Section 1:

starting your own business

Entrepreneurship can be one of the most gratifying life experiences available to the right individual. That's correct – the right individual. Successful entrepreneurs can be any gender; come from any socio-economic group; or, posses any level of education. There are certain qualities that are required, such as the 3 Ds of Discipline, Drive, and a Desire to do whatever it takes to succeed. This eliminates a majority of the population, many of whom require the security of a regular pay day and prefer to have someone else tell them what to do. This section provides a check list of important tasks to complete when starting a new business and some insight into what it takes to give yourself a good chance to succeed.

1.1 Pros and Cons to Business Ownership

Figure 1-1 THE PROS AND CONS

PROS	CONS
• Being Your Own Boss	• Financial Risk
• Unlimited Earning Potential	• Possibility of Personal Failure
• Self-Esteem	• Solitude
• Tax Benefits	• Long Hours

Pros:

Being Your Own Boss – Do you get tired of taking orders and direction from someone else? If so, owning your own business may be the answer. Being your own boss is great incentive, but, are you really highest in the pecking order? An entrepreneur actually can have many bosses. They are all members of a group known as the business stakeholders. These include: lenders, who want to know you are managing their money wisely, shareholders who want to know you are managing their investment with sound judgment, employees who want to know they will have a job next week, suppliers who want to know you can pay your bills, and, probably most important of all, your customers, who want to know you will continue to provide the service and value they expect. How you deal with your bosses will have a direct bearing on your success.

Unlimited Earning Potential – In most cases when you work for someone else, you are on a fixed wage or salary. There is a ceiling on the amount of money you can make. As an entrepreneur, you set your aggressive, yet achievable goals and there really is no ceiling. Your incentive on one hand is a good income, yet on the other – poverty or going back to work for someone else.

Self-Esteem – There is no better way to improve self-esteem than to operate a successful business. It's great to start each day full of self-confidence and feeling good about yourself because you operate an enterprise that helps consumers or businesses with solutions that improve their life or profitability.

Tax Benefits – As a business owner, you will have many tax advantages not available to those individuals working for someone else. These tax breaks that you will discuss with your accountant include a number of ways to compensate yourself and numerous legitimate business expenses that can be written off.

Cons:

Financial Risk – Entrepreneurs must always deal with risk. Financial loss is the most obvious risk for a business owner who invests a great deal of personal money obtained from savings, mortgaging a home and personal guarantees for borrowed money from other sources. How you manage your finances and grow your business, especially in the first few years, will determine the success of the new venture. On the flip side, poor financial management generally results in business failure.

Possibility of Personal Failure – Closely associated with the risk of financial loss is the risk of personal failure. *"What if no one buys my product or service?"* This is a common thought of many new entrepreneurs. Risk is always a question mark looming over small business owners that can never be totally eliminated. It can be reduced by proper planning as described throughout this book. Many of the most successful entrepreneurs have bounced back from previous business losses and used the experience to grow stronger.

Solitude – This can be a "pro" for some people who like to work alone, but for most, the transition from a busy environment with co-workers and set business hours can be very difficult. A high level of self-discipline is required to stay on track and do what it takes to make it happen and achieve goals.

Long Hours – When the job needs to be done, most often in the early going, you are it! In the first few critical years of small business growth, the entrepreneur wears many hats. The skills necessary to wear each need to be learned and the appropriate number of hours must be dedicated to complete the functions required of the position. Although this period of growth requires long hours, it also requires excellent time management to block out the right amount of personal time for self and family.

1.2 Characteristics of a Successful Entrepreneur

Risk taker but not a gambler – One of the "cons" mentioned earlier was the risk of financial loss. In fact, there are numerous risks associated with entrepreneurship. If you are the type of person who must invest in guaranteed returns, think twice about starting your own business. With risk comes reward and entrepreneurs must be prepared to take advantage whenever the window of opportunity opens. But, don't jump in without testing the water first. Foolhardy gamblers can fall by the wayside quickly and painfully. There is no way to eliminate risk but there is a way to substantially reduce it – *Planning*. Proper planning, as described in this book, reduces the level of risk and improves your chances of success dramatically.

Making it happen – If you are not willing to make it happen then no one else will. This becomes most evident in new businesses that sell goods or services to other businesses, also referred to as a B2B enterprise, where the owner must cold call to obtain new customers. It is very easy to pick up the phone, but it is also very easy not to. The bottom line: if you don't pick it up and make it happen – there will be no revenue. This is where poverty becomes a powerful motivator.

Passionate about your idea – If you don't believe in what you are selling and if you don't feel passionately that you have a solution to satisfy your customer needs, then you should not be in that business.

There are two ingredients necessary for success as an entrepreneur. You need to make money, of course, and you must have a passion for what you are doing. After all, one of the main reasons why people start their own business is because they hate their job!

Tenacious and persistent – These words describe the successful entrepreneur who must be prepared to take the good with the bad and never give up. In the early going there may be many lows when it comes to obtaining funding, getting customers, obtaining supplier credit, getting a good night's sleep, and the list goes on. An entrepreneur must be prepared to hear the word "no" and move on with optimism and enthusiasm. If you talk to enough people, someone is bound to say "yes" and buy your product or service.

Communication skills – When you own your own business, communicating effectively with other people is an absolute must. Customers, suppliers and employees form a short list of individuals requiring communication in all forms from verbal to written including print documents and Email messages. Your articulation in the languages you are using to carry on business will go a long way in showing your professionalism and being clearly understood.

Time management and organizational skills – Poor time management leads to wasted time and lost revenue. Stephen Covey's *"7 Habits of Highly Effective People"* is a good starting point to sharpen these skills. Without them, you will be continually putting out fires and dealing with urgent matters. Identify, prioritize and deal with important issues early before they become urgent and all consuming. Organize yourself and your office by using a day timer, contact management software or smart phone calendar and lay out your day and your week accordingly to maximize your time effectively. Be sure to develop a good filing system to retrieve and act upon important documents on demand.

People skills – An entrepreneur is always interacting with people and how you deal with stakeholders will have a considerable bearing on how smooth your business operates. Customers deserve and require exceptional service at all times and when you are fortunate enough to find good employees, they require excellent coaching, recognition when deserved, and incentives to keep them from checking the want ads for a better employer.

Access to capital – Most new businesses are drastically underfunded and this accounts in part for the high mortality rate in the first few years. New enterprises require sufficient start-up capital for asset procurement and operating costs including facility and renovating, initial supplier payments (you probably won't have credit yet), and marketing expenses. Don't forget to include enough funding to pay yourself a wage for the first three to six months as you get started. It will take some time to generate sufficient revenue and you still have personal commitments to meet.

1.3 Assessing Your Business Feasibility

You have a business idea and it involves doing something that you really enjoy. It may have been a hobby in the past, but your hard work and savings over the years have put you in a position to go out on your own, trying something you really have fun with. Congratulations! You have just satisfied the first part of the equation in becoming a successful entrepreneur. How about the second part – making a profit? Oh – forgot about that one! Most fledgling entrepreneurs do forget about this part and they jump in with both feet. Some do stay afloat – but most don't. Why? They didn't conduct any pre-planning to determine if their new business can actually be profitable. Prior to spending any money on your new business, do yourself a big favor and conduct a feasibility study. The results of this exercise will provide you with enough information to make an informed decision about moving forward. The study involves two parts: a *Market Attractiveness Study* and a *Financial Analysis*. *Figure 1-2* summarizes the requirements for each part of the study.

Market Attractiveness Study

In business planning, nothing can be assumed. If the market is not attractive for a new player, then you will struggle and most likely fail. A *Market Attractiveness Study* is conducted by looking at several important factors that include the number of accessible customers, competition, and market growth.

- *Accessible Customers:* How large is the market for your product or service and are the customers readily accessible? There should be enough customers available for you to obtain a market share that will sustain your business. Customer accessibility determines your cost to deliver the goods or services. Once you have an idea how large the market is, the number of people your company will be competing against must be determined.
- *Competition*: How many other businesses are providing the same product or service to the same market group? Of course, the smaller the number of players, the better it is for you. If you can take a totally unique idea to the market place, competition will not be a factor – at least in the early going.
- *Market Growth:* It may be something you always wanted to do, but if it is not an area of growth you will have a long uphill battle. Be sure to do your home work! Any business involving new technology, computer training and services for seniors are examples of growth markets. A special note here, if you are planning to start an Internet based business, the operating costs will be lower than a brick and mortar storefront. However, unless you are introducing something that no one else has thought of, the competition is likely to include thousands of other web enterprises. To succeed on the Internet you need a unique idea or delivery system. People generally purchase on-line because it is convenient and the price is lower.

These topics are covered in detail in the Marketing section.

Figure 1-2 FEASIBILITY STUDY

MARKET ATTRACTIVENESS	FINANCIAL ANALYSIS
• Potential Customers	• Profit & Loss Projection
• Accessibility to the Market	• Start-Up Costs
• Competition	• Available Capital
• Market Growth	

Financial Analysis

- *Profit and Loss Projection:* The most important tool in business for completing any kind of financial analysis is the spreadsheet. It is described in more detail in the *Financial* section. (*See Figure 3-3 for a sample P&L*). The *P&L Projection*, also known as an *Income Statement*, is a yearly projection covering the first three to five operating years. It will tell the new entrepreneur if the business can be profitable and the break-even point. Remember to be conservative with revenue figures and liberal with expenses to provide a cushion. A *Cash Flow Projection* for the same period should also be completed.

- *Determining Start-Up Costs:* There are substantial costs associated with starting a new business and they must be carefully researched and listed. These may include a facility and equipment, leasehold improvements, office furniture, supplies and equipment, computer hardware and software, initial cost of supply or inventory, vehicle, marketing collateral and advertising costs, professional fees, working capital and your own living expenses for three to six months of operation. (*See Figure 1-3*).

- *Capital Availability:* Once the complete list of start-up costs has been established, a determination can be made as to the amount of capital required to launch your new business. Subtract from this amount the money you can personally invest and you will know how much funding must be obtained from other sources such as loans and investors.

(*Profit & Loss, Cash Flow Projection and Start-Up Cost Analysis worksheets are available for download free with this book. These handy templates are fully formatted and ready to use in Excel 97-2003 file format. See the Resources section for more information.*)

Figure 1-3 START-UP COST ANALYSIS

Capital Costs		
Land / Building Purchase	$	
Building Construction	$	
Leasehold Improvements	$	
Mfg. / Production Equipment	$	
Shipping / Warehousing Equipment	$	
Office Equipment	$	
Computer Hardware	$	
Computer Software	$	
Office Furniture	$	
Office Fixtures	$	
Retail Displays / Equipment	$	
Vehicle Purchases	$	
Vehicle Lease Deposits	$	
Total Start-Up Capital Purchases	**$**	-
Start-Up Inventory		
Inventory	$	
Shipping	$	
Total Start-Up Inventory Costs	**$**	-
Operating Costs		
Office Supplies	$	
Marketing Collateral / Sales Tools	$	
Advertising	$	
Professional Fees	$	
Web Site Development	$	
Training	$	
Publications / Directories	$	
Insurance	$	
Other Expenses	$	
Deposit - Rent	$	
Deposit - Utilities	$	
Total Start-Up Operating Costs	**$**	-
TOTAL START-UP COSTS	**$**	-

Sources of Start-Up Capital	
Owner Equity Investment	$
Shareholder / Partner Investment	$
Loan	$
Line of Credit	$
Total Start-Up Capital Available	**$**
Total Start-Up Costs	**$**
Capital Surplus / (Deficit)	**$**

Making the Decision

Now that you have completed your *Market Attractiveness* survey and a comprehensive *Financial Analysis*, it is time to make a determination on moving forward with your business idea. Keeping in mind the critical factors of making a profit, being competitive and having enough money to do it right, you will be faced with one of three decisions. You can move forward comfortable that all indicators are good and start developing a more comprehensive business plan and marketing strategy. It is then safer to start making the increased investment required. However, if it does not appear that your business can be profitable and competitive, you can either abandon the idea entirely and save yourself from a large financial loss, or, re-work the venture until it looks feasible. A special note here on starting an Internet based business. Many people are under the false assumption that it is easier to become successful with a web based business because the expenses are lower than those of a typical brick and mortar establishment. This couldn't be further from the truth. Sure, you won't have the rent, but you will have competition, and lots of it. Just conduct a search for the key words that will be critical to people finding your product or service. There will likely be millions of sites returned and thousands of other similar on-line businesses pitching the same idea. Money can be made on the Internet, but only if you have a unique product, service or delivery system. Many people think they can develop a web site and the traffic will come flooding in and this just doesn't happen. More on this topic in section 4.2, *Developing Effective Web Sites*.

1.4 Legal and Accounting Considerations

Assembling Your Team

Think you can go it alone? Many people try to do everything on their own and fail because they don't take advantage of professional help. There are many tasks involved in starting a new business and they all need to be completed properly. New entrepreneurs can't be expected to understand all aspects of business management. To fill the void, a team of experts must be assembled to ensure that you are making the right decisions in many critical areas. They may include a partner, lawyer, accountant, bookkeeper, banker, insurance broker, or a business consultant.

Partners – can bring a certain business expertise to your enterprise and they can also be a source of additional capital investment. This topic is discussed in more detail later in the *Partnership* business type section.

Legal – Once you have made the decision to move forward with your business idea, you should consult with a lawyer specializing in corporate matters. They will provide you with sound advice about registering your business, employment and labor law issues, liability considerations, name searches, intellectual property protection, and drafting partnership or shareholder agreements along with contracts if required.

Accountant – Every year you will be required to submit a tax return for yourself regardless of business type and a return for the company if the business is incorporated. A Chartered or Certified Accountant will find you the tax breaks and ensure that government regulations are adhered to. An accountant can give you advice on company type to register, setting up your books and the best way to write off business expenses. You will need to provide them with a good set of books at year end for the preparation of tax returns. A set of year ending adjustments will be returned to your bookkeeper to keep company financial records current.

Bookkeeper – Most new business owners don't have the knowledge to keep their own books, nor the time to learn. If this situation sounds familiar, hire a bookkeeper to set up your books based on your accountant's advice. Paid on an hourly basis, a freelance bookkeeper will keep your company books current, make government remittances as required, provide you with timely reports to measure and manage finances and give your accountant accurate year-end records. Whether you complete this important function yourself or hire someone else to do it, the only outcome that counts is that you are doing it – and doing it right! This is a critical element of business that must not be overlooked.

Banker – Your customers need a method to pay you and suppliers need to be paid. The heart of your business finances are found in the company bank account. Once you have registered your company, make arrangements to meet with a commercial account manager at your selected financial institute and set up the required accounts and privileges. Customers will want to use the easiest method possible to pay for your products or services. This may include checks, credit cards, bank card payments or credit. Your company will also need numerous suppliers that may provide any combination of raw materials, inventory, office supplies, advertising, printing, or vehicles. They may accept checks, credit cards, bank cards or offer you a credit account.

Insurance – An often overlooked member of a well chosen professional team is the insurance broker. There are many areas of operation that require protection to guaranty continuation in the event of a catastrophic or unforeseen event. This coverage may include business liability, comprehensive coverage for building and equipment loss, inventory losses, vehicles, key person insurance, owner's life insurance, owner's disability insurance along with error and omissions insurance (protection if sued). You should investigate the benefits of becoming a member of an industry association or a chamber of commerce as some of these plans may be offered at discounted group rates to members.

Consultant – Although there is no need to go it alone, most new entrepreneurs decide to take the lonely road and often end up making unnecessary mistakes that can end their dream abruptly. Assembling the right team of professionals and proper planning can eliminate much of the risk. Another professional you may want to consider for your team is a consultant. Some are specialists in areas such as marketing or IT and others are general business consultants. Knowledge in all areas of business management and operations is a prerequisite to success. If there is a grey area, consider hiring a consultant for advice or hands-on assistance with any part of your planning or delivery of action programs. Shop around and get references from their existing clients then take advantage of their experience and expertise. In lieu of hiring a consultant, take some business courses, read books and learn as much as you can about every business module – *Marketing, Finance* and *Operational* functions that apply to your business. You have already made a great start by reading this book.

1.5 Business Name and Registration Type

Give careful consideration to your enterprise name. At this stage of business startup, the biggest mistake is to rush out and register a name that sets you up for failure. Yes failure! That's how important your name is – I mean your business name – not your own. There is a tendency at this point for many people to use their family name. Understandable, since you likely haven't studied marketing and at this stage "*it's all about you*" – right? Unless you are a contractor or professional with a firm or a practice, try to avoid using your own name. Attempt to come up with a descriptive name that your customers will recognize easily as it relates to the products or services that you are selling. Try to come up with a name that will appear near the front of alpha directories, isn't long or confusing, and if possible, choose a name that is unique. You may want to hold off until you read the *Marketing* section of this book and start learning that *"it's all about the customer"* and not you!

It is strongly recommended that you seek professional legal advice before registering your new business. You will need to have a search conducted to ensure that you can use the new name legally without infringing on any trademarks. This type of intellectual property protection can be extremely valuable. When registered, a trademark claims rights over a name in relation to specific wares and services. There is a tremendous amount of information available about this subject on the Internet and it is possible in some cases to register trademarks yourself, with an agent, or a lawyer specializing in intellectual property. You should also discuss with a lawyer, the best way to legally operate and register your new enterprise. In some jurisdictions you can operate an enterprise simply in your own name and separate business expenses from personal income for tax purposes. However, it is highly recommended that you legally register the business and enjoy the benefits of using a proper business name with a dedicated bank account. Ask your lawyer if a sole proprietorship, partnership or incorporated business is the best way to proceed. Whichever way you decide, keep in mind that registering a business name simply advises the government about your identity and does not provide a legal right to use it exclusively. Only when you register a trademark is there a legal exclusion to others in the use of that name or style. The following is a brief description of each type of business entity.

Sole Proprietorship – is the simplest form of business registration.

- Easy set up and maintenance.
- Low cost registration.
- Business and owner are one-in-the-same.
- Owner is liable for all business activities.

Name searches and sole proprietor business registrations can be done on the spot at many State or Provincial government business service centers or on-line for a reasonable fee. The new owner can take the registration form to the bank and open a business account. In a sole proprietorship, all business activities are also those of the owner. The money the business takes in is that of the owner who must include it on their personal income tax return minus allowable business expenses. Accurate business records must be kept in accordance with sound bookkeeping practices even though the business itself is not taxed directly. Should you ever be selected for a tax audit, a good set of books will help government scrutinizers identify the legitimate company expenses and gain an appreciation for your business professionalism. If the business is sued – the owner is sued as well. If start-up capital is limited, you can register a sole proprietorship to save money and incorporate your business later if that style is preferred.

Partnership – is very similar to the sole proprietorship with the exception that two or more people jointly own the business.

- Partners bring additional start-up capital.
- Partners can bring expertise and experience lacking in some areas.
- Partnerships often end in broken friendships.

Partners have a similar role as the sole proprietor and share the risk. The exception to this rule is a limited partnership where certain individual liability is reduced or eliminated. In some jurisdictions, there are significant legal implications to operating a partnership, which should be discussed with a lawyer along with the partnership agreement. The primary reasons to take a partner into a business would be the input of additional capital or expertise in an area of administration or operations that is otherwise absent. Many partnerships fail because both individuals have similar skills and experience. If one has a production background and the other a sales background, harmony is more likely to endure. A partnership agreement is a must in case one partner fails to fulfill their obligations, dies or wishes to buy the other partner out. There should be exit mechanisms built into the agreement in the event that the partnership does not work out and the partners decide to go their separate ways.

Corporation – is the most expensive and complex business format to set up, however, it has many advantages that should be considered. The word company usually signifies that you are referring to a corporation. In addition to your own tax return, there is also a requirement that the incorporated company submit a return to one or more levels of government. Your tax accountant will look after year end returns from the set of books you provide. Your lawyer can register your corporation if you decide it is the right way to go and in some jurisdictions this can be done on-line.

- A corporation is an entity that can purchase and own property including land, vehicles, equipment and other businesses.
- It is owned by the shareholders.
- It is operated by the directors.
- Liability is limited.
- A corporation can sue or be sued.
- This form of business registration offers more expense write offs and greater flexibility in owner remuneration.

A corporation is owned by one or more shareholders. In a simple set up, you could be the only shareholder and issue yourself ten or one hundred shares for a nominal price. This may become the first deposit in your new business bank account. If you have a partner or investors, a certain percentage of shares can be issued depending upon their investment and level of ownership. As with a partnership, you should have a written shareholder agreement drafted by your lawyer if there are other owners. This can give you a first option to purchase their shares if they decide to leave or if they die, and an exit mechanism for a final division of corporate property in the event of a breakdown in relations between shareholders. The corporation's operations are managed by the directors and administered by the officers; president, vice president, treasurer and secretary. In a very simple single owner corporation you may be the only shareholder, sole director and the president. Speak with your accountant about assigning someone the title of treasurer for the purpose of having a second signature for the company bank account.

The corporation is an entity that can purchase land, buildings, vehicles, equipment, any type of property and even other companies. It can also sue and be sued. Essentially the shareholders are not subject to civil or criminal liability over the operations of the company. The director(s) may be liable for certain government remittances and incidents of gross negligence. You are always responsible for any personal guarantees made to lenders or suppliers.

1.6 Liability and Contracts

In business, as in life, it can be dangerous to make assumptions without doing your home work. More trivial law suits are clogging North American courts than ever before and you never know where or when a malicious customer or employee will show their wrath. You can't assume that one of these individuals won't cross your path. You can't assume that employees will never have an accident. In business you must always be prepared for the worst case scenario. If someone is successful in obtaining a judgment against you, everything you worked so hard for could be in jeopardy. This includes business and personal assets if you are not protected. There are many ways to protect your assets and depending on the volatility of your business type and industry, some or all of the fire walls available should be utilized. What is volatility in this sense? If you have a simple service business there is much less likelihood for cause to be sued than a business that sells prepared food, for instance. In the latter, a complaint of tainted food can occur at any time, whether legitimate or not. Some of the firewalls available include: incorporating, business liability insurance, errors and omissions insurance, worker's compensation insurance (regulatory requirement in many jurisdictions based on industry) and the assignment of personal assets – possibly to a spouse in high risk businesses. Discuss your options with a lawyer before setting up your layers of defense.

Contracts

There are many instances in business where a contract should be, or even worse, should have been considered. Contracts benefit both sides and ensure that price, responsibilities, expectations and time lines are met. You can create an agreement yourself, but if there is any doubt about structure or content, have your lawyer draft one properly. Here are some areas, activities and groups that warrant contracts:

- *Customers* – if you are a contractor, consultant, or designer to name a few.
- *Suppliers* – such as web development, sales agents or custom work.
- *Employees* – confidentiality, non-competition, job description or contract workers.

1.7 Regulatory Compliance

The onus is on the business owner to ensure regulatory compliance and remittance at all levels of government. Some of the most likely encountered regulations are listed below.

- *Federal* – personal and corporate tax returns, employee deductions, human and civil rights legislation, federal taxes collected, and import / export licenses and fees.
- *State / Provincial* – retail sales tax collection, worker's compensation premiums, labor and employment standards, health and safety compliance, hazardous or toxic substance handling, medical benefit payments, and certain types of business or industry licensing and certification.
- *Municipal* – realty and business taxes, facility zoning compliance, and local business licensing.

1.8 Employees

One of the greatest assets of any business is its employees. Finding, motivating and retaining good people requires skill and for many, a new way of thinking. If there is a requirement for employees in your new business, here are some important considerations:

- *Employment Standards* – your responsibility to know and follow. In addition to human rights considerations, this area may include employee licensing or certification to operate certain types of equipment or handle hazardous materials.
- *Health and Safety* – employees have a personal life, just like you. When they finish working for the day, their family expects them home, safe and sound. It is your responsibility to ensure that the workplace is a healthy and safe environment for your workforce. This includes air quality, safety equipment, first aid stations, emergency procedures and adequate training.
- *Contract Employees* – certain conditions must be met for an employee to be considered eligible for contract status. Many business owners use this method to avoid paying their share of benefits, payroll deductions and insurance. Use caution – do your homework – do it right. Get professional advice before you force a worker to make their own tax installments. If a worker is injured on the job and they were not paid as an employee with worker's compensation coverage, the ramifications for the employer may be very severe.
- *Motivation* – along with compensation and proper coaching are all areas that must be understood if you are to find and retain good employees. These people are hard to find and, "My way or the highway!" simply doesn't work anymore.
- *Job Descriptions* – should be written for each position leaving no doubt as to the employee's duties and the company's expectations.
- *Recruiting and Training* – learn how to recruit good employees and once they are on board, provide them with all of the tools and training necessary to ensure success.

This topic is covered in greater detail in Section 4.3 – Employee Relations.

1.9 What Plan Is Right For My Business?

The obvious answer – any plan is better than no plan! The truth is that most businesses don't engage in regular business planning, or any planning at all. Of the businesses that do plan, a majority fail to execute effectively for a number of reasons that will be discussed later. Business planning is a catch all phrase for any type of strategy development that will provide business owners with a blueprint to help their enterprise achieve realistic goals in growth and profitably. In fact there are a number of different types of plans that a business may adopt depending upon their unique situation. We will look at several of the most commonly used forms of planning, but first, let's examine a common thread for each.

For any type of plan to work effectively, it must be written for a specific purpose and audience. It must clearly state the company objective for writing the plan and the goals in quantifiable terms. There must also be a method of measuring the results in a certain time frame. In the business plan itself, the goals are generally stated in the profit and loss forecasts. These are measured at regular intervals with real numbers generated from sales and tracked through your accounting software. A stand alone marketing plan or a strategic plan will also have budgets and sales projections clearly stated. Finally, any plan must have an implementation schedule, or action plan, that assigns tasks with dates and individual responsibilities.

Depending upon the audience, your document should have a cover page, appendix for additional information and the written plan should be well structured with a table of contents indicating section and subsection numbers of the key areas along with page numbers for quick reference. Located near the front of the document, the most important, and the last section written, is the *Executive Summary*. This details all key points from each section in one or two pages and must capture the reader's interest. There are numerous tools and templates available on the Internet to assist you in planning for your business. Formatted planning templates in *MS Word 97-2003* file format are available with this book in addition to a *Profit & Loss* and *Cash Flow* worksheet in *MS Excel 97-2003* file format. See the *Resources* section for details. Now, let's examine three of the basic types of plans.

The ***Business Plan*** is management's financial blueprint that describes how the business will function and depicts its operational characteristics. The *BP* details how the business will be capitalized and managed. The "*reason for being*" as outlined in the *Mission* or *Vision* statement and the market opportunity should be clearly defined. The plan should be written by the business owner(s) or principles with outside assistance as needed. *Business Plans* are generally written for new businesses or operating divisions and enterprises looking to raise capital. The *BP* covers the three primary business modules of *Operations*, *Marketing* and *Finance*. The financial institutes offer templates and tools for business planning. These are very good on the numbers side but most of the tools available from this source fall extremely short in the development of a solid marketing strategy. There is no question that the numbers are important, but if you can't generate the revenue, they are meaningless. A solid *Marketing Strategy* should be developed as a ***plan within*** the *Business Plan* itself.

The ***Marketing Plan*** is an integral part of any form of strategic business planning, but it can also be a standalone plan with its own financials. *MP*s are a roadmap for launching a new product or service, increasing market share, establishing new markets for existing products or periodically reviewing changing market conditions. The marketing planning process should conform to a logical progression that, if followed, will result in action plans that are effective. If the proper progression is not followed, the result is often the creation of junk mail and ads that no one pays attention to. An effective *Marketing Strategy* must be developed based upon research and analysis of real market conditions such as the economy, opportunities and threats. *Target Market* profiling and *Competitive Analysis* are exercises used to develop tactics and messages that can be implemented to produce measurable results. *(These terms are covered in detail in the Marketing Sections 2.3 to 2.5.)*

The ***Strategic Plan*** is utilized by established businesses to review all processes and lay out both short and long-term direction by redefining the organization's mission and establishing realistic goals to produce achievable results. It is based upon a (**SWOT**) analysis of the company's internal **S**trengths and **W**eaknesses along with identification of the external environment **O**pportunities and **T**hreats. *(Processes of the Internal and External environment are discussed in Section 4.4 – Contingency Planning)*. The process involves the establishment of key result areas, and then as in most plans, the development of an action plan for implementation and a means of measurement within a stated timeframe. The external environment, primarily customer needs and competition, are constantly changing and should be addressed at least yearly by developing a new Strategic Plan. Many companies are slow to change and get left behind by innovative and proactive competitors who are quickly adjusting to changing customer needs and market conditions.

Why Plans Fail

There are a number of reasons why plans fail. These include:

- Poorly defined strategies, or neglecting to state goals in quantifiable terms. It is easy to say, "We must increase sales." This goal is shallow without a stated amount and a time frame.
- The omission of clear implementation details.
- Lack of a management level commitment to change.
- The exclusion of employees where their *Buy In* is required for the successful execution of strategies.

No matter which form of planning you undertake for your business, the important point is that you are planning for growth and profitability. An informal plan may be sufficient for many small businesses, assuming that the proper strategy development has been completed. In the next section, the ground work for generating revenue by developing an effective marketing strategy will be presented along with an action plan to deliver impressive results.

There are many template variations and styles available for the different types of business related plans. There is no "right way" to prepare a plan – no rules written in stone. The key point is that you include enough information to answer any questions a reader may have and present it concisely with no spelling or major grammatical errors and in a manner where the information is easy to find. Remember, if you are in doubt about including a piece of information, go ahead and put it in. Supplemental facts and figures fit nicely into the *Appendix*. The templates available with *The Small Business Planner* do follow an order and layout that works very well. For the *Marketing Plan*, complete the sections before "*Action Planning*" first (except for the *Executive Summary*) as these sections clearly lay the ground work for your message and strategy. There are many resources available for planning. Go to the book's companion web site, www.consultbiz.net then click on the "*Links*" button for dozens of great planning sites.

Section 2:

marketing

Generating revenue and gaining customers for life.

2.1 Key Marketing Terms

Marketing *is the actual managing of markets to bring about exchanges that satisfy needs and provide value*. There are some terms in this definition that play a key role in understanding this process and require further explanation.

Market is a set of actual or potential buyers of a product or service. These buyers share a particular need that can be satisfied through exchange.

Needs represent a desire to fill a void – to obtain something that is lacking. *Needs* are satisfied with *Benefits* and people do not generally buy anything unless there is a need. Our job as marketers, is to determine who our customers are and what their *core needs* really are. Determining needs is detailed later in the *Marketing Planning Process* section. This is a good time to introduce a concept that will be repeated several times: "Your customer does not need what you are selling!" Yes, you heard right. But, your product or service must provide *Benefits* that satisfy the customer's need. It may sound a little confusing now but it should come together for you later in this section.

Value can be defined as the usefulness or importance of a product or service to the possessor. *Value* is always determined by the customer as a balance between price and quality. All marketers strive to provide value. Low price does not necessarily equate to value if the product is worthless to the customer or does not satisfy their needs.

Benefits are attributes of a product or service that satisfy core customer needs. They answer the question, "***What's in it for the customer?***" *Benefits* will sell products and services.

Features are often confused with benefits. Unlike benefits, features do not satisfy needs and do not sell a product or service. They simply differentiate a product or service from that of the competition and answer the question, "***Why should I buy from you?***"

Marketing Mix – The 4 Ps of the marketing strategy which are designed in to the mix of Product, Price, Place, and Promotion to develop effective tactics.

2.2 Ten Common Marketing Mistakes

Very few entrepreneurs seem to have a good understanding of marketing and the marketing planning process. When I ask small business owners what they think marketing means, most will say advertising, promotion, or sales. Although these activities all play an important role in the delivery of the action plan, they