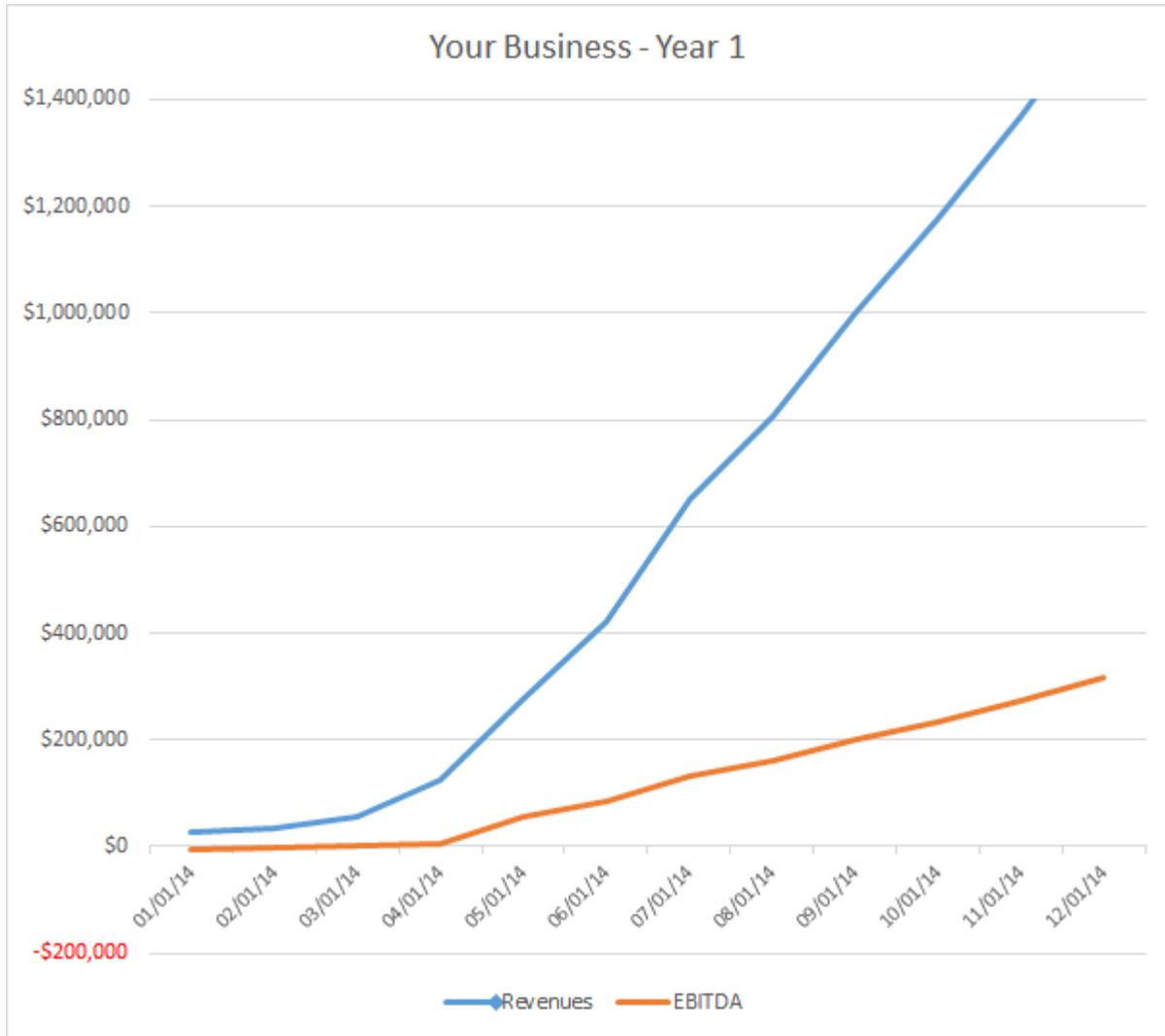


Entrepreneur's Guide to a Successful Business



By Rick Helvey

Entrepreneur's Guide to a Successful Business

By Rick Helvey

Copyright© 2014 Rick Helvey



Introduction

Most people never receive training in how to start and run a business. At times there is even some embarrassment as if knowing how to successfully and efficiently start and grow a business is an innate skill. This guide discusses key elements of a successful enterprise and is necessarily somewhat generic and geocentric to the United States.

If at all possible let lessons and data from your market drive the success of your business.

Planning

I encourage everyone to write a business plan before starting, even if it is only a few pages long. Getting your concept on paper is a very helpful way of spotting key factors in your business. You might surprise yourself with how much you know about your industry or business skills you have picked up over the years. This plan should be given to at least a few people you know and respect (or at least respect) for comments and feedback. It is better to get negative feedback before you start your business rather than let the market give you an unintended lesson.

As an example an entrepreneur was convinced that the Tucson marketplace was primed to embrace a yogurt and fruit treat that was popular in Veracruz, Mexico. I strongly recommend that he test market this product at sports and civic events to ensure this was a marketable

commodity. This was also a good way of bootstrapping the business by generating fans and revenue in advance of opening a storefront. There was an excellent precedent in Tucson with the successful Eegees franchise which started by selling their frozen slush at the University of Arizona in carts before opening the first of many storefronts. Developing a business plan and test marketing in likely places would have saved the business owner a lot of money as the business failed in less than two months.



A solid business plan includes the following:
Name of the business, location, the form or organization, who the owners are, what percent of the business the owners have, statement of purpose, general market research, specific target market analysis, key employees if applicable,

financial projections as noted below. All of this should have a succinct one page Executive Summary which pulls key figures from the projections.

Know that business plans rarely survive the first contact with customers.

Financial projections

A business plan also needs to have solid financial projections to be most useful. It also is a requirement of any lender and should be a must for every equity investor interested in the business. Thinking through the elements of a profit and loss projection is critical to understanding the business you will be in. For instance, what are the elements of your revenues, how will they increase, will they plateau? The cost side is even more important. What are the cost of

sales, what are the other costs, what is the break-even point and how do you get paid? Good financial projections have a set of assumptions that allow investors to make a determination of when the entrepreneur can be expected to operate at a profit. Good financial projections can also be used to forecast cash flow and to properly budget for the business.

I had a client come to me recently with a lengthy business plan showing that a lot of thought and work had been put into the new venture already. There were three partners and they were planning to borrow \$175,000 from lenders and investors to launch the business. Among other obvious problems there was no provision for any of them to be paid, which is a red flag for anyone expecting to take them seriously.

In addition to being a requirement for obtaining debt or equity financing, a strong set of projections are an excellent tool for identifying potential problem areas and can be used for budgeting and forecasting once operations have begun. Every cost that can be validated should be used to make the projections as accurate as possible. Once one has several months of projections actual figures can replace assumptions in terms of most revenue and expenses. While some accountants have the skill necessary to generate projections, they often focus on tax and regulatory issues and may not have the experience and skill to develop sound projections. Many business owners create separate projections for varying levels of revenues. This gives you the opportunity to determine how much you might earn at different sales levels, based on the cost of production and fixed expenses such as rent, utilities, and debt repayment.

Timing

You may have been working on this business for years and just want to professionalize it, gotten laid off and want to control your own destiny, have a fantastic idea waiting to bring to market, or have other reasons for starting a business now. Whatever the reasons congratulations on taking this step. It is going to be difficult, but with the knowledge and resources you can avoid becoming the wrong kind of statistic. I will explain what this has to do with Business Finance shortly.

Legal and Logistics

Funds will have to be set aside for business licenses (where applicable), and other fees. Many business owners like the tax advantages of a Partnership, Limited Liability Company (LLC) or S-Corp or C-Corp. Be aware that any additional

person who invests in your business adds legal and other liabilities. For instance if you are old enough and live in the United States you might remember a Law Firm that advertised constantly on the TV and radio (Jacoby and Meyers). After many, many years of being in business, Jacoby sued Meyers!!

As the business progresses you will to prepay taxes quarterly or risk being penalized, at least in the US. There will have to be systems to collect and pay sales taxes. Some owners locate in a county instead of a municipality in order to legitimately avoid some local taxes. Some owners form their businesses in Nevada, Delaware, or Wyoming to reduce their annual taxes. Consult an attorney, particularly if the intent is to bring on partners, investors, or if there is a chance your enterprise will go public. Some affiliate marketers in states like California and Colorado are establishing or moving their legal entity to other

states to avoid restrictions prohibit normal business operations.



Define your goals. Do you want financial independence, eventually selling your business to the highest bidder? Do you want something small and sustainable, that you love doing and want to derive a steady income from? These are the things that are good to know very early on.

Define your team. Will you do this alone, or will you bring in one or two trusted friends to join you? This brings a lot of synergy to the table, as people bounce ideas off each other. Two people together can often create something that is greater than the sum of the two separate parts.

Separate business and personal accounts, especially if you ever want to sell your business.

Debt versus Equity

If your business is poised to grow explosively then you will want to keep all of the equity possible.

Equity are investments that claim a part of the business, and which will enjoy the fruits of high rates of returns. If a company dissolves, equity holders generally only get what is left over after assets are sold and all debt is paid off.

Debt obligations such as bank loans are always paid first and the ratio of debt to equity is a very common measure of the health of a business (lower debt is better). Common debt instruments are bank loans or loans from other individuals

that have specific principal and interest payments over a specific period. These loans are paid first in the event of the dissolution of a business.

Build the value of your business as if you wanted to sell it at any time.

Bookkeeping

A note on accurate bookkeeping. It is critical that your business have accurate and auditable bookkeeping. If set up properly it takes less time to keep the books on your business, and the benefits are many. Some of the benefits include: quick and easy tax preparation, accessible cash flow information, ease of attracting investors and or lenders, and greatly facilitates the sale of a business. An upfront investment for an easy to follow system will pay dividends later.



Fraud

I was in the business of raising funds for businesses as well as helping owners buy and sell their businesses. Oftentimes existing business owners tell me essential, “there is more cash being generated than shows on the books, can't we sell the business based on unreported cash”?

The answer is no. First of all the company's financial statements should match tax returns, although there are a few easily explained allowable adjustments. No reputable business broker will accept financials that do not match. Secondly no new business owner wants to be responsible for tax liabilities created by a business seller, particularly if there is fraud.

Startup funds

The perception many entrepreneurs have is that there are programs that provide potential business owners with startup funds. That is not the case, let's break out the two major categories of funding for startups into personal and institutional.

Personal – Personal sources of investment include your personal savings, loans or gifts from relatives or friends, loans from investments, or people who share your ideas and are willing to partner. As with institutional sources of investments there should be agreements that detail if, how, and when funds are repaid, how parties can exit, and other details of importance.

Institutional – Institutional lenders include consumer banks, merchant banks, hard money lenders, micro loan and community programs, and venture capital. All of these sources of investment will require considerable documentation to consider funding your business. The documentation will include a personal financial statement; a business plan which could be anywhere from 5 pages for a \$500 loan to 150 pages or more for a more substantial investment; reasonable and accurate financial projections that include several revenue scenarios; and a personal commitment from the business owner, as part of the five C's



The five Cs lender looks for in a borrower include:

Capital contribution to the business from the owner

Character which shows a history of successful enterprise or repayment of loans

Capacity or having sufficient personal resources (cash) to repay any debt

Collateral or having sufficient personal resources (cash) to repay any debt

Conditions which mean are the terms of the loan advantageous to the lender. This would include a higher interest or shorter repayment terms to accommodate the risk of default.

Cash Flow or Seller Notes Although brokering and investing in cash flow notes is an excellent business of its own, if you are purchasing a business it is common for the sellers of a business

to lend a portion of the sales price to the buyer. Generally speaking the business returns to the seller in the event of a default

Business Credit – Depending on the state of your personal credit, establishing business credit through using a systematic process may be an excellent way to finance your business. This process involves opening merchant accounts and purchasing minor amounts of goods such as office supplies. After repaying the amounts you request additional credit, using that credit request more credit. Historical measures of credit worthiness was once a Paydex score issued by D&B (Dunn and Bradstreet). That is no longer the case and an Intelliscore from Experian is now the guide for business credit. It is critical to inform yourself before establishing business credit before making missteps which may lengthen the process and inhibit your businesses ability to grow.

Small Business Administration (SBA) Loan Guarantees are assurances given to lenders that the SBA will reimburse the bank in the event of a default. Typically there are additional paperwork requirements, but these guarantees may help you borrow from a bank that would have declined to lend. The guarantee programs, such as 504 or 7a also accommodate spreading the risk of lending by having multiple lenders share in the loan, an example might be a commercial bank and a community based organization.

Operations

Manage your operating costs. Keep a close eye on your operating expenses and keep them in line with your projections. Whenever you see something spent wastefully—like electricity, phone plans, stationery, and packaging—look around, and estimate how much really need, and minimize or remove the cost in every way

possible. Think frugally when you start up, including hiring items instead of purchasing them and using pre-paid plans for services your business needs instead of locking yourself into long-term contracts.

Find a way to get paid. You will need to do something to get payment from your clients or customers. You can get something like a Square, which is great for small businesses since it requires the minimum amount of paperwork and the fees are minimal. However, if you feel uncomfortable with technology, you can go the old fashioned route and get a merchant account.

A merchant account is a contract under which an acquiring bank extends a line of credit to a merchant, who wishes to accept payment card transactions of a particular card association brand. Previously, without such a contract, one cannot accept payments by any of the major credit card

brands. However, the Square has changed that, so don't feel locked in or limited to this option. Do the research.

The Square is a card swiping device which connects with a smartphone or tablet and turns that device into a sort of cash register. You may have encountered this device in the businesses you frequent, as they are becoming common at coffee shops, restaurants, street food stands and other businesses (look for a postage-stamp sized plastic square plugged into a tablet or phone).

Always provide value and service to those who may be your customers, even if they are not currently. When they do need your product, you want them to think of you first.

A business methodology called the "lean start-up," favors experimentation over elaborate

planning, customer feedback over intuition, and iterative design over traditional “big design up front” development.

New ventures of all kinds are attempting to improve their chances of success by following its principles of failing fast and continually learning.



Professionalism

Every entrepreneur wants to be taken seriously, and part of being taken seriously is to not be considered an amateur. Here are some sure signs that you need to develop your professionalism.

Dilution – It is good if you know what dilution is (giving away equity in your business); however professionals realize that giving away up to 49%

to the right person could pay off quickly. The right person has something you need; acumen, contacts, cash (of course), marketing muscle, manufacturing or operations expertise. When the right person has a vested interest in your business, then progress can be rapid.



Non Disclosures

Although there are cases where non-disclosure agreements (NDA) are warranted, most NDA are unnecessary. We think we need them because our world rocking idea will certainly be snapped up and we will never receive money or credit. In reality, as discussed in this book there are many elements that are needed to bring a product or service to market. Few people have

the money, skill, or time, or infrastructure to take an idea, rip it off and quickly bring it to market. The people with those abilities are busy elsewhere.

Every entrepreneur needs to be able to succinctly articulate the upside potential of your business or project. Investors need to be shown that they may possibly make a huge return. That makes up for the failures in their portfolio. For every Facebook, there are many Myspace that went nowhere.

Depending on your business you should make every effort to professionalize your image. This might mean having a logo or web page professionally designed, vehicles outfitted with painted or magnetic signs, or professional looking invoices or stationary. Of course behaving professionally is a given. Understanding the lifetime value of a customer is critical, if you are not familiar with this concept it would be well

worth your while to read the work of Jay Abraham. The best way to ensure your business looks and is professional is to model the key elements of the business on similar operations that are already successful. Of course you want to be careful to do this ethically, building for the long term.

Buying a Business

The best time to buy a business is just after one of the three Ds. Those are Death, Divorce, or Debt. Although not always the case heirs may be eager to take what they can get quickly for a business, disregarding typical methods of valuation. The same is true in a divorce, where a spouse may sell under market so the opposing spouse ends up with less of a settlement. It is well known that real estate investors and business people that are saddled with debt for too long a period often get anxious and want out at any cost. This may mean

a good opportunity for a buyer, depending on how well the business can pay off the debt incurred at purchase.

Franchises

Franchises are often very good investments because the franchiser has developed a model for success that can be duplicated. As an example, an Aikido buddy of mine was struggling as a middle school teacher in Chicago in the early eighties. Deciding to make a substantial change, he and his wife purchased their first MacDonald franchise. They added a store every few years for a decade and have been highly successful with their enterprise. As a warning, I have heard of franchises that purposefully let the franchisee fail so they can buy the location at a deep discount as a company store.

Marketing

I encourage every business owner to become skilled at sales and marketing. There are many good books out there on this subject, Trust me I'm Lying and Newsjacking are essential books. The essentials of new marketing is that you only spend money on marketing that is measurable, trackable, and accountable, and that can be multiplied. Finding efficient methods of accomplishing this can be challenging and should be a primary area of education for any entrepreneur. This means that you won't spend any money on advertising that doesn't earn a measurable return, and by split testing you can maximize your advertising dollar.



Marketing is most potent when you are filling a need that is eagerly awaited by your customers. For this reason effective market research is the key to finding and filling this need. The tools for research can be found at libraries where highly qualified and specially trained research librarians are happy to help for free. Once you become skilled at knowing what to look for, the Internet also has resources, such as Google Analytics that can help you target your audience.

Once you find the audience that has a need that you can fill, you need to give them the reasons that they should come to you instead of a competitor. After conducting your research you know you have the right audience, what you need is to have the right message through the right media. The right message quite simply is that you have the answer! The right media is not necessarily the most cost effective means of

reaching the audience. In other words if a direct mail campaign that costs \$1,000 earns you a 3% response rates that translates to \$15,000 immediately with follow on sales of \$10,000 per quarter, it is well worth it. That is a measurable and accountable method of marketing. A yellow page ad or newspaper ad would not be measurable unless a coupon is associated with the ad and can be tracked.

If at all possible use meaningful specifics in your marketing message, and make sure you position yourself as narrowly as possible. In the internet (and now general) marketing world this is called long tail, which refers to ends of a normal distribution of a curve.

Expand your market as inexpensively as possible by selling through multiple on-line channels. Do email marketing instead of more expensive electronic or print advertising. On-line experts state that building a list of customers is essential

to building a business on-line. Search Engine Optimization to generate on-line traffic is difficult and constantly changing. Optimize your website for search engines to keep your site coming up at the top of your customers' searches. If one captures the email address of interested parties and promotes sensibly then the opportunity for multiple sales to the same customers is always present.

Websites like BusinessInfoGuide.com, Entrepreneur.com, bizSugar.com, or busfinance.org are good places to get new ideas from fellow entrepreneurs and successful business leaders. In the U.S the Service Corp of Retired Executives provide free guidance for new and existing businesses.

Produce affordable marketing vehicles like podcasts or webinars for your website. If you have a computer there are tools that are free that can be used to produce quality audio and video

recordings. I personally use Audacity for audio recordings and Camtasia for video.

Rewards!!

I travel frequently to work on projects and when I started one thing struck more than anything else. It is amazing how much I and my fellow consultants focus on maximizing rewards from different vendors. For us, we don't pay our own travel expenses but earn rewards because they are in our name. Otherwise logical human beings would do anything to earn additional points from these programs, and your customers will too.

Create an on-line customer loyalty program offering advanced notices of sales, discounts, referral bonuses and coupons. This can be done with smartphones and texts, paper coupons or punchcards.

Check out your competitors to find out how much are they selling a similar product for. Can you add something to it (add value) to make yours different and hence make it a more enticing price? For example, perhaps your company would like to provide an additional year of guarantee at no cost, or a repair part free-of-charge or an additional gadget with the initial item.

The End for Now

Please check my [Business Finance](#) Website for Updates and other articles.

