Lesson 4: Business Planning

4-2, Building a Successful Business

10 Key Reasons Why Businesses Fail

If you don't follow through with the principles and techniques that we discussed in the previous chapter, you could end up falling into one of the 10 key reasons why businesses fail. These 10 causes of failure are very common, but with good planning, strategy and foreknowledge, you can avoid them.

Lack of experience is the first cause and avoiding this means that you get clear about what you have to offer, whether people want what you have to offer and whether you know enough about it rather than trying to fake it. People will see through a fake, especially in a service business or in a specialized product business.

The second is a *lack of capital*. Before you enter into a business you need to be sure that you have you raised enough money. You should be able to project how much you need and how long you can you sustain yourself and your business without revenue.

Having a poor location can also cause business failure. The three rules of real estate are 'Location, Location, Location!' The same rules apply to your business as well. If you plop your practice down in the middle of a busy street with no parking this can be a problem. Or, if you are in a remote area that no one drives to, this can also harm your business.

If you are selling a product, *poor inventory management* can sink your business. You need to be very clear about your lead times if you are manufacturing a product. There might be a demand that you can't meet because your manufacturing takes too long. Or, you may spend too much on your inventory and find yourself unable to sell if fast enough. You then have a huge asset in a cash investment that isn't turning over.

Over investment in fixed assets can also cause your business to fail. Did you spend 100,000 dollars in a security system that you didn't need? Have you hired someone at a super high cost that you could have hired for less money? Is your business in a beautiful location, but being destroyed by very high rent rates? In short, think very carefully about your fixed expenses so that they don't become a source of gravity that drags your business down.

Poor credit arrangements can be very harmful to your business. Have you structured too long a term on your distributors and too short a term on your vendors? Imagine that the cost of the goods you are selling is so expensive to supply to your distributors and yet their contract only requires them to pay you back in 90 days while the suppliers require 30 days. You then have bills to pay to your supplier without the money to pay them back that should be coming from distributors.

Personal use of business funds is another way to cause the failure of your business. It can't be more important to maintain a lifestyle than to insure the growth of your business. If you are more concerned with your lifestyle, you will end up draining too much money out of the business and your business will be unable to survive.

Surprisingly, *success* can, in many ways, be its own burden. If you have an unexpected growth or an inability to manage your growth, your business can crash. Being able to sustain and manage a lot of upfront success and use that success properly is really important and not everybody can handle the huge, successful launch of a business. You need to decide what to do with the huge influx of cash other than take vacations. Ask yourself whether you are being responsible with that initial inflow of cash. Some of that money might need to be put, for example, into marketing rather than be drained by personal expenses.

In a business that is producing a new product, *competition* can be a key cause in business failure. If you have a product idea that a Walmart or Target can produce cheaper, faster and distributed more widely than you can, you're going to be in real trouble. You will need identify your competitors and plan very carefully to carve out a place for yourself amongst your rivals in the market.

Finally, *low sales* are a common cause for business failure. There may be any number of reasons why you are experiencing low sales, but whatever the reason for the low sales, it is certainly a reason why businesses go under.

10 Key Reasons Why Businesses Fail in Brief

1. Lack of Experience
2. Insufficient Capital
3. Poor Location
4. Poor Inventory Management
5. Over-investment in Fixed Assets
6. Poor Credit Arrangements
7. Personal Use of Business Funds
8. Unexpected Growth, Inability to Manage that Growth
9. Competition
10. Low Sales

Managing a Cash Crisis

All of the factors we've mentioned above cause a decrease in revenue or represent some kind of lowered capital for the business in one way or another. Every business runs into these challenges and it's just part of life. It's quite probable that at some point your business is likely to face some kind of cash crisis. This section is devoted to developing skills and techniques to manage your business during those cash crises and to prevent your business from succumbing to those crises.

The first thing is to *negotiate credit terms with your vendors*. It's vendors that will help you, literally, to finance your business if you're responsible to them. At first you might not find that possible. Christine has, in one of her businesses, been able to develop relationships with some of her vendors over the course of years where they have actually volunteered terms when her business had initially been paying up front on COD terms. Being a good payer, building a good relationship and giving your vendors a reason to want to give you credit gives you the ability to push some of your payments out as far as possible in a responsible way. When you do so, you should be sure that you are not simply spending their money, but making sure that you have a reserve and that the money you would spend to pay your vendors is used wisely.

The second way you can manage through a cash crisis is to *speed inflow*. Speeding inflow means making sure that you are very careful about the terms that you give others. What kind of accounts receivable do you have and how much are they aging? Keeping an eye on your accounts receivable is something that you're going to be doing in your business analysis and on a monthly basis. You should be tracking how many people owe you money and how long their payments have been outstanding. You should know whether these clients need or will respond to a phone call, or whether they need additional statements. What efforts do you have to make to collect? Understanding your clients and customers in this way is extremely important because a lot of people like to avoid conflict. They'd rather not eat than have the conversation with somebody that owes them money. They don't want to have to say, "hey, where's my check?" How far are you willing to go with someone who just won't pay you in a timely fashion? You may have to be willing to take them to small claims court or engage in some other form of legal action to get paid.

You can also manage your way through financial crises by *identifying and balancing crucial and non-crucial creditors*. This will help you to identify ways in which you can cut back. You do this essentially by identifying those creditors who can wait and won't cut off your service. A vendor who supplies you with raw materials and might cut off those resources might be a crucial creditor. This is in contrast to a utility that might not cut off your service for a month or two. The most effective way of dealing with all creditors is communication. Being in conversation with them about a seasonal cut back or slow down or an illness or some reason that you have that's legitimate for why you are unable to make your terms will keep them in relationship with you and allow them the opportunity, desire and motivation to support you through the hard times. And, if you're not the best communicator, it's a good idea to get the best communicator on the company with your vendors and suppliers to do work through these negotiations because good communication can make the difference between being between a difficult situation and being in an impossible situation.

There isn't a single company or businessperson from Donald Trump on down that hasn't experienced these sorts of cash crises. What Christine has found when she has been unable to make her payments is that she has had people that have actually wanted to be supportive. For example, when you are having cash flow problems, just calling up a credit card and finding out that they have a hardship program and that they will freeze your interest for a period of time can save you a lot of pain in the future. They may let you hold off on payments for a short period of time. So you'll find that you had a mechanism of support in your time of cash difficulties that you didn't even know about. If you don't have these conversations and you live in shame and secret about your difficulties you won't find out about possible sources of support and you won't manage the cash crisis in an effective way.

The last few options to deal with cash crises may not be appealing and they can be very costly but they can also help you out of your jam. Asset-backed financing can be expensive unless you have good deal of very liquid assets. In essence this means putting your assets on the line or using them as collateral against a loan offered by a financier. Any time you go to a bank for a loan they are going to be looking for collateral. They want something that they can foreclose on if you don't pay. If you want to raise money in that way they will want to discount the value of what you are offering. If you have a house a bank might offer to give you 50% of the value of your equity. If you have stock they might offer 60 to 70% of the value of your equity. For cash on deposit somewhere in a CD or a super high bluechip stock, the bank might offer 80 to 90% of your equity. In any case, they are *always* going to hold back some of the value of your equity in terms of what they can get for it. So this is not an ideal situation, but it can work.

Factoring receivables is another option that can be very expensive. You might have 100,000 dollars worth of receivables. Hopefully these are solid receivables with strong companies and this will be a consideration with a company that does factoring because they are going to discount those receivables and the fees are very high.

The leaseback situation can be effective in terms of selling an asset and then leasing it back from somebody who is willing to help you to finance your business. One tip is to find someone that has lots of capital gains taxes and they're out there.

Finally, the whole point of managing a cash crisis is to be creative. You must be willing to be in communication and keep from closing any doors by staying out of communication or thinking that it won't work.

Managing a Cash Crisis in Brief

1. Speeding Inflow
2. Slowing Outflow
3. Crucial Creditors v. Non-crucial Creditors
4. Asset-Backed Financing
5. Factoring Receivables
6. Leaseback

Keys To Success

While we have discussed business planning and a number of strategies for success, we want to add some other tips that will be helpful to you both in your planning stage and once your business is up and running.

Advertising is always important. Given that you are probably going to have a budget and that in all likelihood it won't be unlimited, you want to be responsible and careful about how you use that. In that case it's a good idea to *try out advertising strategies*.

Following your plan and budget will also help your business to flourish. One of the most important ways to insure your business's success is to control your expenditures and the best way to do this is by having a plan and using it. It's no different than if you have a salary and you decide to go on a shopping spree at the end of the month. If this wasn't in your budget, your finances may suffer down the line. If you think you might go shopping like that make sure that you have a built up reserve and revenue in your bank account to follow your plan. The same is true of your business. Avoid those expenditures with planning – budget a reserve for unexpected costs.

In a similar vein, you should be keeping a close eye on your *profit margins.* Profit margins are important to understand and track because they are the foundation on which you build value. If you don't have profit, you might as well be working for someone else. You'll probably do a lot better and have a much easier life.

In addition you are going to want to pay close attention to the difference in impact between *reducing cost and increasing sales.* If you have a five percent profit margin net, after overhead, fixed costs and variable costs, and reduce your cost by five percent you've doubled your profit margin. You now have a 10% profit margin. On the other hand, in order to double your profit margin in sales, you have to sell 50 times what you sold in order to get a five percent profit margin increase. So it is *very* important to keep your costs contained and to keep looking at them with an eye towards reducing costs. You might have people that are not performing well or resources for which you are simply paying too much. You may even be buying some resources that you no longer need. In short, one of the easiest ways you can increase your profit margin is by decreasing costs.

You can also make your business more successful by *treating your people right*. This is *extremely important* because it generates employee loyalty. One of Christine's business partners is not particularly strong at hiring good people but it does happen to be one of Christine's stronger qualities. The people that she has hired have been consistently great employees. She is always a champion for making sure that they feel good, that they are paid well, that when they do something valuable to the business by bringing in extra sales or something special that they get acknowledged and rewarded. You want to take care of your employees in the same way.

Beware of sales people. As soon as you open your doors, they will find you. PPS is *inundated* with offers. Knowing what is valuable and important to your business is important before you even talk to a sales person is important. As an example, someone walked into one of Christine's businesses and was offering to advertise the business on the side of a Hummer for $10,000. What an offer!

Worship your customer but don't give away the store. You must maintain a balance between good customer service and people taking advantage of you and that is a fine line.

The most important key to success is having fun. We don't start conversations about PPS without knowing that it's going to be fun. Having fun starts with making your choice about who to have as your business partner. You want to choose someone that is not only going to help the business grow and flourish but that is also going to make the experience enjoyable. If you choose a person that is negative all of the time, it's going to be really difficult to sustain your own energy and the energy of your employers around that person. In Christine's words,

> I am at a point in my life, and I used to think that I had to work hard to achieve this, that I get to pick who I work with and how and when and why. I used to think that this is something that I had to earn and work for and the fact is it's not true. We all get to pick and choose our partners and when we're lined up with those people, those services and products, and in those environments that make us feel comfortable and are aligned with our values and joy, we're going to be successful.

Beyond choosing the right partner, there are things you can do to make meetings with your partner about the business enjoyable. Christine had a partner with whom she had meetings at a spa. You can conduct your meetings in somewhere that has beautiful surroundings or somewhere that makes you feel good and comfortable.

Keys to Success in Brief

1. Having a Clear-cut Strategy

2. Conducting Test Advertising
3. Following a Plan and Budget
4. Guarding your Cash
5. Watching your Profit Margins
6. Impact of Reducing Cost v. Increasing Sales
7. Treating your People Right
8. Beware of Sales People
9. Worship your Customers but Don't give away the Store!
10. Have Fun!

Basics of Financing Your Business

Seven Things You Need to Know

We can't stress enough the importance of *knowing how much you need* when you begin your business planning. Is your financing need compatible with your business plan? This is a sort of chicken-and-egg conversation. Have you assessed your needs and are you needs stated by the plan? Your business plan should be compatible with the needs of your business. It should account for those needs.

You should be clear at all times on the *capital needs* for the moment. Is your business seasonal or long term? What is the state of your industry? By this we mean that you should know whether you are entering a new industry that is going to have a lot of growth and whether you will be able to get on that bandwagon. Or, alternatively you should be able to identify that you are entering a mature industry that very likely is not going to grow a whole lot or quickly.

Cash flow management is important as well. You should able to budget, identify your costs on a day-to-day basis. This allows you to plan ahead and review the historical data so that you know that you are on track.

Identifying *the urgency of your needs* is important especially when determining the cost of your financing. You generally don't want to be facing down the need to raise a whole lot of money really fast. You don't want to get into a cash crunch where you can't pay your bills for the month either personally or professionally. Keeping the pulse of your business and cash flow helps you to gauge what your need is now and where your needs will be in the future. This helps you to avoid facing the urgent emergency.

In a related point, you should have a clear idea of *how much risk your business poses to a financier*. In the early stages of your business you are a super high risk. The kind of people that are going to want to invest in you when you have no performance history and a really great idea are the kind of people that don't mind that risk. These people do exist, by the way. They might be people that you love, people that love you, people in your family, people in your current industry or perhaps people that are called 'Angel Investors.' These are people that know they are going to get into a high-risk venture but they are willing to do so if they can get a really high return. That's going to be your most expensive financing.

By living the lifestyle that we've set out in Lessons 1 and 2, you are much more attractive to the Angel Investors. Without having a business history or without that business having a track record, then a lot of the decision they have to make about whether or not they have to support you, your business plan and your vision is based on who you are and what they see, sense and feel coming from you. By getting your I-ness handled well and managing your own life effectively you dramatically increase the possibility of finding that type of investor.

Success with financiers also comes from knowing yourself well enough to see that you have compiled a history. You are a sum of your parts, not the moment that you are in where your bank account is low, for example. You are presenting the whole picture of yourself and how you have been successful in your practice, your jobs in the past and that you deserve this business because you are ready for it, you are prepared and planned for it, and there is the ability to take this idea and make something of it. That's where you have to be positioned in asking for financial assistance.

Another important component of being able to finance your business is knowing *what stage of business life your business in*. Will new money going to be a reserve? Is it going to be used to expand? How much history do you have? In some financial circles a business that is four to five years old is still considered a start-up. Have you experienced steady growth? One of Christine's businesses grew by 40% for the first few years of its life and that made it attractive to bank financing. So in short, you should be well aware of the stage of development that your business is in.

The *strength of your management team* will also affect your ability to gain financing. How strong is your management? You should understand the skills that each member of the management brings in, who is managing the business and how strong each member of the team is on paper and in practice. A strong management group will increase the attractiveness of your business in the eyes of a potential investor.

Seven Things to Know about Financing Your Business in Brief

1. Is your Financing Need Compatible with your Business Plan?
2. What are your Capital needs?
    a. Seasonal vs. Long-term
    b. State of Your Industry
3. Cash Flow Management
4. How Urgent is Your Need?
5. How Much Risk Does Your Business Pose to Financier?
6. What Stage of Your Business's Life is it in?
7. How Strong is Your Management?

Debt vs. Equity
Anybody who is financing a business wants to know that its *owner is on the hook* whether the financing entity is a government program, a bank or an individual. The financier will want to know that you have put money into the business and how much you have borrowed already. They will also want to know about how much debt you are currently carrying.

You as the owner can contribute to your own business financially in a number of ways. You can make an initial capital investment with additional investments over time if your business needs it. You should also be willing to turn your net profit at the end of a term into retained earnings rather than drawing it out to go spend or as a salary. Those are the ways that one can look at their business to see whether it is being used as revenue.

You should also be very familiar with the term *EBITDA* because it is useful in analyzing your business's health. EBITDA is Earnings Before non-cash expenses or Income Taxes, Depreciation and Amortization. It tells you whether you can make your loan payments, whether you have cash left over from your revenue and your expenses to make your loan payments. It provides you with the information to help guide your business so that you can become a good borrower.

You should have a firm accounting of your current *assets*. Do your current assets exceed your debts? Do you have liquid assets? Liquid assets include cash in your bank account, accounts receivable and short term accounts receivable. What is the state of your business? This is answered by your balance sheet. These kinds of conversations about debt, equity and assets are conversations about your balance sheet. You should also be able to calculate your business's equity. You can do this with the simple formula:

Assets + liability = equity.

Using that formula you should be able to determine the extent of your equity. You want to have a positive number and this means that you should have enough assets and little enough debt. If you do, this generally means that both your business and your equity are growing.

Debt vs. Equity in Brief

1. What Owners have put into the Business vs. How much you have Borrowed
2. How Owners put Money into a Business
    a. Capital Investment/Stock Purchase
    b. Retained Earnings
3. Debt Coverage – EBITDA (earnings before non-cash expenses)/Loan Payments
4. Assets vs. liabilities
5. Do your Current Assets (cash and other liquid assets) exceed your Debts?

a. What is a liquid Asset

Bankruptcy Advice

Many business owners find themselves contemplating bankruptcy when their businesses start to face real challenges. If you are in this uncomfortable position, you may have to learn some very hard lessons. One of the most valuable lessons that Paul learned when he was dealing with bankruptcy was that one should absolutely *never* declare bankruptcy until the situation is do or die. That is, don't declare bankruptcy unless it is absolutely necessary. Early in his business career, an accountant told Paul that he needed to declare bankruptcy because he would never recover from the difficulties he was facing. Not being as experienced in business at that time, Paul took the advice and found that for many years afterwards, the C.H.E.K Institute had to be run as a cash paid business and that made running the business very tough.

You need to be careful about when you file for bankruptcy. There are going to be long term consequences for such a declaration, one of which is that it may be very difficult to get credit thereafter. It depends on the market. Buying houses, for example, has become very easy. A bankruptcy that is a few years old wouldn't necessarily keep you from buying your house. But getting a credit line for a business that doesn't necessarily have enough collateral might be much more difficult.

People look at bankruptcies from different perspectives. How recently have you filed? If you declared recently, an investor will know that you can't file again for a number of years. They might be more inclined to invest if it is a fresher bankruptcy than if it is a later bankruptcy because they know that in the case of a later bankruptcy, a person that still hasn't learned their lessons about managing cash and expenses could be filing again and that makes them a high risk. In the U.S. in particular, your credit profile is so important and you have to know from that point of view how to manage your debt.

Profitability Ratios

It’s very important to be able to assess whether your business is a profitable business. While there may be reasons for you to be in business even if it is not profitable, for example you like the independence and you don’t mind working so hard, being in a job just might be more profitable than owning your own business. But barring the need for independence you want to be able to assess profitability so that you know how to change the business to make it profitable as well as when to leave the business if it simply isn’t able to fixed.

The first assessment technique *is analyzing sales growth*. You should know from year to year whether there has been an increase in sales from one year to the next. Is each period of each year comparable to the same period of previous years? You should look at growth in terms of percentage and have a reasonable expectation for growth. One of Christine’s businesses experienced 40% growth over its first year. That’s pretty extraordinary but that isn’t a level of growth that is to be expected from year to year. Maybe 10% or 15% is more reasonable as your business matures. Whatever the level of growth you certainly want to see a steady movement upwards.

A second assessment for profitability is *to look at the cost of goods sold (COGS) to sales*. The cost of goods is the amount you are paying to manufacture your product. There are also other fixed costs that you should analyze in terms of cost of goods compared to sales. You want to make sure that this is consistent. If you notice that your costs are going up, for example the price of your raw materials is going up or your suppliers are charging more, you might need to increase your prices.

The third assessment technique is to evaluate *your gross profit margin*. The gross profit margin is your sales minus the cost of goods sold. This is a function of knowing what the cost of your goods are compared to your sales. This tells you about your gross profit before your overhead. Again, consistency is important here. You should be able to generate more than enough gross profit to cover fixed costs.

Those *fixed costs* are equally important to monitor so that you can assess your profitability rate. Fixed expenses include overhead, marketing, things that are going to help you to generate income. In this case you want your percentage of fixed expenses to *decrease*, because you've either raised your sales or you've cut costs. Remember, cutting costs can have a greater impact on profitability than raising sales. Ideally, you'd want to do both.

Your *net profit margin* is your net income to sales. More money is better than less money so you want this percentage to be high. The higher it is the more money you have coming in.

The return on equity is going to be critical both to you as an owner because you are an investor in your own business and to your other investors as well. You should identify your net profit to equity ratio and then compare this to industry averages once you have this number. In this way you're looking at whether your money that is invested here is making you enough, or more than enough money to make it a worthwhile investment.

You should also look at the *owner's discretionary profit dollars*. This is your salary plus net income plus income tax. When looking at this figure, an increasing number is a sign of a healthy business. The owner's discretionary profit percentage is a related figure determined by taking the owner's discretionary dollars divided by sales. Here again, you want to see an increasing percentage.

Profitability Ratios in Sum

1. Sales Growth
2. COGS:Sales
3. Gross Profit Margin (Sales – COGS = Gross Profit; COGS% +Gross Profit Margin% = 100%)
4. Fixed Expenses:Sales
5. Net Profit Margin
6. Return on Equity (Net Profit/Equity)
7. Owner's Discretionary Profit Dollars (Owner Salaries + Net Income + Income Tax)
8. Owner's Discretionary Profit Percentage (Owner's Discretionary Profit Dollars/Sales)

Calculating the Cost of a Service/Hourly Rate

This is extremely important for a number of reasons. For those of you trying to calculate your service rates, it is very common for people to undersell their own service. For that reason it is extremely important to have a system to guide you in setting realistic service rates. Doing so is tied into gross profit, covering fixed costs and producing a net. This is the analysis that leads you into determining what you want to be gaining from this business. It's no different if you're in a job or you're in a business that you've created yourself.

Hopefully during your business planning you've already thought about how much do you want to make for your salary. You should have also thought about your overhead expenses. What costs are you going to have to meet? What is a reasonable profit to be making on the items you are selling? It is in the profit where you are going to have a growth in value.

To begin with you need to know what your expenses are: rent, utilities, telephone, office supplies, insurance, depreciation, advertising and anything else that is in a miscellaneous category. You should also know how much you want the business to earn for you and then you have to put up a mark-up on that. Maybe you want to make 20% on your salary, maybe you want 10% on overhead. That is a personal decision that you have to make.
In general, when calculating your service rates, you should be able calculate, down to the day, how many hours you need to work in order to lead the lifestyle you want with balance and time for play and all of that. The exercise below will give you the opportunity to calculate this.

If you're doing this exercise for your self, you know what you want your salary to be and you can back into your service rate. Begin, by calculating the number of billable hours in your year. You can do this with the formula below.

(Working days/year – Holidays, vacation, sick days) x Actual billable hours/day = billable hours/year.

So for example,

((52 weeks/year x 5 days) – 30 vacation and sick days) = 230 working days x 8 hours/day = 1,840 working hours/year.

If you're taking some of that off because some of your working hours are spent performing tasks that are not billable, you might reduce that number by 20%.

1,840 x .8 = 1,472 billable working hours

You then calculate your total desired with the formula below.

Salary + Profit on Salary + Overhead + Profit on Overhead = total Desired Revenue/Year

Once you've calculated the total desired revenue/year, you simply divide that by the number of billable hours and this will give you your service rate.

You can also use this formula to determine the rates of services for your employees. If your employees will have 1,800 billable hours and they are going to cost X amount, you must determine how much you are going to charge for their services to make them profitable for you.

Cost of Service/Hourly Rate in Brief

1. What Salary Do You Want?
2. What are your Overhead Expenses?
3. How Much Profit on Salary and Overhead?

Calculation Based on Cost of Billable Hours:

1. Salary + Profit on Salary + Overhead + Profit on Overhead = total Desired Revenue per Year

2. Working Days per year – Holidays, Vacation, Sick Days x Actual Billable Hours per day = Total Billable Hours per Year

3. Total Revenue/Total Billable Hours = Service charge

4. Total Revenue – Salaries and Overhead = Total Profit

5. Profitable Business Formula to Calculate Charge for a Service

6. Materials + Labor + Overhead + Profit on each Component = Charge for a Service

Types of Financing: Rainbows and Pots

Everyone believes that there is a pot of gold at the end of the rainbow, but it's only if you know how to get to the end of the rainbow that you will find that pot of gold. The bank can be a lot like that gold. When looking for a loan, you need to go to the bank with the right information in hand, knowing what to say and knowing what sorts of loans and programs are available.

This process of meeting with the bank can actually be a lot of fun if you're excited about it. It's really important to bring a high level of energy to your business and to meetings with your potential financiers. If someone is sitting with you and listening to you talk about your business the discussion feels like an exercise and a chore, they aren't going to be that excited about investing their money in you.

Types of Equity Investors

In the next few pages, we are going to provide you with a list of the types of people that might be willing to put their money into your business in exchange for some form of ownership. But before you go to these people, you have do decide at the outset *how much* *of the business you are willing to give away and how much you expect to get in exchange for what you are willing to give away*. Finally, you need to consider whether what you get is enough for what you give away to sustain the business for a period of time.

For example, an *Angel Investor*, someone that doesn't know you but who is willing to take investment risks, might want a huge chunk of your business for a small amount of money. In that case you're probably going give up 25% to 30% of your company but you're only going to get some percentage of what you need. Hopefully that will be enough to get you past a certain point to where revenues start to come in. That's a very expensive source. *Friends and family* on the other hand might be more generous about that. They are more willing to invest in you.

Remember that when people give you money or loan money to you, they expect to get nothing back. Don't be afraid to offer some sort of promissory note. You shouldn't be afraid to honor them the way that you would an investor by giving them a security interest if you have that to offer.

Employees and customers can be great sources for equity investors. Christine has had one of her businesses that sold out to a customer who had lots of good reasons to be involved. People who are customers in a particular type of business might have a good tax advantage to convert their outflow of expenditures into deductions for them for tax purposes if they have that wealth. Someone like this might be a really good investment source.

Industry colleagues might also prove to be a good source for investors. This may be especially the case if your colleagues have seen that you have a great deal to offer in their field or that you've created products or services that have had success in the field in the past. In short, colleagues in your field may be a good source for investors because they have seen what you have to offer in the past. Moreover, if you've had a good deal of success in your industry or field, you generally get to dictate your terms.

Finally, *venture capital* is a source of financing that really takes the business to the next level. If you're right for venture capital, you're probably going to be giving up management of your business or at least the day-to-day operations. In this case you're positioning your business to go public. These people get involved at later stages of the business and later is relative. It may be that the business has been a start-up for a few years and has been positioned to eventually go public. Or, it may be that it is being financed so that it is in a position to go public quickly. Either way, an investor knows that they are putting in a lot of money. They're expecting a big payoff and they're going to take a lot of control of the business away from you. That can be a good thing if you're ready for it. For all of these reasons it's important to be able to calculate the best time to talk to a venture capitalist.

Types of Equity Investors in Brief

1. Friends and Family
2. Angel Investors
3. Employees
4. Customers
5. Industry Colleagues
6. Venture Capital

Debt Financing

Most people like to be able to control their business for as long as possible and as much as possible. So if you can manage it, the best option would be to create a business that is self-financed. A business like this will have such a good growth plan that it can finance itself and its own expansions and then be positioned so that its attractive with or without collateral whatever stage it may be in. When you're starting out you had better have some collateral if you're going to get debt financing. You had better have something to offer the bank or the savings and loan or the finance company. This lets them feel like their risk is reduced. Banks are not in the business of going into risk with you. They are not your friends and family. They want to know that their investment is secure. They are looking at your credit report, they are looking at your collateral and they are looking at your business's history. Hopefully they are going to take a chance on you.

Personal Guaranties are also a source of financing. However these can be dangerous. Most likely you are going to be on the hook. This means that your house, your spouse, your income and your family in general will also be on the hook. This is because with this type of financing, the lender will expect you to guarantee your ability to repay personally.

Debt Financing

1. Banks
2. Savings & Loans
3. Commercial Finance Companies
4. Government Programs
5. Collateral
6. Personal Guaranty

Keep it Simple! Keep it Effective!

One of best principles that you can use when running your business is the K.I.S.S. Principle. The K.I.S.S. Principle stands for 'Keep It Simple, Stupid.' The following tips will help you to keep your business plans simple but effective.

First, *don't get bogged down*. Many of you that have reached this point in the lesson may be dreading the creation of a 50-page business plan and what that requires of you. When Christine works with clients, she likes to start them out with an executive summary. It's called a summary precisely because it isn't going to turn into a 50-page document and yet it can accomplish the many of the same goals as the full business plan. Moreover, knowing that you can take the bite in manageable chunks so that you can accomplish your task means that the planning process does not overwhelm you. The summary also gives you an overview. It gives you an outline from which your full-blown business plan can be made if you should ever need one. In fact, you may not know how to fill out certain aspects of a full blown business plan and so for this reason a shorter, executive summary might actually be more effective for the time being.

Don't get bogged down in your strategic thinking. You can talk yourself out of probably just about anything. At some point you're going to have to move from your intuition. Christine has engaged in many opportunities that on paper might have made no sense. But she had the willingness to be flexible and looked at whether she had a plan for the long term. The pieces of the plan felt right to her, even if it looked like she might not be earning as much as she was going to or it cost her a little more up front. She was still willing to do it because she could, because she was inspired to, because she was passionate about it and it simply did not matter that it the investment didn't make any sense. She's had some of her biggest wins that way.

Finally, if you feel stuck, *consult a mentor*. Sometimes your intuition and your experience just don't help you to answer your questions. In that case you should find yourself an expert that can draw on their experience and intuition to help you resolve your problem. Faith should only begin where knowledge ends and you can extend your knowledge by consulting an expert.

When do I Need a Consultant?

Feeling stuck might be one reason to consult an expert, but there are other times when you are going to want to draw on outside expertise. An analogy with exercise principles might work here. If you just walk into a gym and start lifting weights, you might be working towards your goals, but you might be working against your goals. You might even be causing harm to yourself. You might have no particular objective that you're trying to meet and nobody to make sure that you're doing the right things to get to an objective. So, in the same way that you might want somebody to design an exercise program for you to help you meet your exercise goals, you might also want somebody to help you to design your business plan and meet your business goals. The point here is to get the resources that you need to insure that you are working in a healthy way, that you're working safely, that you've taken into consideration the things that can throw you off track, that you get the support from that resource that you need to keep you on track and that you can get help when you get stuck in the mud. The biggest use of a consultant is to help people generate forward movement when they are stuck.

For example, suppose that you need to bring in more money. An expert should be able to provide suggestions about how to do this. You may want to expand your business and often times talking to an expert about this will lead to investment opportunities that allow you to do this. The expert himself may be interested in investing in your business and the way that they can serve may be by helping you to overcome your fears about expansion. They may be able to offer good structural advice that they have based on their particular work experience. When you know your strengths and that you are an entrepreneur and that you are a great worker, you want to fill in the places that you don't have, so that you can keep your business growing.

You may also need a consultant to help you to *create and manage multiple income streams* or to help you categorize your *crucial and non-crucial creditors*. The first of these is a way for you to generate more income and in that way to help you deal with a lack of income. Moreover, you definitely do not want to find yourself under the thumb of one customer. Let's say you're in business because you are so good at supplying what you have to supply and your customer is in such need that they have caused you to be their one customer. In this case you may have no other ability to service other customers. You've then become completely dependent. Your business is now dictated by how this lone customer runs their business and by their needs and interests. This is *not* a good position to be in. You want to have a diversified your client base and customer base because you don't want to depend on any one source for your income. You want to make sure that there is vitality to what you offer. Even if you are in a service business, you should be expanding your knowledge base and therefore your ability to access a wider clientele. The wider knowledge base allows you to create new ways that clients can interact with you. In short you should be looking for different ways that you can offer your services and products so that you can access a wider collection of people is a way to move through these cash crunches and expand yourself. This is something to look at even if you are in a healthy situation and an expert can help you to do this.

Understanding the difference between crucial and non-crucial creditors, as we discussed earlier, is a way of spending your money more efficiently so that you can allocate your resources in ways to overcome a low point in your business's sales. A mentor can help you to categorize your creditors so that you can know which creditors to pay first and immediately and which can wait.

When do I Throw in the Towel?

We've talked a bit about overcoming the challenges that you can face in your business. There are times, though, when the challenges may be too great and it is important to recognize those times so that you can get out of the business before you are ruined by it.

There are a number of analyses that you can perform that will provide you with indicators as to when your business isn't growing and when your business is in trouble. Listed below are some of those analyses and we've discussed them already in the two chapters of Lesson 4 to some degree already.

1. Look at debt vs. equity
2. Assets vs. liabilities
3. Profitability ratios
4. Efficiency indicators

At the end of the day you have to know whether the business is leading you where you want to go. Are the numbers there to show that your business is growing? Are you going to have the value? Are you on the time plan? Are you heading towards the goals that you set, perhaps retirement? If your answer to these questions is 'no' then you need to look at why you are staying in the business.

If your numbers aren't growing, have you looked at the intangibles? Is it so important to you to continue to work on the business that you don't care about the numbers? Have you adjusted your lifestyle so that it has gotten smaller and you don't need the money that you thought you needed? There can be reasons to stay in a business even though it isn't growing but this is very stressful for most people.

Financial Support

When you find that you are in need of money for financial support, there are a number of resources that you have available to you. The first is *the Small Business Administration*, or the SBA, which is a government agency that supports the growth of small businesses, in particular minority owned businesses. This agency will guarantee loans so that banks will invest in small companies that have less collateral and be willing to take a higher risk because they have the government guaranteeing their loans.

You can also take a certain amount of *credit card debt*. The usefulness of this resource is going to depend on how much money you need. Credit card rates have become very attractive recently and so this may be a source for you to take advantage of.

You may also have the capacity to borrow based on *your own financial wherewithal*. If you have home equity you may be able to borrow against that, just keep in mind that you need to sustain that debt. This means that your business had better be growing consistently and you absolutely must budget for interest payments.

Finally, there are organizations that bring *Angel investors and venture capitalists* together. Industry conclaves and seminar that introduce you to people in your own industry to find out if there are those that know of you who might be willing to support you so you want to get out there and let people know who you are and what you're doing. Every time that you are out of your office is an opportunity to get to know people out there that might be interested and willing to support you financially or otherwise. The key is to always stay open to possibilities and to avoid ever having a preconceived notion of what can come of your business.

Financial Support in Brief

1. Small Business Administration
2. Credit Cards
3. Personal Lines of Credit
4. Home Equity Loan
5. Investors

Conclusion

The three P’s of business success can capture much of what we have talked about. The three P’s are planning, preparation and projections. You might not be doing all of these in order, but you should certainly be doing them at one time or another during the life of your business. When you go into business, you should know what your plan is, put the pieces in place to make use of that plan and be able to project out where that map and those resources are going to take you. These are the critical pieces that will make your business experience a much more loving experience, a much more enjoyable experience and a lot more fun. If it’s not any of those things you simply shouldn’t involved in the business.

In Lesson 5 we will continue to look at the financial side of reaching your legacy and look at how you can manage your money more efficiently. I look forward to seeing you there!

FOR MENTOR SERVICES FROM CHRISTINE PERAKIS, please visit the mentor section of the PPS Success Mastery Web Site.