These are just a few ways you can differentiate yourself from the rest of the companies in your industry. Like the other elements of a business model, the difference could create opportunities and exposure for your business.

    - ***Home Depot*** *- Home Depot prides itself on customer service and the company will spend the money to make sure it has knowledgeable customer service representatives to serve all customers to the best of its ability. From about 2001 to 2006, then-CEO Robert Nardelli came in and restructured the entire company, taking the focus off customer service and putting it on cost cutting. One of the moves he made was to hire more part-time, less knowledgeable employees, to the detriment of the company's legendary customer service. He may have been saving the company money, but he was sacrificing an integral part of the company's identity with the new cost structure.*

- **Sales Channels & Distribution Partners**: One of the most important elements of a business model is the means of transaction and communication between the business and its customers. This will drive your brand, cost, marketing, overall control, and survival.
    - ***Tesla*** **-** Rather than relying on car dealerships to sell its vehicles, the company eschewed decades of convention and started selling directly to the customer using the internet. This made a huge difference to the profitability, service, investment requirements and margins of the company.

- **Revenue Streams**: How much you charge, what you charge for and how you get paid all determine your revenue streams. You can charge per item, per membership, per subscription or some kind of combo. You can collect money in advance, on credit, or when the transaction happens. There are almost limitless combinations to how you design your revenue streams, all of which will affect your cash flow.

- ***Air Travel*** - Back when commercial air travel first started, you paid for your ticket and received everything to do with the flight in that ticket price. Now, airlines have diversified their revenue streams to the point where they almost charge you for the air you breathe inside the plane.

- **Value Creation**: This is the core of your offering, whatever product or service you are providing. By designing it as no-frill, high-tech, no-tech, luxury, social, full, limited, fast, slow, [adjective that applies to your product or service], you help craft your business model.
    - ***Air Travel Pt. 2*** - It would be easy, but disingenuous, to say that airlines just got greedy when they started charging for everything. What really happened was that airlines recognized their value proposition to clients and started focusing on that while letting the extras be extras. One by one, airlines recognized they were in the transportation industry and not the food or entertainment industry. By stripping away all the luxuries or charging for them, the airlines started focusing on the real value they provide to people; transporting them from one point to another affordably (or in ultimate comfort for passengers who can afford it).

- **People**: This includes not just who you choose to target and serve, but who you decide to hire and work with.

- **Experience**: Your product or service is not everything you do. Your entire offering from packaging to advertising impacts your business and almost all the elements above as a whole. The experience is where you create something greater than the sum of its parts.

You Don’t Have to be the First to Come Up With the Business Model

Copying a business model or having a traditional one is ok, too. Just remember that you’ll need some other way to stand out if you are borrowing a disruptive business model or using a traditional one.

- **Copying a model**: Find a similar concept, a company you feel inspired by in the same or similar space, and do research to learn everything you can about it, paying special attention to how the company got started. Read interviews, news articles, press releases and what is said about that company in the media. You can use these examples and the mistakes that company has made as a guide of what to do and -- more importantly -- what not to do. When you copy a model, you are not trying to find things you can copy verbatim. What you are looking for are inspiration and lessons learned from mistakes.

- **Building a model:** Unlike copying a model, your focus is not research, but rather strategic thinking. You go through the various steps to starting a business and identify the different options you have for each step. Then, for each of those options, imagine several possible outcomes that each of them might possibly create and categorize the outcomes as: Good, Bad, So-So, Unknown. Your goal is not to guess the outcome and plan each step correctly because there is no way you can do that. Business does not have a finite number of actions you can take. With this exercise, you are stretching your brain to see several steps in advance and making a decision based on what you need to do to reach the best possible outcome.

- **Deconstructing a model**: This is similar to copying a model, but the difference is that instead of just researching one business and copying what you learned from it, you research multiple businesses and copy only the best aspects of each business. For example, you might copy the model of one business' advertising (but not the actual ads, of course) and the supply chain management of a different business and the corporate culture of yet another. You are deconstructing these businesses on a granular level to find out what makes them profitable and then taking the best elements of each to apply to your own business. When getting started, focus on the aspects of these businesses that relate to yours, especially those critical things that will help you early on, such as: In what stores did they start selling their products and why? What products did they release and how did they come up with those products? How did they decide on their sales channels first? What contributed to their first significant growth? Did they have to change their business model and, if so, why? How did they hire their employees? How did they choose their locations? Ask the questions that relate to your business and find answers for them.

Trying one or more of these methods will give you a good basis for your next steps and help you decide what really matters when starting a business, what the critical areas are that you should be focusing on and what general direction you should be heading. Just like life, probably only about five percent of the decisions you will make (among the ones you think are important) will impact 90 percent of your success, maybe even more. The process outlined above is to help you identify the most important decisions when starting a company. When starting your company, ask yourself if the most important element is the:

- Location?
- Target market?
- Pricing model?
- Product?
- Distribution channels?
- Sales partners?
- Marketing?
- Online functionality?
- Order processing system?
- Sourcing?
- Merchandising?
- Customer service?

Figuring out the most important element will allow you to focus on that element to differentiate your brand from others in the market. But, as we've discussed already, be aware that focusing on one area will mean not focusing on other areas.

Chapter 9: Creating a Plan for Your Business

Helpful Quotes

"No battle plan survives the first contact"

- Helmuth Karl Bernhard Graf von Moltke[1]

Helmuth had more to say on the subject of plans:

---

[1] The Swordbearers : Studies in Supreme Command in the First World War (1963) by Correlli Barnett, p. 35

"Strategy is a system of expedients; it is more than a mere scholarly discipline. It is the translation of knowledge to practical life, the improvement of the original leading thought in accordance with continually changing situations."[2]

Plans might not last beyond first contact, but they are useful to have nonetheless. It's better to have something you can look at and reference even if you have to deviate from it. A plan will still give you a basis from which to make decisions.

You should think ahead and try to prepare as best you can for different scenarios that may crop up. You need to have prepared a number of different paths to follow if things should go awry. A plan gives you a more stable base to observe what is happening and to be ready to change if necessary.

The success of your business plan does not lie in the number of words it contains, the color of the graphs or the elegance of the formulas in your spreadsheets. It lies in how well it displays your knowledge of your industry and your place within that industry and your ability to view your business through different perspectives.

Formal vs Informal Business Plan

To avoid any confusion, I want to address the term "business plan," how I will be using the term and my general thoughts on having a business plan.

Generally, the term "business plan" connotes a formal document that goes into great detail about what exactly you want your business to be and how you are going to run it and where it fits into the market you're entering, etc. All of that is important to

[2] Government and the War (1918) by Spenser Wilkinson

figure out ahead of time, obviously, and you may require a formal business plan at some point.

However, my own personal opinion on formal business plans is that they're not worth creating unless you specifically need one. A lot of people who want to start a business believe that creating a formal business plan is the first step so you can take it to a bank and ask for funding, but the truth is that you almost certainly won't be getting a bank loan anyway if you don't have something you can put up for collateral.

What I've seen happen more than a few times is people spending months on formal business plans, putting in all kinds of time and effort for research and not really needing these documents once they're done. They lose months of time and energy when they should be concentrating on laying the groundwork for getting the business started.

Rather than specifically creating a formal business plan, what I suggest to people is that they keep track of the information they gather and organize it into a presentation as they go along, which I first suggested back in Chapter 6 during the *Feasibility Analysis* section as you were developing your business idea.

At this current stage, you can take that feasibility analysis and extend it to an actionable plan, something that answers the questions below. You can either add onto your feasibility presentation or start a new document from scratch. Regardless of whether you add onto your feasibility document or start from scratch, by the end you should have no more than a 20-slide presentation or a six-page informal business plan. Any excess information, stats or details you can keep handy for yourself in case you need to reference them at a later time.

The beauty of creating this presentation and informal business plan as you go along is that if you *do* require a formal business plan to give to someone at some point, you will already have the information on hand and you should be able to whip up a formal business plan quickly.

When you make your informal business plan, you are not preparing a battle plan, you are preparing yourself for battle. The plan is there to guide you. The end product you will get from this exercise can be used to communicate with future investors, employees, advisors or partners.

Some questions to help you formulate your plan:

1-) What is the need you are addressing? (And is it really a need?)

This you should already have done if you put your business idea through the scoring exercise in Chapter 5 when you were vetting your business ideas.

2-) How will you satisfy that need? What is it exactly that you are offering?

Even though this seems to be the easiest and most obvious question to answer, often it is the one you might have to spend the most time thinking about. Keeping in mind that you are in the business of solving a problem and providing a benefit and *not* in the business of creating a product with unnecessary technical features or a service with little more than a fancy name.

3-) What is special about your company and how does it differentiate itself from the rest?

Here in this question, “the rest” is not just the other companies that offer the exact same thing in your immediate market. They are also the other companies that satisfy the same or similar needs with other types of products or services.

For example, if you are in the restaurant business serving Greek food, you are not just competing with other similar restaurants serving Persian, Armenian or Turkish fare in the same market. You are also competing with all other prepared food providers within the same geographical location (and even beyond). Instead of coming to your restaurant for lunch, a business person might go to a grocery store to pick up something from the deli, or bring food in a lunchbox, or a get a smoothie.

When answering this question, consider what will go through your customers' minds when you increase your prices by 10 percent. Is your brand so special that they'll just ignore the 10 percent increase with minimal backlash or is your brand so similar to the next company that lowest price is the only thing that differentiates it from the competition and you'll lose a significant amount of customers based on the small increase?

If price is the only differentiator, you should consider working on your offer and positioning more. There should be good reasons for people not to leave your company just because you increase your prices a little bit.

4-) *How big is this market, who are the key players, how fast is it growing and what is changing in it?*

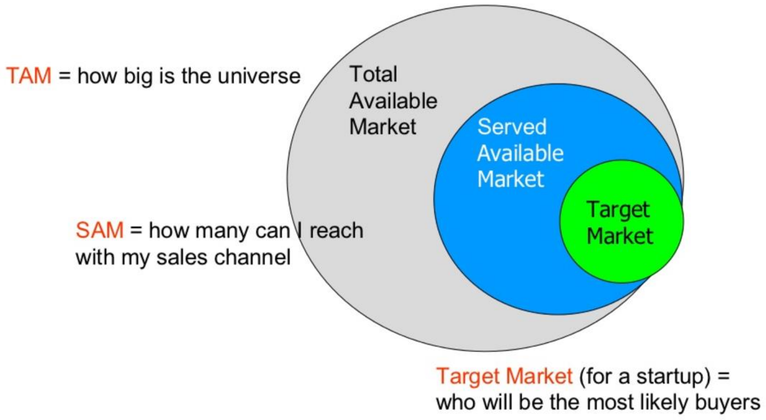
You need to go beyond the obvious when defining a market. Going back to our Greek restaurant, you would look at the prepared food market and the restaurant market to determine the trends far beyond your immediate geographical area. If there is a general trend in the nation where the next generation is eating out less, or spending less money per purchase, or getting subscriptions to services that deliver food, there is a pretty good chance those trends will impact you in the long run. There will be less money going around that you will have to compete for with existing -- and possibly even more -- players.

If you are a local business, you have to look at your geographical area's demographics, like population, traffic, income distribution, age ratios, generations and even how your city is growing and in what direction it seems to be headed (ie becoming more prosperous or heading in a downward spiral).

Remember that many things can go wrong with your business that are completely out of your control, but one luxury you can never grant yourself is the use of the phrase "I did not know." The only way to avoid using that phrase is to know.

5-) Who is your customer and why are you targeting that customer specifically?

It is important to define your market beyond just the top line of what market you operate in. Knowing who your customer is will help to define your market size. Your target market size should be good enough that even if you capture just a small percentage of it, you can be profitable and sustain your business. Understanding the demographics and characteristics of your target customer and market will allow you to understand the trends impacting your future business.



This question will also help you with your marketing plan and budget. Without truly defining your target customer, you cannot develop a strategy. Finding your customer acquisition cost, the cost to retain that customer and how much money you can make from your customer during the lifetime of your relationship with them all comes back to who you want to serve.

You also ask this question is also for clarification and validation of what it is you're doing, the problem you are solving and the need you are satisfying. Different solutions mean different things to different people. If you are in the pet business and your customer target market is the older empty nesters, it is the pampering and parenting that matters. For a family of four at home with two younger kids, the family pet means something else than the little old lady that lives to walk her cute white Maltese dog while it's dressed in an adorable sweater.

6-) How are you going to enter this market and what is your marketing and sales plan?

Each product, service, industry and business model creates opportunities and challenges. How you are going to reach your target customers, whether you are going to push your offer to them or pull them towards you, who is going to actually sell your product and what messaging you are going to use are just few of the elements of a market entry plan.

If you are going to use direct sales, who is going to do that? Are you going to use in-house or outside sales channels? Do you need to form partnerships or be involved with trade associations? Should you do your own business development or not? Putting in place the pillars and principles of your initial market entry plan (knowing you will have to keep adjusting and improving it) is one of the key activities that can dictate your successfulness.

7-) What is your plan for dealing with the regulations and barriers you have to overcome for starting your business?

Even in the most open capitalist societies there are legal barriers that will regulate your activity. You need to find out what these regulations are and plan how you're going to handle them.

8-) How exactly are you going to make money?

As counterintuitive as it sounds, you don't necessarily have to figure out how you are going to make money right in the beginning, but you do need to figure out where you are going to get money until you are able to make it. If your business is not going to immediately make money, you must have a plan to show some sort of value creation and momentum to convince others to give you money until you can make your own (and pay them back or start making them profits as an investor).

9-) Why are you doing this?

Are you in this because you want to make money? Be your own boss? Or change the world? Even if you are pitching your idea to a potential investor, they deserve to hear the truth about your motivation.

Identify your driving component

Finding the driving component for your business can mean the difference between success and failure. It's much like finding the driving component for anything you do. For example, I'm a runner now, but I haven't always been a runner. In fact, until I was 39, I hadn't run more than 800 consecutive yards in my whole life. To start running so I could fulfill my bucket list entry of completing a marathon, I had to find my driving component for that goal.

I visited my local running store, got myself a pair of expensive running shoes and a handful of running outfits, hydration belts, compression gear and other stuff I had no idea I needed for such a simple human activity. Buying all that stuff got me excited for running and I was up at 4:30 the next morning to run. And then I did it again and again and again until I didn't do it again.

Eventually, the shine wore off my new running gear and I was left on my own to motivate myself to get up ridiculously early to run. The thought of waking up, (quietly) fumbling around for my running clothes and getting everything else ready was a little too daunting.

But then I figured out my driving component: going to bed at 10:30 in my running clothes (it's not as bad as it sounds) so when I woke up I just had to put on my shoes and start running without thinking about it.

With no time to think about what I was doing, I was able to get started before my brain snuffed out my motivation. Eventually, it became routine and my body basically went into autopilot when my alarm would go off. Thanks to discovering my driving component of going to bed early and sleeping in my running clothes (seriously, it's not that bad), I was able to run:

- My first 5k at 40.
- My first 15k at 42.
- My first half-marathon at 43.
- My first full marathon at 44.

Just like buying a bunch of new running equipment wasn't motivation enough for me to really start running, spending a bunch of money to start your business likely won't get you motivated enough once the excitement wears off.

I've witnessed more than a few cases of people trying to start a business and going the "shopping spree" route and becoming stuck. They spend a lot of money either to get themselves excited or because spending money (if you have it) is the fun part of starting a business and it makes them feel like they're making great strides in their new business.

They rent a nice office, buy brand new furniture, spend money to trademark their brand names and taglines, print brochures, make expensive trips to conferences (flying business class because they're a business owner now).

I witnessed one case where a highly intelligent, former high-level marketing executive of a $5 billion dollar company spent almost half a million dollars in less than six months just "investigating" business opportunities. That money was spent on lunch meetings, logo design, trademark registration, travel for meeting potential partners, rental of a private office and salary for an assistant. If he had $10 million to invest in his new business, I guess that sort of spending might be acceptable (although still not ideal). In reality, though, he only had $1 million to start his business. As I knew would inevitably happen, he eventually found another high-paying executive job and he is still saving money to start his future business (while complaining about working for someone else).

It is not enough to just spend money. You have to spend it in the right place. You have to identify the driving component of your business (even if it's something as unpleasant as sleeping in running clothes).

How to find your business' Driving Component

When there is a long list of items you need to address and many actions waiting for your attention, where do you start? How do you know if you should prioritize and focus on one thing but not another?

Here is a list of questions you can use to ascertain whether something is important enough to be considered a driving component of your business or whether it has less importance and is something that can wait until later.

Is this item a priority? Whatever you are planning to spend your resources and time on right now, is this really a priority? If you don't do it, will it impede other important actions? Will it continue to bother you until you get it done?

Example: An obvious example is getting your website done if that's your main way of selling your products or services. All businesses need a website nowadays, but if your site is strictly for promotional purposes, it's less of a priority. You would even be able to get away with a free site to start with if it's not the main component to your business.

Will this item generate momentum? If you focus on this item and bring it to fruition, will it create momentum in a way that will impact other unrelated items in a positive way and give you results that you can use to motivate yourself and your team?

Example: Would applying for and winning an industry award or other recognition for your product or service bring momentum for your team, and become something you could use for other aspects of your business like procuring funding? If so, you should move applying for awards up your to-do list.

Does this item have a multiplier effect? Some items will create an impact on your new business in a way that can increase its growth and traction quickly. These items can be substantial and obvious or they can be more subtle and work over a longer period.

Example: A new marketing method that requires significant investment might grow your business as you increase your marketing spending. Or hiring a customer service or accounting person can free up time and you can start spending that time doing business development or adding new products to your store.

Will this item create "significant" value to your business? A business creates value for a customer with whatever it offers. Value is created for your business by other businesses that you work with. The concept of "value" (both the value you create for customers and the value that is created for you by others) is embedded in the heart of your business and its continuous development should be a top priority.

But not all value creation is equal. Value will improve your business, but significant value is something that will make your business categorically better. It might enable you to offer a product or service that you weren't able to before, or provide your products or services in a way that is more cost effective to you (and allows you to pass those savings onto your customers) or it might make it easier for your customers to find and purchase your products or services, therefore garnering you more customers.

Example: A better couch in your reception area or larger photos on your company's website might not qualify as significant value, but a new delivery system, a new line of products or a more intuitive way of sending transactional emails might be.

Is this item going to improve your cash flow significantly? Even though you might be thinking strictly revenue or profit with this question, there are many ways to improve your cash flow, like collecting money faster or staggering collections so they come in at different times and give you a more steady input of cash.

Example: You make a personal trip to a vendor selling your product and establish a personal relationship and tell them you can give them more business so they give you exclusivity on a certain channel that increases sales for you. Or, you bargain with them for better pricing by buying in larger volumes over a longer period so you can make more money while taking more time to pay.

These questions and your answers can help you identify if you should be spending your time and resources for that particular element now or later. You want to be proactive, well organized and have things well planned. If you know what to focus on and when to focus on it, that will help you get to the stage in your business where you can see results and seeing results means motivation.

Identify Your Critical Service Providers

Working with smart, capable and experienced service providers will increase the chances of your success. With every good service provider you gain an advantage and get rid of a headache. You won't need to open accounts with them at this stage, but you should identify ones to work with in the future.

For most businesses you will need:

- **Accountant and/or Bookkeeper**: This can be software or an enterprise management system that has an accounting component or a human bookkeeper. I recommend taking care of this early in your startup process so that you are organized from the start and you have your financials under control from day one.

- **Tax Accountant**: A good tax accountant will keep you on track, answer your questions, warn you about compliance and be a good friend to cry with when you are writing those big tax checks (and if you think you're not a crier, those big tax checks have a way of squeezing a few tears out of you).

- **Business Insurance Broker**: When you are just starting, you have minimum revenue and activity and maybe one employee. That is an optimal time to engage an insurance broker. You can set up your workers' compensation and feel safer when you go to sleep. This is one area where being late can break your business and even your mental health. Having a good insurance policy and being all "insured up" is a luxury that pays off in the long term.

- **Payroll Company:** Your tax accountant or even your bookkeeper could do your payroll, but it would be a better idea to hire an actual payroll company that can run your payroll. That way, as you grow, the chances of a mistake happening that could cost you a lot decreases. Additional benefits of working with a payroll company are that they can help you scale up easier and provide you and your employees resources and services that you cannot get from a bookkeeper or accountant.

- **Business Management System:** A good business management system will include a CRM (Customer Relationship Management) system, order fulfillment and inventory system, a sales automation system or an actual full blown (ERP) Enterprise Resource Planning system that will help you run your business. What you will need will depend on what you will be doing. Most of the industries with specific needs have solutions that are customized for the needs of that industry.

- **Website and Online Presence:** There is nothing like a good website that will excite and motivate you early on in your endeavor. Especially if it is not only going to be your live brochure, but also serve as a sales and marketing channel to find new business. That is why I suggest you work on your website early on before the launch of your business. A good website can provide your business with some legitimacy. It could also help you run your business better if it acts as your business platform. Get a recommendation for a website developer from someone you trust or look for the designer on a site that you really like.

- **Marketing and Sales Partners:** Referrals will probably play a big role in your sales strategy. Consider multiple bids, talk to multiple providers, ask them questions and let them educate you. Some questions I recommend to ask are:

    - What is an ideal client for you?
    - What do you expect your client to do to maximize results?
    - Can you tell me a case where you did not see successful results? What happened and why?

- What sets you apart from your competition?
- Who is your best competitor?
- How long have you been working for this company? What do you like about them? How is it different than the last company you worked for?

Having strong service providers, knowing your driving components that will give you motivation and having a business plan that you can follow and show others will help you immensely. And now, let's talk about the biggest hurdle ...

Chapter 10: The Money

Do you have the necessary money you need to start your business? Were you able to save up or borrow the initial startup money from friends and family? Good for you. Most cases are not that straightforward.

Start what you can afford

If you find that you can't raise all the funds you need to start your business, you can try to find creative ways to generate cash flow that will support your business model without requiring the full amount of cash you were planning to start with. Sometimes you can work out deals for delayed payments to your suppliers or you can work out exclusive distributorship deals with partners in certain regions if they buy in bulk and then use that cash to run or expand your business. This is all much easier to do if you are selling a service than a product, where you require a lot of upfront cash.

My wife and I began a business lessons and coaching company quite a few years ago. We were paid immediately when we sold the service. By the time the service was used and billed to us by our teachers and coaches we usually had over eight weeks of cash on average. The more revenue we got, the more cash we generated. Our profit margins were not maximized, but as the business grew, we were able to improve.

Just to give you an idea of how much a cash model can make a difference in your investment requirement, here is a simple calculation from our actual example:

	UpFront Cash Model	**Delayed Cash Model**
Overhead such as product design, research, marketing	$50,000	$50,000
Initial inventory investment with estimation of $100,000 monthly sales , 30% profit margin and three month stock levels	$210,000	$15,000
Working Capital Reserve for Growth	$100,000	$20,000
5 Month Operating Reserves	$65,000	$65,000
Total (---)	**$425,000**	**$150,000**

That’s a big difference right? Even more importantly, once sales hit $100,000 per month, we actually operated with over $140,000 more cash with the delayed cash model compared to the upfront model. As sales grew there was more cash. This eradicated the need for all the other reserves and our profit margin was only 15 percent less at most. With the delayed cash model we were able to start this business with less than $80,000-100,000, rather than requiring over $400,000 for the upfront model.

Not every business will be possible to run with these creative cash models, but as I’ve shown, there are business models that can be started with less cash. With your unique skills, network and resources, there could be ways to come up with a business that will only need the amount of money you have.

Find the Amount and Then the Money

Some of us are target oriented. We get empowered by having a clear target that needs to be reached and a (real or imagined) clock counting down the seconds until we absolutely need to reach that target. If you are also like this, a great way to find the money you need to start your business is first to name the amount. Once you know how much you need, open up a bank account and start saving. Skip Starbucks and your spring break vacation, transfer your savings into that account, get a second job or work more overtime at your current job or get a side gig and put all the extra earnings into that account.

For example, just recently, I took out my extra earnings from some stock market investments as the profits reached the amount I had predetermined for a new business idea.

Come up with a reasonable and meaningful number and always work toward it. Don't tell yourself: "I don't have enough money to start a business." Learn what things in life you frivolously spend money on (coffee, alcohol, eating out) and make the cuts necessary to save all you can. An investor will want to see you budgeting yourself the way you'd budget *their* funds.

Credit Cards, Second Mortgages, and Loans

These methods are as straightforward as they are scary. The downside is obvious. They will instantly raise your debt and can set you back in life while causing extra stress that can impact your health and happiness on so many levels. I would only consider these as viable methods when there is already some sort of business established, but cash is needed to keep things going and growing.

As I stated in an earlier chapter, the likelihood of you walking into a bank and receiving a loan to start a brand new business as a person who has never started one before are slim. It happens in movies and on television a lot, but not so much in real life. Usually, you're going to have to scrape together money elsewhere.

If you do want to try going to your bank or financial institution for a loan, check with the specific location you are planning to go to about what documentation they require for procuring a loan.

Crowdfunding

For the right type of business, the likes of Kickstarter and Indiegogo may be the solution. If you have a product idea that is attractive to a devoted group of people or a good idea that can impact many people's lives, then this could be your best bet for procuring funding. There are hundreds of amazing stories out there of people selling the idea of their product through crowdfunding. If you choose this method, research the feasibility of your business and how similar ideas have been marketed on crowdfunding sites.

Grabbing Opportunities

Sometimes quick thinking and acting on an opportunity can turn into a lucrative business. The company you work for might end up spinning out a product or closing a location to reorganize its structure due to a recent acquisition and you may find yourself suddenly in a position where there is a serious business opportunity because you happen to be at the right place and the right time with the right people. Often, these opportunities also come with their solutions for funding, or because these are such great opportunities you have people around you that can help you with the investment.

Some examples I have personally seen are:

- A beverage company employee who worked with a restaurant chain discovered that a perfectly good location of that restaurant had been vacated. The beverage company employee only needed to come up a small amount of cash flow to start a new restaurant in that location, which was in an ideal part of town and quickly became successful.

- A salesman working in an IT outsourcing company parlayed his stellar working relationship with an executive of a Fortune 500 client company into his own company. The executive from the Fortune 500 company decided to jump ship and move to a new high-growth venture-funded company that needed IT services. The (now former) executive wanted to continue working with the IT salesman, but didn't want to hire the IT company the salesman worked for because that company was working for his former employer, the Fortune 500 company. The IT salesman immediately quit his job and started his own IT services business knowing that he would have minimal cash flow worries because he would be starting out with a dependable, well-paying client.

- A few employees in a company that was going out of business were able to buy a technology that could be utilized for a new toy design. Instead of spending years and millions of dollars on research and development, these employees were able to come up with a product quickly and with limited resources.

If an opportunity like this knocks and you have the wherewithal to grab it, you can get a nice head start in business.

Friends, Family or Investors

For many of us, asking someone for money to invest in your business feels awkward and humiliating. But, if you truly believe in your business idea and your capabilities, then asking them for an investment is actually doing them a favor. Of course, you have to ask the right people, meaning people who will understand what you are trying to do, who believe in you and who have funds to provide to you (so, not your broke uncle). There are many downsides to this method, such as straining relationships, potentially hurting the finances of loved ones and giving away too much control/ownership early on. However, it may be the only way you can find the money you are looking for to start and grow your business.

Grants and other Incentives

Often, arms of the local government, whether municipal or state/provincial, will have business grants and other incentives available to spur the local economy and stimulate business growth. It's worth checking with your city, county, municipality, etc. to see if they have any programs that may pertain to you. Some of them are specific to certain groups of people like women, minorities or veterans. Some of them are specific to certain business activities like renovations or upgrading your storefront.

Your local Chamber of Commerce might also have something available. Often, universities and local business organizations will offer free workshops for budding entrepreneurs or networking events. While these aren't cash, they do have value for people entering the business world. And when you're just starting out, anything free is practically like getting cash.

Creative Solutions

Where there's a will, there's a way. Or, as Tony Robbins says: "It's not the lack of resources, it's your lack of resourcefulness that stops you." I have seen a friend go on the television show *Shark Tank* and turn around his business, becoming one of the most successful *Shark Tank* examples.

I have seen another friend who tried to sell products so desperately to so many companies that he ended up finding possibly the one person on this Earth who had the unique connections to finance my friend and help him build his business.

It was a unique type of painting accessory that did not have a large target market and therefore was not selling. Being a single-product company, my friend was about to admit defeat with the endeavor and give up even though he really believed in his product. In one of his last sales calls, he managed to find a business owner (who my friend was approaching for a potential distributorship) that loved his product, his enthusiasm and his creativity. That business owner was about to retire and he was selling his business, hence he had some extra money. So, he decided to fund my friend along with advising him. (There's that serendipity at work again.)

The point is, sometimes you can get money in ways you've never considered. As long as it's legal and it's not hurting anyone, open yourself up to any possible way of procuring funding.

Chapter 11: Company Formation

I'm approaching this chapter from a US-centric perspective because of my location in San Diego and experience doing business in the United States. For any readers outside the US, perform the necessary research pertaining to your country.

Readers in both the US and anywhere else in the world should obtain expert legal advice for this important step. Below are my thoughts on the matter of company formation.

Spend an appropriate amount of time figuring out what kind of company you are going to form, which state to register in, and what type of articles of incorporation you need. There's no prescribed amount of time you should spend on them, but you can probably get it all done within a week. Do your own research, get some legal advice and register your company.

The most important aspect in forming your company is that you are separating the company from yourself from a liability standpoint. By making your company a separate entity, you are making sure that if your company gets sued, only the company can lose money, property, etc. This is why it's imperative to get actual legal advice on the matter. A lawyer will be able to explain the different types of incorporation in your jurisdiction and recommend which one would be best for you. You are also not locked into the type you choose to begin with. If a different type of incorporation would be better after your company grows, you can always change it.

Let's take a closer look at the steps to incorporation.

Where to Register

You don't have to register in the state where you live and are going to be doing business. Your corporation can be registered in whichever state you choose. Often, business owners register in a state with favorable corporate tax situations.

Once you've chosen where you want to register your company, perform a statewide entity search in your forming state and then your home state to make sure your chosen corporation name isn't taken. Virtually all states have online search functions available now to do this. Don't worry if your ideal corporation name or some form of it is taken. You don't have to make the name of your brand your official corporation name. Your corporation name is kind of like your birth name, and your brand name is like a nickname. Other than filing taxes, registering with your bank and registering assets like trademarks and permits, your official corporation name is not mission critical.

For readers in the US, many companies choose Delaware. There could be tax, legal and risk advantages of forming a corporation in a different state than where you are actually operating your business, especially if you plan to raise funds for your company, acquire other companies in the future, operate businesses in other states or countries or have intellectual property like patents or important trademarks. What I recommend is if you are not sure, form your corporation in Delaware. It's popular for a reason.

If you're outside the US, see what options are available within your country and compare them accordingly. Seek legal advice on the matter and do your homework.

Incorporation

When it comes to incorporation, you don't have that many options. Incorporation (C or S), or Limited Liability Corporations (LLC). (I won't be talking about Sole Proprietorship DBA.)

The most important factor in this decision is how many people you think are going to be involved with your business as partners or investors. If we are talking about more than a handful of people, it would be better to have a C Corporation rather than an S Corporation or an LLC. If it is going to be you and a few close people, then an S Corporation or LLC would be best. If you are not sure and can’t make up your mind, create a C Corporation and you can choose to file your S Corporation later.

Explaining each and every type of corporation is a little out of the purview of this book and therefore I won’t get any further into them. That is the sort of information that is freely available on the internet and I strongly encourage you to read up on what type of corporations are available in the country you reside in. Each way of structuring your business has advantages and disadvantages. Get some legal advice from an attorney, an accountant or some other trusted business or financial advisor.

As I had mentioned before, the key is not the kind of business structure you have, the key is that you separate the business entity from you, the person, so that your personal assets are protected.

Trademark or No Trademark?

This is a common question. Some believe that if they are going to start a business you should start by getting a full line of trademarks for your brands. Of course, if you are going to invest in building a brand why shouldn’t you? If you are spending time and money getting those trademarks so that nobody else gets them, keep in mind that trademarks are not domain names. Once you get them, you are not set.

For someone to truly infringe on your trademark, it would have to be a real brand with real value. Even if you have that, then what are you going to do when other companies infringe on your trademarks? Will you drop what you are doing and go hire attorneys to sue those companies? Not likely an affordable option.

Get your trademarks when it is time to do so. It may be better when you have a stronger brand and more money/resources to spare. Some people are extremely cautious and are afraid of having ideas stolen. They think they will have the best thing out there so they better do everything now to protect their ideas. If you can spare the money to do this, go ahead. If trademarking is prohibitively expensive for you, wait until you can afford it.

Unlike a trademark, you should absolutely get a patent as quickly as you can because time is crucial for patents and having one can save your business. While trademarks cover intellectual property like your logo and slogans, patents are protection for inventions. If your business relies on a device that you have invented, get it patented. This will prevent competitors from popping up and stealing your exact design.

Filing a trademark or a patent is also information that is freely available online and if you have something to trademark or patent, you should be able to find that information quite easily.

Getting Your Accounts in Order

Start separating personal finances from your business as soon as possible by having a business bank account and a dedicated credit card for your business expenses. It is much better to create a business bank account, make a $10,000 deposit, and start spending money from there rather than spending $20 here and $50 there from your personal account. You will need to keep track of all your expenses to establish your business and it's better to keep everything separate and traceable from an early stage. This will also encourage you to spend less on small and incidental expenses since they will start adding up and become noticeable in a business bank account faster than in your personal finances.

Your Website Domain

Regardless of what your business does, a lot of it is bound to depend on your website and how visible you are online.

Therefore, choosing a good domain name is a top priority when forming your business.

- Keep it short and memorable. It is better to be the XofY.com than the BestYinXtown.com

- Avoid hyphens and numbers unless part of your brand.

- Choose an appropriate domain extension. I know it is getting incredibly difficult to find a good domain name with .com as time goes by, but sometimes it's worth trying to find a good .com one because there is a big difference between a .com and a .net or a .tv.

- Don't use .net (regardless of whether you are a network or not) or .tv if you are not related to television in some way. Even though you can actually have dot whatever these days, .com is still the best one because people will assume your website is a .com if they don't know it, as it's the default of domain names.

    - .Org is acceptable only if you are a nonprofit or foundation.
    - .Hotel, .book, .club or .music types of domain names are relevant extensions that identify your business, but the relationship should be obvious and make sense.
    - Country codes are extremely useful for starting your business if you're not looking to go international immediately. While a .com domain might not be available, that same domain with your country code instead of .com might be available. They can also be useful if you're only doing business in specific countries. You can buy the same domain with the various country codes you

need and either maintain different websites or have them redirect to one central site.

When building your site, use keywords that make sense for someone to use when searching for your business. I don't just mean what you do, and how you do it, but also where you are (if location is important for your business and you are planning to stay local for a while). It is better to be SanDiegoBXSportCourts.com than BackyardXtraSC.com or SanDiegoBXSC.com

When deciding on keywords to use, make use of keyword research tools. They provide you with the top-searched words in your business category for about the same cost as a decent dinner.

You can have more than one domain for your business by using a redirect. Choose the one you want to use as your main domain and redirect any others that you want to use for secondary domain names to that main one. This is useful for businesses that change their names for some reason or businesses that have a location in their domain name, but go national in scope later. It's also useful for using different domain names for different purposes. You can have a highly memorable one that you print on business cards and a different one that is less memorable, but rich in keywords for SEO purposes. Just make sure you are doing a permanent redirect and not creating a duplicate content issue by having search engines index both domains with the same content at the same time.

A good way to look for a domain name to register is to use a bulk domain registry tool available online and putting all the domains you can think of into a long list as you think of them. Find out which ones are available and then make a decision to buy those domains or not, but don't buy hundreds of them just because they are available. It would also be a good idea for you to decide on your brand name and logo before you finalize your website, marketing materials and signs.

You may remember from the beginning of the book that I mentioned an online printing cartridge retailer as being my first successful business. The name of that now defunct company was PrintCountry. I chose that name and url (PrintCountry.com) because it was fairly short, easy to remember and gave people an indication of what we did (and it was available).

When I started TestCountry.com for selling drug and health testing kits to consumers, I just borrowed the suffix from PrintCountry. It fit well with the company for the same reasons it worked for the printer cartridge retailing business. When we decided to start selling the testing kits to businesses, we went with Confirm BioSciences to convey a more business-oriented and scientific direction. It is also memorable and makes for a good url.

Designing Your Brand

This section isn’t about what colors to use in your logo or what type of brand positioning you should have in a crowded marketplace. Since I have no idea what your product or service is going to be, it would be asinine to try and address those. Rather, this section is about what you need to do in order to figure out the market segment you are targeting because once you know that, picking your brand positioning, logo, colors, etc. will be much easier.

When I was doing my undergraduate degree in economics, one of the subjects in the business courses I remember vividly was customer segmentation. It was full of colorful graphs and visual boxes representing different types of customer segments. The course taught us how to perform that segmentation and how to use that segmentation in everything we did, from messaging to marketing campaigns to product offerings to customer service and all other aspects of running a business. It showed us in detail how a business could increase sales and profitability.

I remember thinking to myself: “These business professors, and consultants, want to make marketing more complicated so that there will be more for them to talk about, more opportunities for them to look smarter and more reasons for them to charge high tuition fees.”

But, I was wrong. I eventually found out customer segmentation is not useless, like I had originally thought. There were two separate epiphanies for me when buying into the concept of customer segmentation.

The first epiphany happened a few years after my customer segmentation business class (a class that I had a lot of fun taking without buying into the concept of customer segmentation).

I was working as a product manager in a bank that was starting a new retail division. We were trying to come up with a few credit card products to help with attracting new retail banking customers. Our goal was to use these new retail credit card products to draw people into our branches where we could upsell them on different investment or loan products.

Our goal was to come up with better descriptions of our target customer profiles, and then design credit card products around those profiles by defining what type of problems we could solve for them. After defining customer segments and the products to target them we were to decide how to reach those customers via marketing campaigns and messaging. Following this, we’d see how to engage them beyond those immediate products so that we could convince them to buy other, more profitable, products to grow our new retail business (our ultimate goal).

My boss decided to start this whole process by doing focus groups and market research to identify our different customer segments. That first focus group was almost like a spiritual moment for me. Here I was as a new graduate watching a diverse group of individuals talking about how they make buying decisions with credit cards, what is important to them, what is not important to them, how they like to use their credit cards and how they engage with their credit card companies. Focus group after focus group, I began to feel closer to these customers as I connected with them over credit cards.

In my mind, I started to separate the high income executive types from the retired couples or the newly wedded professionals. I know it sounds like common sense now, but experiencing it in real-time and getting into their minds was an incredibly helpful experience.

These were the days before Google and Amazon, so my research had to be offline. There was no keyword research to see what people were searching for, no online competitive analysis where I could check on competitor websites and their activities. Instead, I got to do some other competitive analysis.

I went to competing bank branches during different times of the day and signed up to talk to agents and receive information about their products, sales techniques and creative assets like brochures and forms. I sometimes got to wait in line and talk to others about why they were there etc ... It was an amazing opportunity to get closer to customers, hear them talk about their reasons, concerns, plans and complaints.

At the end of the focus groups, surveys and our other market research, we were able to identify more than six potential target customer profiles, and created avatars for them. I did not think of these groups as “targets” as in hunting, but rather as people to help.

The market research consulting company we worked with came up with cool names and descriptions for each customer segment. Things like:

Williams, the Newlyweds: Professional couple that doesn’t have kids yet. They enjoy a busy lifestyle and have not yet saved money for retirement. They spend money on leisure, travel and home decorative items. They use their credit cards at hotels and for big ticket item purchases like furniture. They mostly care about travel miles. The Williams love brands and cool gadgets and they are technologically savvy. (Being technologically savvy back then meant having a cell phone and knowing how to do telephone banking.)

Cranes, the C Levels: 40-55 year old C-level executives that make a lot of money, travel a lot, and are extremely busy (and quite picky). Maybe technologically savvy (meaning cell phones and possibly even a laptop in those days).

Reading the descriptions, looking at the fancy graphs and poring over the stats was (relatively) fun. I could not help but remember the customer segmentation class from university and I thought to myself: “That class made sense after all.” And at that moment there was another epiphany.

Stories. Just like how the results of our market research made sense by putting people into segments and giving them stories, everything else made more sense when you put it into a story. Even things like art or science made much more sense when you put them into stories. Understanding, communicating, visualizing, creating and establishing a long lasting relationship were all possible with stories. Once you know the storyline and the background, all the elements come together more easily.

Since we were going to sell specific products and have marketing campaigns and business processes for upselling and cross selling to these target groups, we could not choose more than two of them.

We came up with the criteria below to decide which groups to target. Since we never operated in the retail space, we could not really choose how well they matched our existing base. So instead, we went with:

- Customer lifetime value: There were two numbers we came up with. One was immediate from the credit card products, and the other was the potential with upsell/cross sell opportunities in the long run.
- Market size: How big the customer segment was.
- Market trends: How fast the customer segment was growing or shrinking.
- Competitiveness: How many products were available to these segments now and how well those products are situated to answer customer needs and wants.
- Profile match: We might not have been in the retail space yet but we had a corporate culture and our own personnel profile. It was important to consider how well our profile was matching target customer profiles since our team members would have to engage them, connect with them and serve them.
- Geographical match: Our bank was not a retail bank until recently but already had some locations to serve businesses.

- General feasibility: How well we believed we could build products, marketing campaigns and business process targeting those segments.

We decided to use these criteria to score the segments in order to choose the top three. With the top three segments chosen, we spent more time and in depth analysis regarding the type of products those segments would want to see and potential marketing campaigns they'd respond favorably to. We also came up with customer acquisition and retention cost estimates. Once we had those, it was time to go back and decide the top two out of three.

Once we chose the top two segments -- given we had a target customer profile we had the story we needed to work with -- we knew what to do.

Let's take a look at what all this means for you as you try to get unstuck with your own business venture.

- **Marketing is both a science and an art:** When you are building your company, regardless of the type, branding and marketing are going to be at the core of your success. Learning the marketing principles, or working with people who know what is what, will be a good start. Contrary to what you might believe, market research, customer segmentation and planning work, so use them. Tackle marketing methodologically and with the utmost attention. Keep in mind that you cannot just copy and paste to duplicate success (hence the art part) but you can put yourself in a more advantageous position and can avoid simple mistakes by approaching the challenge the right way.

- **Use all available methods to study your potential customers:** Building a business is building a solution. You can not solve what you do not fully understand. Research and study all customers. Talk to them. Be around them. Deal with your competitors to see how they solve those problems and where they succeed or fail. Use online research tools like keyword research or competitive intelligence gathering tools. Gather information about the different things people search about related to your industry including their questions. Then, read comments in online forums and on social media. The more you get into the head of your customers, the better.

- **Avoid making too many assumptions and generalizations**: Just like everything else, marketing is impacted a lot by unfounded assumptions and generalizations. The only thing that's safe to assume is that your assumptions are probably wrong. A lot of marketing time, effort and resources could be wasted if you make an incorrect assumption about your customers and how they make buying decisions. This is especially true for B2B products and services. Often we tend to believe people are logical and will do the right thing when deciding on what to buy or not to buy, but that is not true. Just research the term "behavioral economics study" and read.

- **Segmentation and Targeting Comes First**: Before creating cool ads, creative taglines and fancy landing webpages, segment your customers and decide on which ones to focus. Only after that, when you really know your customers and have segmented them properly and have decided which ones to target, can you proceed to building your brand identity. With segmentation, the trick is to build groupings with just enough details. You can cut a pizza many different ways, but only a few ways make sense.

Every step, be mindful of why you are cutting the pizza that way, and how small the slices are. Just like you cannot hold too big of a slice properly, it does not make sense to just take a small sliver of a slice.

- **Storify-Storify-Storify**: There is a reason why storytelling is humanity's greatest invention. It works. For thousands of years before the invention of writing, humans remembered everything they needed not through reading or studying, but from making up and listening to stories. Our brains are designed to work and remember with stories. We love putting ourselves in stories, and falling in love (or hate) with the heros of those stories. We love telling others stories and we love feeling like we are becoming part of stories. Utilize stories at every step of the way from understanding your customer segments to telling your segments about what you have to offer. Tell stories to your team members about your customers. A key thing about stories is that the more complete they are, the more believable and engaging they are. So just like you cannot put a cell phone in a medieval movie, you should not put what does not belong in your story.

Cash is King and Cash Flow is Queen

Allow me to repeat myself this one time: Companies don't go out of business because they lose money, they go out of business because they run out of money. I just don't want you to forget that. Ever.

Unless you have enough cash reserves in your business or resources to provide you with cash on demand (and most small businesses don't), ask yourself what the impact of every decision you make will be on your cash flow. Profitability is important, but you can make decisions that will decrease your profitability temporarily and still be ok in the long run. But, if you are short on cash reserves, even a decision that will negatively impact your cash flow for only a short time could have dire consequences.

Look at Your Cash Flow Statement

If your background is not in accounting or finance and you've never taken a finance class, it is natural to not know or care about the difference between a *Cash Flow Statement* and a *Profit & Loss* statement (aka an *Income Statement* for some of you older folks.) If you make the assumption that as long as you keep your business profitable and pay attention to profitability, your cash flow will take care of itself, you are mistaken. Your business might be getting an influx of cash, and you might feel comfortable paying your bills and things could feel like they're rosy, but you might, in fact, be losing money month after month.

Or, it could be the other way around. Your business could be profitable and growing month after month but you are cash tight and always have a hard time making payroll and paying your bills.

But, why would either of these scenarios happen? Here are those exact two scenarios inspired by true events (names withheld).

Example 1

Our first example is an online retailer who knows internet marketing well and quickly grew his company's revenue. He started the company with about $300,000 and in the first year brought in about $1 million in revenue, doubled that in the second year to $2 million and raised it by another 50 percent to $3 million in the third year.

The reason the company was growing its revenue so quickly was because it was spending a lot on marketing. But, this was a big problem for the company because it didn't have large gross margins to begin with. Its gross margins were just 25 percent. Although its revenue was increasing annually, so was its operating cost: $250,000 in operating costs for the first year, $500,000 in the second year and $750,000 in the third year of operations.

Since the company was spending so much money on marketing and other expenses, it was actually losing money each year. In fact, after all the spending, it lost about 15 percent annually. So, after three years, the company's net cumulative loss was $900,000. Considering the founder started his company with $300,000, that means after three years, he was net negative $600,000.

This seems impossible, though. How did a company that seemed to be doing so well on paper end up in the hole? The answer is the company had stagnant cash flow.

Because the company was an online retailer, it got paid immediately, but purchased its inventory on credit and due to its good sales, it got really good terms with its suppliers, allowing the company to push back its payment due date to its suppliers to 75 days after delivery.

During the 75-day grace period it had to pay its suppliers, the company kept selling, but in order to keep sales steady, it had to keep spending on marketing, which was the main reason it was doing so well with sales. Because it was spending so much on marketing to keep its sales up, when it came time to pay its suppliers, the company ended up either not having enough and owing suppliers or just barely having enough to pay. Either way, it ended up losing all the cash it had accumulated when it came time to pay its suppliers.

The only way the company could solve this problem was to either grow its business to have more cash coming in or to become more profitable by cutting costs in certain areas, dropping less profitable products and possibly restructuring itself to save money. However, if the company took even a slight hit to its sales, the entire business would crumble. It had to keep up its spending on marketing to keep up its sales to keep up its payments to suppliers in a perpetual cycle of barely surviving even though its revenue grew each year.

This company's cash flow rewarded a model of low profit but high sales growth, instead of high profit and because of that, it never had a chance. It's gone now, done in by poor cash flow.

Example 2

Let's look at another example, a product manufacturer this time. After a period of slow growth with high profits at 50 percent gross margin, this company landed a big contract selling its products in a nationwide chain of stores with 5,000 locations. The order was worth $5 million, a huge opportunity for the business.

But, there was a catch, (a few catches, actually).

This company paid its vendors to make and assemble its product ($2.5 million), and paid its overhead and expenses ($1 million), taking $3.5 million out of that $5 million contract. No problem, the company was still left with $1.5 million in profit from the contract. But then the store chain had a stipulation in the contract that said the company itself had to provide $500,000 worth of marketing and promotion to help sell the products in the chain's stores. Still, that left $1 million worth of profit from the contract, which was okay for the company.

One more catch, though, and it was a big one. The store chain would only pay the company for the products sold in its stores as the products sold. Unfortunately for the company, the store chain could only sell $3 million of the product and sent back $2 million worth. That meant going out of business for the company because even though the contract was big and the company sold $3 million worth of their product, the expenses ended up being bigger.

These two examples are meant to demonstrate how sales and profit can be misleading when it comes to cash flow. Even if you're doing well with sales and making good profit, you can still be losing money. It's a balancing act. In the long term, your company should be both profit positive and cash positive, so look at not just your profit and loss statement but also your cash flow statement.

Take Actions on Your Cash Flow Statement

Your cash flow statement will talk to you in three separate parts: operations, investing and financing. Cash flow from operations is the key source of a company's cash generation because it is the money the company makes for itself.

It includes your profits, your operating costs, your payables to your suppliers and the receivables you collect from customers. The delicate balance of your cash flow will be upset if you cannot use the money you receive from your customers to pay for your operating costs, pay the money you owe to your suppliers and vendors and, lastly, make a little profit.

The reason profit comes last is because it's the one thing your company can live without. Your company cannot exist without paying the other organizations it owes, meaning it also cannot exist without making sales and bringing in money, but it *can* exist without making any profit, at least for a while. How long it can survive without making profit depends on the situation, but most companies will operate at either a loss or just breaking even for a period of time.

If you're unable to pay the other businesses you owe in a timely manner, it will eventually catch up with you and sink your company. Even if you are making good sales and bringing in a lot of revenue, that doesn't necessarily mean your company is healthy if that money is immediately disappearing. Rather than moving forward, you'll essentially just be running on a treadmill and one slip (like not being able to pay a bill that just can't be put off) will send you crashing off that treadmill. (And then your company becomes a viral Facebook video.)

Let's look at an extremely simplified example using small numbers.

Let's say your company has 100 sales and makes $25 in profit from those sales. But, you have to buy $50 worth of materials to make your product and spend $25 for employees and other various expenses like marketing and overhead. Now, let's say next year you make $200 in sales. That means you have to buy $100 worth of materials even if you don't make a change in your employees and your other overhead (which is pretty unlikely). So, how are you going to find that extra money to buy the extra material when you are growing? Your profit from last year of $25 is not enough.

This is a good example of why paying attention to cash is so crucial. On the other side of the coin, a company could be making a loss each year while they are growing so they might not feel the problem since they keep getting more cash in their bank account, even if they are losing money. It could be too late when they realize why they have cash and not profit, and try to turn things around.

Operations

Your cash flow from operations is composed of your revenue, your accounts receivable (the money people owe you that you haven't collected yet) and accounts payable (money that you owe to suppliers, etc, that hasn't been paid yet). So, the trick is to keep more money flowing into the company than flowing out of the company.

Investments
Cash flow from investing consists of cash you've used to invest in the purchasing of and sale of long-term investments such as property, equipment, machinery, other capital, etc. So, if you've purchased a new piece of equipment, that's money going out in a capital investment, but if you've sold a piece of old equipment, that's money coming in from a capital investment.

Financials
Cash flow from financing activities includes the issuance and repurchase of your company's own stock, bonds or payments of dividends. It also includes adding or changing loans in any form of financing related debt.

I don't want this book to get bogged down in the finer details of accounting, but these areas are especially important to pay attention to on your cash flow statement:

Accounts Receivable - The key to remember with your accounts receivable (AR) is that this is money that is owed to you, but *you don't have it yet*. The number in your AR could be sky high, but that does you no good until you actually receive it and it becomes cash.

You also need to be extremely cognizant of how much your AR changes each month. The best case scenario is that any changes are consistent so you know what to expect in terms of knowing what amount of money is coming in at what time.

Accounts Payable - This is money you owe that is not long-term, meaning you're expected to pay it within a year. It could be for products like inventory, or services like marketing, legal or accounting. It includes anything you buy to run your business but do not pay for immediately or in advance.

As with your AR, it's extremely important to note how much your Accounts Payable (AP) fluctuates from one month or time period to the next. The relationship between your AP and your AR will determine if your business is healthy. It doesn't matter how high the number is in your AR, if your AP is the same or higher, your company essentially has no money and is operating on a razor thin margin. You need to keep money flowing in as it flows out.

Other Current Liabilities - These are any other liabilities that are not covered by your AP. You still owe this money and you still need to pay it within a short period like a year or something similar. These expenses can be things like business credit card balances, inventory items you've received but are not yet billed by vendors, (which is why they aren't in your AP yet), payroll taxes you've incurred, but haven't paid yet.

You can group these with your AP as far as numbers you really have to watch. These are your immediate debts and you have to have enough money coming in to cover them when the time comes. Don't and your business sinks.

Fixed Assets or **Other Assets** - These are items you've purchased for production or other business activities like equipment, vehicles or buildings. Basically, they're big purchases that help your business. As these types of purchases are usually paid off over a period of time, this is another number to keep a careful eye on as you are paying off these purchases.

Financing Activities - Shareholder distribution, dividends and money you've raised from your investors makes up this category. Any amount that you can bring in is obviously good and can help you with cash flow.

Remember earlier when I said you should start a business that pertains to something you really care about? This is why. When starting a business, you have to do so many things you don't want to do and learn things you aren't interested in. You have to like what you are doing so much that you have the drive to push through and do all those boring, difficult things that make a business successful.

Cash flow is one of those boring, difficult (and absolutely critical) things that you have to learn to deal with when running a business. If you are not looking at it every month and scrutinizing where your money is coming from or going to, trouble could easily sneak up on you and then when you do start looking at it, it will likely be too late. And this is not something you can stop doing when your business has grown beyond a few million dollars in revenue and profitability. As your business grows bigger, so too does the potential consequences of your mistakes. Be smart and cautious, check your cash flow statement and listen to what it says to you.

Getting Ready for Business

You are almost ready to open your doors, publish your website, plug in your phone lines or whatever it is you will be doing for your new business. You have to get ready for the first transaction that will make you money.

To do that, you need to answer a few important questions. These could be things like:

- What products do I need to buy to run my business and how much stock should I carry to sell?
- Who should I hire to help me run this business?
- How many working hours can I afford to pay for if I need to hire staff?
- What kind of production capacity should I be ready for when starting the business?
- How big should my business facility be?

The nature of your business will make some of these questions more relevant and some not relevant at all.

There are obviously different things to consider when getting ready for a first order for different businesses. If you are opening a public relations agency, they're going to be different than a home renovation construction company, or a kiosk at the local mall selling trinkets and phone covers, or a new healthy snack brand, or a restaurant, or an online reseller for candles or a chemical-free carpet cleaning service etc. Every business has its own unique requirements.

That is why I've simplified the process of getting ready for your first order with these four categories:

- **Inventory**: The products you sell or the resources and materials you use to make the products or services you sell.
- **People**: The staff you need to operate your business and perform processes before, during and after sales.
- **Capacity**: The maximum amount of products or services you can produce without investing money for increasing your capital assets.
- **Facility**: The physical location of your business or the equipment you require to conduct your business.

These elements are intertwined and all impact each other. For example, if you are a plumber running a one-person operation, your office could be your vehicle, which would also determine your capacity for how much work you can handle. Or, if you own a physical store, the size of that facility would determine your capacity (how many people could shop in it at one time), your inventory (you can't have more inventory than your shop can store in the stockroom), and also how many people might need to work at your store at any given time.

When you are starting from scratch and there are no sales or operational history, how can you determine the size, cost and type of these four elements? Where would you even start? How would you decide how much of anything you need?

I have a general framework and set of principles that I can recommend called the 1-4-1 Framework. These principles are valuable to keep in mind while making decisions about not only the aforementioned starter elements of your business, but for even further into the future, as you make decisions on how to invest for growth in your business.

1-4-1 Framework for Startup Decisions

Resourcefulness
+
Planning
Flexibility
Scalability
Proactiveness
+
Minimum Cash

Resourcefulness

Being resourceful will help you with whatever or whoever you need to buy, hire and invest in your business. I'm not talking about being thrifty here. You can build a luxurious resort or sell a VIP-type service and still be resourceful. What it means is finding ways you can stretch your resources to achieve something that is beyond their intrinsic value, and turning moments of panic into moments of learning instead.

To apply resourcefulness to the four startup elements, keep an open mind and look for ways to go beyond obvious solutions. It can take the shape of:

- Hiring interns to do basic work at your PR agency.
- Using a loophole in city zoning to buy an old, inexpensive, and unused firehouse to turn into a store or studio.
- Turning your guesthouse into a corporate office.
- Finding an empty restaurant with the right type of equipment leftover from a previous tenant so you don't have to buy it brand new.

The next four elements come in one group because they are less about perseverance, creativity and luck and more about technical principles that you can incorporate into your everyday decision making process.

Planning

If you are not planning beforehand, you are definitely leaving money on the table or wasting it. Planning is simply determining the relationships between all elements pertaining to the success of your business and making decisions based on what you know about those relationships.

It sounds obvious, but let me ask you ...

How many times have you:

- Been to a small restaurant where the cashier/hostess has to answer the phone and take orders, which leads to a long lineup of people waiting to be seated and causes potential customers to become impatient and leave?
- Walked into a business to buy an expensive item (furniture, car, boat) and left as nobody came to assist you in a timely manner?
- Heard about a business that was full each time you went there but later -- much to your surprise -- went out of business?

These real-world examples all suffer from a lack of planning before making minor to major decisions.

When you are setting up your operation, hiring and scheduling people to work and deciding on the size of your location or the capacity of production, you have to research some key benchmark numbers and drivers that will impact your business.

Some examples of questions you would want to find ballpark answers for are:

- How many phone calls can a customer service person reasonably take per hour?
- How many guests can a waiter effectively serve at a time?
- How much will you have to spend on maintenance for a piece of equipment in a given production cycle?
- How much does a similar website to yours make on an average sale per visitor?

Depending on your type of business, the size of your business and the industry you're in, there are many benchmarks you can use. There are established and published benchmark numbers, guidelines that industry analysts and reporters share, and if your research does not yield any results, then you can put your resourcefulness to use.

You can perform your own research on your competition by purchasing products or services from other businesses and studying their processes or their activity levels. You can sit down in a restaurant and count how many tables your waiter is taking care of at once, see how many customers walk into a similar store at a similar location or count the number of cars coming into or going out of a parking lot.

Sometimes I wonder how people can justify spending hours researching and shopping for a car to buy themselves but not even perform one fifth of that amount of research when starting a business, a decision that will almost certainly matter much more for them.

Flexibility

There is one sure thing about starting a business regardless of your industry and this thing hasn't changed for hundreds of years. That thing is: Change. Competition changes, demand changes and even times change. Since change is constant, the value of maintaining flexibility in all aspects of your business is undeniable, but being flexible isn't easy, nor is it cheap. When you are determining your four starting elements, whenever it is possible and affordable, try to stay flexible.

As long as it fits your corporate goals and strengths and doesn't negatively affect your business' quality, you can ensure flexibility by:

- Working with a service provider you can hire on a freelance basis vs hiring an employee;

- Rent when you can, as it has less commitment than buying.
- Minimize your sunk costs (irretrievable money that you spend on something) so that you don't fall into a "sunk cost trap[3]."
- Hire suppliers that provide you with better flexibility rather than just the best price, (at least in the beginning when you have numerous unknowns), while still allowing you to maintain high quality.
- Especially when you are starting out, pay attention to the trade-off between cost and flexibility. In most cases when you are starting out, it makes more sense to know how much you can save by increasing your commitment or volume while still being flexible, at least until you are sure about how much you can sell a product or service for.

Overall, the key to flexibility is renting versus owning, which might involve a different set of terms than those two words and might not always present itself as such a simple decision. When you find out something will cost you in a way that could become a sunk cost, ask yourself: "What is my alternative so I can be maintain flexibility?"

Here are a couple of good examples of how maintaining flexibility might come into play:

Your first purchase order to stock up before opening: You are opening an online store for small decorative wooden accessories for kitchens. Now that you are close to starting to sell online you have to stock up on your inventory. How do you know how much

[3] A "sunk cost trap" is when you continue to spend money on something even though it hasn't produced the desired results simply because you've already spent so much money and time on it that you don't want to admit that it was a mistake.

stock to buy to be ready for sales, without having any historical sales data?

You will be selling 200 different types of products, each identifiable with a Stock Keeping Unit (SKU), so you have 200 SKUs that you'll be selling.

You have four main suppliers who you will need to purchase your initial 200 SKUs from. You expect to sell no more than 600 total products (across all your SKUs) in your first month, and maybe 1,400 in your second month. So, you are guessing if you buy on average 10 products per SKU, for a total of 2,000 products, you will be set for your initial order. It takes an average of one month to get your products from your suppliers. If you buy from the suppliers directly, it will cost you an average of $26 and since you sell the products for an average of $50, you're making, on average, a gross margin of $24 for each sale. So, 2,000 products sold in two months would mean:

$100,000 gross sales - $52,000 cost of goods sold = $48,000 Gross Margin

Not bad. Given that your operating and marketing expenses will be about $68,000 in your first two months, you will only be losing $20,000. (I know it seems crazy to use the word "only" when talking about losing $20,000, but you are just starting the business, so losing 20% is pretty good if you can keep it to that).

Here is the dilemma though; figuring out how many of each of those 200 SKUs will sell. That is something you don't know. You've got some idea of what will sell, but you can't be sure.

Another challenge is that in order to get lower prices from your suppliers that will allow you to realize that kind of gross margin, you have to order at least 25 of each product in your first order.

That means for 200 SKUs, you have to buy 5,000 products at least. That means -- at an average cost of $26 -- you have to buy $130,000 in inventory. With your expected sales of $52,000 worth of merchandise for two months, that is almost four months' worth of inventory with your first order. That is a lot. On top of all that, remember the 80-20 rule, which states that in this case, most likely only 40 out of those 200 SKUs (20%) will account for 80% of your sales. You'll likely be sitting on the inventory from those other 160 SKUs for a long time since they won't be fast movers.

So, what do you do?

If you have a lot of money and space and you can afford to park that much inventory (and equity), than this scenario is fine. You can do exactly what is described above. Order all of the products from your suppliers in your first order. As soon as you start selling and have an idea of what you will need to buy more of, immediately order more of that and sit on the rest of the inventory and let it sell at its slow pace. Because they're kitchen accessories, they won't spoil like perishable inventory, but they might go out of style.

However, if you sell a technological, seasonal or perishable type of product line, even with a lot of money, this scenario becomes a lot more problematic because you can't park a large portion of your inventory for a long period of time.

So, what do you do then?

How about you go on a shopping spree? That spree will mean buying your full inventory (2,000 products across 200 SKUs) from all your competitors (both online and offline). For any SKUs that you think will sell quickly, order 10 at the same time so you can take advantage of any bulk discounts your competitors offer (like paying $40 each rather than $50 if you ordered just a single piece). For products that you don't think will sell particularly well, only purchase three or four rather than 10. This will probably increase your costs a bit more since you wouldn't be ordering in bulk. So, let's say if you make your purchases this way, your average cost per SKU is $42, but instead of 2,000 products, you actually end up only getting 1,200 products, just enough to most likely cover one month of sales.

Probably half of that order will stay with you as non-moving items. In the end, you spent a little over $50,000 for enough inventory for the first month and have some leftover so you can see what sells well. Buying this way, you can actually see what sells quickly and place your large order for 40-50 SKUs with your actual suppliers. You've also gained some valuable insight. If inventory orders are not coming from your suppliers on time, you know which competitors you can buy from if you need inventory immediately.

You also have a really good first hand analysis of your competitors. You are getting customer transactional emails, promotional emails and even calls from your competitors. You know how they operate and may be exposed to some great new ideas you did not think of before.

What is the financial picture going to look like in the first two months now?

$100,000 gross sales - $85,000 cost of goods sold = $15,000 Gross Margin.

After your $68,000 overhead and sales expenses, you will be losing $53,000 instead of $20,000.

What did that $33,000 difference get you?

- You have more money (about $50,000) in the bank instead of having it sitting in your warehouse in the form of unsold inventory. Remember that companies don't go under because they don't make money, it's because they don't have access to money when they need it. Having an extra $50,000 in the bank versus having $33,000 less profit (in the currency of slow moving inventory) can afford your company an extra couple of months to turn things around and start making money.

- You have better inventory levels that fit your sales. They are more optimized so you will be spending less money in the following months for inventory purchases. That probably translates to another $20,000 or so in cash.

- You have a much better understanding of the competition; who is good at marketing, who has better customer service, who you should be paying more attention to. You probably also got some new ideas regarding marketing, merchandising (products you should be carrying), customer service and more. In my book (ie, the one in your hands), that alone is worth the $33,000 less in profit and will make the most important *positive* difference for your likely future success.

- Finally, you just saw what flexibility (even if it is purchased at a high cost) can buy you in your business.

New Sales Call Campaign: You've started sales of your marketing services recently and things feel like they're going okay. One morning, your sales guy comes in and tells you that he needs help. He is busy talking to prospective customers and following up with people, so he does not have time to call enough people to set up new appointments. He thinks if you hire a new part-time person to work 20 hours per week he can teach the new person what to say and help them set up the phone appointments. It's a reasonable request, and might work out well for your business.

So what do you do?

You could immediately start looking for a new part-time person. You say to yourself: "What is the worst that can happen?" At $20/hour for 20 hours per week -- even if it will take 10 weeks to ascertain whether it is working or not -- that is only $4,000. That's not bad for trying something new, and even if you don't completely succeed, you might get a sale or two that can help recoup the cost.

But, the truth is, $4,000 is not the highest possible price tag this new arrangement could cost you. You have to hire this person. So, you and whoever will be involved in the hiring process will have to come up with a job posting, distribute that posting, field phone calls, conduct face-to-face interviews and then hire this person. Whether you put that person on the payroll or not, there is also the legal risk of hiring and firing someone. If you don't already have a place for this person to sit and work, you will have to invest in a new workstation and move people around, leading to more inefficiency.

Let's assume your friend knows someone who is available, experienced and perfect for this position so you can skip the hiring process, but still end up with someone who is fit for the position.

This new person will require training, which means you'll need to take someone away from their usual duties to perform that training and monitor the new person at least for a while to make sure they're performing to the best of their abilities. This process to create and implement a new position will take time and resources away from your salesperson and/or whoever else is involved in the training process. The salesperson's focus will be less on sales and more on training during that time. Even if you end up succeeding in the end, it will take a lot more than just that $4,000 you originally thought.

So what is the alternative?

What will help you with flexibility is outsourcing. Even if there was a way you could spend more than $4,000 (or even $6,000), but limit your unknowns and have an idea of the metrics of the potential success, that would be good, right? You can look around, ask for referrals from people you know or do some online research to find an experienced consultant or even a firm that has experience and resources for outbound calling and setting up appointments.

Assuming you put in the time and effort to find a good service provider, you will gain the following:

- You will save on resources and time for finding, interviewing and hiring someone.
- Your salesperson will be less occupied getting someone up to speed, preparing scripts, training that person and monitoring calls.
- Your salesperson will be a “buyer of services,” dealing with a professional, monitoring the process and benefitting from that process with gained experience rather than being a “teacher of services” who will be stressed doing two things at the same time.
- You will have the ability to pull the plug at your discretion.
- You will add an experienced outside person to your team who can bring ideas to the table beyond what you have at your company.

What are you going to be trading off by following this method rather than hiring?

- You might get only 70 percent or 60 percent efficiency, since the company you are dealing with are outsiders. Over time, an in-house team would definitely perform better than an outside company by virtue of being on the same team, having more motivation and having access to better information. But, even 60 percent efficiency will give you an idea if you should bother hiring someone or not.
- You can assess the success or failure of this company and decide to try it again with the hope of improving the results.
- You will have a better idea of the type of person you should hire, along with a script and experience you can utilize to get off to a better start with a new hire than you would without this type of experience.
- If it turns out hiring a new, part-time salesperson was a good idea, you will have lost time by hiring a company on a contract basis rather than hiring an employee. But, you will have to hire and train someone anyway, so the experience you gain working with the company will make that training much easier and quicker.
- Most importantly, you will be gaining flexibility that will help you make a more informed decision on how to proceed.

Scalability

The principle of scalability is the one that will most often clash with others. Usually, if you want one of the other elements to be scalable (like having access to more office space for growth, or better equipment to help you grow capacity), you either have to spend more money or you lose flexibility. In the given examples, you might lose flexibility by having to commit to a larger office space or committing to an option to buy equipment versus leasing it.

The principle of scalability lies in this simple fact: You are starting your business to be successful. Your goals are increased sales, increased activity and growth, right? So wouldn't you want to be ready for those goals? What are you going to do if your sales double from your first to your second year? Are you going to be able to find or produce enough products or provide quality service at that level? Where will your bottlenecks be and what is your plan to overcome those challenges?

The scalability principle comes down to being ready and having a feasible path to grow your business if and when you achieve your goal to increase sales.

Rather than renting that cool office and warehouse combo in the downtown district, how about you find a more mundane business unit in an industrial park with multiple vacant units nearby that you could snap up for possible future growth. That is exactly the type of choice that can make your growth easier at an affordable cost: Less cool office space = better scalability for future office growth.

Can't make up your mind on which supplier to choose for buying the ingredients for your special peanut butter protein bar? Figure out which one will be easiest to work with to scale up your production when your business starts to grow and go with that one.

Inspiration

One of the factors of success for Huy Fong's famous Sriracha Sauce was the company's decision to start working with Underwood Ranch of Camarillo California as their sole supplier of red jalapeno chilies in the early 1980s when Huy Fong was still a relatively unknown brand. Their initial agreement to 50 acres of chilli plants per year now is at 2,000 acres, and both businesses depend on each other with full faith and trust. Given the fact Huy Fong's sales are not limited by demand (zero advertising to date except for word of burning mouth), their decision to work together with a trusted chilli supplier served them well.

Remember, the scalability principle exists because of your desire for growth and success. So, factor it into all your decisions about key relationships and purchases.

Early in the life of TestCountry and Confirm BioSciences, we used Quickbooks for our accounting and inventory management system. But, while Quickbooks is a great program for getting started, once your business grows to a certain point, sticking with Quickbooks makes it difficult for the business to run smoothly because you can't customize business processes as much with it and keeping track of inventory and creating reports becomes difficult.

I knew that in order to grow, we would need to upgrade our system, but we were still fledgling at the time so sinking a bunch of money into a new online enterprise resource system would be risky. We took the risk, upgraded our system, and it paid off, allowing us to scale up relatively quickly after that. If we hadn't invested in the new system, we likely would have stagnated.

Proactiveness

Often things that come easy are not the best available option for your business and that's where the principle of proactiveness comes into play. Even if some seemingly amazing opportunity falls into your lap, you need to be proactive and perform your due diligence to see if it is truly worth it to take advantage of it, because you may find that it isn't.

For example:

- A supplier contacts you at random to sell their product, which you believe would end up being your best seller.

- An investor wants to fund you and help your business grow just because they love your product.

When things like this fall out of the sky, the principle of Proactiveness dictates that you ask some important questions before you decide to take advantage of them.

Questions like:

“Is this really good for my business?”

If something comes to you, and you did not work for it, search for it, or convince anybody to give it to you, then use that extra time you saved from not having to do any of those things to perform some research so you can play Devil’s Advocate and try to convince yourself *not* to take advantage of this opportunity. You will at least have looked at those reasons in the end if you do decide to take advantage of it.

“Is this the time to take this option? Does it fit my plan and vision?”

When things come to us rather than us working for them, often the timing is off. Your friend’s father has a great new office space you can move into at a discount if you do it next month, or someone wants to give you money to become your first franchise location before you’re ready for expansion. Even if everything checks out and the deal looks great and you are not going to lose any money, the timing can still be an issue.

When you are building a company you should be the one in the driver’s seat and choosing the path of how the company grows and transforms. The opportunities that come your way and the things that fall into your lap often change the direction your company is headed. They might very well be the better options, and could be opportunity’s famous “knock on the door” that we have to open, but first make sure you think it through and make your decision knowing that you are changing things around. Analyze what the tradeoffs are and ask what you are changing in your priorities and plans by taking advantage of something that's fallen into your lap. Ask what you may be preventing yourself from doing by taking this opportunity.

As long as you are the one steering the operation regardless of what unsolicited opportunities come your way, that is what matters. The proactiveness principle, like the scalability principle, is the one that requires a thorough analysis of the trade offs involved.

Minimum Cash

The important point about this principle in making your first business decisions and all consecutive decisions is the same question we asked earlier:

"What is your decision buying and costing you?" I am talking about the trade-off. When you are deciding on which customer relationship management software, which accounting system, which phone system, the size of the office space etc., every single one of those decisions is costing you something.

A cheaper accounting system might save you $300 per month compared to opting for a light Enterprise Resource Planning (ERP) system, but what will this decision cost you in quality of operation? Going with the cheaper option might lead to increased costs elsewhere because your business won't run as efficiently without the more robust ERP system, thus negating the money you would have saved. Also, if your business grows quickly, you will have to upgrade your system soon anyway. When you consider all those, saving $300 times 36 months at slightly over $10,000 doesn't seem nearly worth it.

On the other hand, spending time and effort to find an insurance broker that can help you decrease your workers comp costs from an average of 3.3% to 2.3% by better classification can mean only a $1,000 difference (on a $100,000 payroll) in your first year, but could mean $10,000 in your third year (for practically apples to apples).

All these principles are here as a toolbox to help you think through things beyond your regular way of thinking. You can afford to make bad decisions as long as you make enough good ones. A business can survive as long as it creates enough cash from its good decisions to pay for its mistakes.

Chapter 12: Running the Company

Numbers are the language that everyone should understand. Providing the math is right, numbers will never lie to you. They can always be counted on to give you an honest assessment of how you're doing, where you need to make improvements, and when it's time to celebrate success.

How to Set and Measure Goals

Running for the sake of running is great, but I find that I always perform better when I have a specific destination in mind. I know exactly where I'm going, even if it's right back to my house. I always feel like I'm going toward something. Setting goals in your business will keep you moving toward something in the same way.

Setting specific goals serves three important purposes:

Long term vision and direction: Goals define where you ultimately want to go and give you the direction to get there.

Motivation to achieve and break through: Your goals give you motivation in two ways. As you achieve your short-term goals piece by piece, you and your team will strengthen your operations, refine your processes and receive that extra boost to move onto the next goal. The second way your goals give you motivation is by giving you something to visualize. If your goal is to retire to a beachfront house and sip wine with your spouse, visualize that beach, that house and that glass of wine.

Decide and Prioritize: Have a well-defined goal. It will be easier to decide the thousands of things you will have to decide on from the day you start to the day you sell your business. Always ask yourself: “Which choice will help me achieve my long term goal?” Usually the decision will be much clearer after that.

Now you have to set your goals.

Rule One: **“Some is still not a number; soon is still not a time."** - Don Berwick. Another, more succinct way to put this: Be specific. Define your goals to as precise a number possible. Set reasonable expectations and don’t stretch your estimates too far.

“We want to be the most visited coffee house in Mariposa County, California by the end of the year.” “We want to create and be known as the best automated doggie door.” Neither of these goals actually contains a number, but the alluded to number (“most visited,” “best”) is one, as in being No. 1.

Rule Two: **Divide your goal into manageable segments.** Make your plans in steps to avoid getting discouraged and to set reasonable expectations for yourself on a day-to-day basis. If you’re trying to be the most visited shop in Mariposa County, California then go for it; make sure you take the clear steps needed to get there at a reasonable pace.

To have the most visited coffee house, you better know how many visitors per year you are talking about. Do your research. Look at both first hand and online statistics about average coffee house visits in California. Look at visitor numbers for larger coffee houses you will be competing against so you can come up with a number that you need to beat in order to be considered the most visited. You may need to do some extrapolations.

Let's say that you find the most visited coffee shop is a major franchise or chain shop that gets 120,000 visits per year. Now, per-year visits of 120,000 may be difficult to accomplish in a center with a population of less than 20,000, but Mariposa is right on the way to Yosemite National Park from multiple larger cities, so deciding where to put your coffee house might be a little easier now.

To get 120,000 visits per year, you'll need 10,000 per month, which is more than 300 per day. That should help you decide on the size of the business and how many locations you are going to need. If you decide you'll need two locations, then you will need to decide when to open your second location by. In order to open that second location, what will you need? How much business does your first location need to bring in to make a second location viable? How much money will you need to save? You get the picture.

Breaking your ultimate goal into smaller, bite-size goals and making a timeline with them so you can reach each of them by a certain point in time (ie one year after opening, two years after opening, etc), will make them easier to attain and easier to expand or change if you need to.

Rule Three: Make your goals both feasible and measurable. When I say "feasible," though, I don't mean "easy." A good goal should be 25 percent easily achievable, but not more than 60 percent easily achievable. Your goals need to be challenging enough to take you places and make you slightly uncomfortable along the way. If your goals are not measurable, change them. Number of sales, number of repeat sales, number of distribution channels, total revenue, transactions per team member, customer satisfaction ratio, etc., these are all measurable.

Rule Four: Follow your goals. You cannot take a break from your goals or put them on pause. They are there to guide you, keep you accountable, motivate you, and remind you to make good decisions.

If you have a problem following your goals religiously (like me), then get yourself someone that will hold you accountable. For me, that person is my wife. The tool we were able to develop and use to keep each other accountable has been our monthly special check-in meetings, where we give updates to each other. These updates act like reminders to ourselves about our goals. If your spouse does not exist or is not the right person to be your coach as far as your goal management goes, then choose someone who can be. It could be a friend who has goals as ambitious as yours, or has had lofty goals that they've achieved already.

When you are choosing this person, make sure they have these four other qualities in addition to having grand ambitions and achievements. They should:

- Be a good listener (for obvious reasons).
- Have a positive mindset (so they can encourage you when you face struggles with reaching your goals).
- Be a reliable individual with a sense of discipline (so they will keep up with your long term regimen of meeting and talking, which will cover years).
- Be a person who likes you and who you like in return (otherwise this will not be a lasting relationship).

Finding Your Guiding Numbers

When you are starting your business, regardless of what it is, you must have numbers to motivate you and guide you along the way. There is a difference between the following statements:

- I have to make as many sales as possible as soon as possible.
- My goal is to make $67,500 worth of sales in three months.

With the first statement, you don't know how well you are doing, and how close you are to a predetermined success level. When are you going to decide it is time to celebrate and feel good? When are you going to change techniques because you have figured out you are on the wrong track with your sales?

When you use numbers, you can determine that in order to hit your goal, you have to get $750 in sales per day or $10,500 in two weeks. You know where you stand, you know when to step up or slow down for a day to celebrate. Having numbers will also make you better organized and more knowledgeable about your own company.

As far as the numbers go, it is not only goals and milestones that matter. Accounting and budgeting is also important. Having good bookkeeping and a comprehensive accounting system is crucial. Whether you do it in-house or use a service provider, you should keep your accounting up to date and accurate to a fanatical degree. Don't just enter data. Use your reports. We will talk about how to choose which reports to check and review shortly, so I am not going to discuss that now.

What I *do* want to stress now is the importance of making sure numbers work for you. Know them and use them. Don't just create data for the sake of creating it. When making decisions, use your data as a basis for those decisions. When planning and prioritizing, review and process your data to help you. It is mind boggling for me to see how analytical and intelligent entrepreneurs miss seeing the big picture when deciding on where to spend their money. Sometimes it just takes simple division like spending per customer or spending per new account to find out that you should not go through with a certain marketing campaign or exhibit at a new trade show.

Which Numbers and Charts to Look At

Starting a company is a long journey, often without a set destination. It is easy to forget you are going somewhere and get distracted watching and reacting to your immediate surroundings.

That is why numbers matter. They are your milestones, your scorecard, your tell-tale signs. You need them and you have to know them. But, which ones? There is data everywhere to be consumed.

In 2000, when I was starting my first online business, you were considered advanced if you actually knew the difference between “hits” versus “pageviews.” If you don’t know what “hits” are, you’re lucky because it turned out to be completely irrelevant. Today, with programmatic marketing, you can buy advertising on a specific page on a complete stranger’s social media account at a price that a program decided on just because the person viewing that page is likely to be a good prospect for your advertising based on over 300 different criteria gathered from thousands of different data points.

Unlike when I started out, where you had to hunt for the data to view, now the bigger task is deciding which data you should look at and how to use that data.

Start with the end in mind

Looking at data for the sake of looking at data is pointless. The first thing you have to consider is how you are going to use the results of whatever report you are looking at and what you will be able to change when looking at these numbers and figures. Imagine you are looking at a roadmap to decide if you are going the right way. Is this map telling you which way is north and south? Is it relevant for you to look at the elevation if you can't use that information to make a change in your actions? It will likely be extremely relevant to know which direction you're going, but not so relevant to know what elevation you're at, so it would be good to pay attention to the direction markers and not so much the elevation indicators on the map.

Similarly in business, you don't need to look at all the numbers, only the relevant ones. You can use the following reports as a roadmap to help guide you through the business landscape:

- Profit and Loss Statement: This is a no-brainer. If you are not making money, you are losing money. But what are you going to change in your business to change the bottom line? If your sales/profit by item, vendor, marketing channel is not telling you a story that you can use to make adjustments, then you are not getting the information you need to make a difference.

- Cash Flow Statement: We've already discussed cash flow in detail, so you know this one is obviously important. Failure to consider the Cash Flow Statement by most entrepreneurs is a mystery to me. I said this before, and I will probably say it again since it is so important: A business will not go bankrupt because it is losing money, a business will go bankrupt when it runs out of money. When there is no money to pay for things, there is nothing to turn the wheels of your business and it simply stops. The way money accumulates in your bank does not necessarily run parallel with the profit you make on your Profit & Loss statement. You should definitely be Cash Flow Statement literate.

- Business Activity Reports: This will depend on your line of business and how you sell whatever it is you sell. If you are an online business, it can be your website activity, your paid traffic, search engine organic traffic, return visitors, time spent on the site, conversion rate and all those other wonderful figures that come from your Google Analytics. If you are a brick-and-mortar store, it is your store traffic. If you are business to business company or one that sells high ticket items, it can be your lead generation and conversion rate. Look at what you do, and the steps involved from lead to prospect and from prospect to sale and then choose the critical steps that will be success drivers of your sales and profitability and monitor them. It is easy to fall into the habit of looking at too many numbers since they are all technically relevant to your business and they’re easily available. But, don’t. It is hard to monitor and come up with targets for more than a few figures at a time. Given that you are obviously going to be monitoring your sales and profit, I would not come up with more than three or four other metrics. When deciding on choosing which metrics to track and target, heed this advice:

    - Try to find metrics that drive other metrics. For example, the number of people coming to your store or the number of people who fill out a form on your site are drivers of how many leads you have.

    - Find a metric you know you can change. If you are a store in an airport and you have no direct way to influence the number of visitors that come into the building that houses your store, then don't track that. Track something you know how to impact instead like how many people see your signage and ads within the airport.

    - As soon as you get some, base your goals on historical data and have a plan for reaching those goals. To start off, it's okay to just try and beat your numbers from last month. But, as your business starts to get a bit of history, you'll be able to use your historical data to drive your goals. Trying to beat your numbers from last year in a given month or quarter is a good goal.

- <u>Sales Reports</u>: If cash is the wheels for your business, then sales would be the lubricant that makes it possible for the whole thing to run. It is the top number that all other numbers derive from. That is the reason I recommend you and all your key team members should keep close tabs on sales, including weekly, monthly, year-to-date and year-to-year. The simplicity of the sales figure is both its power and its weakness. Since it is so simple to keep track of, it can become the dominant figure that overshadows all other numbers. But, don't let it. Making sure the other numbers like Profit, Cash Flow and other Key Business Activity reports stay relevant is crucial and it's your job as a leader to make sure people don't get so caught up in sales numbers that they forget these other important data points.

Ratios and History are Your Friends

Ratios are simple but powerful figures that can help you monitor exactly how well you're doing even if you're company is fluctuating in size from year to year. Also, your historical data can be used as a measuring stick to determine how well you're doing from one year to the next.

When monitoring data, compare your current numbers with your historical numbers and ratios. For example, if you want to see how you did last month, don't just compare your numbers to the previous month because the previous month could have been during a high or low season for you. Compare it to the same month from last year and ask yourself if there were significantly more or less weekend days because that can sometimes make a difference. Let's say you only cater to other businesses and therefore only do business on weekdays. There is a difference between a month that has 22 weekdays (a typical March) versus a month with only 20 weekdays (a typical February). There is a 10% difference in the amount of time available to do business and that could mean a 10% difference in sales between the two months, all else being equal.

Ratios not only work when comparing different seasons and dates, but they are also highly useful when looking at contracting and growing your business. Some of the best numbers to monitor (and later use for insight and decision making) are:

- Gross Revenue per Employee
- Net Revenue (or profit) per Employee
- Revenue compared to Employee Cost (Payroll plus Benefits minus your pay)
- New Customer Revenue compared to Advertising Expenses
- Gross Revenue compared to Gross Rent (or 1,000 sq feet if you prefer)
- Your Net Profit Margin (Net Income compared to Revenue)
- Your Gross Profit Margin (Gross Revenue minus Cost of Sales) compared to (Gross Revenue)

- Your Customer Acquisition Cost (Advertising Spending per New Customer Acquired)
- Average Inventory Value divided by Gross Revenue

The above reports are examples of some important ratios you can review each month to see if you are on the right track or need to make changes.

For example Revenue per Employee, or Revenue over Gross Rent are useful when you are considering hiring more employees or expanding your business. You have to have good justifications to hire more or rent more space when your ratios are going in the wrong direction.

Now, let’s talk about what drives your company: People.

Chapter 13: People, the Backbone of Your Company

I’ve made many mistakes in my life, and the chapter of my life with the majority of those mistakes was early in my entrepreneurial career. On one long flight years ago, thanks to a broken laptop, my boredom led me to do the third-smartest thing I’ve done in my life (the smartest thing being marrying my wife and the second smartest being frequently mentioning the smartest thing to my wife). I took out my notebook and started listing the major mistakes of my business life. I am going to save you the trouble of reading through my list, but what I can tell you is that almost 80 percent of mistakes were related to these two things:

- Lack of Focus (30 percent): Getting Distracted from the goal by running after new opportunities or not identifying and focusing on tasks that were important to my goals.
- People (50 percent): Hiring wrong people, hiring too late, firing too late, spending too much time with the wrong people and too little time with the right people.

Let's skip the lack of focus part of my mistakes since that is more of a personal trait and there are many of you that will never have to deal with that. On the other hand, dealing with the wrong people is something that almost everyone has experienced. If success in business is making more money than your mistakes cost you, then it is important for us to spend some time focusing on how to minimize those mistakes.

Helpful Quotes

"If your dream is bigger than your team, you have got to give up the dream or grow up the team."

- Dave Anderson, Up Your Business!: 7 Steps to Fix, Build, or Stretch Your Organization

It is the people that matter most. What is a business, after all? Goals, Resources, Processes and People. And guess what? People can come up with goals, find resources and build processes. But goals, resources and processes can not come up with people.

People are what make your company a company and are the main reason good leadership matters. Leaders lead people, managers manage resources.

Forming Corporate Culture

Before we get to the part where you hire people, we have to discuss corporate culture because even when your company is just a single person, you are still creating the culture that will be the defining force within your company. Yes, even when it's just you sitting alone in your garage or your office, the seeds of corporate culture are being planted.

Most of you will be familiar with the concept of corporate culture, having been part of one at some point in your careers. For the purposes of this book, I define corporate culture as: the cumulative sum of all values, attitudes, traditions, principles and systems within a company, plus the meaning employees attach to being part of that organization. Being thrust into an existing corporate culture is vastly different than molding one from scratch.

The simplest way to ensure you are creating the culture you desire is to know what traits you want your business to be known for so you can hire people who exude those traits. A simple exercise you can do to help you with this is to write down a list of adjectives you want people to think of when they picture your organization. Be reasonable and keep your list relatively short. Five adjectives is good, 10 is pushing it and anything over 10 is wishful thinking. You can't be everything to everyone and your business can't be everything to everyone either, nor should it. Your business should encapsulate those traits that you most want it to be known for.

Keep in mind that your corporate culture is different from your brand identity. For example, if you wanted to sell one of those man-ified products (manly nail polish, maybe), then you would likely want "rugged" to be part of your brand identity. But, rugged may not be a trait you would want to associate with your corporate culture, as it connotes being a bit rough around the edges and even the most manly of businesses should aspire to run smoothly as possible. You may want to use “casual” or “informal” instead to convey something similar while still maintaining professionalism.

When forming the culture of your business, there are numerous elements to take into consideration, including who you hire, how you design your office, how you compensate people and more.

Hires

We will talk more about the hiring process later, but for the purposes of molding your corporate culture, who you hire will determine almost more than anything else what kind of culture your business conveys to the world. It is the people who create the culture and it is they who are responsible for embracing it and performing their duties within its framework, which is why you probably wouldn’t want “rugged” as part of that culture, even if it’s part of your brand identity.

A successful company is almost always diverse in skill sets, experiences and personalities. But, if you favor a certain trait in your employees that you believe will contribute to your vision of the corporate culture you want your business to have, start looking for that trait right from your first hire. You can identify the trait you’re looking for by the questions you pose during the interview process. Sticking with our “informal” theme, you could ask candidates where they feel most comfortable pitching new ideas to higher ups. People who prefer a more informal work environment might say in the break room over coffee while people who prefer a more formal work environment might say in a scheduled meeting.

This is just one example, but the point is you should tailor your hiring process to identify candidates who espouse the traits you are looking for while also keeping in mind that sometimes the right combination of skills and experience can trump the traits you are looking for. Don't let a truly talented candidate who can improve your business exponentially slip through your fingers just because they're a bit stuffier (or whatever) than you prefer.

Interior Design

If your business requires a physical space, how it looks and what it contains says a lot about the kind of corporate culture you want. The colors, the amount of open space, the design, the layout, etc. all speak to what type of environment you are trying to create. All white walls with rows of cubicles gives off a much different impression to employees, the public and investors than walls painted with graffiti murals and an open concept workspace.

You probably recall several years ago when every company wanted to convey "fun" in their corporate culture and started putting slides and various table games in every other room. While it got to be a bit grating to hear about how much of a playground every tech business was turning into, this is probably the most obvious example of how design affects culture in the office or workspace. What could be more informal than a slide in an office? A swing set, maybe? The point is your office design and decorating put people into a certain frame of mind while they're there. A lot of open room where people can bump into each other or just sit and relax together conveys an environment where impromptu conversations are facilitated and collaboration is encouraged. Cubicles are usually more indicative of work that is done on an individual basis where some privacy is required, like a call center.

It's a bit premature to start planning your office before you've even become established, obviously, but it's worth keeping in mind for your eventual success.

Performance Reviews

Performance reviews, particularly ones that only happen annually or biannually, have come under fire in recent years because it's been pointed out that they may do more harm than good. However, regardless of how you do it, you need some way of tracking the performance of employees and telling them whether they are performing their duties well or otherwise.

What you deem to be important during your performance reviews and how you reflect that in the review reports demonstrate your organizational priorities to your team members. Do you value customer service above all else? Then that should be at the top of the report (literally, above all else). If you want your corporate culture to reflect an absolute dedication to service, then it makes sense that you would put that at the top of your list of items to discuss.

Compensation

You can't buy corporate culture, but you can shape and influence what your team members focus on by how your company determines the monetary compensation structure in your company. Raises, bonus structures etc. should be aligned with the cultural elements you want to foster.

Although small businesses almost always have to keep tight budgets, especially when starting out, let's say your company starts becoming successful and then you start hiring a team. If you pay people the bare minimum and wait until they come and ask you for a raise before giving them one, that's going to convey a culture of cheapness and uncaring. If, instead, you offer above average wages and have a solid plan for when and how to offer raises or bonuses, that conveys organization and transparency.

If you give bonuses based on either having the most sales or hitting a certain sales quota, you're fostering a culture of competitiveness either amongst staff or individually and if you structure your bonuses based on a customer rating system, you'll be fostering a culture of service.

Compensation also speaks of your culture to the outside world. Think about how you felt the last time you read the CEO of a major corporation was being compensated millions of dollars while the frontline workers were being paid minimal amounts. You probably felt -- even subconsciously -- that the company had a culture of unfairness. As with the design of your office, you may be a long way from having to worry about being the head of a multi-million dollar company, but it's worth noting the optics of taking too much of the pie for yourself as the head of a company.

Rituals

Rituals bring people in organizations together. You might associate the word more with cults than with companies, but rituals include celebrations of work anniversaries, birthdays and personal and corporate successes. Getting involved in recognizing an employee's birthday is vastly different from not recognizing birthdays at all. When you get to your five year anniversary, will there be a massive celebration or just a little notice in the company newsletter?

It could be five minute team mediations in the morning or ringing a bell after a big sale, but whatever it is, rituals bring people together because they make people feel like they are a part of something exclusive. You can use rituals to strengthen team relationships or bolster employee loyalty.

Communication

How and how often you share news, give updates or solicit feedback is an important indicator of the type of values you want your company to espouse. There is a major difference between a one-page company newsletter emailed once per month and holding regular town hall style meetings in the office every week. The former is a one-way street of communication that flows from the company to the employees with no recourse for discussion and the latter is the exact opposite.

The genuineness of the communication and the extent of the information shared all show your team members what kind of a company you are. Communication becomes that much more important when you factor investors into the mix. Anyone who has a financial stake in your company will be especially interested in what you share. You also might be governed by specific regulations when it comes to communications and investors. And, as always, your customers/clients and even the general public have to be considered when formulating your communication plans.

More than any other element of corporate culture, communication is the one that you really have to make sure you're separating the business culture from the branding. Although your advertising does give an indication of the culture of your company, it's important not to get that mixed up with the internal and external business communications of the company, which, as mentioned previously, is different from the communications that pertain to your brand identity.

Promotions and Dismissals

Who you fire, who you promote and how quickly you perform these tasks impacts company culture. That includes what you consider to be appropriate and inappropriate behavior and how long you are willing to put up with inappropriate behavior before taking action. It also includes what you consider to be rewardable behavior and how much of that rewardable behavior you see before you honor it with a promotion or some other kind of accolade.

It's probably safe to assume that most business owners wouldn't put up with dishonesty or bullying in the workplace, but the real test comes when it's a star employee. If it's your top salesperson doing the bullying, then are you willing to give out a few more warnings than if it was a lower performer who would only get one warning?

For promotions, do you plan to do it by merit or seniority? There are pros and cons to both, but regardless of which way you choose to do it, you'll be shaping the culture of your business. Promoting by merit says you prefer to reward people based on the work they do while promoting by seniority says you prefer longevity and loyalty to the company.

Business Processes

This alludes to the amount of paperwork your company deals with, how your company meetings are structured, the design of your hierarchy and the way the various business departments interact with each other, among other things. As your company grows, your business processes will become more important in not only shaping what type of company you are, but in determining how flexible or fragile your company culture will be.

If you want a culture of adaptability, for example, the traditional vertical hierarchy structure won't be a good idea for your business. The typical top-down chain of command makes it more difficult to pivot your company in a new direction if you need to and makes it more difficult to react swiftly to challenges and crises. It also typically involves a lot of paperwork, as the people at the top have to sign off on everything. That's not to say your business should be a free-for-all to be adaptable, but you'll need to find a balance.

Whatever way you choose to structure your business and develop your workflow, you should have a solid company structure in place before you hit 50 employees. Trying to implement one after that is incredibly difficult. The best option is to design and implement your structure as you add employees.

Team Building Activities

Every boss wants their team to get along. Even in a competitive environment, team members should be friends at best and be able to tolerate each other at worst. Maybe you want to be hands off in this regard and let employees form natural bonds and friendships as they may or you might want to be a little more involved and organize team building events for your staff. What events you choose, how often you have them and how they're organized affect the culture of your company. Will you choose boot camps that put people through military style training or will you opt for fun and frivolity?

You may want to choose team building exercises that also make a positive social impact, like group volunteering or group fundraising. This serves a double purpose of bringing your team closer together and helping you instill a sense of caring and empathy within your organization. No matter how you do it or even if you choose not to do it, team building is a key cultural indicator for business entities.

Your Leadership

This is it. This is absolutely the No. 1 indicator of what type of culture your company will have. Even if you meticulously detail the type of culture you want to have and you hire the right people and design your office the right way and do everything else the right way to develop the type of culture you want, if your leadership is the exact opposite of that, all your efforts will be undone. You have to lead by example. Just like with parenting, what you do is always more important than what you say.

It is not one moment, one presentation or one crisis that defines you, but how you carry yourself as a leader every single day. So, you have to use yourself as the number one tool for your corporate culture development. If you want to make a change in corporate culture, you have to start by changing your own behavior. If your company has more than one recognized leader -- like multiple co-founders -- you all need to have a unified message so as not send contradictory messages.

Hiring Your First Employee

Let's now switch our attention to hiring. As alluded to earlier, who you hire is of the utmost importance when creating the cultural blueprint of your company. Specifically, let's talk about hiring your first employee because that is easily going to be your most important hire. It's no exaggeration to say that a bad first hire can sink a fledgling new business, so you need to treat it with the gravity it deserves. I've learned a few hard lessons about hiring that initial employee over my years as an entrepreneur. Good ones are too rare and bad ones are too plentiful, but you can mitigate the risk of hiring one of the bad ones.

Spend a lot of time on that first hire

A mediocre hire -- someone who doesn't believe heart and soul in what you're doing -- can poison the culture of the company before you even get a chance to establish that culture. In amongst all the other work you'll be doing to get your business up and running, you should spend about 25 percent of your time on that first hire.

That might sound high, but if you don't, it could cost you your whole operation. That's not to say that you should be spending a quarter of your time right from the beginning of your endeavor on hiring because you won't be ready to hire for a while. But, once you are ready to make that first hire, you should be prepared to spend a good chunk of time doing it.

Yes, that's going to mean spending a lot of time combing through resumes, verifying embellished information and scheduling a lot of interviews in the already scant time that you have, but nobody (who wasn't lying) said starting a business was easy. People are the most important component of your business, so give your hiring process the time it deserves, especially for that all important first hire.

Hire your first employee for who they are, not who you think they can be

As you're interviewing candidates, you are likely to talk with some who you feel aren't exactly what you're looking for, but who you like as people. It's tempting to tell yourself these candidates will just "grow into the position" that you are hiring for. Don't.

After your company is well established and there is less risk of it folding, you can take chances on candidates who are not quite right for positions but who you feel will fit into them eventually. In the fragile startup phase, though, candidates should be as close to perfect for the position as possible. Use their past accomplishments to judge this, not your gut instinct on whether they'll blossom into something they haven't proven to be yet. Focus your job interview questions on past accomplishments, previous work experience, and what excites and motivates them, rather than subjective questions to gauge their potential. Even if you don't really like the person, but you truly feel like they will be able to help your business grow, you're better off hiring them than someone who you would go have a drink with, but who doesn't have the requisite experience for the role.

Remember you're developing your corporate culture

Related to the corporate culture section above, hiring that first employee is one of the first steps to establishing that culture. As you are writing down your list of traits that you want your company to portray, write down another list for traits you want your employees to possess. These might end up being essentially the same, or you might write down employee traits that you believe would support the company traits. Either way, you'll be laying down the blueprints for the culture you are building.

Invest appropriately in your first employee

You must invest in your first employee by providing the training and resources for them to become the best version of themselves. Of course, a small business is going to be cash conscious, but you should make sure you can either train your first employee yourself or be able to send them for the training they require. Once they're trained, they'll need encouragement and reassurance. Give them that and they'll stay for a long time. Think of it this way: You're not just hiring someone to fill a position, you're investing in someone's future as an investment in your company's future.

This is why you have to hire someone who is trustworthy, as well. You obviously don't want to train someone and then have that person leave immediately to use that training somewhere else. Find people you can trust to stick around and support them accordingly.

Trust and empower your first employee

If your company is to grow, and have a scalable structure and thrive when you are not around, then it has to have empowerment in its DNA. The best time to establish this DNA framework is when you're developing the relationship with your first employee. If you've hired right, you should have no problem giving your first employee more responsibility as the company grows.

You need to be cognizant that mistakes will be made and your employee will be learning and growing as your business grows. An employee won't be able to do that if you are constantly hovering overhead or they believe they are under continual threat of dismissal.

Although you should easily be able to approve everything when you start, you will need to let go of this mindset as your business grows and let others have some decision making power. It's a learning process for new business owners, but many a first-time entrepreneur has stifled growth and killed their company because they have not been able to get comfortable letting others make decisions (and the inevitable mistakes that come with some of those decisions) and they've caused a bottleneck where there should have been free flow.

Don't get squeamish if you have to drop the ax

If you find your first hire is not going to work out, you need to act fast. It's not just for your sake and the sake of the company, it's also for the sake of that employee. They deserve to be in a job that suits them and where they can grow as an employee and a person. Don't hold off on letting them go if you see things aren't working out.

There is a line between accepting mistakes and allowing an employee to grow and knowing when that employee is going to be more of a hindrance than a help to your company. Figuring out where that line is and when an employee has crossed it is not an exact science. For that, you will have to rely on your gut a little bit.

Hiring the Rest of Your Workforce

Once you are established, you'll want to build a great workforce, obviously. To do that, you need the right people to fill leadership roles and the right people to follow that leadership. Much like hiring that first employee, there are ways you can ensure you are bringing the right people on board once you have your business footing.

Have a process and stick to it

Finding an employee is an important and often emotional decision. Although emotion isn't really something that is supposed to affect the hiring process, we are human beings and thus instincts and emotions can drive a decision even if we don't want them to. By following a step-by-step process where you ask all candidates the same questions, you'll be able to compare them better without your emotions playing too big of a role in the decision.

That means consistency. Ask the same questions in the same order. Record the proceedings if you can't do all your interviews around the same time so you can go back and compare if you need to. Try to keep all interviews to the same set amount of time (but don't force anything if it's going longer or shorter). You want to keep things almost formulaic for the interview process so you can make an objective decision.

Never delegate if you are not 100% sure

In a small business with fewer than 50 people, never delegate the hiring of new employees to someone other than yourself or top management. Even at just 50 employees, a new worker is two percent of your workforce, so hiring a good or a bad employee can make a big difference. Think about it this way; if a client was two percent of your business, how well would you know that account? You'd probably know it inside out. That's essentially how well you want to know your entire workforce when your business is getting started. Hopefully, your business will grow to a point where you'll never be able to know your entire workforce that well, but if you've hired and trained people correctly, you won't need to know all of them that well.

If you're going to delegate something, rather than delegating the hiring, give other employees your usual duties so you can perform the interviews and hiring. When your business gets big enough, you can let managers do their own hiring, as this is one of those steps to helping them grow as employees.

Always do the first interview on the phone

According to researcher Frank Bernieri, an associate professor of psychology at Oregon State University, within the first 10 seconds of meeting an interviewer -- otherwise known as the meet-and-greet -- that person has decided whether or not a candidate is right for the job. Those who come across as polished and pulled together are more likely to be hired than those who are seen as putting in less effort. And while book covers can give you a pretty good idea of what's inside, that's not always the case.

To avoid being won over by someone's polished demeanor, I suggest doing the first interview via phone even if your potential candidate lives within a five minute walk of your company. That way you won't subconsciously make those snap hiring decisions within the first few seconds of meeting someone. You can follow your formula and ask everyone the same questions and judge people on their answers alone rather than how snappily they are dressed or how attractive they are. You'll be able to give the candidates an initial round of vetting this way, too. Only call in the ones who gave the best answers for in-person interviews.

Stick to evaluating what they have done

When you evaluate their experience, stick to what they have actually accomplished, which can also include non-work related items like volunteering or education. While this may seem obvious and easy to do, often people will end up liking a candidate they interview on a personal level and overlook any gaps in experience, telling themselves the interviewee just worked for the wrong firm before and with your company things will be different and the candidate will really shine.

Lack of experience may not be entirely their fault, as they really may not have had a chance to do the type of work you're specifically hiring for. If you're looking for someone who does have experience in the position you're hiring for so you don't have to train someone from scratch, don't allow yourself to be charmed so much by someone that you overlook that lack of necessary experience. This is yet another good reason to perform an initial interview over the phone.

Questions to ask and how to evaluate the answers

Ask these questions in your interviewing process to get a better understanding of your potential candidates.

- **What was your biggest mistake in your previous job and what did you learn from it?**

If the person says they didn't make any mistakes or they tell you it was something inconsequential, that means either the person is not telling the truth or they did not take any risks while in that position, neither of which is good.

It may seem counterintuitive to say that not taking risks is a bad thing, but people who want to make a difference at their position and be proactive within their company will take risks. Sometimes that means making big mistakes, but as long as they learned from them and used those lessons to make themselves and their organizations better, that's what counts.

- **What accomplishment are you most proud of?**

You can append "business or personal" to this question or ask for examples from both facets of life or you can just leave it up to the interviewee to give you their proudest accomplishment and see what it is.

What they consider to be their proudest accomplishment will tell you a lot about who they are and what they consider important in life. If it's something that fits in with the corporate culture you are trying to create, that's even better.

- **Who was your best supervisor and why?**

They don't have to name the person, just tell you about the person and what made their supervision so good. Interviewees can be less than forthcoming with the truth when applying for a position they want, but they are less likely to lie when talking about other people and what made them good at what they did. Also, it will tell you what kind of supervision the potential candidate prefers. They might say their best supervisor was someone who gave near-constant feedback or they might say their best supervisor only checked in once per month. Either way, you'll know what they consider to be an optimal amount.

- **Who was your worst supervisor and why?**

Often, I ask both questions since between the two it is easier to get the truth and form a more complete picture of the interviewee. Plus, just as you'll learn what they consider to be the best supervision style, you'll also be able to glean what they consider to be the worst style of supervision.

- **If I talked to [the person the interviewee named as their best supervisor] and asked him/her to describe [name of interviewee] in a few adjectives, what adjectives would they use?**

For this question, it is important to use the interviewee's name rather than saying "you" because it will put them in the frame of mind of talking about a third person rather than themselves and this will get you a more honest answer. You would be surprised how much this question works. Try to ask it toward the end of the interview after you've established a good rapport with the interviewee.

One last thing on the questions: don't be afraid of silence. Often the best answers from a candidate will come right after that moment of awkward silence. Interviewees often feel like they have to say something to fill a moment of silence and, in lieu of anything else to say, they will usually expand on the answer they've just given you, adding a completely unscripted part to it, making it more honest.

Beyond the Interview

Don't forget the interview process isn't just a one-way street. It can be a huge blow to your corporate ego to find the perfect person for the job only to make them an offer and have them turn you down. To make sure the candidate that you prefer says yes to your offer, you have to make them want to work with you and your company.

Always be Selling

Winners like to work with winning companies and winning supervisors, so make sure for at least 30 percent of the interview time, you are selling your organization and your goals. Don't overdo it, but do it. Things like benefits, bonuses, training, career advancement opportunities and perks can all incentivize a candidate to accept your offer.

Also, when you are introducing prospective candidates to your team members, be conscious of which team members you introduce them to because some of your team members might give the wrong vibe to potential candidates. Try to choose moderate team members; ones who are friendly, but not too friendly. Avoid the ones who take a while to get used to. (Every business has one or two.) Your new prospects can meet them later.

Where you post matters, but numbers matter even more

Make sure you have at least a couple of good places to post your employment opportunities. If you are budget conscious, use free services, but it's worth spending some money to find the right candidates. To find the truly amazing talent in your industry, you might have to dig a little deeper than posting on a general job site like Indeed.com or Monster.com. You will likely need to find job boards that cater to your industry and you may even have to pay to be listed on them. But, like all good expenses, you can think of this as an investment.

Use a recruiting agency and see who they find for you. They'll be able to spend the time searching for suitable candidates and can even headhunt for you if you covet an employee at a competing firm.

Speaking of headhunting; the best people to hire are ones who are currently working somewhere and not ones who are currently unemployed. The reason currently employed people are stronger prospects than unemployed people is because the former are looking for a job because they are motivated to improve themselves through career advancement while the latter are looking for a job simply because they have to. You want the motivated one. That's not to say recent graduates who haven't entered the workforce yet don't have anything to offer, but for a young startup, motivated and experienced people are a better fit.

Aside from job boards and recruiters, you can also mine your and your team members' contacts for potential candidates. Also, keep your eyes open for top talent when dealing with suppliers, competitors or just when you are out there interacting with people.

Firing an Employee

If you're a business owner, you're going to have to fire someone at some point. The best candidates can make the worst employees and people with the most amazing skills can have the least desirable work ethic. It's not the end of the world if you hire someone who turns out to be problematic. Remember that you're seeing them at their most polished and presentable during the job interview. It's after the interview and most likely several months after they've started working for you that you'll truly get to see what they're like as an employee.

Some of you who have climbed the ladder in Corporate America will already have experience with firing people, but it's more personal when it's your own company and it can be more difficult when it's someone you were really looking forward to working with and who you thought would help you build your company from the ground up. Firing someone is never easy, but you can make it easier on both yourself and the employee.

Remember this person deserves to move on

If you have decided to fire someone, do it immediately. That person isn't likely going to have some kind of miraculous turnaround and make you change your mind. Most people don't fire someone the first time they draw negative attention to themselves (unless it's something truly egregious). You've likely already given this person a second or maybe even a third chance. If things haven't improved and there is no chance of this person getting promoted within your organization, then you should let that person get a head start on the next chapter of their life. They might walk out the door and into their next opportunity or they might use this dismissal as motivation to become a better employee.

Look out for your company and your team before an individual

The health of the organization comes before the career aspirations of any individual, even you. Therefore, it should be easy to let someone go if they're not contributing to the health of the company. If you leave a problematic employee in your organization, the problems they create will grow. No matter how much you like a person or how much you hate admitting you were wrong about a person, you ultimately have to let them go for the good of the company. Your other employees count on your company for a job and if one person is poisoning the environment of that job and risking the downfall of the entire operation (sounds dramatic, but it could happen), you could be putting a lot more people in jeopardy of unemployment.

Demonstrate a culture of accountability

You need to establish an environment that has consequences for poor behavior. If you have established yourself as a fair leader, your team will know that you did not make the decision to fire someone lightly. Your decision will emphasize the importance of accountability in the workplace and even those who disagree with your decision will respect your intentions.

Shape the culture of your organization

Your decision to go through with the firing will strengthen both honesty and performance in the workplace. It shows that consequences are real and that you don't just put up with the status quo in your workplace if it goes against your corporate culture.

Firing someone is the most forceful way of holding someone accountable, but if it's necessary and it improves the organization (including people's perception of the organization), then it should be done. It sends a message to your other employees and other stakeholders that you will take action when necessary.

When it comes time to do the firing:

- Be firm and confident in your decision.
- Be polite.
- Don't argue with the person.
- Don't patronize the person.
- Stick to the facts about why you're firing them and don't make it personal.
- Know what you are going to say in advance.
- Be prepared to deal with a potentially negative reaction.

Sometimes it can be extremely difficult to fire someone, especially if you like them. I personally had to fire an employee who had been with me through many hard times and many growing pains for my companies. More than an employee, I regarded him as an essential resource and I felt I even owed him a job because of what he had done for me and my businesses.

So, when I started seeing signs of negative behavior from him like feeling entitled and claiming he was underappreciated, I ignored it and did not take action. I let my feelings get in the way and blind me to how his behavior was affecting the other employees and the corporate culture in general. This led to a poor leadership decision to ignore the problem even as I could see it developing right in front of me.

In the end, I ended up firing him. This was particularly scary for me because I considered him such an integral part of the company that I wasn't even sure how it would continue without him.

Once I had fired him, I realized that keeping him around for as long as I had was actually a big mistake. I found a new appreciation for the phrase "hire slow, fire fast."

After he was gone, I learned that at least three other people in the organization were on the verge of quitting because they did not want to work with him anymore. If iI had not fired him, they would have left and the company would have been in real trouble. You may have to hurt some feelings (even your own) when you're firing someone, but if it needs to be done, do it.

Hiring and firing people are elements of change in a business. Managing change is the most important aspect of running a business and staying alive in a competitive environment. Let's take a look at how to manage change in a business environment.

Chapter 14: Managing Change

Starting a business is one thing. Building it up day by day from non-existence to a functioning, money-making entity is another. For most, this stage of initially running your business is more exciting than actually planning and getting it off the ground.

You are finally in action, trying to make a change in the world. Your assumptions and expectations are either becoming realized or being proven wrong. You are experiencing a rollercoaster of emotions as your business takes its first steps and gets going.

There are a few principles and best practices you can employ during these chaotic moments of change that will help you steer through them.

Keep Your Eye on the Ball & Change Only with Intention

All the aforementioned ups and downs and the barrage of never-ending details you need to attend to can make you dizzy. It is easy to lose your focus and be reactive to what is happening in your business. Whatever is happening, though, keep this question in mind and ask it to yourself when you are deciding on what or what not to do: *Is this going to serve your goals?*

It’s impossible to have an exact step-by-step plan to follow to accomplish your goals. We have to improvise and react. But, when we are making changes in our business, we have to stick to our path and go a certain direction. We make adjustments to go left or right not backward or forward. If you need to change your direction -- not adjust slightly, but actually pivot your company -- do it with intention.

Know that you are making important decisions, and do it with the right questions:

- What has changed that necessitates me making a change to my business?
- What have I learned so far that will help me in the future after I've made the change?
- What assumptions am I making right now that have caused me to make this decision?
- Is my current decision depending on any assumptions? And what are those assumptions?
- Do I *have* to do this or do I *want* to do this?

Here is an example for you from the world of Lyft and Uber.

Lyft started in 2007 as Zimride, an intercity ride sharing service to help people find rides through social networking. Its model depended on licensing the platform to universities (about $10,000 per year) and then facilitating these intercity trips between riders. In May 2012, Zimride announced Lyft, their new app that would allow users to request a driver immediately, rather like a taxi service. It was a completely new business model, new mission, and a new platform.

- Its business model changed from universities paying fixed fees to getting a percentage of money collected by drivers.
- Its new mission changed from connecting students with rides to connecting people in general with drivers.
- Its new platform went from depending on Facebook to being its own mobile app.

Why the change?

- Lyft founders tried the model they thought would work, but saw something else that gave them a wider perspective, and they changed their model accordingly.
- They saw first hand that people in general were willing to pay for rides from anyone willing to give them one, and they didn't have to limit themselves to students.
- There was no iPhone when Zimride started (in fact their original funding came only within weeks of iPhone's first release). In 2012, when they released the Lyft app, iPhone 5 was about to be released.

Uber started in 2009 as UberCab, originally focusing on limo-type black car service. Their mission was sharing the cost of expensive high end limo service to make it more affordable. Originally, the application only allowed for luxury cars and the price was about 50% more than a regular taxi. Just like Lyft, the company broadened its scope from one specific group of people to the general public and in 2011 became Uber as we know it.

Why the change?

They saw the demand from people, the ready supply of drivers and how the value of their offering would, in turn, create value for people.

Change is not bad. It is the nature of business. All businesses, from startups and small companies to big companies, are impacted by it. According to one study, only 12 percent of Fortune 500 firms from 1955 are still on the list in 2016. Despite all their money and resources, 88 percent of them are gone. And when asked about the largest challenges facing them, Fortune 500 companies listed "rapid change of technological innovation" and "increasing regulation" as their top two challenges for both 2015 and 2016.

When you have to change, do it with intention. Change should be about proaction more than reaction.

Learn to Say the Most Important Word in Business

Managing change is about recognizing which opportunities you should take advantage of, but it’s also about knowing which ones you should avoid. When I started my first business, I thought the secret of success lay in the word "yes."

I was wrong.

It's easy to fall into this way of thinking. If you're willing to take on every task that comes your way and pursue every business opportunity presented to you, you're bound to succeed through hard work and determination alone, right? And if you refuse a task or say "no" to something, you might be passing up a great opportunity or showing people who matter that you're not willing to work extra hard for that extra revenue.

But every "yes" comes with a cost.

Saying "yes" to everything means you can eventually end up with too many products to advertise, too many business units to support, too many goals, too many key performance indicators to track and just plain too much of everything. You spread your resources thin chasing too many things, especially in the earlier stages of your company.

Many people will say "yes" even when they want to say "no" because they:

- Have a desire to please others and "yes" becomes a tool for doing that.
- Feel that if they don't say "yes" to doing something, nobody else will either and the task won't get done.
- Believe the word "yes" will get them something, even if they don't know exactly what that is at the time.
- Are surprised by a request and do not know what to say other than "yes" because it's the easiest thing to say.
- Overestimate their abilities, resources, time and the benefit they will get as a result of saying "yes."

It’s good to have a checklist to follow when you are inclined to say "yes" to something.

Calculate the True Cost of Saying Yes

It is important to calculate what "yes" might mean for you and your resources for the long term, not just the immediate future. It might be a good idea to open a new branch or product line to hit a goal or expand your offerings, but what costs would that mean in the long term and are those costs really worth it?

You shouldn’t just expand for the sake of expansion. Scaling up your operation is a delicate procedure and if you do it wrong, you could jeopardize your entire operation. So, before you say yes to expansion, realize what that will entail and plan accordingly rather than just jumping in.

Compare the Cost With Something Valuable

If calculating the true cost does not convince you to say "no," compare that amount with something you truly value. For example, compare the cost of opening that new location to hiring new people for your sales or marketing team. Which would be money better spent at that point in your business?

If it is a question of time, compare the amount of time you will have to put into the new venture to time you have for yourself or family. Do you really want to sacrifice any more of your free time to partake in this endeavour?

Remember Your Most Important Long Term Goals

Remember your top three business and personal goals for the next 10 years and ask yourself if this "yes" would contribute to those goals. If not, why say "yes?" To reach your goals, you will probably have to work extremely hard. Adding something else to work on will dilute your energy further and may not be worth it.

Think of the Opportunity Cost

No "yes" is free. And even if you might have the time and resources to say "yes" to a particular request or opportunity right now, is it really in your best interests? Remember that saying "yes" to something now most certainly means having to say "no" to something later. You might end up agreeing to do something fairly small and insignificant now that will prevent you from saying “yes” to something much larger and more lucrative later on. For example, that nice perk to offer employees sounds great now, but would that mean having less money to potentially increase 401(k) contributions for your employees in the future?

Remember That Saying “No” is an Active Act

Entrepreneurs are doers. We like to be proactive and not stay idle, which is usually a good thing. However, this can often lead us to saying "yes" to things just so we can avoid staying idle. Just like talking is not superior to listening, saying "yes" to doing something is not automatically superior to saying "no" to doing it, either.

And just like listening is an active act (if you think it's passive, you're doing it wrong), refusing to do something is an active act, too, especially if you are saying "no" to it so you can concentrate on other, more important things. So, even when you are saying “no” to doing something, you are taking action on it.

Be Nice When You Say No

Just because you're saying "no" doesn't mean you have to be rude about it. Be nice, be respectful, be firm and ignore any nagging feelings that you have to say “yes.” Ultimately, it’s your choice to do or not do something and you shouldn’t feel any pressure either way. Just assess the situation and know when it is in your best interest and the best interest of the business to agree to something.

Saying "no," especially when you're just starting out in business, can seem like you're shutting the door on opportunity and advertising that you're not willing to work hard, but that's simply not the case. You're showing that you have priorities, you have goals and you have a clearly defined path you're following and you're discerning about what you agree to.

First Disappointments

Inspiration

In a 2017 NPR interview, app developer Apoorva Mehta described the moment when a very respectable Venture Capitalist walked out of a meeting with him without a saying a word and then returned to the meeting carrying a floppy disc. After tossing the floppy disk on the desk, the venture capitalist tells him he should study the business plan of this company, WebVan, that ended up being one of the biggest venture capital investment flops of this century. They tried to do what Mehta was trying to do and failed. Essentially, the venture capitalist was telling him that his idea would not work. Less than five years later, Apoorva is running a grocery delivery app company, InstaCart, valued at $3 billion dollars.

Haim Saban, creator of Power Rangers and an entertainment industry entrepreneur, just weeks before Apoorva appeared on the same podcast, said: “When people keep saying to me this will never work, I pause and tell myself: “Hmmm, maybe I got something here.” It took him approaching over 20 networks and more than a decade to get the Power Rangers pilot a spot on a major network.

It does not matter if you are onto something with your idea, or you are completely off the mark, you will face rejections, harsh comments and criticism. You have to be ready for that. One of the hardest things about being an entrepreneur -- especially if you are a pioneer or innovator in your field -- is you will have to get used to deciding when to listen to your gut and when to listen to “the experts.” Until something is done for the first time, it is thought to be impossible or impractical. Until there is an amazing success story, there is only a dream. The job description for being an entrepreneur is believing that you have something worth pursuing when all you seem to hear is the exact opposite.

But how are you going to know if your idea will work, especially in the face of constant rejection?

The simple answer is; you don’t. That’s the inherent risk with entrepreneurialism. It’s a gamble. But, you can mitigate risk by knowing your market well, researching, talking to different people and being suspicious of what you hear and taking everything you hear with the proverbial grain salt.

Entrepreneurs have to be optimists. There is no other way. If you don’t know how to keep positive when you receive those harsh criticisms and friendly suggestions to do something else, how are you going to keep going? You are going to have those bad days, hopefully along with some good ones. When you are starting, you will most likely have more bad days than good days. So be ready. When you hear grim comments, receive negative feedback and experience disappointing developments, tell yourself: “I just have one less bad day left in front of me.” You might not know how many bad days you are going to have in your entrepreneurial life, but one less is always good news.

Chapter 15: Final Chapter?

Hmm. “Final chapter.” I like the sound of that and I bet you do, too. Our journey together is coming to an end, but your entrepreneurial journey will continue long past the reading of this book.

When I started writing this, my goal was to make it both the first and last book you would need to read from the time you decided to get unstuck from your corporate position until the time you opened the (real or virtual) doors to your brand new business.

Your business is something that will create lasting value for you and the special people around you. Any weekend you decide to work or any extra hours in the day you decide to stay at work will be for something you own and not something that somebody else owns.

It’s a place where nobody will call you into their office and say “You know we all love what you do here and you have been so instrumental in our growth and success but things are changing. We want to thank you for all you have done but we are going to have to let you go.”

In your business, you control your own destiny, and decide how you will spend your next hour. It will not always be spent doing something you like, but you will be the one to decide what needs to be done and not someone else. Even when you are down and things are not going the way you want them to, you'll know that it's you who got you to where you are and not some person you despise in a corner office. There's something satisfying in that, even during the down periods.

This book fits between those two special moments of finally deciding to take action on starting your business and actually opening your business. It is designed to help you generate and formulate ideas about what business you can start and how to set those ideas in motion to bring them to life.

While I want this to be the first and last book you'll need to start your business, that does not mean it should be the only book. I have included a few titles throughout this work of books you should check out, and I will put some more at the end for additional reading, but those are just the start. Reading as much and as diversely as possible will serve you in your quest. If your body is what you eat, your mind is what you read.

There are hundreds of books about marketing, sales, accounting, operations, technology, legal issues, human resources and dozens of other business-related subjects you can read. You can also read books about vision and leadership that will help drive your business to places that you haven't considered yet.

Learning is like breathing: you have to keep doing it to survive.

Can you do it?

You might be at the point where you are about to embark on your entrepreneurial journey, which means your next step is going to be a defining moment for you and it will be full of new responsibilities.

So, can you do it? Do you have what it takes?

If you are having any doubts, I have two things for you to consider:

Firstly, did you live with a silver spoon in your mouth your entire life? I doubt that you did. If you grew up living an especially privileged life, then you would already be the one in the corner office of your family's business and you wouldn't need this book. So, seeing as how you almost certainly didn't have a privileged upbringing, that means you have already accomplished so much in your life. You have overcome difficulties and achieved success. Think of all those things you've already achieved in your life; the educational certificates you've received, the personal projects you've undertaken, the wonderful family you've made. All those things make you a winner already. It was not all luck, was it? The journey in front of you might not be easy but it is no more difficult than some of the things you've already accomplished.

Secondly, fast forward your life a few decades. You are looking in a mirror. Beyond the wrinkles, what do you see in that mirror? What you should see is a person who is not angry at themselves or the world. You should see a person that tried their best to make a positive difference and create something of value, something much bigger than themselves. If you do not want to look in that mirror in a few decades and feel angry and still stuck, you *have* to do it.

The real question is not: “Can you do it?” The real question is: “Can you afford *not* to do it?”

Before you felt stuck, you were free at some point and full of courage and hope. Your job now is to go and reacquaint yourself with that free spirit -- the believer -- and start this entrepreneurial journey.

When you start doing it and gain your hope and direction, please drop me a line at pala@testcountry.com. Tell me your story and share with me what worked and did not work for you in this book. Maybe one day I will write a new edition and include your story in it.

You remember Sashimi the hamster from the beginning of this book? I was taking the furry little guy with me on a bus through the streets of Istanbul to meet a couple of different publishers. The reason I’m talking about introducing a hamster to a couple of small-time, non-fiction book publishers is because that little hamster was the beginning of my entrepreneurial journey and I think the story of me and Sashimi traveling to Old Istanbul exemplifies the adventure of entrepreneurship. After 20 years of entrepreneurial endeavors, all the bold words in the rest of this chapter have proven to be important to getting me unstuck over and over again, and making a few positive changes along the way.

My wife and I were newly married and in order to feel more like a family, we got ourselves a starter child (read: pet). We lived in a small rental apartment in Istanbul and we were each working about 60 hours on average per week, which meant getting something like a cat or dog was out of the question. We considered a bird, but I was just getting over the loss of my crazy and grumpy parrot Ricardo and I wasn’t ready for another bird. I had my eye on an iguana, but our marriage was too new for such a drastic move.

Our **purpose** was clear but the **solution** was not. **Curiosity**, some **critical thinking**, and serious **research** led me to the **idea** that the best answer to our pet conundrum would be a hamster. After identifying the **unique** goal of finding a pet hamster, in a country where even having a pet dog was uncommon, the quest to find one took some real **ingenuity**, especially since the public internet was in its primitive stages back then. We **persevered** in our quest until a friend of a friend of friend helped us find a pet store that carried hamsters, probably the only hamsters in all of Istanbul. That is how we found Sashimi. Then, a month later the pet store called to ask if we wanted the other hamster they had for free since they were not able to sell her to anyone. That is how Sashimi's mate Sushi joined our new little family.

Things were good for about a month and then one day after work we saw more than a dozen gummy bear-sized pups in the cage. Now we had the **unexpected** and unique problem of having too many hamsters. Our previous question of how to find a hamster for our home was now replaced by our new problem of how to find people to take our baby hamsters.

Our efforts to **identify** and **convince** people to take the pups were **long** and **repetitive**. The encouraging news was that people we approached were receptive to the idea and loved the cuteness, ease-of-care and size of the hamsters. Convincing them to take a pup was easier than expected.

When trying to give people instructions about what food to provide, what type of bird cage would be best to convert into a hamster cage and how to take care of the hamsters, we realized that we didn't know as much about hamster care as we thought. Our attempts to find a book about hamster care in Turkey were futile. Even the veterinarian friends we had did not know much for us to pass along to new hamster owners.

We had identified a problem; busy, young people in Istanbul who lived in small apartments had few options for pets. And, we had found a unique solution; hamsters. We even went a step further and became a supply source of these little creatures.

But, in the process we created a new problem; people who were now hamster owners didn't know how to take care of them and didn't know where to look for information about taking care of them.

We had to be **proactive** and **take initiative** to solve this new problem and we did that by writing a book about hamster care.

Consulting books we ordered from friends living in or visiting places like the US and the UK and doing some online research from the scant few sources available at the time led to a **disciplined** process we followed for a few months where we would come home from our jobs and work on our book: "The Tiny World of Little Hamsters," the first (to my knowledge) Turkish book dedicated to hamster care.

It seemed that **fate** had taken us from one common need to an uncommon purpose.

On top of our busy 60-hour-per-week full-time jobs, we also had the task of filling out multiple applications for US graduate business schools and now we were trying to make a **change** in the community we were living in with this book. Luckily, we were freed from the task of looking for people to take our hamsters since the local pet store was taking our hamsters and selling them.

And now I was visiting two publishers to try and convince them to publish our book. The first publisher was interested after hearing my pitch, but he didn’t like the part where I requested outright sale of rights to this book instead of a royalty percentage.

My reasoning for wanting to sell the rights was straightforward. My wife and I were planning to go to San Diego in a few months for graduate school. We could not wait for the royalties, we needed money now.

The publisher told me he would think about it. I was happy. A “maybe” is almost a “yes.” It was almost a proof of concept for me.

I must have improved my pitch by the time I visited the second publisher because immediately after the pitch and a few questions from him, I added: “I already have another publisher interested in this, but I did not sign or promise him anything.”

The second publisher told me to wait. He went out of the room and came back a few minutes later with a piece of paperwork to sign. And a form to enter my bank account ...

Honestly, I don’t even remember how much the final amount was. It was barely enough for me to buy our plane tickets to the US. Our hamster adventure was supporting our new, larger **adventure**; to live the American dream.

The story of me and my wife coming to the US with almost nothing and building businesses, a beautiful life and a family together is a great reason to believe in **luck** and **problem-solving** skills ... and the benefits of having a hamster. (We left Sashimi in Turkey with my family, by the way, and he lived a long and fulfilling hamster life with Sushi.)

I hope this book helps you in your quest of getting unstuck from the life you no longer want and starting your entrepreneurial journey.

Till our paths cross again, so long ...

Appendix A

Looking to the Future, continued ...

This appendix is an expansion of the “Looking at the Future” section from Chapter 4.

When talking about prognosticating about the future, you can get business ideas from venture capitalists (VC). Before we get to thinking about the future, though, let’s take a quick peek into the past.

The VC firm Benchmark Capital was an early investor in:

- eBay (1997),
- OpenTable (2000),
- Yelp (2006),
- DropBox (2011),
- Uber (2011),
- Instagram (2011), and
- SnapChat (2013).

What would you be able to discern if you saw these companies’ business models early on and had expected the markets they are in to become huge? Do you think it would have been helpful to know the potential of those business models and markets, and be able to predict the change of business models and market dynamics? Would it help you to come up with new business ideas complementing or benefiting from those trends? Even the flops of Benchmark (and other similar successful VCs) would give you good ideas on what is expected to happen in the future. For example, two of the largest flops of Benchmark around 2006 (Xeround and LucidEra) would have given you a good indication of how SaaS (Software-as-a-Service) and DaaS (Database-as-a-

Service) would become dominant a few years before everybody was expecting them to.

Large public companies can also give you some good indications of what direction the future is headed. The largest market cap companies have to stay in front of the curve and invest in growth. Because they are so big within their industry, if they don't show potential for growth, their valuation multipliers start dwindling and they begin to look outdated. Some companies are better at this (Amazon, Google, Disney) and some are not (HP, Cisco). That is why you have to choose the right horse when predicting the future. However, even if you look at the incorrect acquisitions public companies make, their reasoning can still give you some insight. By looking at the good ones, you will learn so much about the direction the future is headed and plan accordingly for your new business.

Take Google for example. Let's look at some of their past acquisitions and if those were indicators of how things played out in the future (being our present).

Pyra Labs (2003). This little-known company was acquired by Google for its Blogger.com domain, which was an indication of how the internet would change by this newly made word: (WebLog ---> Blog). Watching this acquisition could have given you insight into how entities like Facebook and Twitter would eventually rise in popularity. If online self-expression and self-publishing were set to rule the world, what if you had a product and service designed to benefit from this?

Android (2005). Acquired almost two years before the iPhone's first release, this could have been an indication of how mobile would rule the world just a few short years later. No-one had heard the word "app" in the same context as we know it today, and yet here is an indication of the world that became what it is today.

YouTube (2006). Online video is everything today. It's become the best teacher, the best entertainer and the best communicator and will rule the social media landscape into the foreseeable future (or until virtual reality takes over). Online video production and advertising did not exist when YouTube was acquired.

Zagat (2011). It was not a good acquisition from a financial perspective, yet it indicated what is now common sense. There is nothing like Online Reviews for finding the best place to eat, get service, judge an Uber driver or buy a gadget. And there is still so much more to do with online reviewing.

I can hear some of you saying: "Hindsight is 20/20" or something along those lines and you're right. It is easy to look back and say you could have predicted X because Y happened. So, let's try looking at some things going on now that might give us an indication of what will happen in the future.

Here are the last few investments from the aforementioned Benchmark fund, a fund, by the way, that has invested in 248 companies over the past 20 years and whose exits[4] are: 25 IPOs & 96 Acquisitions (121 out 248 makes 49 percent).

That's an amazing rate of success when you consider that, according to Bloomberg, eight out of 10 businesses fail within the first 18 months. The 49 percent exit rate means basically half of the companies Benchmark invested in not only survived, but provided at least some return to their investors (most likely within a decade or so).

---

[4] An exit by a venture capitalist is when the VC is done growing a company and exits that company either by selling it or making it public.

If you look at Benchmark and other highly successful investors, you can learn a thing or two about what ideas and what types of companies might have a higher chance of success. Simply identifying an idea and starting a company does not mean you will succeed. We've already talked about some of the other important success criteria (like culture, leadership, resources etc.). Even the best business idea will not get you anywhere if you do not lead and execute right. However, you have to start somewhere, right? That is where the idea comes in. It is easier to succeed with a good idea than a mediocre one.

Now, let's look at Benchmark's recent investments to get some ideas for ourselves:

Revinate (https://www.revinate.com), an SaaS Company for the hospitality industry that automates business processes in hotels. Let's do some prognosticating.

- ***SaaS is still going strong.*** There is still room for taking powerful software ideas and tailoring them to be user-friendly cloud solutions for specific industries. If you're not sure which industries would be good for such an SaaS, have a look at the fastest growing companies on the Inc. 5000 or the Fastest Growing Franchise Businesses. I checked it out and some industries that seem ripe for their own tailored SaaS are:
    - Solar energy
    - Fruit juice
    - Fitness clubs
    - Hair salons
    - Tutoring services
    - Organic farms
    - Day spas

You'll need to do your research to find if these industries have existing or in-development SaaS. If they don't, you may be able to swoop in and have one developed for them.

- ***Airbnb is causing the hospitality industry to reinvent itself.*** As the expectation and experience of staying in a different city is changing, hotels will have to get closer to their customers and up their game. Now, not only do they have to compete with each other, but they also have to compete with the personal experience Airbnb and similar services provide. What does that mean for a new business idea? If you are from the hospitality industry or have a skill set or experience that pertains to providing a special product or service (like a consulting service for competing with Airbnb, for example or special products hotels can purchase from you to differentiate themselves), now would be a good time to strike. Hotels might not know they need the things you offer and the market for them might not be ready yet. As you start formulating the answers for potential problems as they form, the market will be ready for you. If you are from the hospitality industry, you must have some ideas for what those ideas might be, and if you don't, at least now you know what to research. Follow the thought leaders in your industry, study the new trends and solutions, and read more.

Amplitude (http://amplitude.com/), a web and mobile analytics company. Does the world need another web analytics company? Probably not. But, if it is a company that specializes in big data, collects data points from all customers (and prospects/leads), collects data from interactions across channels and uses artificial intelligence to make better sense and actionable results for you? Then maybe the world needs that one. What do we learn from this investment?

- ***Big Data.*** This is a fashionable concept for new startups. There is a consensus about the increased need for processing the unbelievable amount of data around us. This is an industry that is going to be here for the rest of our lifetime and beyond. What does that mean for you, especially if you are not a data scientist or programming wizard? How about helping people with a product or service in the industries you are familiar with? There will be a greater need in the future to process data and if you're aware of that now, you already have a head start in an industry you're familiar with.

- ***Artificial Intelligence.*** Smarter computer programs can make better sense out of big data for specific goals, industries and settings. The more correct terminology for the type of business solutions being developed nowadays is: Artificial Narrow Intelligence (ANI):

    - It is the voice on our phone that can only help with a few commands.
    - It is Google's recommended searches.
    - It is Amazon's recommended products for you.
    - It is the special programs big companies have that help them know what to order, when to order, and how to schedule their employees' shifts.

  AI is something else that will provide much needed help and advantages to businesses and inspire many great startups. What does it mean for you, if you are not an AI specialist? There will be many more ways someone can license and utilized AI technology by customizing them for different industries. Even the smartest of narrow AI does not have the special information and experience in an industry that you've been a part of. If you can take an AI program with its generic methodologies or limited industry insight and customize it in a way so that it can take all that data and ongoing calculations to create something that would be useful for businesses and industries you are familiar with, you could have yourself a great product. And the beautiful thing is, more data and more time means smarter AI. So, if you start early and make it your own, you might have a valuable advantage in one of the thousands of niche industries where ANIs can be used effectively.

Contentful (http://www.contentful.com/), a content management system (CMS) developer platform with an API at its core. If you are a computer developer, that makes perfect sense. For the rest of us, basically what that means is this company allows you to create websites and apps without having to shoehorn your content into fixed templates that are created to fit specific browsers or pages. You can present your content any way you choose regardless of platform.

- **Content is still King**: Content is everywhere. From special community campaigns for a large brand to internal company project management to selling a product online. Contentful makes it easier (and more cost effective) to build a custom Content Management System that serves the unique need of an organization. Business ideas for us? Clearly, there is still opportunity to develop solutions and solve problems in online content. From developing widgets for certain industry websites to simply using the API, Contentful provides you with the tools to develop smarter websites that are more user friendly in your industry space.

- **Customization of Business Platforms**: Businesses are always looking to differentiate themselves from their competition. If you can develop a modular, but customizable tool for companies to do this, you might just have a business. If you cannot build the platform yourself, but instead provide the consulting and support to implement and use these platforms, you will also have a good business opportunity.

Brighter (http://www.Brighter.com) is also in the ‘platform’ business. It aims to help people and insurance providers find qualified dentists easier. Ideas for us here:

- **Healthcare Insurance Debacle**: It is no secret that the healthcare industry in the US is broken with no definite solution in sight. That is why the healthcare industry is so open to new business. With increasing costs for all market players, decreasing profits for providers, decreasing effectiveness for consumers and increasing demand due to an aging population, there is a lot of pain in the healthcare industry. With so many unknowns, like the potential for each new administration to play yo-yo with the healthcare system, it means the opportunities are huge. Yet, my suggestion is unless you have a miracle solution that is a no-brainer and a business model that supports favorable cash flow, stay in the more clearly charted territory of healthcare in terms of payers and insurance relationships such as dental (no wonder that is Brighter.com’s first choice), aesthetic plastic surgery, functional medicine or something similar. If you’re not based in the US and your healthcare isn’t quite as chaotic as it is here, there are still likely opportunities to take advantage of.

Cockroach Labs (www.cockroachlabs.com) is another example of Big Data and customization of business platform. The only difference with this one is that it is an open source company. That brings another idea for us:

- **Open Source can Achieve Commercial Traction**: The new term for open source software is “Open Adoption Companies”. RedHat, with its almost $2 billion revenue, demonstrated that you can build successful open source software companies by providing a community of users free but useful software and then offer the proprietary products that work with that free software. Cockroach Labs is a perfect example of this. The company does it by targeting the deep pocketed financial sector with its open source database solutions. If you never thought about open source before, maybe you should.

Discord (https://discordapp.com/) is a voice and chat platform for online gamers. What ideas should this trigger for us?

- **Online Games are Serious Entertainment**: Worldwide box office revenue for the movie industry in 2013 was $35.9 billion, whereas worldwide video game industry revenue for that same year was $70.4 billion. With new app based games, that number hit over $90 billion in 2016, with more than a third coming from mobile apps. So, if online games are the new form of prime entertainment, there will be room for new companies in this space. You don’t have to design a game to participate. You can create devices or gadgets that cater to the industry. Even creating a subscription box service that caters to the gamer and similar pop-culture markets can bring you millions. You think that is too outrageous of an idea? Meet the fastest growing company in the US in 2016: Loot Crate. You can have a game consulting service to companies that want to build games to promote their products, healthy snack bars for gamers (designed for the nutrition needed to be a top gamer), energy drinks, content sites, clubs or something else.

Once you start reading about an industry, understanding market players, customer profiles and challenges, the ideas will flow. I am sure there are unique approaches you can bring to an underserved need for any industry once you start putting your mind to it.

Other VCs

Benchmark is just one venture capital firm to look at. There are hundreds of other firms with thousands of portfolio companies you can check out for ideas. If you want to look at a particular industry you can first find venture capital firms that target that industry. Or, if you like a newer company that is already funded and you want to build something in a similar space, you can use Crunchbase.com to find who funded that company, and then look at their portfolio to get more ideas.

If you don't find anything useful on these lists, then find yourself another list. Your goal is to read about what is working, what is on the rise and to get inspired.

I heard in an interview that New York Post Bestseller Malcolm Gladwell goes to the library, starts checking out different books, and reads some pages from these books to get inspiration for his next book or essay. That is exactly what you should be doing. Reading about other people's good ideas, especially those that are already thought to be potentially successful ideas. Then, get those ideas to trigger other ideas for you that are also unique to your background, desire and situation.

If you cannot do it by reading and researching about VC funded companies, then I am sure there is another list or resource that might work for you. If you have already followed some of the points I've made in Chapter 3 about how to come up with creative ideas such as reading magazines, going to trade shows, reading books, meeting people etc., you should have a few ideas on what resources might work for you.

Try lists about:

- Fastest growing franchise companies.
- Most Innovative product awards (in your city, industry, state).
- Chamber of Commerce awards.
- Best Companies to Work for list (since they are often companies that can afford to treat their employees the way they deserve to be treated; so they must be in good industries that can support that).

There are probably thousands of these lists. I am sure you will find one for you.

You don't have to come up with a technological business idea or start something in a brand new industry to benefit from looking toward the future. It can still benefit you by helping you to avoid an idea in an industry that can soon be disappearing. Or, we can look at how these new technologies will change the world, change consumer demands, create new opportunities and come up with solutions (even low-tech ones) when the time is right.

Here are some critical trends and technologies (beyond the aforementioned ones) as a part of Benchmark Venture investments.

Self-Driving Cars: I hope self-driving cars become ubiquitous and we're all riding around in comfort before I get too old to drive to my barber's. Or maybe that is too optimistic of me. I will probably have no hair left by that time, so let's say my doctor instead.

Experts claim that within a decade we will see the implications of this new technology and while those implications will cause some industries and companies to suffer, they will create completely new opportunities for new players.

One of the expected implications of self-driving cars is that people will own fewer cars. Kind of like how we don't use discs to manually install software on our computers or buy CDs for music anymore. Why buy a CD and own music when you can listen to anything you want on Spotify with a membership or just buy and download the song you want from iTunes? In the future, most likely ridesharing companies will own cars, maintain them, service team, take care of their fuel/energy, and the only thing you'll do is rent one for a service use fee or request service through your membership when you need to take the car somewhere. Some of us will still have cars (for novelty or specialty use), but there will probably be fewer of them since transportation will continue to make a transition into more of a service need, rather than being a product with large demand. What will this mean for the future of companies?

- The large public vehicle maintenance companies might find a solution and transform their business, but what will happen to all those independent car maintenance, retail auto parts companies? They will have to change, become something else, or close down. I am sure there is a business idea in there somewhere, maybe from a real estate angle or consulting or new marketing demand.
- We don't know if gas-powered cars will still dominate US roads in 2025, but even if they do, decreasing car ownership rates mean fewer gas stations will be needed, so then what will happen to all those gas stations? There are about 150,000 of them in the US (down from 200,000 in 1994). Even if there will be 30,000 fewer of them needed, that is still a lot of real estate to find uses for (and

a lot of environmental clean up to be done) and many former business owners that will need to be helped. Maybe giant corporations will need help finding places to park their self driving cars and they can use those former gas stations?

- One question with self-driving cars will be; what are we going to do in the cars while they drive themselves? Are we going to have to sit and talk to our spouses, kids, parents and/or friends? There is a question mark for you.
- The need and use of parking spaces are bound to change. We won't need so many parking spaces in big buildings and residential complexes. If you don't own the car, you don't have to park it. Even if you own your car, why not send it to a cheaper parking lot two miles away instead of occupying a prime spot in your downtown condo parking lot? By the time you decide to leave and go down the elevator, your car will have driven itself to the entrance anyways. What will happen to those parking spaces? Can we convert them into meditation spaces? Little parks? Storage units? Or can we combine them with our neighbors and make new living or commercial spaces underground?
- Is commuting going to be such a headache, still? If the difference between living somewhere 10 miles away from your job versus 30 miles away will only be about 15 minutes of driving time each way, then maybe it would just be better to live further away in a larger home, with a bigger yard. If you're not driving in the mornings, you can enjoy coffee and catching up on news in the morning in your car. Would that affect home prices? Would that affect realtors? What are they going to do about this? We can safely assume self-driving cars will have implications on how people live and where they live. Maybe fewer people will live in the city centers since commutes will be less of an issue, or maybe more people will live in the city centers

since parking will not be a problem anymore. Either way, changing lifestyles will have implications on the economy and new business opportunities will surface.

But, we don't have to look at the future alone. We can look at some of these other lists to come up with successful business concepts and make connections between them.

Telehealth: This used to be called "Telemedicine," but now a broader variety of technologies is used to deliver virtual medicine, health and education services, so the more popular term used today is "Telehealth."

Telehealth includes fields of diagnosis, monitoring, counseling, home health, disaster management and both consumer and professional health education. It is not in our distant future but already happening. WebMD was the first step for education and self-diagnosis, and was not well received by the medical establishment. Recent changes are more welcomed as they have proven to improve efficiency (doctor-patient engagement in rural areas, radiology improvements) or decrease cost (such as the cost of care at home and decreased hospital readmissions).

Today's many examples give us a little taste of what might be coming in the future. For example, Mercy Health System's virtual care center from a remote location in St. Louis, acts as a "hospital without beds." Doctors and nurses in that care center provide remote support for intensive-care units and emergency rooms for 38 smaller hospitals in the region. Companies like Doctors on Demand and Teledoc expect to host millions of virtual doctor visits already.

How is it all going to change the healthcare industry? Implications are huge if you are already in a related field like a private doctor's practice, health care systems, insurance or an occupational health care department at a large employer. Most likely, well known healthcare providers like the Mayo Clinic will build super virtual health centers. As artificial intelligence in healthcare picks up, access to doctors and better diagnosis will improve. More sick people will be cared for at home, yet they will still require in-person help by professionals. There will be more devices at our homes that will deal with our well being, diagnosis, monitoring and treatment. Fitbits and other activity trackers are only the first steps to a new world where we consumers become more instrumental in our own health care and well being.

Telehealth will impact many things and cause a lot of change. Life coaches, personal coaches, at home nurses, architects, contractors, human resource consultants and more. You better tune into this transformation.

Augmented Reality: Virtual Reality can be summed up as completely computer-generated worlds that people can interact with while Augmented Reality is basically computer generated content that we can interact with in our own world. (Note that these are extremely simplified explanations of these two things.)

I predict augmented reality will eventually replace our smartphones, a prediction I came up with by following the market leaders and their investments. Google purchased a company called Magic Leap (at a $2 billion valuation) and that acquisition was only a few months after Facebook's acquisition of a small startup called Oculus, which started only a relatively short time ago as a $2.4 million Kickstarter Campaign. And since 2014, there has been a lot of investment and acquisition activity in this space. Many other innovative companies are building products and running major initiatives (Sony, HTC to name a couple). Unlike what it might look like at first -- an attempt to create cool game consoles, or devices that will potentially change the online porn industry forever -- the goal and impact is much bigger. Since the

1970s, we have gone through several different dominant platforms for computers and networks, and the next one will be AR devices and software. It was first those huge room-sized computers, then it was the large clunky PCs, then clunky laptops, then sleek laptops, and finally came the mobile phones and tablets. And next will be AR sets. Unless you can write new computer programs, games, and apps for those future AR consoles (I am assuming you probably do not want to get into the console production or operating systems for AR), what can you do with this insight?

- When people love their devices, they like to not only take care of them really well but also use them as a way to express themselves. Think of all the mobile phone accessories. Only a decade ago this market was small and boring while now it is estimated to be an $81 billion market, expected to grow to over $100 billion soon. It is now way beyond the carrying cases that it started with and includes things like chargers, screen protectors, headsets and skins. What do you think people will need for their AR sets? You can have your mind go wild with imagination here with the business opportunities that will emerge.
- AR sets will change the way people order food in restaurants, go sightseeing in cities, how interior designers conduct their business, how home improvement contractors prepare their estimates, how architects make their pitches and so much more. All those changes in all those industries will create business opportunities for technically savvy or non-savvy entrepreneurs.

Blockchain: This one is potentially as big as the internet itself (or maybe I'm just biased because I pre-date the internet). It has the potential to impact banking, capitalism, national economic and political systems and change the world as we know it. So what is it exactly?

It is a way to ensure trust between transacting parties on the Internet, save and control your privacy, and build smart contracts that can execute themselves. It started in 2008 as an idea of how to solve the problem of making a database both secure while not requiring a trusted administrator. Its first implementation was in 2009. In the Bitcoin context, a blockchain is a digital ledger that records every Bitcoin transaction that has ever occurred. It does not require a company to manage or a government to oversee and regulate it.

The internet, as we know it, has solved (and continuously improves) the problems of "search" and "process." Now, we can find what we are looking for, such as a tour guide in Paris for our trip or the cheapest designer of flip-flops. And, we can use a super efficient project management tool and talk to our team members around the world in a call while we are all looking at the same screen. However, we still need an escrow company when we buy something big online, or need a third party website to make sure the customer reviews we look at are real. We can't vote online, and we cannot be sure who we are dealing with online.

What if there was a way to be absolutely sure of what we see and who we deal with online? What would we do? A blockchain is the way to make sure we are dealing with who we think we are dealing with. Still largely limited to Bitcoin at the moment, many intelligent people are working on applications we can use it for in the future. Wayne Vaughan, CEO of Tierion, has indicated some potential uses for blockchain that could change the way we live:

- Currency: Bitcoin is the original example. Another example Litecoin.org.
- Payment Infrastructure: Like credit card merchant systems. Examples: BitPay, Abra.
- Digital Assets: Like stocks, land titles, frequent flyer miles. Examples: Coloredcoins, Openchain.

- Identity: Companies offer blockchain IDs that can be used to sign into apps and websites, digitally sign documents: Examples: Onename, Keybase.
- Verifiable Data: A verifiable record of any data, file or person. Examples: Tierion, Factom.
- Smart Contracts: Software programs that live on the blockchain and execute without the possibility of third-party interferences. A great example of this is the Ethereum project to be the platform for these. Future implications of this are huge. It can enable the formation of Decentralized Autonomous Organizations (DOA). The future of entrepreneurship and capitalism could change, especially when smart contracts meet Artificial Intelligence. Think of an Airbnb or Uber that is owned by the participants.
- Some other more distant but important applications of blockchain are:
    - Triple Entry Blockchain Accounting Ledgers that can make all private and public company accounting systems real-time and fully verifiable. Think of the implications of this. This is going to change how public companies work, how stock market dynamics change, how audits are done, how bank loans and credit line reviews are done.
    - Blockchain internet-of-things, where internet enabled devices around us are managed by parties that have full rights to manage them.
    - Art, music, videos, all forms of content can be managed and sold through the use of blockchains, which can mean more freedom for creators.
    - All government and voting systems can be online, verifiable by blockchain, which could change the democratic process as we know it.

It’s mind-blowing to think about how many top professions could be impacted by artificial intelligence and blockchain systems:

accounting professionals, financial analysts, underwriters, legal clerks, attorneys, bankers, and many more.

You might have realized by now that if you don't get yourself unstuck, technology will get you unstuck and it may be in a highly unfavorable way.

Some other technologies you should probably familiar yourself with if you're looking for lucrative business opportunities:

- Internet-of-Things
- 3D Printing:
    - Food
    - Organs
    - Accessories
    - Designs
- Nanotechnology

They are just as important as artificial intelligence and blockchain systems and I'm sure they hold just as much opportunity.

Some other places to find business ideas:

Ycombinator List (http://yclist.com/)
Inc 5000 List (http://www.inc.com/inc5000)

Award or Honorable Mention Lists like the ones at :
redherring.com
forbes.com
inc.com
fastcompany.com
entrepreneur.com

Then there are the social and business trends that create new opportunities. Some examples of these trends and concepts are:

- Wearables (Wellness Products, products like Google Glass)
- Mass Customization (Starbucks Custom Caffeine Dose, Etsy as a mass customized gift platform, Nike Custom Sneakers, personalized medicine in the future)
- Integration of Digital and Physical Experience (Like games that can be controlled with a phone app but have physical elements that you can see, like Anki Overdrive.)

Just some (mostly) low tech small business ideas for you:

- A summer camp or after-school program that teaches kids productive, life enhancing skills, such as: dog training, cooking, public speaking, financial management;
- Custom service providers, such as: being responsible for all of a person’s gift giving, card writing, managing Airbnb and other short-term asset rentals;
- Freelance recruiter/manager for businesses, so kind of like a staffing company, but instead you find and manage freelancers for businesses;
- A college coach for middle school or high school kids who would act as an “executive” coach to help them get into good colleges;
- Theme based restaurant or bed and breakfast (or just a short term rental property to market on Airbnb) because people are looking to live experiences more than buy products.
- Creating a gadget for the Internet-of-Things

By thinking about the future and the technologies that will come with it, you can get the jump on some lucrative business ideas.

Appendix B

Supplementary Reading List

- *7 Habits of Highly Effective People, The* - Stephen R. Covey
- *21 Irrefutable Laws of Leadership, The: Follow Them and People Will Follow You* - John C. Maxwell
- *Art of War* - Sun Tzu
- *Ask: The Counterintuitive Online Method to Discover Exactly What Your Customers Want to Buy...Create a Mass of Raving Fans...and Take Any Business to the Next Level* - Ryan Levesque
- *Awaken the Giant Within: How to Take Immediate Control of Your Mental, Emotional, Physical and Financial Destiny!* - Tony Robbins
- *Becoming The 1%: How To Master Time Management And Rise To The Top In 7 Days* - Dennis Crosby
- *Choose the Life You Want: The Mindful Way to Happiness* - Tal Ben-Shahar
- *Getting Things Done* - David Allen
- *Government and the War* - Spenser Wilkinson
- *How Will You Measure Your Life?* - Clayton M. Christensen & James Allworth
- *Leadership Code, The: Five Rules to Lead By* – Dave Ulrich, Norm Smallwood & Kate Sweetman
- *Mojo: How to Get It, How to Keep It, How to Get It Back If You Lose It* - Marshall Goldsmith
- *Positive Intelligence: Positive Intelligence: Why Only 20% of Teams and Individuals Achieve Their True Potential AND HOW YOU CAN ACHIEVE YOURS* - Shirzad Chamine
- *Principles: Life and Work* - Ray Dalio

- *Start with No: The Negotiating Tools That the Pros Don't Want You to Know* - Jim Camp
- *Strengths Based Leadership: Great Leaders, Teams and Why People Follow* - Tom Rath & Barrie Conchie
- *Swordbearers, The: Studies in Supreme Command in the First World War* - Correlli Barnett
- *Up Your Business!: 7 Steps to Fix, Build, or Stretch Your Organization* - Dave Anderson
- *What Every BODY is Saying: An Ex-FBI Agent's Guide to Speed-Reading People* - Joe Navarro & Marvin Karlins
- *Yes!: 50 Scientifically Proven Ways to Be Persuasive* - Noah J. Goldstein, Steve J. Martin & Robert Cialdini