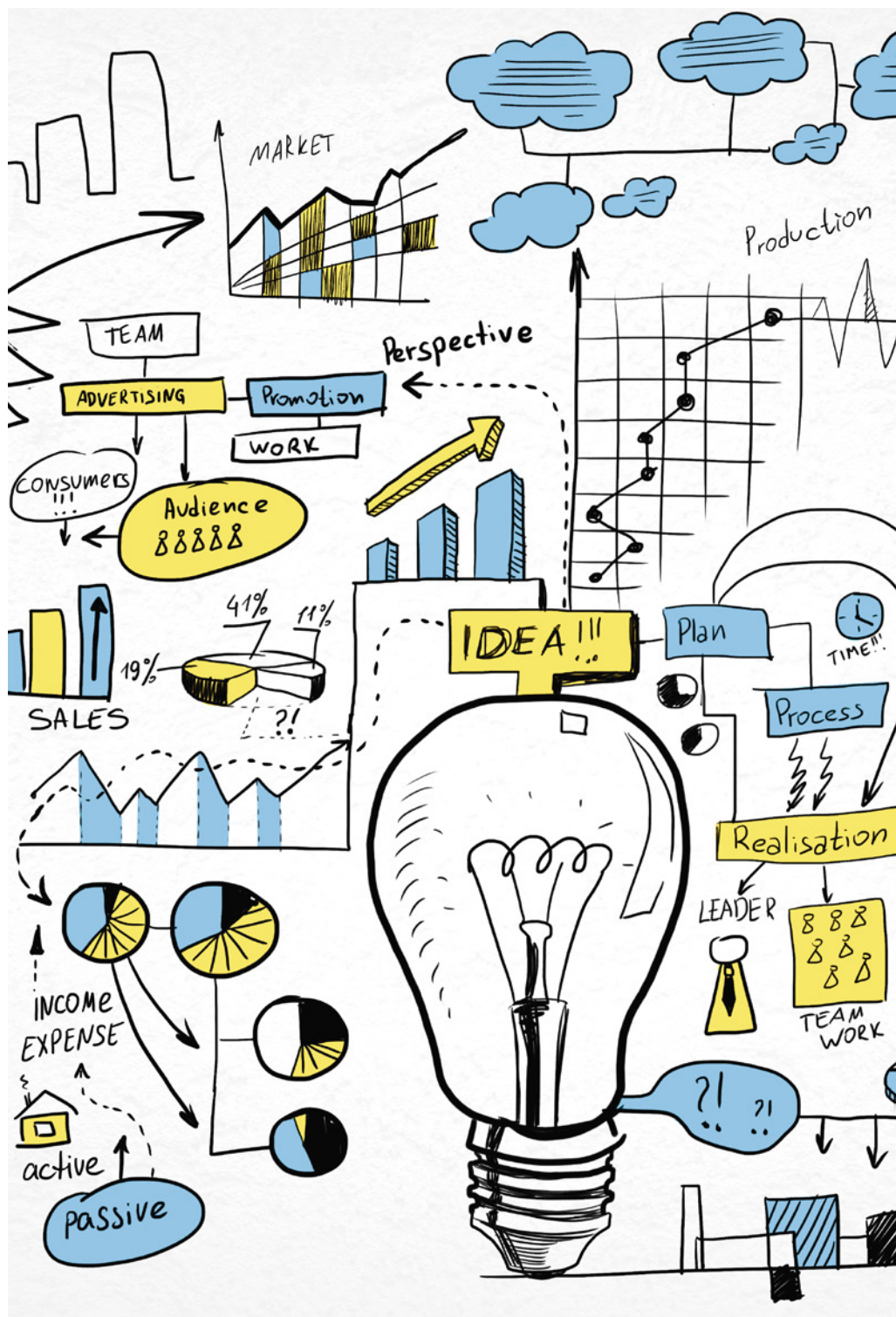


Startup Smart

A handbook for entrepreneurs





about the author

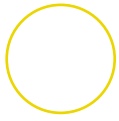
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Steve Jobs “wanted to be kind of a master of a company and make something in life...and I just wanted to design computers and be a great engineer.”

Steve Wozniak

Steve Jobs, right, and Steve Wozniak in 1976, the year they founded Apple. They reinvented the personal computer with the introduction of the Macintosh.



Introduction

Many people think that entrepreneurs are born, not made. Don't believe it! You don't have to be born with entrepreneurial spirit to start a successful business. You can acquire the knowledge and skills to transform your idea from a thought to a business that provides a livelihood for you and your family.

By taking a journey with us in this book, you can develop a mindset and skills to make your business idea a reality. You *can* learn the essential skills and ingredients to launch and sustain your business.

We'll start by exploring what it means to be an entrepreneur. It may surprise you! Then we'll help you refine and honestly evaluate your business idea. That can be hard work, but it will help separate your new business from those that fail.

Starting a business, whether you are making a product or providing a service, can be scary. Anyone who tells you otherwise probably has never done it. We will work through how you can get comfortable with the idea of risk and then

try to minimize those risks where possible. We'll help you figure out what is needed to make your business last long-term, and how to ensure that your business runs smoothly. We want you to be able to look back with pride on your creation months and years from now.

One thing that is vitally important to your business is, naturally, the customer! While you may want to think that *everyone* will buy your product or service, you can't plan your business that way. It seems counterintuitive, but the truth is, if you try to sell to everyone, you will end up selling to no one.

Finally, we will help you plan for the future of your business. Remember, you aren't in this alone: We will brainstorm how you can find mentors, build your networking muscles, deal with failure and plan your business without necessarily having a formal business plan.

Ready to ride the rocket ship that is being an entrepreneur? Strap yourself in!



“I gain inspiration from people, culture, history, spirituality, love, fantasy and magic.”

**NKHENSANI
NKOSI**

Founder of Stoned
Cherrie, a South African
fashion label.

Cape Town, South Africa

1 You can be an entrepreneur—for one idea or for a lifetime

Chances are, if you are reading this sentence, you have asked yourself at some point, what would it be like if I were my own boss? What is it even like to think of yourself as an entrepreneur?

It probably means feelings of excitement, independence and creativity—as well as anxiety, self-doubt and worry. Here is a secret: Every successful entrepreneur has had all of those emotions at some point. In fact, many startup owners will tell you, if it weren't for self-doubt and worry, they never would have succeeded. These emotions can be used to fuel drive, generate energy and inspire you to get up every morning eager to show the world what you can do.

People start a business for a variety of reasons. Financial security and well-being are certainly high on the list, but your business can positively affect your neighbors, friends and even your community. When others see how your hard work, drive and inspiration have paid off, it may inspire them to take similar chances.

This may seem like a minor benefit, but this is how real economic growth can happen in a small community.

Being an entrepreneur is different

Not all cultures appreciate entrepreneurship. What if, in your culture, it is not expected that you own and run a business? In some regions, cultural barriers and biases prevent women from pursuing professional careers or going on their own. The family can prevent a woman from going into business in the belief that, as an entrepreneur, she will neglect her husband and children. Even if unmarried, women often lack **collateral**—a valuable thing pledged as security for repayment of a loan—and access to potential mentors.

Addressing gender bias and removing barriers to women's entrepreneurship and professional development could boost economic development significantly, according to a 2015 International Monetary Fund study. This and other research suggest that women entrepreneurs invest up to 90 percent of every dollar earned back

into their families to educate their children, improve family health and provide better nutrition. The additional income produced by a business strengthens a family's financial security. These arguments may help you persuade your family that your business will make a difference in their lives. The promise of eating and living better can help settle a debate about you as a businesswoman.

Being an entrepreneur can be lonely, even in the best circumstances. Owning a business when your culture discourages it because of who you are can add to that feeling. With the internet and mobile technology, however, it's easier than ever to reach out to others.

You can seek out others who are in a similar predicament and together you can create a network. Through those contacts, you can share experiences and ways to deal with biases and barriers, support each other emotionally and possibly even pool your resources to help one another's startups where no financing is available.

Also, a growing number of corporations and nongovernmental groups run international programs focused on giving potential female entrepreneurs the skills and support they need to overcome barriers and start a business. Seek them out and find out how you can enroll. The more people you get "invested" in your success, the less lonely you will be. You can pave the way and become a role model for others to follow.

Ideas are everywhere!

You may already have a specific idea for a business. In this chapter, we will discover why, no matter how great you think your idea is, you must be open to changing it, at least a little bit.

You may indeed have a fabulous idea, but it still must be refined and tested against reality. This chapter will introduce you to some specific tools to help bring that idea out of your imagination and into the hands of potential customers.

You may also have picked up this book with no specific idea in mind for a business, yet you just know you are meant to run your own business. The "what" of the business, meaning the product or service it sells to customers, is important, but just as important is being your own boss and being in control of your own future.

Let's begin with one essential fact that holds true whether you already have your business idea or not:

**A successful business
meets the needs of customers,
pure and simple.**

You may have many different types of customers; ultimately your job is to please them. For example, you may have designed an innovative new farm machine, but if it doesn't meet the needs or desires of a good number of farmers, your business will not work, no matter how wonderful your idea is.

Although studies differ as to the number, the fact is that the majority of all new businesses fail. With odds like that, why would anyone start his/her own business? We will discuss that in this book. You will also learn how to put the odds for success more in your favor.

Many businesses suffer because they failed to act on this principle: You have to develop a product or service that customers want or need. Thomas Edison, the American inventor of the lightbulb and the phonograph, famously said, "Anything that won't sell, I don't want to invent." What was true more than a century ago is still true today.

“Anything that
won’t sell,
I don’t want
to invent.”

Thomas Edison

Below: Generating
a new idea requires
tapping many
inspirational sources
and exploring
promising paths.



Where do we find ideas then? It is not as difficult as you might think. You may come up with an idea from a variety of sources:

- ⇒ A job you have done in the past or are doing now.
- ⇒ School. Something in a class you're taking now or took in the past.
- ⇒ Something you're good at, like a special talent or pastime.
- ⇒ Your everyday experience.

Do you ever notice an unmet need for a product or service?

Making something new

This may be the simplest entrepreneurial idea. Have you ever thought, "I wish I had a time machine!" or "What if a farm plow could use only sunlight for energy?" Making something new is probably the one business area where you push the boundaries of "what if" the most. Obviously, in our example here, time machines and solar-powered plows don't exist. In fact, those ideas may sound silly to you.

But the idea Thomas Edison had for the lightbulb probably sounded just as challenging. Don't you think people found it hard to take his idea seriously at the time he came up with it? Yet, look at how it changed the world. You may be reading this book using light from this very invention.

Now, whether Edison was the first person to think of the idea for the lightbulb is hard to prove. He was, however, the first person to design one, build it and—most importantly—market it successfully.

If your business idea is for something completely new, we call this an innovation. What is telling you that customers will be willing to buy this new product or service from you? When many customers are

willing to buy from you, this is known as **market readiness**. You will learn the skills to test market readiness later in this chapter.

In some cases, you will not be creating a product or service that no one has ever done before. This still could be a good business to launch. You will be selling to customers who are already buying those products and services elsewhere. These kinds of customers are known as an existing market.

An existing product or service

Let's think about all the different products or services you use in the course of your day. Chances are that at some point you have thought, "If this product could only do this" or "If my local food market only did that." These thoughts are important to a budding entrepreneur. Your idea makes good business sense if you can do one or more of these things:


- ⊙ Build a product that has more or better features.
- ⊙ Make something that does everything an existing product does but at a lower price.
- ⊙ Construct an item that lasts longer and is more reliable.
- ⊙ Offer a product or service that is easier for a customer to use or obtain.

New businesses improve existing products every day. It may be your fresh eyes that can see an existing product or service in a new light. Many entrepreneurs have had a lot of success improving on products and services that already exist.

An existing market with unmet demand

Demand is just another word for "requests from customers." Unmet demand means that the current providers of goods and services cannot possibly provide enough

of them to fulfill the needs of all possible customers. Here, you would need to do less investigation into what the market wants, as you already know that customers want the type of product or service you intend to provide.

 One example might be freshly baked bread. Who doesn't like a loaf of bread fresh out of the oven? Bread is certainly not a new product. But let's say that for a particular town, the existing bakery can't make enough bread to satisfy the needs of all the customers. You enjoy making bread and have noticed customers who don't get to buy bread. You have the time to bake it and, more importantly, are good at baking. Why not consider a bread-baking business then?

Now, let's push your thinking. Instead of just matching what the other bakeries do, how about making an improvement? Could you consider delivering freshly baked bread to customers? This would not only address an unmet need, but would also add value to the product by combining it with another type of business. In fact, you just created a service—a bread-delivery service! So be aware that you can make combinations of the five areas for new businesses. This can be to your advantage, as it makes it harder for others to compete with you.

Getting the product to customers in new ways

We got a glimpse of product delivery in the prior example. Instead of having customers go to the bakery themselves, your new business brings the bread to the customer. That is one example of getting the product to a customer in a new way.

The term for getting products to customers, **distribution**, sounds fancy, but it just refers to how the product goes from where it's made into the hands of the customers. You should think about distribution a lot. If you can get goods or services to customers in a cheaper, faster or more convenient way, what customer wouldn't be interested in that? Let's expand your thinking even more. Going back to our bread-baking example, what if you could expand the delivery area? And perhaps add other baked goods?

Your business idea might be for a service, not a product. For many services, customers must travel to the place where the service is performed. Think about how you could make your customers' lives easier if you brought your service to them. You can do this in one of two ways. You can physically perform the service at a location convenient to them; for example, hairdressing or tailoring. The other option



Checklist for a new idea

Check your idea against these five points

1

A brand new product or service. No one has brought such a product to the market before.

2

A way to improve an existing product or service.

3

Something for a market that currently exists but whose demand is not being met completely.

4

A different way of getting a product or service into the hands of customers.

5

Something that pulls together many different services or products to provide a better customer experience.

would be to bring work back to your home or place of business. This could make sense for services such as sewing or repairing. Think of how many customers might enjoy having such a convenience. They might be more apt to use your service because it is right where they want and need it.

You will want to talk to your potential customers about your service idea to make sure that it will be economical and convenient for them, thereby increasing the likelihood that they will use it. We will give you some ideas about how to talk to customers later in this chapter.

Your idea pulls together more than one product or service

This last category—pulling together or “integrating” more than one thing—builds upon some of the previous examples. Consider an entrepreneur who resells a product made by others; for example, mobile phone prepaid cards. She buys the cards from a wholesaler and resells them to her customers. They are now asking about certain accessories for the phones, like power chargers. She hadn’t thought about that when launching her business. However, having heard customer requests often enough, she decides to add power chargers to her product line. Soon, as we will see, she will also add something that can help people carry their phones.

Our entrepreneur is smart enough to make sure that whatever inventory she carries will meet customer requests. By offering a variety of products, she

minimizes the business risk. If demand falls for one of her goods, she can rely on others to bring in sales. Later in this book, we will talk more about how proper planning helps to minimize the risk for you as a new business owner.

To make your idea work, play!

Every successful business, whether it is run from a home, office or factory, started as simply an idea. But let’s be clear: We are not saying that all ideas started out fully formed. In fact, your idea should *not* be fully formed at the beginning. You want to be open to changes that your customers identify when you ask them for feedback. If you start out thinking you know everything about your customers and what they want, that could get you into trouble.

This first stage of entrepreneurial thinking we will call “idea making.” As adults we sometimes get caught up in what we think can or can’t be done. Remember how much fun we had, as children, when we did not know what could or could not be done? The possibilities were endless. Entrepreneurs need similar creative energy.

The following example can help you find and build out a business idea. Let’s say that our phone card entrepreneur has noticed that women don’t have a place to easily carry a mobile phone. When a woman puts her phone in her handbag, the phone falls to the bottom and can’t be easily retrieved. The entrepreneur has been thinking that there must be a solution. So on a piece of paper, she writes “hard to find mobile phone in a handbag.” (See the infographic on page 11.)



Think beyond what currently is and start thinking about what might be.

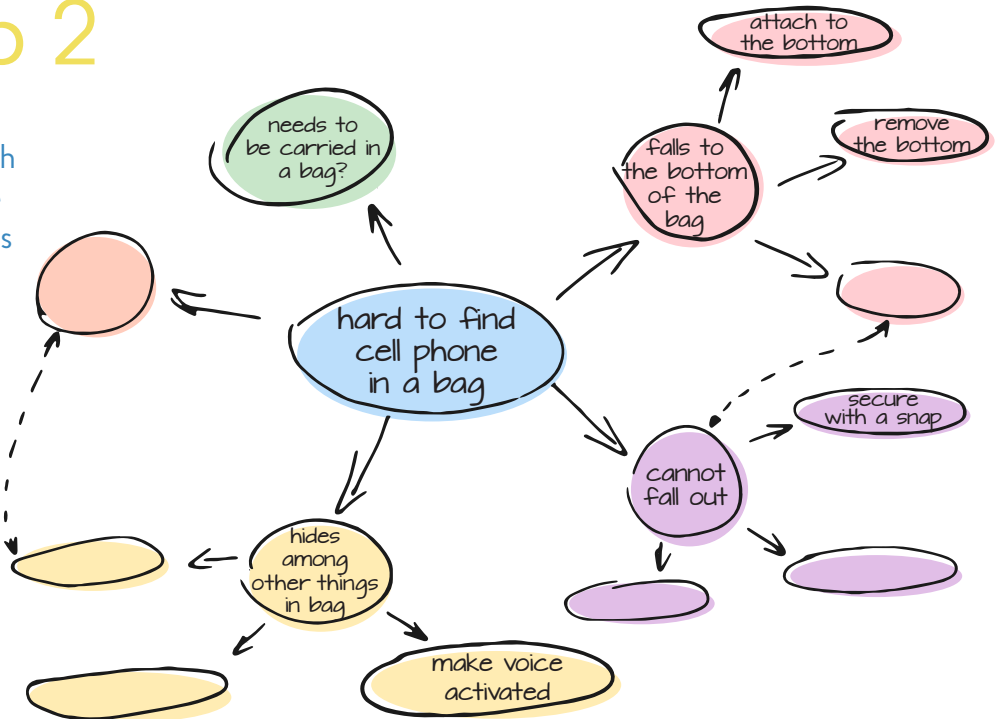
Step 1



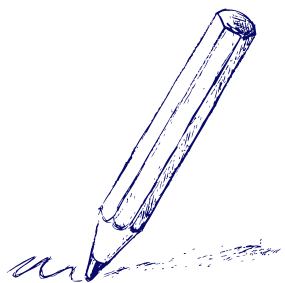
→ Sketch out your initial thoughts about the problem

Step 2

→ Play with possible solutions



Brainstorming ideas for a business can be fun. Don't limit yourself—silly solutions can eventually lead to success.



Put yourself in her shoes, try to be open-minded and brainstorm possible solutions to this problem. You don't want to limit yourself! The possible solutions will branch out from the original circle. See where this is going?

Some solutions make more sense than others. And some are just downright silly. Actually, if you have some silly solutions, that is a sign of success. It means you are pushing the boundaries of what is possible.

Having worked through this exercise, you have come up with the possible solution of a handmade woven bag with a small pocket on the outside with a flap. On paper, it may look like you are ready to start making these woven bags. After all, isn't the whole point of being an entrepreneur to sell a lot of your product?

But starting to make the bags right away is precisely what you do *not* want to do. Why invest your money buying materials and manufacturing equipment when you have not yet spoken with even one potential customer to get her opinion?

As part of this exercise, you should talk to others about how to solve the problem of mobile phones getting lost in handbags. You would ask for their thoughts about the advantages and disadvantages of your solutions—they may even offer some alternatives of their own. But, a note of caution: Be careful how you ask for opinions. It is easy to unintentionally sway others to your side, to what you think the right solution may be. You have to guard against thinking that you know what is best for the customer. The only person who knows what is best for the customer is the customer.

Entrepreneur Dale Trotman talked to dozens of health care professionals in Barbados, where he is based, to make his MedRegis app as helpful and efficient as

possible. MedRegis is designed to help health care workers record, store and share patient information in digital form. Based on their feedback, he changed the prototype significantly.

Talking with customers early and often

Now you are ready to move from an idea to a "prototype." We have established that we do not want to make many woven bags without first talking with customers. But you do want to make at least one bag—your prototype. Prototypes, by their nature, are far from perfect; in fact, you don't want them to be perfect. You want your prototype to be a rough estimation of what your product might look like when it's done. You'd want to roughly construct the bag with the material you think is the most appropriate, and with the all-important pocket on the outside to hold the mobile phone.

Once you have your prototype, you should show it to your potential customers to get their feedback.

When you talk with customers, and especially when you want their feedback on your prototype, you need to ask more than you tell and listen more than you speak. You will use a special language of *what*, *how*, *why* and *when*.

These words are powerful because they get your potential customers talking. For our prototype bag, we might ask:

- How many things do you usually carry in your handbag?
- How would you feel about carrying your phone outside your bag?
Is your phone safe?
- What about the outside pocket would you change?



Talk with your customers early and often as you build your business.

- ⇒ Why would you buy, or not buy, one of these for a friend?
- ⇒ When do you usually buy a new bag?
- ⇒ How does the quality of the fabric and stitching feel?

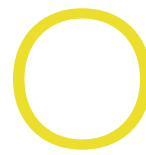
From these questions (and answers), you may suddenly discover a new use for your bag. In our example, as we asked potential customers about the bag, we made a discovery. A young man happened to walk by and asked us what our bag was for. We soon learned that he, too, often had an issue with losing his phone and had always wanted a safe place to store it in a bag. He then told us that many of his friends had the same problem. We learned he would also be interested in purchasing one, but perhaps in a different color. This means we may have an additional market—or group of customers—for a bag, and perhaps should be considering a bag for men. But it's important to ask some more men whether they would use our bag. By doing that, you are testing for market readiness.

If we had simply assumed there was only one type of customer for our bag, we could have missed valid and important customer feedback, and potential additional sales of our product.

A never-ending process

Having learned customers' thoughts on the prototype, you now need to evaluate their input. You must go back and determine what suggestions or conclusions from the customer feedback you will use to improve your product.

If you ask 50 people their opinion of your product, you will probably get 50 different thoughts in return. Not all of this feedback is equally valuable.



One way to prioritize feedback is by making some assumptions about your likely customer. In our example, we knew women

would be our primary target customers. From feedback, we learned about the potential of selling a bag to men. What if children saw your bag and loved it, but perhaps the size was too big for them?

At this point, you may need to make a decision. You know that you can easily make similarly sized bags in different colors to satisfy both women and men. But it would be hard to also make smaller bags for children right now. The children's feedback, while important, will have to be put aside for now. It might seem like you are losing business by doing this, but your short-term priority is getting products to the market, and quickly. So we will keep our focus for this initial product on selling bags to women and men.

The only person who knows what is best for the customer is the customer.



This is a key point. We will talk about customers in greater depth in the next chapter, but you need to get comfortable with the fact that you cannot sell your product to everyone. If you start out trying to make a product that meets everyone's needs, that product likely will not appeal to any particular group of consumers. If that happens, your business will likely fail. Also, trying to please everyone will almost certainly cause you to panic and be overwhelmed by all the demands you try to satisfy. Don't fall into that trap.

An excellent product does one of two things

To be successful, any business idea, no matter how simple or complicated, must do one of two things. It must either:

Increase "pleasure"
by making consumers
feel happy

or

Decrease "pain"
by solving a problem
for consumers.

Think about it. All products out there do one or the other. One that increases pleasure, or makes us feel happy, could be ice cream. Whether you are a daily ice cream eater or have never tried it, the mere thought of ice cream probably brings you happy thoughts of a cold, sweet treat. A product that decreases "pain" might be an alarm clock. If you have to wake up at a certain time every day, chances are that you use an alarm to wake you up. The alarm clock probably does not give you much pleasure when it rings, but it does solve a problem, by decreasing the "pain" of sleeping too late.

Speaking of happy...

Most of us at some point have had a job that wasn't especially enjoyable, but it provided the means to support our families and ourselves. You're likely reading this book because you see owning your own business as a way of having a job that will make you happy. Certainly, by being your own boss, you will experience feelings of exhilaration and newfound confidence. In this book you can learn approaches that will help you sustain these happy feelings.

Remember though that just becoming an entrepreneur doesn't guarantee your happiness, nor does it guarantee your financial well-being. It is often hard and lonely work. There may be times when you doubt your ability to sell your goods or find new customers. This is not to sway you from being an entrepreneur. We just want you to be clear on why you are embarking on this journey. And that brings us to an important question that you may be asking yourself:

"Exactly what business
should I launch?"

Earlier we mentioned that one thing that may help you decide what type of business to launch is knowing your special talent. It might seem obvious that the right business for you is one that engages your talent, hobby or passion. Imagine all the fun you can have every day doing what makes you happy and getting paid for it.

But does it really work that way?

That is the all-important question, and the answer could make or break your business. This book will help increase your confidence that your business will last for as long as you want it to.

Some entrepreneurs fail because they believe that others will share their passion.



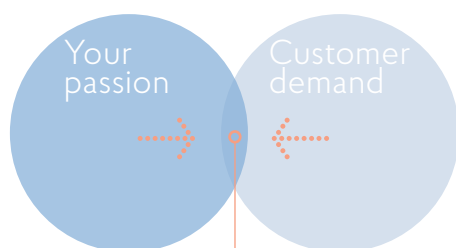
tip

If you try to please everyone, you will end up pleasing no one.

Joanne Canady-Brown in her thriving bakery The Gingered Peach in Lawrenceville, New Jersey. She started with no employees in a rented commercial kitchen space in 2011. Since then, Canady-Brown has opened a pastry shop and hired 14 people.

This may or may not be the case. You must determine how your business idea overlaps with customers' desires or need for the product. More specifically, think about what will convince customers to give up their hard-earned money in return for what you're selling. If you find that special place where your passion overlaps with customer demand, you have found the "sweet spot." It is at this very intersection of the two circles below where their money will pass into your hands.

Earlier, we talked about baking bread and selling prepaid mobile phone cards. Does it seem hard to imagine that phone cards could be anyone's passion? Products like phone cards may not seem that exciting, but if our budding entrepreneur sees that by selling them she is helping people communicate more easily with one another, that might be rewarding. How about our bread baker? She may be an excellent baker and love the work, but the thing that gets her up every morning is seeing people enjoy good food. The bread baking is just the thing that allows her to pursue this passion. For both entrepreneurs, where their passion meets their customers' needs is where they will make their money and their living.



* Find that special place where your passion overlaps with customer demand.

So you really will be like a scientist

Starting and building a new business the right way will increase your chances of success. You might approach your business idea as a kind of experiment.

Why this approach? Good scientists are always testing and probing, testing and probing. They also ask many questions. You must do the same as an entrepreneur. Together, in this book, we will work through what we think we know about your business. We'll test our assumptions early and often, and we'll do this even before we create an actual business plan.

The problem with writing a plan before doing any testing is that we would be investing time and effort into writing about what we think we know about our market. But what if our assumptions about customers were wrong? This means that the entire plan is built on a wobbly foundation that could easily collapse. A business plan requires details that we don't have yet, as we are still exploring what we want to do. It makes better sense to do some business "experiments" first, to learn about our customers and potential pricing options, and only then create a business plan.

Being an entrepreneur can be the most exciting adventure of your lifetime. It will be challenging and will require a lot of hard work, but once your business is up and running, owning it will undoubtedly be a thrilling ride. 🎲

Good scientists are always testing and probing. They also ask many questions. You must do the same as an entrepreneur.

When he was 12 years old, Shubham Banerjee invented an inexpensive Braille printer, using a Lego robotics kit as a basis. With family support, he launched a company, Braigo Labs, to further develop the printer for educational and home use.





“If you’re not having fun, it doesn’t count.”

JACOB MEDWELL
AND JONATHAN
SHRIFTMAN

Founders of Solé Bicycles,
which markets specialty bikes.
Venice, California

2 Building your business block by block

You have a great idea for a business and you know it will be a huge success—but that's only the first step. You will need to put your idea into action.

Developing a business plan is not the next step, although someone may have told you it is. Instead, you will build your “business model,” the construction of all the parts of your startup. For this, you need to gather as much information as you can before the launch. Understanding the needs, preferences and budget of your customers will enable you to create a good business model and, later, a better business plan based on it.

In this chapter, you will learn a building-block approach to starting a business. The building blocks are presented in the order in which you should think about them. Those toward the end of the chapter build upon your findings from the first few blocks.

Value proposition

What makes your business unique is its value proposition. Your idea for a business may or may not be the first of its kind.

That is not important. How you propose to make it stand out from the rest of the crowd is. The features that make your business unique make up the value you propose to bring to it. Those unique features constitute your value proposition. Your product or service should be as special and unique as possible; otherwise, how will you attract customers to purchase your product rather than competitors' products?

To determine your value proposition, here are four questions to consider:

- ⇒ What problems does your product or service solve?
- ⇒ What needs are you satisfying?
- ⇒ What category of products or services are you selling?
- ⇒ How will your product or service be different from similar products or services?

Here is a way to better understand value proposition. Our entrepreneur from Chapter 1 wants to sell prepaid phone cards in her area. She knows demand for such a product exists, but not much about

her potential customers. The entrepreneur asks them about their phone calling habits. From the feedback, she learns what type of card they desire most and their preferred card features. To set herself apart from other sellers—her competitors—she plans to sell sought-after cards. In this way, the entrepreneur aims to reach potential customers not happy with the phone cards currently available to them. Providing customers with the most sought-after phone cards is the value proposition of her business.

Now look at a real-life example. Europeans love to eat snails year-round, not just when they are in season. Ola Barramou of Fès, Morocco, could have been one of many exporters of wild gris snails to Europe. Instead, she launched a business providing a high-quality farmed variety year-round, something that competitors couldn't match. That's Barramou's value proposition.

Next you need to understand the problems you are solving, or the needs you are fulfilling, for your customers. The phone card entrepreneur is probably solving more than one. She has customers who want to make phone calls to stay in touch with family and friends. That is one need. She also might sell phone cards to business people who use their phones to do business. That's another need.

The question of what products or services you're selling may look obvious to you. But it's not always the case. For example, our entrepreneur realizes she doesn't sell just plastic cards, but convenience, or an easy way of connecting with people. Based on that, she can later expand her product line by adding a few well-chosen phone accessories like battery chargers and cases, as well as a phone repair service.

Customer segments

Customers have many different needs and desires. You should divide your potential customers into groups whose members have similar characteristics relevant to marketing. This is called **customer segmentation**. To help identify your customer segments, consider these two questions:

Who are you
creating value for?

and

Who are your most
important customers?

Your business can't be everything to everybody. If you try to please everyone, you will end up pleasing no one. The phone card entrepreneur has some customers who want to stay in touch with their relatives and others who need to communicate with their business contacts—two different groups and two different needs. We'll call the first group "communicators" and the second group "connectors." The communicators may not use a lot of mobile phone minutes each month, but they could be regular customers. Our entrepreneur may want to offer them a free card for every six cards they buy. The connectors are likely to use on average more minutes per month because a mobile phone is a basis of their livelihood. Our entrepreneur may want to offer them some type of volume discount. (You will learn more about customer acquisition and retention in Chapter 4.)

Both types of customer segments are important to her business, but each has a different need and requires a different approach. Be careful, though—you don't want to have too many customer segments or you will end up losing track of their distinct needs. About three or four customer segments is the right number to focus on.



tip Customers who contribute most to your business' bottom line require the most attention.

Opening a restaurant is a popular entrepreneurial dream; running one, though, is relentless work. Still, thousands of eateries open each year around the world. Top: A dumpling restaurant in Shanghai, China. Bottom: An eatery that specializes in Tibetan cuisine in Dharamsala, India.



Make it easy for customers to get your product.

Deciding who your most important customers are can be tricky. Your instinct might be to believe “all of them.” Of course, you should treat all customers with respect. But from a business point of view, they are not all equal.

If, for example, you have a customer segment that you anticipate accounts for 80 percent of your sales, you need to give this segment the most attention. Let's go even further: In this particular customer segment, there may be one specific customer likely to spend the most money with you. This customer should get some special treatment. This doesn't mean you ignore others, only that you need to prioritize the demands of different customers.

In practice, this can mean you have to scale back on the attention you pay to a customer who buys little but demands much of your time or effort. Otherwise, you risk losing other more profitable clients. You'll need to get comfortable with the fact that not all customers will contribute equally to your business' bottom line and therefore all can't be treated equally.

Customer relationships

It's not an accident that we are focusing primarily on customers. Without this focus, you could end up building a business that only few customers need. With customer relationships, we will explore the human side of dealing with the people who will be buying from you.

Customers expect that you will establish relationships with them. These relationships

will likely differ for different customer segments and different products and services.

Tom Szaky of the United States had a vision for using hard-to-recycle waste like packaging, wine corks and rubber gloves to make new products. But he needed to create a high-volume supply chain of waste and get many customers for his products. Szaky used the internet to recruit some 40 million people in 22 countries to collect trash for his business, TerraCycle, mostly by appealing to their environmental consciousness. He has turned them into customers by offering them points that can be redeemed for TerraCycle products.

Now suppose you have decided to tailor clothing as your business. You've created your value proposition that will help differentiate your business from others and have identified some customer segments. One of these customer segments is young professionals.

As you talk with these young professionals, you begin to feel that this customer segment will benefit from advice on what looks good on them. Perhaps you also decide to offer laundry services or sell neckties and other accessories. These customers might love the fact that you pay particular attention to them and their clothing needs. They would expect you to develop a special relationship with them, and over time, they will likely become loyal to your business.

You would need to invest a lot of time and energy in getting to know each customer in this group. You must learn what colors each likes and which styles look good on each,



Nurture customer relationships by listening more than talking.

In Grozny, Russia, fashion designer Fatima Tisaeva checks inventory in her shop, which sells traditional Muslim clothing for women. The market for Islamic clothing is projected to grow by more than 40 percent by 2019.

and come up with good advice. But the time and cost can be worth it. By making this investment in understanding your customers and catering to their tastes, you will likely benefit by seeing more orders.

You also may have customers who only drop off laundry with no need for other services; they have a different relationship expectation. That segment may see the laundry only as a transaction. This isn't a bad thing at all; those customers bring business, while requiring less of your time and energy.

Let's peek into the future. Your business has been successful, and you realize that you need to add staff to help you handle a growing number of customers. You will want these new employees to become familiar with customer needs as closely as you are, because you believe that stellar customer service distinguishes your business. As long as sales outweigh the cost of adding workers, it is a good decision. (We talk more about this in Chapter 3.)

It is up to you, as the business owner, to learn what kind of relationship your customers expect from you and to plan accordingly.

Distribution channels

In the past—and still today in some parts of the world—farmers and craftsmen would trade goods by river or in a town's market. This was how they distributed what they had to offer. In the same way, you will need a system to get your products or services to

your customers. A **distribution channel** is the way to get products or services into the hands of customers.

Let's consider these questions:

- ⊙ How are you reaching your customers, and how do they want to be reached?
- ⊙ If you use more than one distribution channel, do they work together?
- ⊙ Which channels are most cost-efficient?

A store in your town could be a distribution channel for a number of clothing vendors. For each of these vendors, having a store on her/his own might be too expensive. By selling products through someone else's store, a vendor can reach customers in a cost-effective way.

The way you distribute your product can be a decisive factor in growing your business. Darril Saunders knew her Exotic Caribbean Mountain Pride brand of cocoa drinks would reach only a limited number of customers on the island of Trinidad if she couldn't sell them in supermarkets. That's why she put a lot of efforts into meeting requirements regarding the bar codes, packaging and other items that supermarket chains impose on their suppliers.

For Saunders, the supermarket is the "middleman." There's no way she could reach the number of customers on her own that supermarkets can provide.



When pricing your product, consider:

⇒ How much money you spend to make it

⇒ How good the craftsmanship is

⇒ How much convenience it may add to the customer's life

The supermarkets are in the “middle,” between Saunders and her customers. They have to make money, too. Saunders had to figure this into her pricing model for her cocoa drinks.

She could do this in more than one way:

- ⊙ Increase her price to cover what the supermarket charges her.
- ⊙ Keep her price the same and earn a smaller profit on each item, with the expectation of a higher volume of sales.

The phone card entrepreneur has learned how her customers want to purchase these cards. She decides to rent a small kiosk in the center of her town, as her potential customers frequent this area and the area gets a lot of foot traffic in general. The customers like the predictability of her manning the kiosk, ready to sell them cards when they need them.

Over time, the phone card business grows, and the entrepreneur thinks about expanding it to neighboring towns. In each town, she recruits other women to sell the phone cards. Each woman is paid based on how much she sells. This percentage is known as a **commission**. The women are a distribution channel. The commissions paid to them have to be figured into the phone card prices.

What if a friend of our entrepreneur proposes to open up a kiosk to sell her cards in a larger town with more potential customers? He asks for a larger commission than the women, who are in smaller towns. Is this a good idea? Potentially yes, if he is able to increase sales enough to warrant the higher percentage of the profits.

Distribution will always increase your business costs. Thus you will want to carefully consider these costs and weigh them against an increase in revenues produced by an additional distribution channel.

The internet is an example of a modern distribution channel, whose reach, and thus importance for business, is only growing. In many countries, products and services can be either bought in a regular store or ordered online.

But just as with customer segments, a business can have too many distribution channels. The number of customers is finite, and if your multiple channels compete for the same customer, some channels will not be profitable. In addition, each distribution channel will require your time and other resources, decreasing the attention you can devote to your customers.

Revenue model

A **revenue model** is a framework that identifies which revenue sources to pursue, what value to offer, how to price the value and who pays for the value. “Revenue” most often means “sales,” and we will use those words interchangeably.

A revenue model is part of a company’s business model. Pricing is derived from the revenue model, but it also depends on factors such as demand and a customer segment. The revenue model is related to a company’s business strategy, while pricing is more of a tactic, which can change frequently.

Let’s focus on the following questions regarding revenue:

- ⇒ What are my customers paying for?

Your business
can’t be
everything to
everybody.





In the beginning, you may have to prove to your partners that you understand what it takes to be successful.

- What is my customer's ability to pay?
- How much money should I put into my product or service?
- How should I price my product or service?

An example of an entrepreneur selling leather goods can help explain the revenue model concept. He has made his goods for several years and his craftsmanship has gained a wide reputation. People know that when they buy a bag or wallet from him, it will last a long time. He has come to realize—in response to the first question—that his customers are paying more money for his products than for competitors' goods because they perceive an extra value in his quality workmanship.

Like anyone else, his customers like to think they are getting a bargain. Many of them negotiate the price, which in his culture is expected. He has a good sense of how much he should charge for his products. If he charges too much, he may not get many sales; too little, and he won't cover his costs.

To set himself apart from his competitors, he decides to offer a warranty to his customers. If, for example, the stitching on his products gets torn in the first year of use, he will fix it free of charge. He knows, however, that because of his quality workmanship, the chance of that happening is remote, so it is a safe bet to offer this guarantee as part of the purchase price.

Customers love the guarantee as part of the product offering, as it minimizes the

risk of something going wrong. None of his competitors offers a warranty because the quality of their leatherwork is not as good as his, and such an extra perk would reduce their profit. Our entrepreneur doesn't believe he should charge the same price as the other producers who are making inferior products. What is a fair price then?

The following are major factors in determining a fair price for a product or service:

- The amount of money your customers can spend.
- What it costs to make a product or provide a service.
- What competitors charge.
- Customers' perceptions of the value of a product or a service.

Knowing that his product lasts four to five times longer than his competitors', you may think he should charge four to five times what his competition charges. That may or may not be the right tactic. Based on his local market knowledge and his cost calculation, he may decide to charge two or three times what his competition charges.

At that price, his products sell reasonably well. But feedback from customers and other market signals may convince him that at a slightly lower price, he will sell more goods. He expects that the extra sales will more than make up for the lower prices. This is why we call pricing a tactic rather than a strategy; you may decide to adjust your prices based on experience.

An entrepreneur's approach to pricing a product is her revenue model. It is something you need to develop for your own business. A simplistic approach to

pricing is figuring your cost to make a product and then adding the profit you expect to make. However, you should think in a more in-depth way about pricing. When pricing your products, think about how much customers are willing to pay, competing products and market conditions.

Key partners and suppliers

Throughout this chapter, we have been methodically building the foundation for your business model. In the following section, you will be challenged to think about the people and groups you need to deal with to make your business work. If you don't have a lot of cash, creating business alliances

with key partners can be a good way to grow or expand your business.

First, consider the following questions:

- ⊙ Who will be your key partner(s)?
- ⊙ Who will be your key supplier(s)?
- ⊙ What key items or services are your partners providing to you?

Your **key partner** can be a supplier, a distributor, a company you sell to or a business that sells a complementary product or service. Back to our phone card entrepreneur. Whatever phone company's cards she is selling, that company can be



Treat your key suppliers with honesty and dignity. If you have disagreements, resolve them quickly and fairly.

A Ugandan dealer of solar lanterns, mobile-phone chargers and home power systems designed and marketed by d.light design. Two Stanford University graduates, Sam Goldman and Ned Tozun, started the company in 2007 to provide electricity and related financing to off-grid communities.



To identify your key activities, ask yourself, “What must I absolutely do to satisfy my customers and make sales?”

In 2014, Canadian Jordan Whelan started Framestr, an e-commerce and marketing platform, and Our Paper Life, a design firm specializing in cardboard furniture and marketing displays.

one of her key partners. The leather goods maker can have his leather supplier as his partner.

Entrepreneurs and suppliers can be—but don't have to be—partners. The two groups make a good match if their business relationship is based on mutual trust, openness and shared risk and reward that produce a competitive advantage for both. These traits help form an excellent foundation for a business alliance.

Another business, or person, can be considered a key partner if your relationship with that business has at least one of the following characteristics:

- You share in success or failure.
- You have an opportunity to develop products and services together.
- You share the same customers.
- You have an opportunity to share some costs.

Remember that business alliances are not always equal. If our entrepreneur sells many phone cards, both her business and the supplier will benefit. If her sales are meager, she may have to close her business; the phone card provider, however, will survive, as it supplies cards to many other vendors. As a small-business owner, our entrepreneur has less leeway.

When you start out, you have little negotiating power with your suppliers. Only when you prove yourself as a shrewd businesswoman or businessman and make your business grow will you be in a position to negotiate a better deal with the suppliers.

Sometimes, business alliances with suppliers are spelled out in a contract. This means that you may be required to sign paperwork committing to selling a certain number of products or achieving a certain volume of sales. You might also be asked not to sell products from other companies that could be viewed as competitors to

the supply partner. If you don't sell enough products, or if your supplier finds out that you are selling competing products, you could be found in violation of the contract, and it can be terminated.

Other business alliances with a supplier may be less formal and not legally binding. You and the other party may just decide that doing business together makes sense for both of you. These can be just as successful as legal partnerships and much easier to end if things don't work out for either party.

Who might be a **key supplier** for you? Someone who provides you with the supplies your business can't function without. If you have a bakery, whoever is providing you with flour, yeast and other ingredients is a key supplier, and the ingredients are key items. Without these supplies, you can't make bread.

You must pay close attention to key relationships, as your business depends on them. But not every supplier is essential to your business. For example, someone who supplies you with paper bags is not essential, as you would be able to make and sell bread without paper bags.

Key resources

The most important items required to make your business work are your **key resources**. For our leather goods entrepreneur, for example, it's leather.

Often, a key resource will be a material you need for your product. But not always. For our phone card entrepreneur, not the card itself but phone minutes allocated to it are a key resource. For a tutor, his/her knowledge is a key resource.

You should prepare for key supply interruptions by making a backup plan.

tip

If you are providing a special value to your customers, the pricing of your product or service should reflect that value.

A Rwandan farmer processes her coffee beans for sale to a U.S. company.



When supply vehicles break down or storms make roads impassable, you may be left without key supplies for hours, days or weeks.

When you are ready to start, you may need to purchase some items to set up your company. The money you need to get your business up and running is often a key resource. In the beginning, this usually is a resource in short supply, so don't spend it carelessly. You need to prioritize your expenses, asking yourself every time you consider spending money, "Is this something I really need now?"

Key activities

Knowing that you alone are responsible for your success can make you anxious. But it also can be exhilarating. Working for yourself can mean long hours and no holidays, with many tasks requiring your attention. There may be orders to place, money to collect, bills to pay and the work to do to serve your customers. With all of these things on the to-do list, how does an entrepreneur prioritize them? By identifying your business' **key activities**; that is, the activities that are essential to making your product or providing your service.

These questions may help you target key activities:

- ☞ What activities does my value proposition require?
- ☞ What must I do to support my distribution channels?
- ☞ What tasks need to be performed to acquire and retain my customers?
- ☞ What must be done to ensure healthy revenue streams?


In a bakery, baking is a key activity. Reading about the history of bread making is not, although it may come in handy later

on. If your business depends to a large degree on advertising, it can be considered a key activity.

Typically, if you are making and selling goods, the production of those items is a key activity. Likewise, if you are providing a service, that service is a key activity. Ensuring that you have a steady stream of customers is a key activity.

Knowing what activities are essential can help you prioritize your work. At times you will want to do things that aren't essential. Do them only when your critical tasks are completed.

Cost structure

 ur final building block is **cost structure**, which is the cost of all the critical items such as time, materials, rent, wages and advertising that go into your product or service. This block comes last because one needs to consider all the prior blocks before deciding what to include in the cost structure. The following questions can help you determine the cost structure of your business:

- ☉ What are the most important costs in your business? These become your **key costs**.
- ☉ What key resources are the most expensive?
- ☉ Which of your key activities will cost more than others?

To determine these key costs, think back to your value proposition, the elements that make your product or service valuable to customers. If you are making a product, your key costs are the total expenditure for all the materials and components that go into it. For sellers of goods, what they pay for these goods is a key cost. Our phone card seller knows she also has to rent her kiosk and pay business taxes.

“I truly believe that the next Mickey Mouse should be born in China where...20 million babies are born a year.”

Poman Lo

Poman Lo, founder of Century Innovative Technology, a Hong Kong-based maker of educational toys, cartoons, games and music videos for the Chinese market. Born into a family real-estate business, she refused to give up on her dream—to create a Chinese counterpart to Walt Disney Company.



“I can make coffee and I can make it good.”

Keba Konte

A coffee bar in Oakland, California, run by Red Bay Coffee, founded by Keba Konte. Konte, an artist and a serial entrepreneur, has owned coffee bars, an eatery, a gallery and an urban garden.



Focus on making a good product, provide excellent service and charge a right price.

Other types of costs also are associated with a business. **Operational costs**, for example, include rent, taxes and payroll. Think of operational costs as those expenses you must pay to keep your business up and running. Some operational costs are only paid once; for example, a business registration fee. Others are recurring, like rent and utilities.

Thoroughly understanding your costs is important to your success. This doesn't have to be challenging. In fact, a simple cost structure will make it easier for you to manage your business, and to know when things are going well and when you may need to adjust your tactics.

Costs are divided into two categories:

- ➡ Fixed costs are those you will incur whether you sell one item or one thousand. An example is rent for a store. You will spend the same amount to rent space for one month regardless of how much you sell.
- ➡ Variable costs depend on how much product or service you sell. In the shop of the leather goods maker, leather is considered a

variable cost. If he sells a lot of goods, he will spend more on the raw material. If he sells fewer goods, he will spend less on the raw material.

Can you ever charge less for a product than it costs? In some circumstances, yes. Sometimes businesses will sell products below the production cost, or with an insignificant profit, to try to attract customers. However, this is not recommended when you are just starting out. Focus on making a good product, provide excellent service and charge a fair price.

Talk, listen and build

In this chapter we cover all the essential blocks of the business model. You have learned that you can build a strong foundation for your business model using feedback from your potential customers. (Your **business plan**, which we discuss in Chapter 6, will be based on your business model.) If you are open to customers' needs and willing to make adjustments, you will increase your chances of success. 📦



Mobile banking

➡ Mobile banking is gaining popularity around the world. Where banking services are expensive or bank branches are hard to reach, mobile apps that allow payments to flow from one person to another through mobile networks are particularly important. The service allows users for a small fee to deposit money into an account stored on their cell phones, to send balances using PIN-secured SMS text messages to other users,

including sellers of goods and services, and to redeem deposits for regular money. Mobile banking significantly lowers the cost of money transfers and helps expand a potential customer base for entrepreneurial ventures. It plays a major role in Africa, where infrastructure deficiencies are especially daunting. As mobile banking remains mostly unregulated, some of the related apps are more secure than others.



“Life is much easier now.”
With more tourists and
more business, “I have my
zest for life back.”

**ERWAN & ICHSAN
JAMALUDDIN**

established a surfboard rental and
repair business on a beach after they'd
lost their family to the 2004 tsunami.

Aceh, Indonesia

You as business owner, manager and leader

Many entrepreneurs concentrate most on getting their business up and running and spend little time thinking about what will happen after the launch. But thinking about how your business will operate day to day is critical to success. Once your business is launched, it must be run—and run efficiently. This takes a slightly different set of skills from those you have learned so far; developing these skills will serve you and your new business well.

After you start your business, you may find it necessary to hire people. You may need to acquire more inventory and more space to store it. And, of course, all of this will cost money. This is the point in your up-and-running business at which you can become a business innovator as well as a business owner.

For that, in this chapter we will focus on five areas:

- ☞ Planning
- ☞ Organizing
- ☞ Leading
- ☞ Staffing
- ☞ Controlling

Planning—it never stops!

When you came up with a business idea, you probably had a particular vision of what your business would someday become. Hopefully, this vision, or dream, was big—and “big” is however you want to define it. But the path from your vision to an actual business is rarely a straight line. You will face challenges that will require you to adjust your plans; for example, refining the company’s value proposition or taking advantage of a technological change. It is the ability to adapt without losing sight of your vision that will make your success more likely and help you get through the difficult days.

Here are some examples of visions for businesses:

- ☉ *I want to help everyone in my village communicate with their loved ones.*
This could be the vision of our phone card entrepreneur.
- ☉ *My business will make people’s lives easier.*
This might be our leather goods maker’s vision.

- ☉ *Our shop will help make our community healthy and happy.*

This vision could lead to a new bakery or a service that provides clean water.

American teacher Toni Maraviglia had a vision for a virtual tutor business, teaching and guiding students in remote or isolated locations in Kenya. Her partner, Kenyan technologist Kago Kagichiri, helped her translate this vision into a company, Eneza Education, that delivers interactive educational content on mobile phone platforms.

Do you see how these visions convey the broad idea of an objective that an entrepreneur wants to achieve, but don't specify products or services? That is because one can derive from one's vision different products or services by following different paths. These paths, or strategies, may have to change over time. Think of it this way: A boat leaves one village to go to another. Along the way, a rainstorm slows the boat's pace. It may have to navigate around rocks or shallow waters. The vision of arriving at the other village doesn't change, but you may need to use different navigational strategies to get there. The same is true for your business.

You may need to use a sail, or perhaps an oar, to propel your boat. The plans or procedures that support your "navigational" strategy are called tactics. You need to do some thinking about strategies and tactics for your business.

Here are some examples of strategies:

- ☞ Adding another way to sell your products (or a distribution channel, as described in Chapter 2).
- ☞ Adding another revenue stream, such as a laundry service in a tailor shop or bread delivery in a bakery.
- ☞ Switching to a new, more efficient technology to manufacture a product or deliver a service.

- ☞ Selling related products that enhance your main money-making product; for example, phone accessories in a mobile phone shop or watch batteries in a jewelry shop.

Here are some examples of tactics:

- ☞ Offering a discount on slow-selling days.
- ☞ Purchasing supplies when the supplier's prices go down.
- ☞ Offering a rebate if a customer buys an additional item.
- ☞ Negotiating a bigger discount from a supplier if you commit to a long-term agreement.

Your vision for a business should stay fairly constant. It would be confusing if you were to change it constantly. But the strategies to achieve this vision, or an objective derived from it, *can* change somewhat. The tactics can change more frequently in response to changes in the marketplace. Think of tactics like hand tools. If you are building a house, you can't use a saw for everything. You'll need a hammer, nails and other items as the house takes shape. Similarly, as your business takes shape, you'll need to use different tactics to grow it and make it profitable. They should always be rooted in your vision and support your business objective. If you are wondering whether to employ a certain tactic or not, ask yourself, "Will doing this bring my business closer to achieving its objective?"

Sean Leow had envisioned an online community of alternative Chinese artists and musicians. He started Neocha to promote and connect them with one another. But when revenue from advertisements and mobile payments didn't materialize, he asked an acquaintance, Adam

Schokora, to help him refocus the business on content production, market research and events planning, thus changing his original strategy.

Organizing—a little now
saves a lot later

Most entrepreneurs start their companies in order to make a profit. This kind of company is called a **for-profit**. Some launch a company to support social, environmental or other goals rather than to make a profit. This kind of company is called a **nonprofit**. This book's focus is on for-profit businesses. Most small businesses start out organizationally the same way as businesses have for thousands of years: as a **sole proprietorship**.

This is a business owned by one individual. This person gets to keep all the profits, but is responsible for all **liabilities** as well. It is one of the most popular types of business structures because it's the simplest.

Another way to organize a business is through a **general partnership**. This type of business is made up of two or more people who share ownership. Each partner contributes resources such as money, property or labor to all or some parts of the business. In return, each partner shares in the profits and losses. For example, if two people start a business, each could be an owner of 50 percent of it. Does it have to be 50 percent? No. The split can be mutually decided based on who contributes what.



Your vision for a business should stay fairly constant. It would be confusing if you were to change it constantly.

Many issues must be discussed when you start a company; founders and employees of Dable, an online content platform, do just that at the Google campus in Seoul, South Korea.

Under terms of a **limited partnership**, usually one person acts as the “general” partner and makes all day-to-day decisions, such as dealing with suppliers and hiring staff. The other partners, referred to as “limited,” typically are not involved in day-to-day operations. Generally speaking, the risk all partners take on is limited to whatever money they have put into the business.

Some entrepreneurs bind together to spread the risk more broadly through a **cooperative**. Such an organization is owned and run jointly by its members, who share the profits and losses. A cooperative gives its members more purchasing and marketing power than they would have as individual business owners with meager resources.

Yet another form of business organization is a **public company**. It’s a company that issues shares to be traded freely on a stock exchange. We’re not going to discuss this kind of legal structure, as it’s most often chosen by large, fast-growing businesses.

Most likely, you will choose a sole proprietorship, a partnership or a cooperative for your business. The rules for establishing a business differ among countries. You should learn about the steps you need to take in your country to register your business and its name, and to obtain all necessary permits and licenses. For example, if you are selling food or drink, a health code or sanitary requirements may apply to your business.

Learning about rules and regulations affecting your business will help you avoid conflict with authorities, which can be costly.

Doing business the right way

If you live in an emerging market country, you are contributing to its economic development. But its laws and regulations

may not reflect this. Thus, registering a business may not be easy, and obtaining required permits and certificates perhaps less so because of bureaucracy and possibly even corruption.

Despite the urge to get your business up and running as soon as possible, you must resist the temptation to resort to bribery to speed up bureaucratic proceedings. You should conduct your business in a fair and honest manner. In the long term, business integrity strengthens your reputation, which pays off, as customers are drawn to reputable companies.

If you are a victim of corruption, safely seek out others who may have been similarly affected and share your story. There is power in numbers, and you will feel less alone. If you feel that the proper authorities will support you, especially when you’re a victim of extortion, theft or cheating, report the issue. By doing so, you put the offenders on notice that you are aware of what they have done.

As a general rule, when launching a business, quicker is better than slower. However, that is not the case if it means compromising the quality, safety or integrity of a product, a service or your firm. Remember that your product is associated with your business reputation, and vice versa. For example, resist the temptation to use inferior materials to save money. Dissatisfied customers may tell potential customers about a bad experience with your product, and this may cost you more in lost sales than you were able to save on cheaper materials.

Leading—you can do this!

It is easy to fall into the trap of thinking you can handle everything yourself. It may be true in the beginning and if your business is really small. But when your company starts growing, you must recognize that, at some point, you may not be able to

handle everything yourself and will need help. Employees can make products, sell directly to customers, process inventory or perform other tasks.

Hiring people would make you the boss of others, and dealing with employees requires a special set of skills.

A true leader recognizes and acknowledges his/her shortcomings and limitations and learns to depend on others. Seeing that you are comfortable relying on others' knowledge and skills will encourage your employees to ask questions, make suggestions and seek more responsibilities, thus contributing to the success of your business.

Leadership is often the most challenging area for an entrepreneur. More than financials, customer relationships or making products, the idea of leading can seem daunting. This is especially true if, by launching your business, you are blazing a new trail in the business world.

Leadership requires you to understand both business and people. Most people come to work for you wanting to do a good job and be acknowledged when they do well. Yet employees have feelings and attitudes that you need to take into account when leading them. For some, understanding what motivates people comes easy. For others, it is something that comes with experience. Either way, good leadership can be learned. Think of some leaders you admire. What is it about them that makes them good leaders?

Whether you hire others or not, you are the leader of your business. People will be watching and judging you to see whether you measure up. Do you want to be seen as someone who can take initiative and inspire those around you, or someone who struggles to make decisions and pays scant attention to people who work for you?

Many books have been written on how to become an inspiring leader. You can read some, but if you don't have time or access to the books, you can rely on characteristics common among great business leaders. They:

- ⇒ Act with integrity.
- ⇒ Stay true to their vision.
- ⇒ Are open to feedback from others.
- ⇒ Treat their customers as they would treat family or friends.
- ⇒ Run their business in a way that inspires others.
- ⇒ Hold their workers to a high standard but acknowledge them when they are doing a good job.

Follow these rules and people will want to work for you.

Family may be the first and easiest source to look to for help in the business. For many reasons, family members can make the best workers. But there's no guarantee that such an arrangement will work out. For example, consider how you will handle:

- ⇒ Tardiness or absences of family employees.
- ⇒ Pay and promotions. Would family get priority treatment over other deserving employees?
- ⇒ Employee development. How will instruction or praise given by you be received by family members?
- ⇒ Acceptance. Will family members accept you as the boss?

You may decide not to mix business and family. Then you would need to hire people from outside who have the qualities your business needs. No one will know better than you what your operations require and what your customers expect. Think carefully about these needs, and hire people who exhibit the ability to meet them. Consider putting all new hires on

a 30- or 60-day trial period. Set up clear requirements for them and see how they perform over the trial period. Help them out if they make some mistakes, especially early on. However, if after a reasonable amount of time they don't perform as you expected, you should let them go.

As a leader, you will have to develop a strong working knowledge of the people who work for you. Whether you have just one employee or 20, each person will bring to the workplace different talents, expectations, attitudes and ideas. Your job, as a leader and manager, is to learn how to bring out the best in your employees while discouraging negative attitudes and behaviors. It takes time to develop such skills but is well worth the effort.

Staffing—balancing sales and expenses

Employees will be the backbone and, perhaps, the “face” of your business if they deal directly with customers or suppliers. Hired workers will either help you grow your business or slow you down. If you hire people in a rush because you need them on short notice, you may end up with employees damaging your business rather than contributing to it. For example, a bad hire can handle customers so poorly that they decide not to return.

As adding an employee costs money, you must consider what makes more business sense—getting enough sales to support the expense of a new hire or hiring someone to boost the sales. It will be up to you to develop an instinct for the right timing. These are telltale signs of a company in need of hired hands:

- ⊗ Sales are lost because the entrepreneur can't handle increased customer demand.

- ⊗ Customer satisfaction drops.
- ⊗ A plan is being developed to expand business.
- ⊗ An opportunity to beat a competitor emerges.
- ⊗ The owner feels exhausted by doing everything himself/herself.
- ⊗ Important business tasks aren't done.

You also may need to work with outside specialists, such as a bookkeeper or lawyer. Think of these experts as temporary hires. You will pay them for work done when it needs to be done, but won't bring them on the regular payroll unless necessary. You might even be able to barter something in return for their help.

Would you ever bring someone in when your sales do not support an employee's salary?

Yes—in certain circumstances. Sometimes business owners need to build demand for their product or service before any significant sales come in. This requires investing time and energy into convincing people that they need that product or service. In such a case, entrepreneurs will have to cover expenses for some time before they start to see revenue. We'll discuss in the next chapter how this is accomplished by getting outside investments. But for now, the general rule is: A new employee should support enough new sales to cover his/her salary and add to your company's profit.

Small things can add up to big profit, or...loss

This brings us to **cash flow**. The money from a sale flows into a business. This is referred to as cash flow, and you will want to pay particular attention to it as you manage your business. Cash flow is the lifeblood of every business, big or small.

“Everyone seems satisfied with what they have...They don’t want to take the risk of breaking free. I have always wanted to fly.”

Siddhant Kumar

Siddhant Kumar overcame caste discrimination to start FunRally Games in 2012 in Delhi, India. The company produces tabletop games.



“We didn’t start a company with a mission, but we had a mission that turned into a company.”

Blake Mycoskie

Blake Mycoskie, founder of TOMS, a U.S. shoe and eyewear company. For each pair of shoes sold, his business gives a new pair of shoes to an impoverished child.



Break your business goals into small, measurable milestones.



Listening to customers, employees and key allies is an essential part of your job.

A sale made today supports a sale made tomorrow and the next day. Ideally, it allows you to pay rent, vendors and employees, and to make more products to sell to more customers. A slowdown in cash flow doesn't necessarily mean disaster. In a business that sells more products or services during a particular season, a drop in revenues, for example during winter, can be acceptable. But in a year-round business, higher cash outflows than inflows for an extended period, or other cash-flow problems, may signal a broader issue and put your company at risk.

Some business customers of our phone card entrepreneur have asked her to sell them cards “on credit,” with a promise to pay her when they make money in their businesses. This means that she can't collect money at the time she makes the sale and has to wait for payment. This arrangement makes her dependent on her customers' sales success. With less immediate money from card sales, she will need to dip into her savings, if she has any, to keep cash flow going. If she ends up not being able to collect the money from her customers, her business could be in trouble.

Be careful extending credit to buyers, if you do it at all. This has a role when used wisely at the right time. When you are just starting out is not the right time.

Think of cash flow as a large river that has been dammed up in a reservoir. You control this reservoir (your revenues).

You know you need to let the water flow so that the river downstream remains healthy (you pay vendors, employees, etc.). But you don't want to release too much too soon because you may empty your reservoir (cash savings) too quickly. You don't want to release too little either, or things downstream won't survive (vendors may go out of business, employees may quit). You want to hold onto cash as long as possible, but remember that others—key partners, suppliers and employees—may depend as much on your prompt payment as you depend on timely payments from your customers.

Now, reflect on how a household budget is run. Let's say that your family members are thrifty and give you a small amount of money from their savings. This is your **beginning cash**. If you have a job, your wages amount to **cash inflow**. The money you use to pay bills and buy groceries make **cash outflow**. The amount you have left over is your **net cash flow**.

To summarize, in terms of your business:

- ➡ **Beginning cash:** the amount of money you have on hand or ready to invest in your business.
- ➡ **Cash inflow:** the money from sales coming into your business.
- ➡ **Cash outflow:** the money you pay to vendors, employees, payments on loans, rent, etc.
- ➡ **Net cash flow:** the sum of the preceding three.

A positive cash flow is what you want for your business. A negative cash flow means you owe money to someone—employees, vendors or partners. Although occasionally this may happen, you should avoid such a situation, particularly over an extended period. That's why controlling expenses is important, especially at an early stage.

Think carefully about the things you spend money on to run your business, such as:

- ⊙ Raw materials
- ⊙ Tools and equipment
- ⊙ Transportation
- ⊙ Manufacturing
- ⊙ Office space

Are all of them absolutely necessary? If you make goods for example, asking a specialized producer to manufacture them for you can be less expensive than buying expensive machinery. Jonathan Shriftman and Jacob Medwell found an inexpensive manufacturer in China when they launched Solé Bicycles in 2009 to market fixed-gear bicycles.

Pieces of property or equipment purchased exclusively or primarily for business use are referred to as **business assets**. They are good to have because they allow you to make your product or service and can serve as collateral. Realize, however, that you may have to borrow money to pay for these assets. Alternatively,



tip


Think twice before spending your money. Your expense should be justified by your business' essential needs.

In this hive, customers can grow at home mealworms, considered delicacies in some countries. Katharina Unger, left, and Julia Kaisinger developed it for their startup Livin Farms at a business accelerator in China.

you can rent machines, tools, vehicles and office space if you cannot afford to buy them.

Our leather goods entrepreneur bought some tools in order to launch his business. These tools became a business asset. As he did not have much beginning cash, he borrowed money from his father, whom he promised to pay back in two years. He makes regular sales, so he can make the modest monthly loan payments. The borrowed money is considered a business liability. In the next chapter, we will discuss some other ways to raise money.

When you start out, you want to minimize the money you spend on things required for your business. Aim to have enough sales to support expenses such as loans, rent and supplies.

 ur phone card entrepreneur has enough experience to be able to make sales projections. She buys enough cards to have on hand, but resists the pressure from a key supplier to buy more. Buying more than she's able to sell would tie up too much money in inventory. On the other hand, the leather goods maker has enough cash available to stock up on leather hides when their price goes down. By expanding his inventory, he saves money. Both entrepreneurs display good control of their business expenses.

The most brilliant business idea won't succeed if a business can't pay its bills. Sean Leow didn't think much about the costs when


he hosted a lavish art and music party in Shanghai to launch his company Neocha. Later, to survive, he had to downsize Neocha staff, move the company's office to a smaller space and switch to a less expensive web-hosting service.

Large expenses are easy to see and track. But smaller ones, such as office supplies, can go unnoticed. When added together, they can become a drain on revenues.

For example, our phone card seller advertised in a local newspaper, assuming it could boost her sales. Comparing revenues from before and during the ad campaign helped her realize that an ad-related increase in sales was only marginal. She discontinued costly ads and relied on word of mouth and paper flyers for marketing, which cost little. She demonstrated a good grip on her finances.

Running a company as a leader

After developing your business model and getting your business up and running, you are now faced with many operational issues. You must balance the excitement of launching your business with the day-to-day activities of managing, selling, paying bills, dealing with customers and employees, tracking money and negotiating with suppliers.

You learn in this chapter that, by virtue of being a new business owner, you may be viewed as a leader by those around you, particularly your employees. Your business success may depend to a large degree on whether you can infect them with your enthusiasm and inspire them to contribute to your business to the best of their abilities. 

When you start out, insist on being paid at the time of the transaction.



tip A true leader recognizes and acknowledges his/her shortcomings and limitations and learns to depend on others.

Top: Silicon Valley entrepreneur Bowei Gai traveled around the world in 2013 to produce a report on startup communities. Bottom: Abhinav Sureka of Mumbai, India, graduated from Babson College in Massachusetts, which focuses on entrepreneurship education. About 2,000 other U.S. colleges and universities offer an entrepreneurship course.



“Don’t believe in overnight success. If you go deeper, you see that people worked really hard.”

BEL PESCE

Serial entrepreneur and writer. Her latest venture is FazINOVA, which helps students develop entrepreneurial skills.

São Paulo, Brazil

Your customers

Getting, keeping and growing them

You may think that getting customers will be easy as long as you offer a good product or service. But that's not always the case. And even if you do attract customers, how do you keep them?

In this chapter, you will learn how to identify potential customers, persuade them to buy your product or service, and make them stick with your business. We will also discuss how being open to changes and dealing effectively with missteps is essential to your success.

Getting your customers

Customers can be easy to understand—or they can be a mystery. Why do they prefer one product or service over another? You have to put yourself in a customer's shoes to get answers. The more you think like a customer, the greater the chance you get the right answer.

"But aren't they just like me?" you ask. They aren't, necessarily. And they aren't all like one another. They have different preferences and tastes, needs and desires. How can you satisfy such a diverse group

of people? You can't. You must focus on the customers who you think may buy your products or services. You must get to know these potential customers and their traits as much as possible. Here are some questions that can help you achieve that:

- ⇒ Are most of my customers male or female?
- ⇒ Typically, how old are they?
What do they do for a living?
Where do they live?
How do they spend their leisure time?
- ⇒ How do they buy? What do they think about my competitors' products/services?
- ⇒ How much money might they have to spend on products/services like mine?

Turning a potential customer into an actual customer who buys your product or service occurs in stages. (See infographic on page 53.) Potential customers can get stuck at any of the first three stages: They may not be aware of your product, they

can be aware but not interested or they can be interested but not persuaded to actually buy.

For the knowledge stage, think about how you will get the word out that you are in business. The most obvious way is through advertising. One may consider placing a small ad in a local newspaper, on a local radio station or, in regions such as Africa, through a mobile service. Printed flyers are relatively inexpensive and can grab attention.

If you don't have money for ads, mobilize your imagination. Entrepreneurs around the world have had success using low-cost or no-cost "guerrilla marketing" techniques such as graffiti, stickers and unusual window displays to reach their customers. In Bogotá, Colombia, Gigliola Aycardi and her business partner installed floor-to-ceiling windows in their first Bodytech gym to display machines and exercising patrons to drivers and pedestrians passing by.

There is probably something about you that you can use to present yourself as an expert in your field. What are you known for? Your ability to grow food or plants? Your needlework? Your technology skills? Positioning yourself as an expert helps give your business credibility. People like buying from someone who is knowledgeable about what he/she is selling.

Iris Huang co-founded Glogou Inc. to help U.S. companies market their products and services in China through Chinese-language social media. Her expertise in the Chinese market is supported by her background—she grew up and studied in China before getting her graduate degree in the U.S.

Customers must see how your product or service fits their tastes, preferences or lifestyles. To help them figure that out, you

can appeal to their senses—let them hold or use the product, give them a sample to taste or post a homemade how-to video online. Allowing customers to "sample" your product encourages them to imagine themselves using it.

People work hard for their money, and it's not easy to get them to spend it. Often, what stops them is the fear of making a bad choice. Alleviate their qualms by reassuring them that what you are selling will make their lives easier, better, more meaningful or more fun. Communicate with them—directly or indirectly through email, social media or a comment card—about how they will actually use the product or service. Ask them what they like and don't like about competitors' products. This will demonstrate that you care about their needs. You may overcome hesitation by offering a warranty or money-back guarantee. It's your job to persuade a customer that what you are selling is worth the money.

As you talk with potential customers, you may discover that your product or service is not a good fit for them. The right thing to do in this case is to *not* insist on the sale, but rather suggest another product or service. They will be grateful for your honesty and may even refer their friends to you. Either way, you may end up with more business.

Could a business spend too much to acquire a customer? Perhaps more than the business might receive in the first initial sale to that customer? Yes. A business owner may decide that the long-term value of a customer will more than make up for the expenditure for attracting this customer. Understanding the customer acquisition costs is important because they can make or break your business.

Keeping your customers

A lot of effort and money go into persuading customers to buy. Doesn't it make sense then to work just as hard



Get free advertising for your business: Teach a class, offer an interview to a newspaper, write a blog or publish a newsletter online.

Farming on vacant urban land and big cities' peripheries provides residents with access to fresh nutritious food and improves the environment. Bottom: Brooklyn Grange, the world's largest rooftop farm, started in 2010 in New York. Top: Luis Miranda grows organic produce near Sacramento, California.

to keep those customers? Lee Resources International Inc., a consulting firm, found that attracting a new customer, on average, costs five times more than keeping existing ones.

Several tactics can help you retain your customers. The first, and simplest, is the **customer check-in**. With a check-in, you contact the customer after the purchase to see how things are going. You have learned the importance of listening in winning over customers' wallets. Customer feedback also will help you retain those customers.

After a sale, you want to learn how the product they purchased is working for them, or if they are satisfied with the service you provided. Pay attention to what they say. If they are happy, let them know you hope they continue to buy from you. If they are not happy, find out why and fix the problem. Do what it takes to make it up to them. Offer a replacement product or a redo of the service. If you can't fix the problem, offer them money back. This applies whether you have a small business where you personally deal with individual customers or a large business with thousands of customers.

Many entrepreneurs don't do the customer check-in. They don't want to deal with bad news or unhappy customers. But they risk losing a customer who is unhappy, and this customer may share the bad

experience with others. As a result, you may lose not one but many customers.

Another tactic for keeping customers is offering product updates. Such updates often follow the introduction of technology products. For example, firms that market mobile phones and computers regularly send software updates. This is a great way to ensure customer loyalty, because it shows you care for product quality and customer satisfaction.

You can do product updates in non-technology businesses as well. Take our entrepreneur who sells phone cards. Over time, she has added cell phone cases to her product line. Now she has learned that waterproof cell phone cases are available. She will want to start offering them and try to convince her customers they need one.

Keeping customers is really about creating customer loyalty. A loyalty program rewards customers for sticking with your products or services. By creating one, you are recognizing that your customers have a choice and offering them an incentive to stay with you. Such a program shouldn't be complicated or difficult. Our bread maker, for example, could offer a free loaf of bread for every six loaves purchased. She could give a customer a card with seven circles. Each time the customer buys a loaf of bread, the baker stamps one circle with her bakery logo. After the customer has bought six loaves, he/she surrenders the card for a free loaf of bread. The process can be repeated.

The reward you offer is up to you. It might be something free, a discount off a future purchase, a special treatment for a customer or a chance to win a prize in a sweepstakes. But whatever you offer must be understood and valued by customers, otherwise the loyalty program won't work. It is important that you communicate your program

**Positioning yourself
as an expert helps
give your business
credibility.**



Do a customer check-in and deal with any post-sale problems when they come up.

clearly. Your customers need to know what they gain by staying with you.

A loyalty program also is a way of building a relationship with your most valuable customers. As part of the program, they may be more willing to share with you their personal data and preferences. Using that information, you can make them feel special; for example, by letting them know first about new products that fit their preferences. Customer information collected from your loyalty program can help you make smarter business decisions in general.

Growing your customer base

Growth for your business can come from two sources: more customers and more sales to your existing customers—your **customer base**. It is that second source that we will turn our attention to now.

You learned about all the effort it takes to convert a potential customer into a paying customer. Once you make a sale, you want to focus on building and then strengthening the customer relationship in order to sell more to the same customer. You can increase your sales using four different sales techniques:

- ⊙ Upselling
- ⊙ Unbundling
- ⊙ Cross-selling
- ⊙ Referrals

Upselling refers to getting a customer to buy more of the same item, a more expensive product, an upgrade or other add-ons. For example, our leather goods maker can put a higher price on selected

fancy products. He shows the pricier products first to customers because he makes more money when they choose them over cheaper products.

With **unbundling**, you break out the component parts of a product or service and sell them individually. Let's consider an entrepreneur who runs a secondhand clothing store. She buys entire contents of wardrobes and closets and then sells clothing items separately for a higher price than she paid for them as part of a clothing collection.

Cross-selling—selling products related to what the business already is offering—is a good strategy for increasing revenue, as you already have earned trust with your customers. They may be more willing to buy related products from you than to seek out other sellers of similar products. For example, a chicken farmer can add quail and duck eggs as well as poultry meat to his product line.

Although upselling, unbundling and cross-selling are all useful sales techniques, there is no more effective way of attracting new customers than **referrals**. When your satisfied customers try to convince people they know to buy from your company, they act as your free representatives. All you need to do is ask satisfied customers to send their friends and acquaintances to your business. They may even do this without being asked if they really like what you are selling.

You can reward customers with money or discounts for referrals. This is perfectly ethical. For example, our phone card entrepreneur gives customers five business cards and asks them to put their names on the cards and give them to friends. When a new customer comes in and gives her one of these cards, the customer who referred him/her gets a prepaid five-minute phone card.

In real life, referral programs come in many shapes and sizes. Referral rewards range from invitations to exclusive parties to special-edition products not available to the public. For example, Dropbox, a digital file-hosting service, offers an extra 500MB of free storage space to the customer who makes the referral and to the newly referred user. GoldieBlox, a maker of toys and games for girls, offers 20 percent off the next purchase for both the referring customer and the new customer. This accomplishes two things: GoldieBlox gets a new customer and the company encourages the referring customer to buy repeatedly.

Changing to stay ahead

Don't expect your business to last long if it remains the way you started it. To be successful, entrepreneurs must be open to change—within themselves and their businesses. It is unlikely that you will be starting without any competitors. The pressure they will exert on your business is likely to force you to implement change in your company at some point.

You will have to keep one step ahead of competitors. This may mean offering new products, features or services, which will lead to the expansion of your business. Let's look at some of our entrepreneurs and how they have mastered the art of change.

Our bread-baking entrepreneur got a local competitor. To gain an edge over the rival, she introduced some pastries in her bakery. She had the equipment and knowledge to expand her product line. The new items support her value proposition and keep her ahead of the competitor. The leather goods maker started making some of his goods waterproof in response to customer requests. The new feature makes his products more appealing than those of his rivals.

These entrepreneurs changed something about their business in response to market signals. Your business will also need to adapt to market conditions. Many entrepreneurs struggle to change, because they have fallen in love with their business idea. Passion is important, as it fuels an entrepreneur's drive. But you need to test your vision against market realities continuously.

Be on the lookout for signs that your business needs to change:

- ☞ Customers suggest modifying your product.
- ☞ Some of your customers have switched to your competitors.
- ☞ New technology makes doing business faster, cheaper or easier.



Customers like to feel special.
When a customer reaches a loyalty program goal, make a big deal of whatever you are giving them.

- ☞ You have a hard time retaining good employees.

What if, no matter what you do, your business doesn't seem to work? Do you give up on your dream? You know the answer is an emphatic "no."

Starting a business means doing something new and taking risks. Such an endeavor rarely goes exactly as planned. If sales don't materialize, stay meager or start falling, you should look at what might have gone wrong: Perhaps your customer acquisition projections were too optimistic. Or maybe you don't control your expenses strictly enough. Or your management is poor. Once you pin down the reasons for your business troubles, correct the problems and change course to avoid repeating mistakes in the future. Just don't keep doing the same thing that got you in trouble. If you do, you will likely get the same result.

Investing in yourself

Just as merchandise can get stale, an entrepreneur can get stale as a business owner and a leader. It's easy to get caught up in running a business as-is. If you find yourself in such a situation, it doesn't

bode well. Being a successful entrepreneur requires regularly looking at your business and yourself with fresh eyes and being open to new ideas and new ways of doing things.

It is important to challenge yourself to think outside the box, to support your personal growth and to develop your leadership skills. You need to keep your thinking fresh and feed your "leadership soul" by learning from others. It's not frivolous to take time for yourself. Just as you need to invest in your workers, you must invest in yourself. Here are some ways to do this:

- ☉ Networking with other entrepreneurs regularly.
- ☉ Reading about business in print and online.
- ☉ Reaching out to potential mentors.
- ☉ Attending entrepreneurship events in your area.

Talking with—or "networking"—with other entrepreneurs is almost a necessity. You can share your experience and learn from others (ideally, not your competitors) how they meet challenges similar to the ones you face. The internet and mobile devices make networking easier. The goal is for each network participant to



From potential customer to actual buyer

➔ Awareness

You let customers know what you are selling.

➔ Interest

You get them interested in what you are selling.

➔ Persuasion

You make them willing to purchase your product.

➔ Purchase

They actually buy what you are selling.

receive and give something of value. Dealing with a difficult customer? Someone out there has walked that path before. Learned something new while doing the bookkeeping? Someone in your group would surely benefit from hearing about it. Feeling stuck or challenged? Sometimes you just need to have someone who had a similar experience hear you out. A bonus of networking with other entrepreneurs: You can refer customers to one another.

In newspapers and business magazines you may find ideas and inspirational stories about entrepreneurs who made it and how they made it.

Specialized knowledge—like accounting, finance or management—you often can find online or, possibly, in your local library. If you can't access a library, consider starting one with members of your networking group.

The internet is a great resource. Many websites offer free guidance to entrepreneurs.

Acquiring customers,
embracing change

In this chapter, we focus on how to build a customer base: how to get customers, how to keep them and how to grow their number.

Customers are the bread and butter of your business. If you keep them satisfied, your business will grow. If you don't, your revenue will go down and the money you spent to attract them will be wasted.

You're unlikely to keep them satisfied if you don't embrace change, and change comes in many varieties. By staying close to customers, competitors and employees, you will position yourself to adapt to any change coming your way. 📦

When things
go wrong



“Profit and loss go hand in hand, so I don’t give up. If my business isn’t doing well, I might relocate it to another place where it would do well.”

Mamo Shiro,
owner of a sewing
business in Kenya

“I’ll try to improve on the area that is not working out for me. If it has not happened yet, I’ll try to avoid things that can fail my business.”

Susan Koilel from Kisharu,
Kenya, who runs a computer
literacy business

“You need to look carefully at what went wrong and give it another try.”

David Sempui,
who operates guided
tours at Mount
Suswa in Kenya



You need to keep your thinking fresh and feed your “leadership soul” by learning from others.

Bottom: Serial entrepreneur Hassina Syed at the modern Badam Bagh farm in Kabul, one of a number of companies she started. Top: Former music event organizer Dominic Cools-Lartigue launched Street Feast, pop-up food markets in London that combine the fun of tasting different foods in one place with cool music.



“The challenging part is in the beginning; it’s a leap of faith. But I think the most important thing is to just do it. Start.”

TOM SZAKY

Founder of TerraCycle Inc., which collects and transforms hard-to-recycle waste into colorful consumer products.

Trenton, New Jersey

5 Financing your startup

Entrepreneurs are often thought of as risk takers. Many people may not consider becoming an entrepreneur because they are uncomfortable with risk. But here is a secret: Most successful entrepreneurs don't like risk either. They just work hard to reduce risk in what they do. The ideas in this book can help you work toward this goal.

So what are the risks related to starting your own business?

A business costs money. Starting a new business can pose a big risk to your financial stability. But don't worry; there are many ways to raise money for new enterprises, and your family and friends can also contribute.

Money—where does an entrepreneur find it?

Virtually every new business requires some money to start. Entrepreneurs call this **startup capital**. The amount of startup capital you will need depends on the nature of your business.

To get your business up and running, you need to obtain certain essential items. These key items are called assets. An asset is something that has value and helps you earn money. Here are some examples:

- ⇒ Fabric—if you make clothes.
- ⇒ Flour—if you start a bakery.
- ⇒ Prepaid phone cards—if you sell mobile phone supplies.
- ⇒ A computer—if you design apps or websites.

Now, think about special tools, utensils, machinery or equipment you will need. Will you need to rent a store or kiosk? This is where you need to understand the nature of the business you are starting. If you don't have a good sense of it, talk to and observe others who are running ventures similar to what you have in mind. Focus on the things you must have. This helps minimize both your financial risk and the amount of startup capital you will need. When your business becomes successful, you can consider adding less essential items.

Where do entrepreneurs look for startup capital?



When just starting out, ask yourself, “Do I absolutely need this asset to make a sale?” If your answer is yes, then go ahead and get it.

Bootstrapping

First, consider using your own savings combined with your resourcefulness—known as “bootstrapping.” This term means that an entrepreneur relies entirely on his/her own resources because she/he wants to do these things:

- ⊙ Retain complete control of the business.
- ⊙ See how far she/he can take the business without outside loans or investments.
- ⊙ Prove that her/his business idea will work.
- ⊙ Show personal commitment to the business.

Bootstrapping may be all it takes to get a business up and running at the beginning. It usually requires some sacrifices and extra effort to find free resources, such as scrap metal that can be turned into simple equipment or space in a local school that can be used to teach classes. If you choose to start this way, then cut your expenses, use your resourcefulness and do some extra paid work, if possible, to save money.

Using personal savings as startup capital has some advantages: It is interest-free, gives you complete control over money and demonstrates that you are committed to your business idea. Be mindful, however, that if you deplete your savings you will have less money available for emergencies and you may lose your money if your business fails.

Your personal savings may not be sufficient to get your business up and running. In such a case, the closest thing to using your personal savings is getting money from family members or friends. They can also back your startup in other ways; for example, by working for you in their free time.

Donations

Perhaps you have a parent or grandparent who really wants to see you succeed. Or you may have friends who believe in supporting one another. They may give you money as a donation.

A donation, which doesn't require you to pay money back, amounts to a vote of confidence in you as an entrepreneur. But be cautious, as there are some caveats. The donor may want to have a say in how your business is run or get a share in profits if your business is successful. And keep in mind that a failure may strain relationships between you and your family or friends.

Loans

You can also obtain your startup capital through a loan from a family member, a friend or an unrelated investor. You have to pay back a loan, most often with some extra money. This additional amount is known as **interest**. The interest and the time you can take to pay the loan back, or the **term**, you must negotiate with the investor. The term might only be long enough for you to get the business up and running, or it could extend over a period of years. As

an entrepreneur, you have to weigh how quickly you will begin making a profit versus how long you want the loan to last.

Daymond John held a job at a fast-food restaurant and his mother mortgaged her house in Brooklyn, New York, to get startup capital for his FUBU hip-hop clothing company in the 1990s. By the mid-2010s, it had become a global company with \$6 billion in sales.

John's mother took a financial risk to support her son's business vision. It's fairly common for fledgling entrepreneurs to get financial support from their families. But both sides need to weigh carefully the profit potential of a new business against the financial stability of the family.

Here's another example: An entrepreneur's mobile app helps farmers connect directly with grocery stores without involvement of middlemen. Farmers post through the app what they have for sale and get a better price from grocery stores. Grocery stores, thanks to the app, can sell fresher produce, making customers more satisfied.

The app entrepreneur doesn't need to rent a store or stock inventory. But if he uses almost all of his personal savings to buy a used laptop computer and pay for publishing the app, he needs to find another source of financing to keep his business running. He may ask a family member for a donation or search for a loan.

No matter the source and the form of the cash infusion, the entrepreneur needs to write an agreement with a donor or a creditor. Most of us won't remember every detail of an oral agreement. By writing down the general terms of a gift or loan agreement, you are helping yourself and the person giving you money. Let this person know that the agreement helps you gain important experience. The agreement doesn't need to be complicated, but needs to be clear.

Be creative when considering a loan. You may consider giving products or services in lieu of repayment or interest to the person lending you the money. For example, a bakery owner can give to a person who extended a small loan to her one loaf of bread a week for six months in return. But again, just as you would do with a monetary loan, write out the agreement.

Microloans

Some organizations lend small amounts of money to entrepreneurs. These "microloans" can sometimes be all that is needed to get a business up and running.

A microloan may be a good alternative for really small businesses, as it secures at least some of the money an entrepreneur needs. But, as with any loan, do your homework before you take a microloan. You can be charged a high interest rate or offered difficult terms by a microlending organization.

If you are considering a microloan, talk with other business owners who have



Even if you are getting a donation or a loan from family or friends, you should document it in a written agreement.

used the microfinance lender you want to approach. Ask these questions:

- ⇒ How easy was it to understand the terms of the agreement before you signed it?
- ⇒ Did you feel pressure to sign an agreement before you could understand it?
- ⇒ What obligations would I have to the person making the original donation to the microloan group? Some organizations ask that you give the donor progress reports.
- ⇒ Are the rates reasonable? With a microloan, the rate should be fairly low.
- ⇒ Are female entrepreneurs treated as well as male entrepreneurs?

The right microloan from the right organization may be just the thing you need to get your business started.

Shared ownership

Another way to get startup capital is to offer a share in your business in return. People who give you money for a stake in the business are known as investors; the stake is known as **equity**. Let's say you believe your business will eventually be worth \$2,000. You own 100 percent of this equity. A man with money in your neighborhood offers you \$100 in exchange for a stake in your business. You offer him 5 percent ownership (since \$100 is 5 percent of \$2,000) and you retain 95 percent ownership.

This is a simplified way of calculating shared ownership. As there are no set rules, sharing equity in exchange for capital can get complicated.

These are some advantages of shared ownership:

- ⊙ You get the startup capital you need.
- ⊙ The people giving you money will naturally want you to succeed—you have their money.
- ⊙ If your business makes a profit, your investors receive only a percentage of your profits.

But there are disadvantages as well:

- ⊙ Your investors may want to get more involved in your business than you would like them to.
- ⊙ If your business is not making enough or losing money, you may have to deal with upset investors.
- ⊙ You are not the sole owner of the business anymore. Your investors are owners too, even if they aren't working in your business.

Crowdfunding

Crowdfunding is a relatively new source of startup capital. If you have regular and inexpensive access to the internet, this may be an option for you.

Crowdfunding gives you an opportunity to appeal to a “crowd” of regular people who may have some money to spare and may be willing to invest it in your product in exchange for a token of appreciation, or something more substantial.

To ask the online crowd for money, go to a crowdfunding website, fill out a profile and write a short business pitch about your idea. Your work in Chapter 2 on the business model for your startup will pay off here. You can amplify your pitch through social media.

You need to name an amount you want to raise. On crowdfunding sites, people pledge money (often in small amounts)



When taking a loan from someone, be certain to understand just how involved this person or group wants to be in the management of your business.

Top: Bhavish Aggarwal founded Ola Cabs, a taxi-based transportation network in Mumbai, India, in 2010. Since then, his company has expanded to other cities and industries. Bottom: A souvenir seller in Ha Long Bay, Vietnam.



If you must let others buy into your business, stay in a position of power by owning more than 50 percent. This makes you the majority owner.

because they believe in your business idea. You set a pledged money goal that must be reached before you get the donations. If it's not reached, you get nothing.

Some of the money can come as donations. To other investors you may have to promise your product once it is made or a small payment once the business is up and running. Once your goal is reached, the crowdfunding website usually takes a small percentage of the money raised.

Crowdfunding can be ideal for small businesses. It is expected to become an even more popular way of raising startup capital as more and more people get connected to the internet.

However, precautions discussed earlier apply also to crowdfunding. So whether you get money as a donation, through a loan or another way, make sure you understand all the details, particularly your obligations.

Angel investors

An angel investor is someone, typically wealthy, who gives money to a startup either as a loan that may become **equity** later or for a percentage of ownership in the business. Angel investors usually focus on a specific business area, most often the area in which they have been successful. This means that they have not only funds but also specialized expertise that can be useful for a budding entrepreneur.

Some angel investors are motivated by the desire to do good. They mentor an entrepreneur, leverage personal networks and share their knowledge for the good of the startup.

The amount an angel investor may invest can range from several thousand dollars to several million. The angel investment, or any original investment, in your startup is called **seed money**. Just as a plant starts with a seed, a startup starts with seed money. After you have used your personal savings or money from friends and family, an angel investment can be the next step to finance your startup. The next level up from an angel investment is **venture capital**.

Venture capital

A venture capital firm collects millions of dollars from individuals, companies and investment firms and pools this money together into a fund. The fund is then used to invest in startups with high growth potential. Venture capitalists (called VCs) focus on selected business areas in which they have expertise and interest. They usually are more involved in managing "their" startups than angel investors.

Startups that go to a venture capital fund for financing must be able to show solid assets, which may include intellectual property, convincing projections of big revenues or a quickly growing number of employees. Such startups usually have a

high degree of risk, as they often deal with innovation. In return for high-risk financing, venture capital funds typically demand equity stakes in the business.

Break-even point

A person starting a new business often asks: “When will my company make a profit?” or “What level of sales do I need to reach to cover the costs?” If you have investors, they are likely to ask these or similar questions as well. The second question refers to a concept called the **break-even point**, the number of units sold at which projected revenue equals the total business costs. All units sold above that level produce a profit, making your company financially viable.

To calculate your break-even point, you will need to identify your fixed and variable costs. (Refer to Chapter 2 to see what they are.) The break-even point equals fixed costs divided by the difference between unit selling price and variable costs.

Exit strategy

At some point in your company's growth, investors will want to take their money out of the business—their original investment plus any appreciation on that investment. Thus, when you talk to potential investors, they may ask you: “What is your exit strategy?” All they want to know is your longer-term plan for your business. Which is your plan?

- ➡ Have it acquired by or merged with another company.
- ➡ Sell it to other private investors.
- ➡ Sell it to the public through an **initial public offering (IPO)**.
- ➡ Buy out another company and keep it for yourself.

Give an exit strategy some thought. Be cautious, though, when first meeting with potential investors. If you talk about

your exit strategy early in the discussions, they may come to question your real commitment to the business.

Bank loans

Some entrepreneurs don't have any access to banks. For others, especially budding entrepreneurs, bank loans won't be a viable source of funds. Banks are reluctant to lend to entrepreneurs because they usually don't have collateral, or assets such as a home or a car that can be pledged as security for repayment of a loan.

Banks like collateral because if you don't pay the loan back, they can take the collateral, sell it and keep the proceeds as payment for the loan.

Also, most banks like to see a detailed business plan before they will lend you money. We said earlier in this book that entrepreneurs shouldn't write a plan until they experiment with their business and gain some experience.

Raising capital, avoiding pitfalls

This chapter gives you an overview of startup capital sources. They include your own savings, family donations, loans, shared equity, crowdfunding, venture capital funds, angel investments and, on rare occasions, banks.

When you start, you should first consider options that don't put you in debt, though you may not have a choice if you're short of money. And outside investment has its advantages, as equity partners or investors can bring skills or expertise your business may need. 📦



“People in Iran didn’t know what startups were or they associated them with fraud. But now they are taken seriously and people show trust.”

NAZANIN DANESHVAR

founded Takhfifan, a pioneering e-commerce business, in 2011. It offers deals and coupons to around 1 million subscribers.

Tehran, Iran

6

Launch your dream business

So far in this book, we have been laying the foundation for your business. If this foundation is strong, your business will stand the test of time like a solidly built house.

At this point, you want to start thinking about how to **pitch** your business idea. The pitch is a well-known term in the entrepreneurial world. Whether you're a farmer, a seamstress or a mobile app creator, you must be able to tell the story of your business to different audiences. In this chapter, we'll discuss how to make this story, or the pitch, effective, and how to create and present a more detailed proposal, or your business plan.

Making a great pitch

Think back to when you were a child. Do you remember a parent or grandparent telling you stories? Think of what made these stories interesting.

- ⇒ An exciting idea?
- ⇒ Interesting characters?
- ⇒ A call to do something?
- ⇒ A new way of looking at something?
- ⇒ A good feeling it produced?

A pitch essentially is telling a story about your business idea. You start out by getting the listeners' attention, then you create curiosity, capture their interest and build excitement.

Your story will differ slightly depending on the person to whom you are making a pitch: a customer, a supplier, a partner, a family member, a friend or an investor. It should prompt the listener to take an action:

- ⊙ Buy your product.
- ⊙ Work with you to fine-tune your idea.
- ⊙ Introduce you to important contacts.
- ⊙ Give you worthwhile business advice.
- ⊙ Invest in your business.

Whatever the audience you pitch to, focus on why you want to start a business and how you plan to achieve its goals. But don't overdo it: Be concise and leave out details. Your listeners will ask you about the details they consider important. Listen carefully to their questions and suggestions because they may indicate essential issues you need to tackle. If you're seeking advice, don't hesitate to ask questions.

Customers

Customers may be the easiest audience to pitch to. You need to tell them about your product or service. This is the “sales pitch.” It should make customers want to buy your product or service. Your pitch should be driven by the desire to sell customers on your product or service.

So before you make a sales pitch, you have to understand the needs of your customers. Depending on what you sell, the pitch may be similar for each customer or customer segment, or it may have to be tailored. For example, a farmer selling eggs delivers the same pitch to all of his customers, but an entrepreneur teaching computer skills is likely to make different

itches to older customers and children's parents. Generally, the pitch should be short—sometimes you get only five minutes—though for certain pitches, such as for complicated technical products, you might need more time, followed by additional explanations.

Your sales pitch must be authentic and truthful. You may get someone to buy your product once by giving a less-than-honest pitch, but you won't keep that customer for long. When the customer discovers your deception, he/she won't be buying from you anymore and may share the experience with others. As a result, you can lose sales. You're better off making your pitches honest.



A good pitch makes the listener feel inspired to take action.

Andrew Rugasira steered his small firm Good African Coffee in Uganda toward international markets to create his global coffee brand. The company has trained more than 14,000 coffee farmers and signed them on as suppliers.



Your sales pitch should emphasize how your business meets the needs of your customer.

Suppliers/partners

The pitch to someone who may be a potential supplier or business partner will be different from your sales pitch. You will want to emphasize mutual benefits and shared success to everyone you do business with.

You need to craft your pitch in a way that ties your supplier/partner's success to your own. For example, our entrepreneur who sells prepaid phone cards can ask her supplier for a special discount or a few free cards once she reaches a certain sales threshold. By doing this, she invests her supplier in her own success. If she reaches that threshold, both parties win—she gets the discount, and her supplier registers more sales.

You can invest your suppliers/partners in your success by asking for certain things:

- ⊙ Discounts once certain amounts are sold.
- ⊙ Money to help you market your product.
- ⊙ Annual cash rebates once a certain sales volume is reached.
- ⊙ The courtesy of referring customers to your business.

Family and friends

You already know that the support of family and friends can be important to your business. But to earn their support, you need to convey to them what motivates you, why you think you will succeed and, possibly, what they can gain from your success.

A simple way to pitch your business idea to family and friends is to let them know how your success could affect their lives in a positive way. It can:

- ⇒ Ensure more (and better) food on the table.
- ⇒ Improve access to education and health care.
- ⇒ Make you a role model—and employer—to young people in the family.
- ⇒ Bring a higher standard of living to your community.

Investors

As we discussed in the previous chapter, you may need to raise money to launch or expand your business. In such a case, you must pitch your business idea to investors. Investors want to make money. Therefore, your pitch has to show the road to profits by addressing the following questions:

- ⊙ The problem you are solving or an opportunity you are taking advantage of.
- ⊙ The value proposition of your product/service. (See Chapter 2.)
- ⊙ How your business will make money. (You can use your business blocks from Chapter 2 as a model for this.)
- ⊙ Why your product/service is unique or different from existing products.
- ⊙ How you plan to get, keep and grow customers.
- ⊙ What competitors you have.
- ⊙ Your and your partners' (if you have any) background and experience.

- ⊙ Sales projections (for at least 12 months and up to three years).
- ⊙ The status of your business. Have any sales been made?
- ⊙ The “ask.”

The ask, although listed last, is a crucial part of your pitch. It is exactly what the word suggests—if you are making a business pitch, you want to *ask* your audience for something. Usually it is money, but it can be something else: an important business introduction, or business coaching or mentoring. Think of the ask as falling into one or more of three buckets:

- ⊙ Treasure (a financial investment)
- ⊙ Talent (sharing subject knowledge)
- ⊙ Time (coaching or mentorship)

Regardless of what you are asking for, you will need to say how you will be using your investors’ mentors’ or fellow entrepreneurs’ treasure, talent or time in your business.

The confident entrepreneur

Some entrepreneurs are good at interacting with people; others get nervous when they need to present their business—especially if it involves asking for money or other forms of support. Whether you are speaking with customers or with someone whom you want to invest in your business, it’s natural to be nervous. Your passion for your business idea and your knowledge of your market are the best tools for calming your nerves and reassuring your audience.

It’s natural for an entrepreneur to feel excited about his/her business. Don’t try to hide your excitement; it’s likely to be seen as passion and energy. Investors, potential business partners and others like to see someone who is excited and enthused!

Some tricks can help you boost your confidence. Science has shown that a tall, erect posture is one way to increase the body’s supply of confidence chemicals—those that help regulate mental alertness—in your body. Just think of what wild animals do when they feel a heightened level of excitement. They make themselves look bigger by doing things such as fanning their feathers or shaking their mane.

So before making a business presentation or meeting with an investor, walk around with your hands on your hips. You will be giving yourself a temporary, but useful, boost of confidence. Another way to calm nerves and boost confidence is to breathe deeply and slowly. Try to focus on your breathing. Your body will begin to relax and your mind will quiet down.

Another trick is to act “as if.” When you are about to do something important for your business—calling on a customer, asking for a loan or making a presentation—act “as if” you are already a successful entrepreneur. Observe people who are already doing what you want to do. How do they carry themselves? How do they talk? Are there certain qualities that seem common to these people? We don’t mean you should be arrogant or cocky. Just have an air of belief in yourself. Show a high level of energy about whatever you are talking about. Soon enough, you will no longer be just acting.

The business plan

If you have made a strong business pitch to investors and captured their interest, they may ask to see your business plan. The business plan has much more detail than the pitch. The pitch might be considered the “blueprint” for your business; the business plan will include the details your audience needs to know to understand how you plan to make the blueprint a reality.



Ask for talent or time from other entrepreneurs; they will usually be generous with advice.

Top, from left to right: Tanayot Saihaikam, Kanya Thuaylai and Taweetchai Boontum, founders of Saanha in Thailand, which sells handmade dolls.

Bottom: Do you play guitar or another instrument? If you do, why not try to open a musical instrument store?



The work you did constructing your business blocks and preparing your pitch can now be expanded upon in your business plan. What's included will depend on the business you are launching. But make it concise, because people who will be reading it usually don't have much time. Let's look at a simplified outline.

➔ **Executive summary**

This can be a one-page summary of your business. Write out what your business is about and the value proposition you offer.

➔ **Product/Service**

Describe briefly the product or service you want to offer and how it is going to help people.

➔ **Customers**

Who will buy your product or service? How will you get, keep and grow customers? (See Chapter 4.) You will want to show that you understand your potential customers—their buying habits, preferences and other characteristics.

➔ **Competition**

Who else is doing what you do? What differentiates your product from those sold by your competitors? If there are no competitors currently, what is your prediction for possible future competition? Are there certain things that make it hard

for someone to enter your business niche? For example, if you created a unique product, are there copyright laws that will protect your invention, making it harder for someone else to create a similar product?

➔ **Marketing**

How will you let customers know about your business? Will it be through word of mouth, advertisements or something else? How will you sell or deliver your product/service to customers? (See Chapter 2.)

➔ **Operations**

This section explains how you will produce your product and sell it, as well as how you will keep track of your expenses, revenues and profits. It includes details like the number of employees and the key supplies you will need. You detailed this information in Chapter 2. Try to answer the following questions:

- How will your product be made or your service provided? How many people will you need to help you make things or perform the service? What do you need to make the product or provide the service?
- How will you monitor the finances of your business? (See the section on cash flow in Chapter 3.)



Learn from your mistakes, correct your course and press on. Your determination to succeed and your perseverance will carry you over a difficult period.



When you start a business for the first time, you must learn a lot from others.

➔ Management

How do you intend to plan, organize, staff, lead and control your business? (See Chapter 3.) Write about yourself and your expertise, key employees and any mentors you have enlisted to advise you. Explain why you are the best person to lead this business.

➔ Financials

In a simple business plan, you need to answer just two questions: How much will you charge for your product/service? How will you get paid? But if your business is bigger or more complex, you may need to estimate your projected sales in the first 12 months and possibly for the first three years.

Getting help to write your plan

The work you did in Chapter 2 on your business blocks should make the writing of your business plan easier. If you don't have writing skills, however, you can create a visual business plan. Grab something to draw on—paper, chalkboard or computer, whatever you feel comfortable with—and try to capture what you want to do with some type of graphics.

Since a picture is worth a thousand words, a drawing can help others understand your business and its goals. Then you or someone who is helping you can try to “translate” the pictures into words. As an additional benefit, drawing can unlock your mind's creative side and make you think about details or opportunities you may have overlooked.

Even in a written business plan, you may want to include some drawings to convey your ideas. See one approach to visualizing your business model at <http://griffinworx.org/viztoolz/>.

Also, be sure to keep tabs on your business plan: You don't want copies of your plan slipping into the hands of your competitors.

Mentors and other resources

Self-confidence is a key trait most entrepreneurs have. But too much of it can get you into trouble by making you believe that you can do without other people. In business you actually must rely on other people—such as mentors, partners, investors, suppliers, distributors and buyers—and their expertise and honesty. And you can learn a lot from them.

Where do you find these people? Start locally. Try to find established businesspeople near you who are willing to share their experiences. In some communities, business owners meet casually to share stories and help one another. This is a great way to build your business network and observe other businesspeople. How do they act? What do they talk about?

At such meetings, you can get feedback on your business idea or plan. You can also get advice on what has worked for others and what hasn't. At the end, you will still need to make decisions on your own, but you will be doing it based on solid information.

If there's no peer-to-peer business group where you live, consider starting one by inviting a few business owners to your home or a café to talk. Invite them again a few weeks later and ask each one to bring a friend who is in business.

In larger towns, business organizations can be a good source of business advice. Some even offer free or low-cost entrepreneurship programs.

An increasing number of emerging market and developing countries sponsor national programs to promote entrepreneurship. If you're lucky to live in such a country, use the program to find mentors and other forms of guidance and support.

Large corporations, governments, universities, business accelerators, business competitions and nongovernmental groups also promote entrepreneurship at the local level.

Telling the story and making it happen

You've learned how to do an important thing for your business: to tell its story. By engaging others, or pitching your business

or business idea, you can receive advice and guidance, essential contacts and money.

If a mentor or investor wants to learn more, writing a business plan is the next step. You need to show others that you understand what you are getting into and have a vision for your business' future. If you do it successfully, you will be able to launch or expand your company. Then the market will test it—and you as a business leader.

Just the beginning of an adventure

Starting a business is an adventure. You wouldn't undertake a long journey or climb a mountain without careful preparations. Likewise, you should not launch a business without careful consideration of all essential issues and detailed planning. This book provides you with a structure for your thinking and planning. Being an entrepreneur means you are always learning. The issues we have discussed will provide you with a road map and help get you moving in the right direction. Are you ready to begin your business adventure? 📦



An advanced business plan contains projections of:

- ➔ Income statement
The sales minus the costs.

- ➔ Cash flow
 $\text{Beginning cash} + \text{sales} - \text{expenses} = \text{net cash flow}.$

- ➔ Balance sheet
Assets: the result will be the items you have to purchase in order to get your business going.
Liabilities: money you owe (to suppliers, employees, landlord, etc.) and any loans you have.
Equity: money you and others have in the business.

- ➔ Break-even point
When do you expect that revenues will begin to equal or exceed expenses? An investor will want to know how soon you expect to be at least covering your costs.



You must be able to tell the story of your business to different audiences.

Lisbon Innovation Kluster (LINNK) in Portugal, co-founded by Joana Rafael, center, is among hundreds of business incubators and accelerators that help entrepreneurs to start up or grow their ventures.



glossary

▶ angel investor

someone who invests in promising startups, and sometimes also helps with advice and contacts

▶ “ask”

the act of soliciting money, advice or coaching from others as part of pitching a business idea

▶ asset

an item of value in the form of cash, inventory, equipment, buildings, etc., that helps a business operate and make money

▶ balance sheet

a financial statement that summarizes a company's assets and liabilities and the shareholders' equity at a specific point in time

▶ beginning cash

the amount of money used to start a new venture

▶ bottom line

the amount of money a business has left after deducting all costs from revenues

▶ break-even point

the time when revenues (sales) equal the expenses of a business, often considered a key metric for measuring the success of a business

▶ business alliance

a partnership, usually involving key partners, in which two or more companies cooperate to maximize revenues for all

▶ business model

a design for the successful operation of a business that identifies revenue sources, customer base, products, resources and financing source

▶ business pitch

a brief presentation of a business idea or plan to prospective investors or other parties

▶ business plan

a written document that describes in detail the vision and goals of a new business and how it will achieve both

▶ cash flow

the total amount of money that comes into a business from sales and goes out of a business in the form of expenses

▶ cash inflow

money that comes into a business, usually in the form of sales. It can also be an infusion of cash from investors, family or loans.

▶ cash outflow

money that a business pays for supplies, salaries and other expenses

▶ collateral

something of value that is pledged to cover the payment of a loan. If the loan isn't paid back, the lender can take ownership of the item.

▶ commission

money that is paid to an employee or a reseller upon selling a certain amount of goods or services. It is usually a percentage of the sale.

▶ cooperative

a business organization owned by its members, who share in the profits and losses

▶ cost structure

a method to determine how much it will cost a company to produce a product and how much profit the product will generate

▶ cross-selling

selling products related to those that a business is already offering

▶ customer acquisition cost

all expenses incurred to attract a paying customer

▶ customer base

all of a business' existing customers

▶ customer “check-in”

an after-sale activity that aims to ensure that customers are satisfied

▶ customer segmentation

dividing customers into groups that share similar characteristics. Customers within a segment should respond to similar marketing.

▶ demand

consumers' desire and willingness to pay for a specific product or service

► **distribution**

the movement of goods to stores and other businesses that sell to consumers

► **distribution channel**

a business or a chain of businesses or intermediaries through which a product or service passes to reach consumers

► **equity**

for the purposes of this book, a share of ownership in a business; it can have other meanings

► **fixed cost**

an expense that does not change with an increase or decrease in the number of goods or services produced or sold

► **general partnership**

a form of business organization in which two or more individuals own a business together and share in the profits and liabilities

► **initial public offering (IPO)**

the first time a maturing business offers ownership shares to members of the public in order to raise capital

► **key activity**

a task or a project that is essential to a business and helps make its products or services unique and valuable to customers

► **key cost**

an expense associated with a product or service that supports a business' value proposition

► **key partner (ally)**

an individual or company that is essential to a business' success

► **key resource**

an item, such as a raw material or specialized knowledge, that is essential to a business' operations

► **key supplier**

a supplier of goods or services without which a business cannot function

► **liability**

a company's financial debt or obligations that arise during the course of its business operations

► **limited partnership**

a form of business organization in which two or more partners unite to conduct a business together. Partners share losses and profits based on how much each has invested.

► **loan term**

the time a borrower has to pay back, or renegotiate, a loan

► **market readiness**

a condition in which there are enough customers willing to buy a product or service so that the business producing the goods or services can be economically sustained

► **net cash flow**

the amount of money left after cash outflows (expenses) are subtracted from cash inflows (revenue)

► **networking**

an activity aimed at creating a group of acquaintances and associates and keeping it active through regular communication for mutual benefit

► **operational cost**

an expense incurred to keep a business up and running, such as rent, utilities and taxes

► **public company**

a company that has sold shares through an initial public offering and is traded on a stock exchange

► **referral selling**

acquiring new customers from existing customers

► **revenue model**

a plan that identifies which revenue sources to pursue, what value (goods/services) to offer, how to price goods/services and which types of customers (market segments) will buy the goods/services

► **seed money**

the initial investment in a business, used to get it up and running

► **sole proprietorship**

a business owned and run by one person; the simplest form of a business

► **startup capital**

the money that is required to start a new business

► **unbundling**

a marketing technique in which goods or services once offered as a whole are sold separately as individual parts at prices that make their sum more profitable

► **upselling**

a sales technique through which a seller induces the customer to purchase more expensive items, upgrades or add-ons in an attempt to make a more profitable sale

► **value proposition**

a business or marketing statement that summarizes what is unique about a product or service and why customers will find the product or service valuable

► **variable cost**

a cost that changes in relation to production volume or sales, such as raw materials or sales commissions

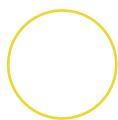
► **venture capital**

financing that investors provide to startup companies with high growth potential

Sources:

BusinessDictionary.com

Investopedia, Wikipedia



online resources

Getting started and accelerating growth

▶ endeavor

Mentoring and accelerating support for entrepreneurial companies with high growth potential
www.endeavor.org

▶ global student entrepreneur awards

A competition for students who own and operate businesses
www.gsea.org

▶ goldman sachs' 10,000 women

A program for women entrepreneurs offering business and management education, mentoring and access to capital
www.goldmansachs.com/citizenship/10000women

▶ griffinWorx

A business incubator/accelerator that moves around the world to help local businesses refine and enhance their ideas
www.griffinworx.org

▶ kairos society

A network of young, innovative entrepreneurs that provides peer support, mentoring and access to investors
www.kairossociety.com

▶ launch

A U.S. private-public partnership that helps selected innovative businesses from around the world refine their ideas and market their products or services
www.launch.org

▶ launchLab

A network of university campus-based business incubators in Africa
www.launchlab.co.za

▶ lions@frica

A private-public partnership that helps potential entrepreneurs learn business skills and launch Africa-based businesses
www.lionsafrica.org

▶ seedstars world

A company that promotes, connects and invests in emerging market startups through a competition
www.seedstarsworld.com

▶ start-up chile

A government-sponsored program that includes seed funding
www.startupchile.org

▶ startup farm

A Brazilian accelerator for tech startups
www.startupfarm.com.br

▶ startup india

A government program that includes financial backing
www.startupindia.gov.in

▶ startup rio

A Brazilian private-public partnership that provides mentoring, work space and equipment to early-stage startups
www.startuprio.org

► **startup weekend**

A Google-sponsored initiative that brings together entrepreneurs, business coaches and investors for one weekend
www.startupweekend.org

► **techstars**

A mentorship-driven technology accelerator with chapters in the U.S., U.K., Germany, Israel and South Africa
www.techstars.com

► **unreasonable group**

A multifunctional service that helps scale up existing businesses that have large social impact
www.unreasonablegroup.com

**Funding:
finding your angel**

► **astia**

An investment program for high-growth ventures owned by women entrepreneurs
<http://astia.org>

► **google's startup communities**

A partnership that provides financial support and other resources to startup communities
www.googleforentrepreneurs.com/startup-communities

► **savannah fund**

A seed capital fund specializing in investments in early-stage, high-growth technology startups in sub-Saharan Africa
<http://savannah.vc>

► **tayrona ventures**

A fund that invests in early-stage companies in Colombia and throughout Latin America
www.tayronaventures.wordpress.com/

**Crowdfunding:
finding many angels**

► **goGetFunding**

Helps raise money for anything that matters to a user
www.gogetfunding.com

► **indiegogo**

Helps entrepreneurs who seek capital
www.indiegogo.com

► **kickstarter**

Funds creative projects in the arts, photography, film, design, gaming and technology
www.kickstarter.com

► **kiva**

Provides loans to microenterprises
www.kiva.org

► **play business**

Connects startups with small investors in Mexico
www.playbusiness.mx

► **rocketHub**

Supports artists, activists and entrepreneurs seeking funds
www.rockethub.com

**Using the internet
to sell your product**

► **beadforLife**

A matchmaker for women artisans and buyers associated with Street Smarts Business School, a free six-month program
www.beadforlife.org

► **crater creations**

A nonprofit organization that brings products from the Maasai in Kenya to market
www.cratercreations.org

► **rising international**

A service that helps sell crafts made by women in developing nations through U.S. home parties
www.risinginternational.org

► **soko**

A service that connects women artisans in the developing world with buyers through mobile networks
www.shopsoko.com

**Using the internet
to get paid**

► **bKash**

Mobile financial services in Bangladesh for consumers with no, or limited, access to traditional banks
www.bkash.com

► **mfs africa**

A gateway to money transfers in Africa across major mobile networks
www.mfsafrica.com

► **m-pesa**

A Vodafone mobile money system available in Africa, Afghanistan, India and Eastern Europe
www.mpesa.in/portal

Free information

► **entrepreneur**

A magazine with free content from people creating businesses
www.entrepreneur.com

► **entrepreneurship**

Kauffman Foundation's free content for entrepreneurs, policymakers, investors, mentors, researchers and academics
www.entrepreneurship.org

► **inc.**

A magazine offering free content on starting and growing a business
www.inc.com/guides/start_biz

► **startup digest**

A selection of articles, videos and information about events on high-tech and high-growth startups
www.startupdigest.com

u.s. small business administration

A U.S. government agency that helps small businesses, with information available in English and Spanish
www.sba.gov

Grow your network

b.e.a.m

An app that provides access to a global community of entrepreneurs, investors, developers and business journalists
www.beam.today

business owners' idea café

An interactive forum for young people on business ideas and startup strategies
www.businessownersideacafe.com

founderDating

A network of entrepreneurs helping one another start and grow companies
www.founderdating.com/about

founders network

A network of tech company founders helping to teach entrepreneurs to learn, grow and overcome challenges
www.foundersnetwork.com

global entrepreneurship week

An annual event celebrating and promoting entrepreneurship among young people around the world
www.genglobal.org/gew

peer

An app that enables searching for professionals and talking to them over live video
www.peer2.me

startifi

A social network for entrepreneurs and investors
www.startifi.com

women 2.0

An information and networking website that helps women launch technology ventures
www.women2.com

Training and tools

founder institute

Weekly training courses and business-building assignments for budding entrepreneurs
http://fi.co

junior achievement worldwide

An organization dedicated to educating students about entrepreneurship and finance
www.jaworldwide.org

laboratoria

A social enterprise that trains women to become web designers and links them with potential employers
www.laboratoria.la

strategyzer

A multilingual service that helps entrepreneurs create their value proposition and develop a business model
www.strategyzer.com

udacity

Free video courses on entrepreneurship
www.udacity.com/course/how-to-build-a-startup--ep245

viztoolz

Self-guided visual thinking tools for designing, testing and building any type of business
www.griffinworx.org/viztoolz

young african leaders initiative

A U.S. government program that offers training and networking opportunities to African entrepreneurs, professionals and civic leaders
www.yali.state.gov

Just for women entrepreneurs

astia

An investment program for high-growth ventures owned by women entrepreneurs
www.astia.org

beadforlife

A matchmaker for women artisans and buyers associated with Street Smarts Business School, a free six-month program
www.beadforlife.org

eWomenNetwork

A networking site for women entrepreneurs. www.ewomennetwork.com

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www.goldmansachs.com/citizenship/10000women

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www.shopsoko.com

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www.women2.com



“Always work hard on
something uncomfortably
exciting!”
Larry Page

**SERGEY BRIN
AND LARRY PAGE**

started Google in a garage near
Stanford University, California,
in 1998.

Venice, California



➔ Bureau of
International
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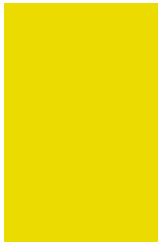
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Startup Smart

A handbook for entrepreneurs

