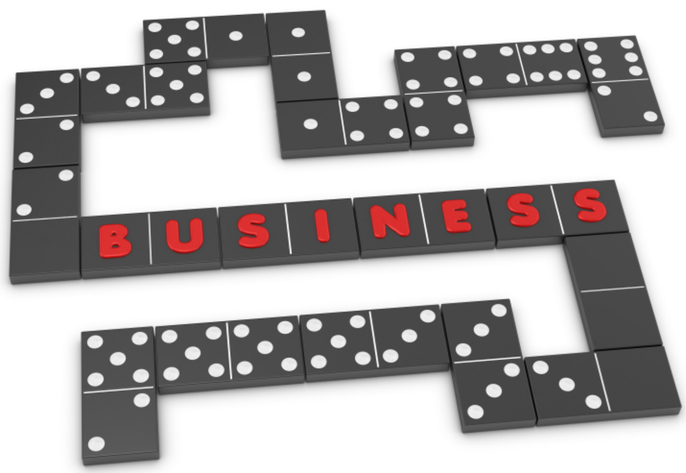
Business Basics for Entrepreneurs



By: Jarie Bolander

An eBook Based on The Daily MBA Series
http://www.thedailymba.com

Contents

1 Introduction: Business Basics for Entrepreneurs

For me, learning is a series of small steps. Each one, a fragment of the whole. The whole the sum of the fragments. That's the way Business Basics for Entrepreneurs will approach each topic – small, incremental steps leading toward a layered knowledge. Business Basics for Entrepreneurs is designed to be done in 15-30 minute pieces. This allows the reader to learn the topics in manageable chunks. The key is to spend 15-30 minutes a day engaged with the material.

1.1 The Core

Each section presents a different topic. The order of the topics is what I consider the logical order required to build your knowledge. This approach makes it much easier to grasp concepts that you may not be familiar with. After every couple of topics, there is a Celebration Of Knowledge (COK), which reviews the past few topics learning (I hate tests and quizzes. Celebrations are so much better) These are meant as guild posts on your journey – natural places to check in to see how you are progressing.

1.2 Organization

The topics are organized into sections with a total length between 500 and 1500 words (2-5 pages) – just enough to grasp the basics. Each topic has the following sections:

- **Talking Points:** The main points of the post. These will generally correspond to the main text headings.
- **Discussion:** The core discussion of the post. The talking points from above will be broadened out and explored.
- **Things To Ponder:** Exercises that reinforce the material.
- **Exploring Further:** Books, web sites or articles that dig deeper into the subject.

1.3 Who is this for?

A lot of people are scared of business but creative types are down right terrified of it. Creatives squander opportunity after opportunity because they fear business. This fear stems from their overwhelming desire to just create and not deal with the ugliness of selling their creations. This series is geared toward the budding entrepreneur that is either an artist, writer, scientists or engineer who struggle everyday to grasp the basics of business and sell what they create. One thing to remember is that business is not that hard – it's just a different way of thinking. You don't have to sell out or compromise to be successful. The trick is to understand what you want out of a venture and move towards those goals. The best way to do that is to get the basics down before you jump in.

1.4 Time To Start

Now that you have the outline of the series, it's time to begin. Business Basics for Entrepreneurs goes through 22 topics (with a couple of bonus ones thrown in at the end, only available in this eBook). At the end of those 22 topics, you will have learned the basics of business and how to manage one. With these basics down, practicing management and doing business everyday will feel natural and productive. Let's begin!

2 Topic #1: What is Business Anyway?

2.1 Talking Points

- An organization consisting of one or more people providing goods or services for the benefit of customers and the community
- Groups of organizations that produce or sell similar goods or services
- The transitions that enable producers to sell to customers
- A legal entity that can generate and consent to contracts in order to produce goods and services
- Also known as a firm or enterprise
- All businesses have objectives that are summarized in their mission, vision and values statements

2.2 Discussion

What is business? We interact with them daily, yet putting into words the core of business is daunting. The term business has many definitions from the practice of to the type an entity is engaged in. A business can be as small as a single person or as large as a multinational conglomerate. They are as diverse as the people who run them. At the core of a business is some goods or services that is offered to customers. All businesses provide some form of product or service to someone. Most, provide them for profit.

2.3 For our Purposes

It's important to define what a business is before we discuss how to manage them. All our discussions will tie back to this definition. This series will use the follow definition for a business:

Business: An organization of one or more people providing goods or services for the benefit of customers and the community.

Notice that our definition does not include profit. This is an important point. Some business do generate profit but there are several others (government, education and non-profits) that provide valuable goods and services for no profit. Without these organizations, society would not function. The principles in this series will apply to all businesses since, fundamentally, they all serve a customer. Another aspect of the definition is the inclusion of community. All businesses impacts the community. Businesses create jobs, provide essential services and pay taxes. Without a thriving business base, there is no community. That's why a business also needs to understand its impact on the community. Now that we have defined what a business is, we can now figure out how to manage them. The first step is to clearly define what the objectives are. These objectives are summarized in four statements: *Mission*, *Vision*, *Values* and *Mantra*.

2.4 Mission

Mission statements describe the reason the company exists. It focuses on the present and is used to align the firms employees to a common cause and to communicate that cause to the public The mission statement should clarify the organizations purpose.

2.5 Vision

Vision statements describe the future the company wants to pursue. It's the future state that the business has not yet achieved. Most vision statements are long term (10 years or longer). Vision is the big ideas that the company aspires to.

2.6 Values

Values are what the business believes in. Values define how they want their employees to behave. The companies values are how it conducts business and how it treats employees, customers and the community. These tenets guide the everyday operations of the business so that the mission can be sustained and the vision can achieved. Without a well defined mission, vision and values a business will be impossible to manage. These statements are the guiding principles in which all business decisions are made.

2.7 Mantra

Guy Kawasaki (see below for the whole article) likes mantras instead of a mission statement. His thinking is that a mantra is easily remembered, short and focuses on your real core. Mantra's need to be short since they are an object of concentration during a prayer, mediation or incantation. Having a well crafted mantra that is easily remembered is a great addition to a formal mission statement.

2.8 Things To Ponder

1. **What's the Point?** Visit some of your favorite businesses and figure out why they exist. Do they have a mission statement? What do they stand for? Ask the owner what they think.
2. **Work for Free:** Think about what you would do for free. What organizations do that? Would you work there for free?
3. **Community Impact:** List three or four businesses that have both positive and negative community impact. What keeps both types in business? Write a sentence as to why they are positive or negative.
4. **Mission, Vision and Values:** Look up some mission, vision and values statements and choose the best and worst. Write a paragraph on each one explaining why they work or totally miss the mark.
5. **Mantras:** Research some corporate mantras. How do they compare to the mission statement? Which is easier to remember?

2.9 Exploring Further

- Wikipedia business
- Sample mission statements
- A good description of corporate values
- Guy Kawasaki Mission vs Mantra

3 Topic #2: Business Structures

3.1 Talking Points

- Non-Profit vs For Profit has tax and ownership implications
- Sole-Proprietors (including a partnership) controls their own destiny including any liability.
- Limited Liability Companies (LLC) vary state by state. They provide liability protection to owners.
- S Corporations are limited to US citizens and a limited number of stock holders.
- Limited Liability Partnerships are usually reserved for professionals like lawyers, doctors, venture capitalists or architects
- Corporations issue stock and have a board of directors that provide oversight.

3.2 Discussion

Selecting a proper business structure can be daunting. There are so many tax, liability and investor consequences that sorting through it all can make your head spin. Before you settle on a specific structure, you should seek advice of a lawyer or business professional just to make sure you have not missed anything. This topic will go over the different structures and what they do. Things to consider when choosing a structure include:

1. **Is it for Profit or Not?** This will determine your tax status, ownership and how your governance is setup
2. **What is the Liability Profile:** Liability is anything that you could get sued over. Protection against liability can either be the entity has limited liability or you have insurance to cover any issues.
3. **Will you have Partners?** If you plan on having partners, then you need to consider who owns what, the management structure and responsibilities.
4. **Do you need Investment?** Outside investors will want some control over their investment. If it's a company that requires venture capital, then they most certainly will want a Delaware corporation and a board seat. Other investors may just want to be "silent investors" which means they want periodic updates but don't worry too much about the day to day operations.
5. **Will you Operate and Grow or Just Hold Assets?** Some structures are ideal for holding assets (like real estate or an investment pool) while others make it possible to operate and grow a business. The tradeoff usually has to do with taxes (losses due to depreciation) and investors (taking investment to build a product).

Keeping those questions in mind, lets take a look at the structures you have to choose from. They are:

3.3 Sole-Proprietor

Is a single person business. You don't need to file anything with the state or federal government to start.. You just start doing business. There are local permits or licensing depending on your city, county or state. In this structure, the business and the person are one. That means that all losses, profits and liability are the owners.

3.4 Partnership

One or more persons that agree to engage in a common business activity is called a partnership. Traditionally, these are professional people (lawyers, doctors, architects, etc.) that form a firm to practice their craft. It's similar to a sole proprietor except there are multiple people. The same losses, profits and liability rules apply. There are Limited Liability Partnerships (laws vary from state to state). The LLP is similar to an LLC (see below) except the limited partners don't run the day to day operations of the LLP. They are complicated to setup and usually reserved for investment funds and the professionals listed above.

3.5 Cooperatives

These entities are groups of people who come together and run the business like a democracy. All decisions are made as a group of equals. Most states have specific laws on how to form a co-op. Check with your state for specifics. This type is not that common, so consult a lawyer for specific questions.

3.6 Limited Liability Company (LLC)

As the name implies, the LLC protects the owners from liability. If your business may have liability issues, then an LLC or Corporation is your best bet. These entities are created state by state, so check your state LLC laws. Each state has different tax laws as well as reporting requirements. This structure has mostly replaced the S-corporation since it's easier to setup and manage. From a tax perspective, LLC's are treated like partnerships (or sole-proprretors) where the loss and profit are passed through to the owners. Usually, an LLC is managed by an appointed manager that takes care of the day to day operations. Other owners can be involved in the business but typically play an advisory role or no role at all.

3.7 C-Corporation

C-corporations are the most formal of the structures. They require a board of directors, annual meetings and stockholder reports. A corporation is basically a separate legal entity that stands on it's own. Which means it can sign contracts and own assets. It can go on forever as long as it meets reporting requirements. Corporations are also taxed separately from the owners which is referred to as "double taxation". Corporations issue stock and can have a wide variety of different stock types including common and preferred. These entities are the preferred structure for raising money via venture capital or the public markets.

3.8 S-Corporation

Like the C-Corporation, it has to elect a board of directors and have annual shareholder meetings. There is a limit to the number of owners and who can own stock. For example, a company cannot own stock in an S-Corp. The profits and losses pass through to the owners like an LLC, so there is no double taxation like a corporation. The S-Corp is not used as much since the LLC provides the same benefits with less overhead and restrictions.

3.9 Non-Profits

As the name implies, this structure does not make a profit. More specifically, any profit is put back into the organization. There are many different types of non-profits. They are governed by the IRS code 501(c). The most common is 501(c) 3. Another thing about a non-profit is that the assets are owned by the non-profit. There are no stockholders. Everything is done for the beneficiaries of the non-profit. Therefore, if the non-profit stops operations, the assets must be donated to another non-profit.

Now that you understand the specific types of entities, go ask yourself the questions about and see which one fits your business. Remember that setting up the right structure is important. If you have any questions, seek advice from a lawyer.

3.10 Things To Ponder

1. Write a paragraph on your businesses most likely liability. How big a deal is it? What structure might protect you the best?

2. List three for profit and three non-profit businesses. Write a sentence or two as to why they choose that structure.

3. Look up your states LLC laws. How do they compare to the rest of the US? What state would be the best place to start an LLC from a tax view, operating view or liability view?

3.11 Exploring Further

- Great chart on Business Entities
- Business Structures post on The Daily MBA
- Nolo Press article on the different business structures
- This IRS site has a great article on tax implications for businesses
- IRS 501 C code

4 Topic #3: Business Ethics

4.1 Talking Points

- Maximizing shareholder wealth at what cost
- Ethics knows no boundaries, be it physical or emotional
- Just because it's legal does not make it ethical.
- The MBA Oath is a great start
- The shift to maximizing stakeholder value

4.2 Discussion

Ethics is an important part of any profession. The way practitioners of the art behave says volumes about the profession. When it comes to business, there has been a serious lack of an ethical cannon. This has hurt the profession. Ethical standards form the foundation in which a profession is built on. Without a clear ethical cannon, anything goes. This "free for all" is ripe for gaming and breeds behavior that soils the profession.

4.3 Leadership Has Responsibilities

The manager is someone who people follow. The example she sets ripples throughout an organization as well as the community. Poor behavior and loose ethics creates environments where it's acceptable to cheat, lie and steal as long as the ends justify the means. As unethical attitudes proliferate, other people, outside of management, copy these behaviors. Inevitability, the environment reaches such a toxic state that institutions start to breakdown.

4.4 The Shift to Corporate Social Responsibility

There has been some debate as to the real purpose of a business and now it should interact with society. Milton Friedman's 1970's article in The New York Times Magazine stated that "there is one and only one social responsibility of business–to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud. " Many people disagree with this approach since it really does not take into account the broader impact of a business or industries operations. The best example is global climate change and how the selling of fossil fuels affects the worlds climate. The impact of maximizing oil company profits has lead to global climate change that injuries society in irreversible ways. Corporate Social Responsibility (CSR) has increasing appeal to shareholders because of the social shift to being more sustainable. Some european countries (like Denmark) have a CSR law that requires companies to either state their CSR policy or list that they don't have one. CSR has its critics. The main argument being that some corporations will have CSR programs just for Public Relations (PR) reasons. Not exactly the most ethical way to behave.

4.5 Self Regulation

The MBA Oath movement has brought the debate about business ethics back to the individual. Companies are made up of individuals and if those individuals behave ethically, then the company will behave ethically. This makes a lot of sense since a company is really not a living, breathing thing. It's a construct created by law to hold assets and engage in actives that benefit it's creators. The MBA Oath transcends the corporate structure and puts the responsibility for ethical behavior on the people running it. Their main ethos is to "create value responsibly and ethically." The voluntary oath has eight points that center around the responsibility of a manager to society, company and individual workers. Individuals have to make the choice to behave ethically. No law or outside regulatory body can truly enforce ethical behavior. It has to come from the individuals sense that behaving ethically is good for society and good for business.

4.6 Things To Ponder

1. Write a paragraph on your ethical foundation. Where do you think it came from?
2. Research three ethical dilemmas like a whistleblower, turning in an alleged criminal or using poorly written contracts to swindle. How would you handle the three you researched? Why do you think the persons involved did what they did?
3. Recount three times where someone has broken your trust or did something unethical to you. How did you feel? What part of the behavior gave you the most problems?
4. Look up three companies you do business with. Do they have a corporate social responsibility policy?
5. List three business leaders you respect and admire. What are their ethics?

4.7 Exploring Further

- Wikipedia page on business ethics
- Milton Friedman's article on Social Responsibility of Business
- Center for Business Ethics at Bentley
- Ethics World
- The MBA Oath

5 Celebration Of Knowledge #1

Welcome to your first Celebration Of Knowledge (COK). I came across this term in of all places a motorcycle training class. The instructor had the same aversion to tests as I do. So, he created the Celebration Of Knowledge to celebrate that you know instead of what you don't. Each of the COKs has questions that are based on the previous posts since the last COK. The answers are included as well. Now, lets celebrate what you learned!

5.1 According to the Daily MBA, what is the definition of a business?

A To make as much money as possible

B To maximize shareholder wealth.

C An organization of one or more people providing goods or services for the benefit of customers and the community.

D An organization that produces goods and services for sale to customers.

5.2 What are the three statements that broadly define a business?

A Mission, Vision and Ethics

B Vision, Values and Community

C Ethics, Values and Business plan

D Mission, Vision and Values

5.3 In terms of taxes, what is the difference between a C-Corporation and an S-Corporation?

A C-Corporations are taxed separate from individuals.

B S-Coroporations are taxed separate from individuals.

C There is no difference.

D C-Corporations pass through profits and losses to their owners for tax purposes.

5.4 Which part of the IRS Code deals with non-profits?

A 505 (A)

B The non-profit business code

C 501 (C)

D 401 K

5.5 CSR stands for:

A Collect Samples and Receipts

B Corporate Social Responsibility

C Center for Social Responsibility

D Corporation for Scientific Research.

5.6 The main ethos of the MBA Oath is:

A Create value responsibly and ethically.

B Win at all costs.

C Create value for shareholders.

D Business is meant to build products and services to sell.

5.7 Answers

1 C

2 D

3 A

4 C

5 B

6 A

6 Topic #4: Marketing Basics

6.1 Talking Points

- A market is anyplace where goods and services can be exchanged
- The Marketing Mix (The 4 P's): Product, Price, Promotion and Place
- Find the customer pain and cure it profitability
- Marketing focuses on the needs of the customer while sales focuses on the needs of the company.
- Define the product by curing the customer pain then confirm the market really exists.
- Marketing is not an exact science. It's a mix of data, trends and gut.

6.2 Discussion

Elmer Wheeler has the probably the most famous sales line: **sell the sizzle not the steak**. If sales sells the sizzle then marketing figures out the cut. Marketing is all about customer needs not convincing them to buy it (well, maybe a little of that too). The traditional foundation of marketing centers around the 4 P's: **Product, Price, Promotion and Place.** These 4 components are essential to any marketing plan. There are others (See the Seth Godin reference below) but for our discussions, we will focus on these.

6.3 Product

Before you can sell anything, you to define and build something. The product or service is what you want to sell to customers. The features, functions, look and feel need to be well defined to meet your customers needs. Many a product has failed because it was ill defined. Getting the product or service right will require understanding:

1 **What do they do now?:** Understanding the present state will reveal gaps of opportunity. Ask questions about what the customer does now. Chances are, you will start to see what they can't see – places where a properly defined product can fit in.

2 **Who are their customers?:** If your gadget or service helps your customer service their customers, then get to know their customers. How do they use the existing product? What pain to they feel?

3 **Survey the entire ecosystem:** This includes looking at everything that might interact with your product. This can sometimes be tough but strive for completeness since there are hidden gems to be found.

6.4 Price

Price is a sticky wicket. Coming up with a price that is both profitable yet competitive is an art. Most pricing centers around two methods (there are others but these are good for now):

1 **Cost Plus Pricing:** Cost plus pricing is just that. You figure your cost and then add some percent margin on top. This type of pricing is usually done with well established, commodity products. Industry norms usually dictate the margin.

2 **Value:** Value pricing looks at the value to the customer. This value could be the worth of each feature or how much the customer saves by using your product. The trick here is to figure out what the customer values and how much it's worth to them.

Competitors also have a lot to do with price. Your product or services price must be competitive or the value so significant that your customers will pay the premium. Companies do "price themselves out of the market" by poor pricing practices.

6.5 Promotion

Now that you have a great product with stellar pricing, you now need to tell people about it. That's what promoting is all about. Traditionally, this meant big budget, multimedia (print, TV) promotion campaigns or roll outs. Now, the savvy marketeer targets her promotion to the exact people that will buy (more on that in Target Marketing). Promotion is all about leaving a positive impression on your customers that your product or service fills a need, cures their pain or satisfies a want. The marketing message can be "in your face" or subtle. Either way, it's all about leaving a positive (or negative competitor) impression.

6.6 Place

Place is the market where you sell your product. Properly defining the place takes more effort than you might think. Markets are composed of submarkets. Those submarkets break into still more sub-submarkets. This goes on until you segment down to the individual (which nowadays gets easier to do). We will deal more with place when we discuss Target Markets. Place also includes competitors. A couple of items to take a look at related to competitors include:

1 **Current Product Offerings:** Take a look at the present state of the market and figure out what is out there. Try and narrow down the features to their core. Then, expand from there.

2 **Competitor Roadmaps:** If you can get ahold of them, see where they are heade

3 Their roadmaps may be customer driven or maybe technology driven but it should signal the direction they think the market is going.

6.7 Start Where it Makes Sense. Iterate as Required

There is no logical order to applying the 4 P's. Their application depends on how you approach your product development. Some companies only focus on particular places, so place is clearly defined. Others might have technical expertise in a product category. Wherever you start, you need to understand them all (and then some). Iteration is part of the game. It will happen early and often even once the product is well under development. It's a constant so plan accordingly.

6.8 Things To Ponder

1 Choose a product that you recently bought. Write down the 4 P's for it.

2 Look around your life and define a pain you feel. What product or service would cure that pain? Write a paragraph description of the product or service.

3 Research the market size for your favorite product or service. How is it defined? What submarkets are also included? What's not included?

4 Find a product that was a complete flop. Why did it fail? Which of the 4 P's were lacking?

6.9 Exploring Further

- Copyblogger Marketing Basics
- The Daily MBA: Writing Effective Marketing Requirements
- Marketing Sherpa
- Marketing Profs

7 Topic #5: Target Marketing

7.1 Talking Points

- Target marketing deals with Place and how it's segmented
- Product definition is intertwined with place because of the customers needs
- Before you target, you need to know the Total Available Market (TAM)
- Primary research deals directly with customers while secondary relies on government and industry data
- Segmenting markets allows for focused products.
- Just because a target market exists, does not mean customers will buy anything.

7.2 Discussion

Now that we know the basics of marketing, it's time to focus on specific markets that your product or service will address. A target market is a specific market segment that your product or service addresses. It's your main customer base. Knowing their characteristics allows you to create targeted products that appeal to their unmet needs (or pain). Vital to this target market selection process is to define what you are creating.

7.3 Product Definition

A good definition of your product offering allows you to ensure that the target market you are focused on really has the need you want to satisfy. Many a marketeer has missed the mark by a poorly defined product attacking a target market where the customers did not care. Define your product in great detail so that you can see if it really fills a need. This is an iterative process, so you may refine your product definition as you interact with your target market.

7.4 Who Might Buy This?

Along with your product definition, you need to take a guess as to who may buy it. A rough guess is better than no guess and is required to at least narrow down a huge market. The refinement of your product and target market will come as you explore how your offering will satisfy the customers needs. This iterative process might even lead to killing the project because no one wants to buy your widget. At this stage, you might have a bunch of those dead ends until you hit upon a mix that works. Don't get frustrated. There are lots and lots of problems to solve and markets that are dying for their pain to be cured. Now that you roughly figured out who might buy your widget, the following steps will refine your target market:

7.5 Step 1: Determine The Total Available Market (TAM)

Defining a target market requires knowledge of the overall market. This broad view is a good way to check that your target market assumptions are correct. It also gives you some overall market trends that may not be obvious if you just look at the total market. For example, if you look at the total automobile market, it may be declining but the high fuel efficiency, eco-cars market may be growing, etc.

7.6 Step 2: Segment Into Pieces

Once the TAM has been defined, you can now work on how you will segment it. The classic segmentation follows the characteristics of the end customer. Categories to consider include:

- **Geographic:** Region (US, Asia), City or metro area, climate, density, etc. Any characteristics that defines a specific physical region. For example, the Northeastern US automobile market.

- **Demographic/Sociocultural:** Gender, age, income, education, ethnicity, religion, etc. This has to do with the characteristics of the customers that may purchase your product or services. For example, male working class retirees.

- **Psychographic:** Lifestyle or personality. This deals with how the customer lives. For example, retirees who migrate to Florida for the winter or maybe jet setters who travel by boat.

- **Behavioral:** Relates to usage, benefits, status, attitudes and buyer readiness. Sometimes this couples with the psychographic but generally, it has to deal with what the end customer perceives as the benefit to them directly. For example, self navigating boats or remote monitoring of a second home.

You may want to use additional criteria for segments as well. There are really no hard and fast rules on this other than you want them to be consistent and clearly defined. It is best to use the same segments that industry reports or census data uses. That way, you can compare your numbers.

7.7 Step 3: Focus On a Segment

Now that you have several segments defined, you need to focus on one. A narrow focus will allow you to better validate your product offering. Focus is the only way to make sure you consider the important features. Too broad a focus and you end up with a product that will not meet anyones needs. This does not mean you can't expand later but in order to expand, you need to start with a clearly defined base. As part of your segment focus, you need to define what success for that segment looks like. This could be sales, market share, initial customer feedback or whatever. Defining success for your segment allows you to monitor if you are making progress.

7.8 Step 4: Refine the Product Definition

As you segment, you will start to see opportunities for product refinement. That great feature you thought would be a killer might be a nice to have for your chosen segment. This happens all the time. Target market segmenting is tightly linked with product definition and the two iterate until things settle out.

7.9 Step 5: Position in the Target Market

At this point, you have a well defined product and market segment. Next is how you position that offering in the market. Position or approach is important aspect of how the market will become exposed to your whiz bang widget. When we talk about marketing strategies, we will get into more depth on this. For now, you need to think about how your entry will look. It's kind of like your pickup line. Will you be aggressive or subtle? Tell a joke or get introduced. Directly ask for her number or play hard to get. All of these apply to how you approach your target market.

7.10 Step 6: Launch, Measure and Refine

The only way to really know if you got the target market and product right is to launch it into the marketplace. This is the ultimate confirmation of your assumptions and research. Determining success depends on how well you defined your success metrics. Knowing what you expect and how well you are doing towards those goals will allow you to adjust your approach. This measure and refinement step will be a constant source of new ideas and features for better products.

7.11 Wrap Up

Target marketing is all about focus. This focus will allow you to craft better products and understand your end customers. It's a constant balancing act between narrow enough to get stuff done and broad enough to sustain a business. This is a constant struggle because expansion potential is always there. Expansion has to be carefully weighted against the defocusing that will naturally occur.

7.12 Things To Ponder

1 Figure out the Total Available Market (TAM) for a product or service. How many different sources did you use? How did they compare to each other?

2 Choose a product you own. Figure out how it was targeted. Look at things like: demographics, geographic, psychographic and behavioral factors that guided the offering.

3 Write a paragraph about a need you have. Who else has this need? What are the characteristics of the customers who have the same need? How would you solve the need?

4 Create three questions you would ask potential customers about the need and solution in #3.

5 Define several success metrics for a particular product you are working on or one you own. Have they hit them? Are they even on the right track?

7.13 Exploring Further

- NAICS
- US Census
- Market Research Firm Zapdata
- Seth Godin's Tribes
- Online survey sites: Zoomerang.com, Survey Monkey

8 Topic #6: Marketing Promotion Strategies

8.1 Talking Points

- The marketing mix (4 P's) is still valid today even if it's boring
- Build it and they will come does not work anymore
- Big budget promotions and fancy ads have morphed into viral marketing and micro-targeting – a profitable unit of one
- It's always been about the customer and always will be
- Creditability, being authentic and providing value is what it's all about

8.2 Discussion

The part of the marketing mix that has changed the most is promotion. Nowadays, promotion is radically different than 10-20 years ago. Traditional marketing promotions just don't work in the Internet age. Well, that's not entirely true. Just doing the traditional promotions won't work.

8.3 Traditional Promotion

Back in the old days (like 1950-2000), we were basically told what to buy. We believed the ads on TV and in general, were happy to "keep up with the Jones". Back then, a catchy ad rather than a superior product, sold. Look at GM, Ford or any of the P&G brands. The stuff sold itself as long as the TV, radio and print ads were good enough for the consumer to remember. It was the heyday of advertising. Advertising agencies printed money. Their clients printed money. Everyone was happy.

8.4 What Changed?

Customers started to become picky. Advocates for consumer safety and truth in advertising started to get attention. It was no longer OK to stretch the true or lie. The old cigarette commercials were classic in that they showed rugged individuals doing manly things when they were literally killing themselves. Investigative journalism also starting to show companies and products in a more truthful light. The Ford Pinto's exploding on impact or Enron's manipulation of the electricity market all challenged the believe that a company could schlock any old product or outright cheat and lie. Now enter the web. Anyone with a website or blog can now review and comment on anything. This has caused a real information explosion that companies can't ignore. Reviews, where they make their products, what they do with waste are all center stage and easily searchable on the Internet. This creates both good and bad buzz that can make or break a company. The amount of noise to signal on the Internet is astronomical. Trying to get noticed or even be heard can be a real challenge but once a story goes vial, it spreads like mad.

8.5 Tradition Has It's Place

There is a place for the traditional promotion framework. You just can't rely on it as your sole method nor can you afford the huge price tags unless it's a big product launch and you nailed the product definition. Building a brand is probably the only place that traditional advertising still plays an important role. Brands nowadays seem so specialized that you really need to think twice about the expense.

8.6 Next Generation Promotion

Traditional promotion is a dead end for the vast majority of businesses. That's not to say that some traditional promotion or media is a waste of time. It just means that the casting a wide net via big budget ads and campaigns no longer have a high return on investment. What's important nowadays is your "new media", "social media", "Web 2.0" or whatever you want to call it plan. This really has to do with creating a following for your product or service by engaging your customer base in authentic ways. Basically, you have to put yourself out on display, warts and all. Seth Godin has a great name for this effort – building your tribe.

8.7 Tribesman, Followers or Fans

Tribesman are like minded people who congregate together for a common purpose. When they come together, they form a tribe. The purpose could be anything. Important to building your tribe is authentic, honest dialog. With the web, any fact can be checked instantly, rumors can start just as fast and no one is safe from Google. You don't sell too directly. It's almost like you just happen to have something that might be interesting and hey, you should take a look. Another aspect of new media is that there is a lot (and I mean a lot) of noise out there. Getting your message across is harder and harder. Just finding relevant information is no easy task. Building your tribe thus takes a targeted effort that amplifies your message while filtering out all the noise. Think of yourself as a band. How do you get fans for your band? What is going to make your fans remain loyal and want to listen to your "music"? Now, let's take a look at a few strategies that can build your fan base.

1 **Web Site:** This is a must have for any business. It should be informational, functional and easy to navigate. Your website is your on-line store front. Make it consistent with your product offerings and easy for customers to contact you.

2 **Blog:** Your business probably reflects your expertise. A blog is a great way to build your creditability as an expert by educating your customers. Blogs should have the same branding as your website in terms of visual effects. It gets really confusing if they have different logos or color schemes or whatever.

3 **E-mail Lists:** Collect email addresses from your customers and use it to send them useful stuff. Don't always do the heavy sales job or constantly nag them about the latest and greatest product offering. Add some interesting content that establishes you as the go to source for information.

4 **Free eBooks or reports:** Better than an email blast is an email blast with a free report. These are great ways to establish your expertise in your are

5 Make the reports information, relevant and useful. Again, avoid the overselling but do add any enhancements that can be purchased.

6 **Social Media Presence:** Be it Facebook, MySpace, Twitter, Friend Feed or whatever, you need to have a presence. These venues are great ways to augment your website and blog by providing another conduit for information to flow.

7 **Active Community Member:** If you are a professional, then you have a community. Be active in both the online and offline community builds your bran

8 Providing advice and helpful hints to your fellow professionals (and customers) shows that you care about making your profession better. Get involved with local charities by volunteering your expertise. Look into Open Source efforts or release some of your code or materials open source.

9 **Review sites:** Sites like Yelp can make or break a restaurant (or other service business). Know which sites review your industry and make sure that the reviews are accurate. You will get bad reviews but if you manage them appropriately, those bad reviews can be an opportunity to learn and grow your customer base.

None of these strategies can be deployed in isolation. They all need to happen and be coordinated so the message is unified. You have to seek your fans out. Engage them in all sorts of ways. Leave no stone unturned. Leave no new media idle.

8.8 Things To Ponder

1 Think about the last product you bought. How did you find out about it? What sources did you consult?

2 List three promotions that resonated with you. List three that made you cringe. What was it about the three you liked? What about the three you hated? Write a sentence or two about your gut reactions to each one.

3 List your favorite website, blog, book, podcast and TV show. How did you find out about your choices? How many different ways do they engage you as a fan? List the media and promotions each one does. Write a sentence on why they are effective/ineffective.

4 Find an old, established brand (one more than 50 years old). Why is it still around? Does their promotion strategy work on you? What would you change about how they promote their product. Write a paragraph on each question.

8.9 Exploring Further

- Traditional Marketing
- New Media, New Marketing Strategies
- Seth Godin's blog
- Best Biz Practices: Web 2.0 series
- Copyblogger: 5 Social Media Lessons
- Men With Pens: Community Contributions
- Best Biz Practices: Web 2.0 Online Press Releases
- Examples of Business Success using Twitter
- Building your on-line brand
- Copyblogger: Internet Marketing

9 Topic #7: The Basics of Economics

9.1 Talking Points

- Microeconomics deals with how households and firms use limited resources to effect the supply and demand of goods and services.
- Macroeconomics is the sum of total economic activity of a region (like the US) that takes into account growth, inflation, government regulations, etc.
- Analysis of supply and demand curves drive microeconomics
- The policies of governments (both local and world wide), along with consumer and corporate consumption all tie into macroeconomic analysis.
- Understanding both micro and macro trends allows you to better plan your business.
- All businesses have cycles. Learn yours and plan for the peaks and valleys

9.2 Discussion

To start, we will focus on microeconomics and the main theory behind it – supply and demand. Supply is the amount of goods for sale while demand is the requested amount of such goods. Both values form curves with quantity on the X-axis and price on the Y-axis. They are typically drawn together to form a supply and demand curve (see this article for an example curve). These two curves describe the quantity and price dynamics that supply and demand have on the product or service. When they are in equilibrium (i.e. the supply and demand stay constant over a period of time) then the resulting price obtained is the market clearing price. Now, it might seem like an impossible feat but this condition happens all the time. That is how transactions get done and the premise behind efficient markets (since the market knows what price will create equilibrium and wants to achieve it).

9.3 What Effects Supply and Demand?

Lots of things but mostly, the wants and needs of consumers and businesses. These needs drive more (or less) production which effects prices. These effects are captured, per market, in elasticities of supply and demand. Elasticity of demand is the decrease in quantity desired given a small percentage increase in price. Elasticity of supply is similar. It's the measure of the change in supplied goods given a small increase in price. What happens is these two elasticities push and pull against each other, fighting for equilibrium. When that happens, everyone is happy and transactions occur. That's why it's important to understand these elasticity numbers for your particular market since that will drive how much you supply. Lets look at some market examples of supply and demand in action.

- **Baseball Cards:** We all wish we kept those childhood baseball cards because now, they are rare and in demand. Any kind of limited run or memento, if it has any following, will usually appreciate in price as time goes on (since they become rarer and rarer).
- **Sport Utility Vehicles(SUVs):** SUVs were in huge demand when gas was cheap. When oil (and therefore gas) started to hit $4.00 a gallon, demand went away and most suppliers had an over supply. This crashed the price to clear out the inventory.

- **Oil:** This one is the classic in terms of supply controls since OPEC sets production levels (which in the US would be considered racketeering or collusion. Basically, illegal). We can all relate to the seemly random gas prices that seem to always increase in summer and decrease during the winter.

- **Home Sales:** Real estate markets are fickle and highly effected by the location, location and location. Again, classic supply and demand in terms of demand to live in a nice area and the limited supply of housing (e.g. only so much land). The converse is true in undesirable areas. Not a lot of demand, so prices are low and the supply is not as constrained. Local zoning laws also constrain supply, which in term can effect prices.

9.4 Economic Indicators

Now, lets look at Macroeconomics. Macroeconomics relies a lot on economic indicators. These indicators, be it official government or based on popular culture, drive the outlook for what the overall economy will do next month or next year. It's important to be aware of the overall health of the economy and how your business is effected by it. All business is effected by the overall economy, so being "recession" proof sounds like a great idea but in reality, not many businesses can claim that. So, let's take a look at some US economic indicators to see how they may predict the economic conditions for your business.

1 **Gross Domestic Product (GDP):** the output of goods and services produced by labor and property located in the United States. Basically, everything the US makes.

2 **New Residential Construction:** this includes permits, starts and completion of new construction projects.

3 **New Residential Sales:** the sales of those completed homes. This drives interest rates and additional new construction.

4 **Interest Rates:** like the Prime Rate, Federal Funds Target Rate, 15/30-year Fixed Mortgage and US Savings bonds. These rates are critical to the availability of capital for consumers and businesses.

5 **International Trade (Imports & Exports):** Imports (what we bring in) and exports (what we send out) is a key indicator of business activity. The difference between them, is our trade deficit (or surplus).

6 **Rate of Inflation:**the rate at which the cost of widely available goods and services increases in the marketplace. Usually, it's calculated monthly and yearly. Inflation is an important indicator because it shows how fast costs are increasing, which relates to consumer buying power (e.g. the same basket of goods costs more than it did the previous time).

7 **National Budget Deficit:** is the amount of money that needs to be borrowed to sustain government spending. The inverse would be a surplus. The deficit is funded by government bonds (i.e. print more money) that require interest payments to investors. A big deficit restricts the amount of credit that other countries might be willing to give.

8 **Unemployment Rate:** is the percentage of the labor force that is unemployed. This can be seasonally adjusted and has a lot to do with how the total employable people are counted. Since unemployed people don't earn any money (and can be on assistance), a high value tends to show signs of a weak economy.

There are many more indicators but these are the ones that most newspapers write about. And for good reason. GDP is driven by consumers since US consumer spending is 70% of GDP. Residential construction and sales drive homeownership as well as home value, which ties into consumer spending. Interest rates and the availability of credit is the lubrication that keeps the economic gears turning. Without access to capital (both private and commercial), spending grinds to a halt.

9.5 The Business Cycle

Now that we have discussed both micro and macro economics, it's time to put them together and see how the mixture of the two effects your business cycle. All businesses have a cycle. Figuring yours out requires asking a few simple questions, which include:

1 **Do the yearly seasons effect my product or sales?** This is a seasonal business cycle (like Halloween or Christmas) or maybe your grow a crop and harvest it at certain times.

2 **Does raw material production or price influence your production?** If a sudden change in the price of oil or the availability of rubber makes your business adjust it's output, then those events will influence your business cycle.

3 **Do government regulations impact your operations?** This could be as simple as when crab season opens or the bidding cycle for a government contract or preparing tax returns. Governments do effect all businesses but some have more dependency than others.

Predicting how the overall economy will effect your business is more art than science. Part of the problem is predicting the future based on the data available today. The economy is a complex, non-linear system that defies even the smartest economists. This does not mean it's not worth pursing some type of predicting. The way you should think about forecasting is what could effect your business and what do I need to do about it. These contingency plans are critical to smoothing out your business cycle.

9.6 Things To Ponder

1 Look up the latest economic indicators for your country. Compare them to a year ago. How does it compare? Write a paragraph on how the latest indicators will effect your business.

2 Research a product that is in high demand. How does the price fluctuate as the supply is increased? What effects the supply of this high demand product?

3 Find the unemployment rate in your city. How does it differ from the rest of your country or state? How does that effect your local economy?

4 They say that a butterfly flapping its wings in Brazil could cause a hurricane in Florida. Try and prove this with a product or service that has recently slumped or taken off. How many degrees can you get to? How far away, both geographically and intellectually, is the farthest degree?

5 Find a well know business cycle. What does it look like? What effects it?

9.7 Exploring Further

- R. Preston McAfee's open source book
- Wikipedia article on Microeconomics

- Supply and Demand presentation
- What is Macroeconomics?
- The Conference Board Economic Indicators Site
- The US Governments Economic Indicators Site
- Odd Economic Indicators story
- Article on Business Cycles.

10 Celebration of Knowledge #2

Welcome to COK #2. I hope your last celebration was enjoyable. Remember, it's about what you know not what you don't. So relax. Only you know how many you got right!

10.1 What are the 4 P's of Marketing?

A Product, Planet, Promotion and Purpose

B Product, Price, Promotion and Place

C Price, Probability, Prom and Planet

D Place, Promotion, Purpose and Production

10.2 As a marketeer, what is your main job?

A Entertain customers by taking them to dinner.

B Send out press releases

C Cure the customers pain profitability

D Develop products and services

10.3 What does TAM stand for?

A Total Available Market

B Templates As Models

C Target Acquisition Model

D Total Applicable Marketplace

10.4 Which of the following can be used to segment a market?

A Geographic

B Demographic

C Behavioral

D All of the Above

10.5 When deploying a marketing strategy, it is best to?

A Focus on one and only one method.

B Spend lots of money on traditional media

C Use multiple strategies that make sense for your business

D Hire the guys from Mad Men to create your ads

10.6 When creating your social media platform, it's best to be?

A Phony

B Authentic

C Closed off and inaccessible

D Trying to close the sale always

10.7 Microeconomics is the study of

A small, ant like creatures that live in the Amazon.

B the sum of total economic activity of a region

C the effect the FED has on interest rates.

D how households and firms use limited resources to effect the supply and demand of goods and services.

10.8 Which one of the following is a macroeconomic indicator?

A The number of albums Green Day put out last year.

B International trade

C The price of real estate in San Francisco.

D None of the Above.

10.9 Answers

1 B

2 C

3 A

4 D

5 C

6 B

7 D

8 B

11 Topic #8: Accounting Basics

11.1 Talking Points

- The process of identifying, measuring and communicating economic activities of both profit and non-profit organizations.
- The accounting equation: **Assets (A) = Liabilities (L) + Stockholders' Equity (SE)** and **Debits = Credits** must always be true
- Generally Accepted Accounting Principles (GAAP) is used to prepare public accounting information.
- The main financial statements are: Income (or P&L), Retained Earnings, Cash Flows and Balance Sheet
- The Chart of Accounts is how financial transactions are categorized. All transactions have a double entry or two sided effect.
- Assets depreciate according to a schedule which decreases their value over time. That time is dependent on the asset
- Some important company metrics include: Net Sales, Cost of Good Sold (COGS), Gross Margin, Net Income and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

11.2 Discussion

Accounting is one of those disciplines that takes some getting used to. It just feels foreign. I blame the acronyms. GAAP, P&L, GM or EBITD. It's all alphabet soup to most of us. Well, grab a big spoon and dive in since it's important to understand some of this stuff. We all deal with money and understand what we pay taxes, that we have stuff (assets) and our checking account is mostly balanced (wait, I should double check that). If you invest, then you have surely looked at a financial statement or two and probably wondered, what does it all mean? Well, it means a lot. In fact, accounting is the only consistent language that all businesses understand. You can go anywhere in the world and they will all have financial statements. It's really the language of business.

11.3 Show Me The Money

Accounting is all about reporting how the money was spent and earned. The key here is past tense. Accounting tells you what happened. They have really complicated rules and procedures but it all boils down to show me where the money came from and what we spent it on. Simple. Well, maybe. You see, most companies kind of, sort of, well, make their own accounting rules that they refer to as pro forma. Pro forma accounting reports can be misleading since it's really up to the company to define it (well, within reason). That's why it's critical to understand what a pro forma financial statement is really saying. Typically, pro forma earns are greater than GAAP, which makes some critics charge that you really can't compare different companies based on pro forma earnings. For our discussions, we will deal with GAAP definitions since that is consistent across companies.

11.4 Debits and Credits

The equations of accounting are meant to always be in balance. This balance is the cross check that maintains the integrity of the accounting process (or your "books", since that is how they kept records back in the day). The double entry method of accounting ensures that each transaction is recorded in two separate ledgers. This means that one ledger will have a debit for the transaction while the other will have a credit. The rules for what is a debit and credit are complex and vary depending on the ledger they go in. As with anything, there are some nuances that complicate matters. The general rules are summarized below (adopted from Double Entry Accounting Article below):

- **Assets** Increase Debit, Decrease Credit. Assets are anything your company owns of value (including cash)
- **Expenses** Increase Debit, Decrease Credit. Expenses are monies spent or costs incurred to generate revenue
- **Liabilities** Increase Credit, Decrease Debit. Liabilities are any monies owed to people or companies other than owners.
- **Equity** Increase Credit, Decrease Debit. Equity is any amount of money (debt) owed to the owners of the company
- **Revenue** Increase Credit, Decrease Debit. Revenue is the amount of money you receive from selling goods and services.

The thing to remember about double entry is that it strives for balance always. If you use accounting software (like Quickbooks), then you probably won't even notice this since most of your transactions will be revenue and expense ones.

11.5 Keeping In Balance

The basic accounting equation, **Assets (A) = Liability (L) + Stockholders' Equity (SE)** is meant to always keep your books in balance. Achieving balance requires that a change in one account must be matched with a change in another account. This is heart of the double entry method. Any deviation from balance, means that an accounting error has occurred. The theory behind the equation is that someone must provide assets or resources so that the company can operate. If that holds true, then the Assets of the company have to equal the equity provided. Liabilities comes in when non-company owners (say a vendor), supplies credit to the company. This is a liability since the company providing credit wants it's money back.

11.6 Financial Statements

All of these transaction create a lot of data. Understanding what it all means requires summaries and reports. In accounting, there are four basic reports that allow management to determine the health of the company. All are linked together in some way to provide checks to ensure the books are in balance. The statements are:

- **Income Statement:** Often referred to as a Profit and Loss statement or P&L. This statement shows the profitability of the company over a specific period of time. It includes the Revenue (Top Line) and Expenses during the period of interest. The result is the Net Income (Bottom Line) for the period.
- **Statement of Retained Earnings:** Connects the Income Statement to the Balance Sheet by explaining the changes in retained earnings between two balance sheet dates. These changes are the increase (or decrease) in net income from the previous balance sheet date. Also, this is where

any dividends are placed since dividends are not expenses so they will not show up on the Income Statement.

- **Balance Sheet:** It's also called the Statement of Financial Position. This statement lists the Assets, Liabilities and Stockholders' Equity for a specific moment in time. It's a snapshot in time of the companies financial position. It ties the statements together to see if the books are in balance.
- **Cash Flow Statement:** Cash flow is an important metric. It is the real inflows and outflows of cash into the company. This statement shows where all those inflows and outflows went. It's different than the other statements in that those statements take into account deprecated assets, credit and liabilities not yet paid. All of those don't effect the cash in the bank. It's important to monitor cash flows because that determines your ability to operate the company.

11.7 Why Free Cash Flow Is King

Out of all the financial statements, figuring out your cash position is the most important. Knowing this allows you to operate your company. Having a shortage of cash will hamper your operations. Having a handle on the cash flow and what your burn rate of cash is, allows you to plan for times when cash might be tight. We will discuss how to determine your burn rate and budgets in the next post on Budgets and Financial Models.

11.8 It's Not Just Counting Paperclips

Accounting is vital to any business. Knowing a little bit about what your accountant does will allow you to ask the right questions and understand the answers. Accounting is the language of business. Any business, anywhere in the world, understands accounting. This post is just a brief glimpse into a field that makes it possible for business to exist.

11.9 Things To Ponder

1 Look up the financial statements for your favorite public company. How do they report earnings? What does it say in the fine print?

2 For that same company, what methods do they use to depreciate an asset(s)? What is the book value of their assets?

3 Analyze your own finances. What are your assets? What about your Profit and Loss per month? Do you have liabilities?

4 Ask your company accountant to show you the companies chart of accounts. What are the various types of accounts he deals with? Where does your groups expenses get entered?

5 Pick a company and compare the pro forma earnings to GAAP earnings. Why are they different? Hunt down the footnotes that explain how the pro forma was calculated.

11.10 Exploring Further

- American Accounting Association web site
- Financial Accounting Standards Board: FASB
- What is GAAP? article

- American Institute of Certified Public Accountants AICPA
- Double Entry Accounting article
- What are Assets, Liabilities, and Owners' Equity article

12 Topic #9: Financing

12.1 Talking Points

- Cater the financing to the type of company you have
- Venture Capitalists want billion dollar markets, hockey stick revenue growth with 10 x returns in 3-5 years.
- Strategic partners tend to want products out of the deal not necessary a financial return
- Bank loans work well if you have an established business with cash flow
- Most small businesses are financed by friends and family and need less than $50,000 to get going

12.2 Discussion

If there is one thing that gives every entrepreneur heartburn, it's financing. For some reason, getting money is one of the hardest things most entrepreneur's face. A lot of difficulty comes from the inherent value of money. It's easy to value since everyone pretty much agrees on what's it worth. When it comes to your business, that is a little more subjective. The risk is a lot higher since there are so many unknowns (including you). Don't let this discourage you. There is money out there. You just need to figure out how to get it. Part of figuring that out is going to the right place for financing.

12.3 Type of Business You Have

Financing depends a lot on the type of business you have. A traditional small business that is quick to revenue (like 1-3 months) is far different than a startup that will take 1-3 years to even make a product. By no means are there hard and fast rules on where to go for money but there are some rules of thumb. For this post, I will break companies into two categories: **Quick to Revenue** and **Capital Intensive.**

12.4 Quick To Revenue

There are your businesses that do products or services that are in demand now and can start selling from almost day one. Things like restaurant, cafe, consulting firm or boutique. Quick to Revenue companies are typically lifestyle companies. What that means is that the "exit" or gain on capital invested takes a long time. This is why most of these business don't typically get big investors (like Venture Capitalists).

12.5 Capital Intensive

These are your longer term projects or developments that take a lot (like over 5 million) of capital to make happen. They are also characterized by longer development times (thus the need for large amounts of capital). These types of companies are your Silicon Valley Startup working on breakthrough technology, construction projects (like office buildings) or leverage buyouts.

12.6 How Much Do You Need?

A big part of where to find financing revolves around how much you need. The average small business (typically the Quick to Revenue types) requires under $50,000 in funding to get going. This means that the places where these business would go for funding is limited to banks, friends and family, personal savings and business partners. The vast majority of businesses get funding by those four methods.

12.7 The Couple 100k Rule of Thumb

In general, if you need a couple of 100k to get going, your best bet (in order) is:

1 **Personal Savings:** Most small business founders put their own money in to "bootstrap" themselves. This is the most common way to finance a small businesses. It's risky since you can be fooled into thinking your idea is wonderful when it's a dude.

2 **Friends And Family:** The nice thing about friends and family money is that the biggest hurdle, trusting you with money, is easily overcome. The bad thing is that they may tell you how you should run your business. The terms of friends and family money should be defined (more later) and clear roles establishe

3

4 **Business Partners:** Pooling your money and talent does help reduce the risk of your new business. Like friends and family, the roles and responsibilities of each partner needs to be defined. More businesses have imploded due to partnership issues because the partners were not aligned on who does what and who contributed what.

5 **Micro-lenders:** Are similar to banks but usually give out smaller loans (under $50k), to risker clients and have higher rates (due to the risk). There are also groups that lend to individuals (like Prosper. See link below).

6 **Banks:** Tend to be conservative in their lending practices and want some sort of collateral that secures the loan. Banks are a good choice for established business or entrepreneurs with excellent credit.

If you notice, the list above does not include investors. Most investors don't like to bother with small amounts of investment. The reason being that they have to keep track of it and want to place larger amounts of money to get bigger returns.

12.8 The Rest Rule of Thumb

If you don't need a couple 100k, then you probably have a project that will require either a more savvy investor. These investors include:

1 **Angel Investors:** These are high net worth people who find it thrilling to invest in new technologies and companies. They usually made their money via a startup exit.

2 **Strategic Partners:** These are typically profitable companies that want to buy your product or service. They are typically in the investment for products and services. The investment exit is usually secondary for them. If you have investors that want an exit, then a strategics product focus will be in conflict with that.

3 **Venture Capitalists:** They are all about the exit. The whole point of Venture Capital is to make a return on the invested money. These guys will always look for the exit and this may be in conflict with your development plans.

12.9 Use of Funds or Milestones

All investors will want to know what you will do with the requested funds. It's best to set measurable milestones that will cost a certain amount of funds to achieve. This is important for a couple of reasons. The first is that you should know what you want the money for. Your financial models and budgets are where you will get this data from. The second is this gives the investor a gauge of your ability to manage the money you are given. They can also benchmark your plan against other ones they have funded to see how you measure up. Being overly aggressive or conservative will send up the red flags. To prevent this, run some scenarios where you assume everything goes perfect and when the goes wrong. That way, you can discuss your requested financing intelligently.

12.10 Types of Funding

Once you have all sorted out your funding needs, you now need to determine the type of financing to go after. There are basically two different types:

1 **Debt:** This is basically a loan. You agree to pay some monthly payment (including interest) for some duration of time until the debt is paid off. Debt is usually secured by something (like a house, land, equipment or whatever). Debt can be the way to go if you have cash flow and don't want to give up some ownership of the company.

2 **Equity:** This is basically selling shares of your company to someone else. Equity financing is the preferred method for companies that are in the product development stages (e.g. Capital Intensive). When you finance with equity, you give up some control but don't have to make payments to your debtor. The equity investor is looking to get a return by the company having a liquidity event (e.g. going public or being bought). VC's always take equity.

12.11 Pulling It All Together

Fund raising can be frustrating. To make it less frustrating, have your story straight and approach the proper funding sources. Nothing will waste your time more than talking to uninterested investors. Do your homework and get some idea about the typical deals other companies like yours got. These compatibles will give you a great sanity check as to whether or not your funding requirements are reasonable.

12.12 Things To Ponder

1 Determine the type of funding your current business idea needs. List the possible sources of funding and figure out what their criteria is.

2 Pick a startup that recently got funded. Research who funded them (check out The Money Tree Report below). What types of firms put money in at each round? Is there a trend that emerges?

3 Interview one of your local business owners. Ask them how they started their business and how they financed it. What were the barriers to financing and how did they over come them?

4 If you are in business, talk to your bank to see what they offer in terms of loans. Do they offer lines of credit? What is required to secure one?

12.13 Exploring Further

- Check out The Funded
- Business.com
- SBA Loan Checklist
- Prosper connects people who want to loan money with people who need it.
- The Daily MBA Sources of Money
- The Money Tree Report site
- Business Week has an excellent post on bootstrapping your startup.

13 Topic #10: Financial Models

13.1 Talking Points

- Models are only as good as their inputs – garbage in, garbage out
- Knowing your monthly burn rate allows for better cash flow management
- Start simple. Add complexity when the fundamentals are understood.
- Iterate as required – models should never be static but always baselined
- It's fine to make guesses. Just make sure to capture as much detail as you can

13.2 Discussion

Models are a great way to simulate scenarios. When planning a business, there are lots of "what if's" that need to be considered. Modeling these "what if's" with reproducible, systematic models makes justifying your projections easier. This is also true with an established business. Having a solid model allows you to figure out how to grow and keep ahead of your competition. The nice thing about modeling an established business is that you have historical data. This data is invaluable to confirm your model.

13.3 Budget Models

Budgets are always a sore subject. The typical corporate budget cycle is more political maneuvering than the useful exercise it should be. Budgets for a small business or startup make or break the business because there is no place to hide when you have to get paid. No matter if it's corporate or a small business, the fundamental budgeting process is the same. To get started, all you need is a spreadsheet and some patience (see the Financial Models: Cash Budgets post below for a sample budget spreadsheet).

13.4 Sales Models

Critical to your business will be your sales model. This, along with the budget, will determine how much money you will need and when you will start to become profitable. Sales models are challenging for a new business since you really have no history to look at. Thankfully, the government does have some useful statistics for established businesses. The North American Industry Classification System (NAICS) is a database of business statistics. This is a good place to start when building your model, especially for small businesses. The most important consideration when modeling your sales is to select clearly defined and measurable metrics other than sales numbers. This step allows you to model your sales pipeline to ensure that your activities are resulting in sales. Some common pre-sales metrics include: Customer visits, formal quotes, purchase orders or contract renewal. Paying attention to these early indicators will make your model a lot better(see the Sales Model post below for a sample sales model spreadsheet).

13.5 Manufacturing Models

Cost of Goods Sold (COGS) is an important part of your business. Incorrectly estimating manufacturing costs and you can severely restrict your cash flow. Modeling manufacturing costs is similar to doing a budget except that you break down each manufacturing step into discreet steps. These steps will then have a yield (number of good parts) associated with that step. The accumulation of the costs, at each step, then forms your total COGS. If you don't manufacture anything, then you may need to modify yield to spoilage or whatever. Accurate COGS will allow you to determine if you can improve your margins and what to expect over time. Traditionally, as time goes one and volume goes up, COGS go down. Making an estimate of these variables will set the overall cost improvement goals for your company.

13.6 Company Valuation Models

Company evaluations can be a black art. There are several factors that can contribute to what a company is really worth. Modeling this requires having a firm grasp of your present and future sales as well as what other similar companies might be worth. These other companies are called "comps" or compatibles. Researching these comps can sometimes prove problematic, if the companies are private. For private companies that are venture funded, you can usually dig up a press release that says how much was invested in which round. Armed with that data, you can then make some estimates. Once you have done some research, then you need to run some models. Some of the most common are:

1 **1x Revenue:** The classic company evaluation if it's a traditional "brick and mortar" type small business. Usually, you use this one for established businesses with not a lot of growth. Industry norms typically set the multiple. You do see higher and lower multiples of 1x revenue but it all depends on the business and growth rates.

2 **Investment In:** As a baseline, a company is usually worth the money put in. Now, this depends a lot on the market dynamics at the time and what the company has in terms of IP. In general, this should be the base of your value. In particularly bad markets, your valuation could fluctuate wildly and may drop below investment in.

3 **Market Share (and Growth):** If your company has a dominate position in a particular market, then your market share is a good indicator of what the company is worth. If the market is growing, then that growth rate can be used to determine your future earnings.

4 **Comparable Company Exit:** Looking at recent company exists (either going public or being bought) is a good way to gauge the worth of your company. Ideally, the company is in your industry, doing your exact business. The farther afield, the harder the argument is for the comparison.

5 **Internal Rate of Return (IIR):** Is the percent growth of an investment over a predetermine period of time. IIR takes into account investment and cash flows from the project. Venture Capitalists (VCs) like to use this model because it takes into account the investments over time and the exit at the end. The percent they like to see is what would give them 10x in 3-5 years. The IIR to do that is north of 75%.

6 **10x Investment In:** When a VC looks at a company, they have a specific model in mind for how much the company needs to be worth. This means that your exit in 3-5 years needs to be 10x the investment in. As you look at your sales model, keep this in mind. If your company cannot achieve this then investment via VC will be almost impossible.

In reality, the value of your company is really what someone is willing to pay. In that respect, company evaluations can be subjective. It's still a good idea to have a good estimate of what your company might be worth. You never know when someone might want to buy it or when you might need to go raise money.

13.7 The Preverbal Garbage In, Garbage Out

Models are only as good as their inputs. Bad data or poorly constructed models will just give you rotten results. When modeling, it's always a good idea to see if different models give you the same (or roughly the same) answers. This double check will make your model a lot better and more believable. The common way to do this is a bottoms up, followed by tops down analysis. Bottoms up analysis builds the model from directly known data (like your sales numbers or manufacturing costs). It then builds the desired result. A tops down model takes the broad data (like total market, market share or economic growth) and builds the model moving down toward the details (like required monthly sales and COGS). Good models then mix both to cross check assumptions.

13.8 Things To Ponder

1 List your household expenses per month (your burn rate). What is your biggest expense? How about your least? If you wanted to reduce your burn rate by 10%, what would you do? List your income. Do you increase or dec

2 If you have a business or plan on starting one, do the same as 1. How does it compare to your household expenses?

3 Take your favorite company. Do a simple model for their sales by making assumptions about their business. Now, check their sales. How far off are you from what they really do? What do you think you should change in your model to make it more accurate.

4 Break down a manufacturing process into sub-processes. Assign a cost and yield to each. What is the overall cost compared to actual? Why do you think it's different?

5 Evaluate a company by researching similar companies. Look at public companies and similar companies that got bought. What range of values did you find?

13.9 Exploring Further

- Foundation Center Budgeting Online Course
- Money-zine House Hold Budgets post
- Financial Modeling Guide website
- The Daily MBA Financial Model Cash Budgets post
- The Daily MBA Sales Modeling post
- The Money Tree Report site
- North American Industry Classification System (NAICS) lookup site
- NYU's Company Valuations page

14 Celebration Of Knowledge #3

Greetings from COK #3. These last three posts were challenging stuff. So, don't worry if it has not all sunk in. These concepts take some getting used to so relax and lets see what you know.

14.1 Which one of the following equations relates to accounting?

A E = M*Cˆ2

B F = M*A

C A = L + SE

D V = I*R

14.2 Which of the following is NOT a main financial statement?

A Income

B Balance Sheet

C Cash Flows

D Profit & Liquidity

14.3 COGS stands for

A Cost of Goods Sold

B Cost of Goods Shipped

C Cost of Gross Services

D Comparison of Goods Shipped

14.4 What is an IRR?

A The fancy gadget on your VCR

B The percent growth of an investment over a predetermine period of time.

C Internal rate at which everyone gets paid

D None of the Above

14.5 In general, what do Venture Capitalist look for in an investment?

A State of the art products

B A 10x return in 3-5 years

C A big patent portfolio

D Working with cool people.

14.6 What's the difference between Debt and Equity Financing

A With debt, you give up a percentage of your company. With Equity, it's a loan.

B Equity is only for public companies while debt is for private.

C Debt is a lone that you pay back monthly. Equity gets money by selling shares (or ownership %) in your company.

D Equity allows you to completely control the company while debt, you give up control

14.7 Answers

1 C

2 D

3 A

4 B

5 B

6 C

15 Topic #11: The Sales Role

15.1 Talking Points

- Sales is the advocate for the company. Their job is to sell the companies products not necessarily define them.
- Relationships are at the heart of a salespersons success
- Honest, straightforward value is the best way to sell to customers
- Make your gadget easy to sell or it won't
- Incentives for sales needs to be comprehensive and fair

15.2 Discussion

Frequently, sales and marketing get confused. This confusion stems from the seemly same job both do. This is incorrect. Sales is the advocate for the company while marketing is the advocate for the customer. Nowadays, this line get blurry because of the hyper connectivity that the Internet brings us. No matter how blurry, the roles are different and understanding sales is essential to a properly functioning company.

15.3 The Sales Process

Like most things, sales follows a process that takes customers on a journey to the, hopefully, eventual sell. This journey can be short and sweet or long and arduous. It all depends on what you sell. One constant throughout the process is the relationship between the client and the salesperson. This relationship is the crux of the whole deal. The client has to trust the salesperson while the salesperson has to put his companies product in the best possible light. The way this usually goes is as follows:

1 **Lead Generation:** There are a lot of customers out there and finding the right ones can be a challenge. Lead generation is the first step in culling through the long list of potential customers to narrow it down to prospects.

2 **Qualification:** Once you have a bunch of leads, you need to qualify them. This means applying some criteria that makes it worth your time to talk to them. This usually revolves around how much potential business they have or their willingness to buy.

3 **Develop Value Proposition:** Each customer is unique and will have certain criteria they use to evaluate your product or service. Crafting a value proposition for them will ensure they understand your products benefits.

4 **Pitch:** Be it formal or informal, the pitch is where you explain the value proposition to your customer and get feedback. This is where the debate about the real value begins.

5 **Negotiate:** Once the pitch is done and you have gaged some interested, it's time to negotiate to see if you can reach a deal. There may be many rounds of negotiations. The trick is to know when your prospect is close to agreement by doing the next step.

6 **Ask For the Sale:** Too often, this step is ignored or done poorly. Asking for the sale can be as direct as literally doing it or subtly saying we answered all the questions and resolved all the issues, now what do you want to do. However you do it, you should do it. This is the only real way to move out of the negotiation phase.

7 **After Sales Support:** Once you get the sale, it's vital to followup and support the sale. Too often, sales people think that once you closed the deal, it's off to the next thing. Not true. The after sales support is just as important since it sets the stage for your next sales call. A customer that is well taken care of will buy again. Build a relationship that lasts by supporting your sold products well.

15.4 Avoid the Hard Sell

Many a product dies on the vine because it's just too complicated. It might solve a tremendous need but if it's too complicated to understand and sell, it will not gain any traction. It's up to product development to make products that are easy to sell. This does not mean that anyone can sell it. Rather, you need to get the salesperson excited and engaged with your product. They need simple tools to sell your great product. The more headaches, complication or learning curve they have to deal with, the least likely they will want to sell it. Remember, salespeople get paid to sell to customers. The more they sell, the more they get paid. The easier the sell, the more sales they make. It's as simple as that.

15.5 Compensation

Out of all the groups in a company, sales effects the top line the most. In fact, that's the very definition of the top line. This top line is a major factor in the overall bottom line of the company. This direct relationship is the most measurable one your company has. A poor sales force will produce lackluster sales even with excellent products. Nothing ever "sells itself" In order to ensure a constant sales flow, it's critical to compensate your sales force fairly. Most salespeople get a combination of base salary and sales commissions. These commissions will motivate your sales force to sell. Sales commissions are ripe for complication which in turn, makes them ripe for gaming. Overly complicated commission structures don't work and should be avoided. Don't try and nickel and dime the commission schedule or make it so complicated that no one, not even the CEO, understands it. Keeping it simple will allow your sales force to easily calculate it and get on with more selling.

15.6 Outside Reps vs Internal Resources

Debates always rage about whether to hire an internal sales force or outsource it to sales reps. This constant debate centers around the huge fixed costs in hiring a large sales staff while the equally painful motivation of sales reps. There are no easy answers to this dilemma. In making this decision, ask yourself the following questions:

1 **How Hard is the Sell?** Sales training will be a critical part of any outsourcing decision. If your product requires a minimal amount of sales training, then it might make sense to outsource it. Products that require a significant amount of training will require proper training programs and constant attention.

2 **What's the Sales Volume?** Some sales channels are too small for a dedicated internal resource. These channels are ideal for reps if the amount of overhead is minimal.

3 **Does the Rep Firm Sell Similar Products?** It's always better to get experienced reps that know the customer base. This can be a doubled edged sword since they may also be selling your competitors products. You will have to sort that out and see if there are any conflicts.

4 **How Will You Manage Them?** It's rare to fine a "fire and forget" rep firm. They need to be managed just like any other sales team. Figuring out who and how to manage them can make or break the relationship.

5 **What are the True Costs/Benefits of an Internal Team?** Figuring out the true costs and benefits of an internal team will make the decision a little easier. Just don't look at the costs but rather do a Return on Investment (ROI) calculation that takes into account costs, training and benefits. An internal team will be easier to motivate since they are directly under your control, so quantify that value.

Once you answer these questions, you can then decide what makes sense. Usually, it's a mix of sales reps for low dollar opportunities and your internal sales staff for the big dollar deals.

15.7 Sales is Different than Business Development

There can be a source of confusion between the sales roll and the business development role. Both share common goals but sales is more tactical while business development is more strategic. Biz Dev usually works on longer term deals that don't have an immediate sales payoff. Usually, these deals revolve around partnerships, mergers and acquisitions. We will discuss that more in the next post.

15.8 Things To Ponder

1 Think of a great sales experience you had. What made it great? Conversely, think of a really bad experience. What made it so miserable? Write a sentence or two for each.

2 Strike up a conversation with your companies salespeople. Ask them how they sell products. What is it that works for them? How do they get past no?

3 Ask your boss to go on a sales call. Observe how the salesperson interacts with the customers. What questions does the customer ask? How does the salesperson answer them? Write a paragraph on your experience.

4 Write a paragraph pitching a product you want to sell. Now, go pitch it to a potential customer. How did they react to your pitch? Ask them how you can improve it.

15.9 Exploring Further

- This site is Just Sales
- Sales Tools
- Customer Relationship Management (CRM) explained
- Some Do's and Don't of sales over at Ask The Expert (SCORE).

16 Topic #12: Business Development

16.1 Talking Points

- Business Development looks for opportunities to expand the business by evaluating products and markets.
- Mergers and Acquisitions (M&A) are a big component of Business Development as well as strategic investment.
- It differs from sales in that it's more strategic, sales is more tactical.
- Biz Dev looks for all sorts of deal. From expanding current markets to opening up whole new ones.
- There is a marketing component that centers it mostly around place (i.e. the market to expand or go after).

16.2 Discussion

Business Development (BD) has always puzzled me. It's like a cross between a strategic sales guy and a tactical marketing guru. Defining it seems to restrict it yet the goals are right there in the name – developing new business. In order to develop new business, the BD professional looks for opportunities. These opportunities can be in the companies current market, adjacent market or a completely new one. Whichever it may be (mostly likely all of them), the task of business development strives to keep a steady flow of new business opportunities to feed the corporations growth and innovation.

16.3 Deals Are Everywhere

BD looks for deals anywhere and everywhere. Some focus is required but deals can come from the most unlikely places. Being open to different deal structures, markets and strategic plans makes the BD professional more of a frontier-mans as opposed to a more rigid sales or marketing role. Mergers, acquisitions, joint developments or exclusivity are all deal structures that BD can use to get things done.

16.4 Keeping the Pipeline Full

The most important thing about BD is the deal flow. Resting on what you have achieved is a dangerous state that dries up the deal pipeline. Deals take time so it's critical to always be scouting for the next thing to do. Getting deal flow is mostly about being known for doing deals. Word gets around, so doing deals is the best way to get more deals. It also pays to monitor the vast amount of reports, data and conferences that are literally peppered with potential deals.

16.5 Practical Strategy

It's best to have a dedicated group or job function that does BD Make it part of marketing or sales or within the business unit management. Doing this will keep them connected to the companies new product development pipeline, potential competitors and customer base. BD takes a while to see results. It's more of a practical strategy for sustained growth. BD relies on a good mix of being in the right place at the right time, understanding the market dynamics, keeping track of your competitors and knowing what your customers want. All of these things mixed together will provide a constant source of deal flow.

16.6 Things To Ponder

1 Examine your competitors. Which one would you buy if you could? What capabilities do they give you? Write a paragraph on why you should buy them.

2 Analyze your competitors. Which one would want to buy your company? How would you encourage or protect against them buying you? What other companies might they buy?

3 What adjacent markets might your company get into via merging with or acquiring another company? Write a paragraph or two on why it would be important to pursue an adjacent market.

4 Research a recent merger or acquisition that your company or your competitor did. Write a couple of paragraphs about the deal. How does it change the marketplace? What does it buy the purchasing company?

5 Go have lunch with your companies business development person. Ask them how they find deals. What criteria do they use for evaluating a potential deal?

16.7 Exploring Further

- Wikipedia article on Biz Dev
- BizDevBlog definition
- A single sentence definition of Biz Dev (the graph is pretty cool).

17 Topic #13: Negotiating

17.1 Talking Points

- You can negotiate too good a deal
- Understand the entire deal dynamics not just your piece
- What the contract says is important but not as important as your intent at an equitable deal.
- Never underestimate nor take advantage of a desperate adversary
- Have a trusted advisor that you can hash out difficult deal details
- Always state a higher authority that has final approval

17.2 Discussion

Hardly a business deal is ever done without some sort of negotiation. It's just a fact of business life. Knowing how to negotiate is one of the most overlooked and critical skills of business. A properly done negotiation is the culmination of months of work that results in an equitable deal for both parties. Equitable does not necessarily mean fair since some deals will need to be bias one way or another. The problem that most people have with negotiation is that they mix their emotions into the deal. This does both parties a disservice since emotions cloud good judgement. Like anything, being good at negotiating is about practice, patience and keeping your cool.

17.3 What's In It For You?

Before you embark on any negotiation, you need to figure out what is in it for you. Seems like a simple question but this can be overlooked in the heat of the moment. Step back and really think about what you need not necessarily what you want (that's important too). Determining what you need out of the deal will give you the basis in which to negotiate from.

17.4 What's In It For Them?

Equally important is to figure out what is in it for your potential deal partner. Again, this may seem obvious but not digging in and figuring out the dynamics of the deal will bite you big time. You may have to dig pretty deep since it might not be obvious as to the 2nd or 3rd order issues that might just kill the whole negotiation. Study your adversary. Gather as much information as you can. Carefully listen to what they say they need. There will be subtle hints as to what really matters to them.

17.5 Deal Framework

Once you have figured out that the negotiation is worth pursuing, it's time to set some basic guidelines for how the deal will progress. Getting this down ahead of time will make your life a lot easier. The deal framework also sets the tone and reafirms what both parties want. The deal framework can also conclude with a Letter Of Intent (LOI) or Memorandum of Understand (MOU). These are non-binding documents that formally set the deal framework in writing.

17.6 Do Your Homework

Make sure you understand all of the details that might get in the deals way. Do some research on similar deals to see how your partner dealt with others. The more you know, the better off you are. As they say, knowledge is half the battle.

17.7 Negotiating The Deal

The best way to start this off is to write down what you both agree on. Reaching a basis or common ground first allows for a more productive negotiation. This step is a great way to see how difficult the entire deal will be to get done. If you can't agree on simple things, then the rest of the negotiation is going to be difficult.

17.8 Term Sheet

Once you have several of the main points nailed down and the deal looks promising, it's now time to write the term sheet. The term sheet is the start of the formal contact that will be what was negotiated. This goes to the lawyers that then start the formal contact process. Term sheets are typically iterated on by both sides until they are ready to send to the lawyers.

17.9 Contact Review

The contact stage is where your lawyer and your potential partners lawyer will battle it out over their use of the english language. One thing to remember about lawyers. They will try and put as much protection in the contact as they can get away with. I say get away with because it is up to the business person to rein them in. Left to their own devices, lawyers will generate a contact that is unworkable. Contacts are important to get right but the spirt of the deal is even more critical. Overly burdensome terms that create situations where not following them is cheaper are bad for everyone.

17.10 Signing The Deal

After several iterations, you will have a contact that both of you agree to. Congratulations. Go celebrate since once the deal is signed, it's time to get to work.

17.11 Things To Ponder

1 Take a look at some public business deal. What did each party get out of it?

2 The next time you do a deal, step back and figure out how you would negotiate the other side. Write a paragraph or two on your approach.

3 Look up one of the case studies in the Explore Further section. Write a paragraph from each parties perspective. Describe how they approached the deal.

4 Do a simple negotiation for a product or service you buy frequently.

17.12 Exploring Further

- Interesting post about game theory and negotiation.
- Some case studies in negotiation.

- Entrepreneur.com tips on negotiating
- Article on Win-Win Negotiations.

18 Topic #14: Tactics, Strategy and Grand Strategy

18.1 Talking Points

- Tactics win battles – they are fluid and can change daily
- Strategy win wars – it's the path or road to take
- Grand Strategy wins the peace – it's the fork in the road one you get to your destination.
- Switching between all three will allow you to adjust to changing conditions while still maintaing some focus

18.2 Discussion

Understanding the role of tactics, strategy and grand strategy will allow you to better map the course of your company. Too often, managers don't understand the overall strategy of their group nor the grand strategy of the company. Unless this is clear in your mind, the daily decisions you make may be wrong. This is why it is important to understand the differences and spend time each week thinking about all three.

18.3 Tactics: Solve immediate problems

Tactics can change, depending on the types of problems you face. In general, tactics focus on the daily, to the one-to-two-months-out and are associated with getting specific tasks done. They are short in duration and are reactive. Examples of tactics would be: using a specific tool to get your job done, your weekly status meeting and attending a customer requirements meeting. Tactics can change rapidly and usually come from a vast tool kit of skills and knowledge. Tactics win battles.

18.4 Strategy: The path to take

Strategy usually consists of a one to two year group direction. Strategy should be firm because it sets the direction. A constantly changing direction is the sign of a poorly formed strategy. A strategy should be well thought out and align with the company's grand strategy. Too often, strategy and tactics are confused and intermixed. Think of strategy as the company's vision while tactics are the detailed projects that achieve the vision. Strategy should also take into account what other groups are doing as well as your competition. Examples include product roadmaps, development platform (like an operating system) and market segments to attack (like consumer). Strategy wins wars.

18.5 Grand Strategy: Which fork to take

Grand strategy is what happens after you get the product out or obtain a number one position in the market. It is akin to building a platform for growth that can be expanded into different applications or markets. Grand strategy is your plan for the future. These are the big ideas that change paradigms. Some examples include migration from an established platform, changing the way products are delivered (like web-based software) and branching into totally new markets because of a core technology. Grand Strategy wins the peace.

18.6 All Three Are Important

Keep in mind that you cannot just focus on either tactics, strategy or grand strategy. You must keep all of these in your head and switch between them when conditions warrant. This is the only way to see the forest through the trees. Sometimes you will need to focus just on tactics to get past a major hurdle while other times you really need to think about the direction your group or company is going.

18.7 Practice Switching

Switching between the three takes practice. Tactics get stuff done, so most technical managers spend all of their time there. The strategic vision is the compass for which your group should steer. It should always be clear in everyone's mind where you are going and why. Grand strategy is how you get prompted. It shows a level of thinking that takes your group and company beyond where they are today.

18.8 Things To Ponder

1 Step back from your daily tasks and write down where your group is going in one, two and three years.

2 Using the list above, write down three to four bullets on how you will get there.

3 Write a paragraph on how you would crush your existing products. Think about technologies that may or may not exist.

4 Briefly describe your product's features, functions and technology. Find common or platform technologies that they are built on. Can this platform be used for other solutions? What would have to be added to make that happen?

5 Write a paragraph about what happens after you gain 100% market share. What can you do to make that vision happen now?

18.9 Exploring Further

- Tactics vs Strategy article
- Foreign Policy article

19 Celebration Of Knowledge #4

!Hola! from COK #4. By this point, you are probably getting a pretty good idea that a functioning business has a lot of moving parts. It's not all three martini lunches and trade shows but rather a process that requires a wide knowledge base. Good job getting this far. So, let's see what you have learned:

19.1 What is the best way to sell a product?

A Make is so complicated that your customers need you to succeed.

B Through honest, straightforward value.

C By tricking your customers into buying more than they need

D Incentivizing your marketing group to go help sales.

19.2 What is at the heart of salespersons success?

A Money

B Incentives

C Great Products

D Relationships

19.3 What is the main difference between Business Development and Sales?

A Business development is more strategic

B Sales is more strategic

C Business development sells the complex products.

D Sales does Mergers and Acquisitions

19.4 Business developments marketing component primarily has to do with:

A Product

B Price

C Place

D Promotion

19.5 When negotiating, it's always best to:

A Always state a higher authority that has final approval

B Don't do any research and let the deal happen organically

C Base your decisions on emotions.

D None of the Above

19.6 When writing down a deal framework, the name of the document used is:

A Letter of Integration

B Memorandum of Objections

C Letter of Intent

D Memorandum of Usefulness

19.7 Tactics primarily deal with:

A Long range plans (2-3 years)

B The daily, to the one-to-two-months-out way tasks get done

C What happens after all objectives are reached

D None of the above

19.8 Grand Strategy deal with:

A What happens after all objectives are reached

B The next 2-3 year plan

C The daily, to the one-to-two-months-out ways tasks get done

D Micro-managing your workers time and resources

19.9 Answers

1 B

2 D

3 A

4 C

5 A

6 C

7 B

8 A

20 Topic #15: Research & Development

20.1 Talking Points

- R&D is an endurance event – it's not a sprint
- Pace is important. A sense of urgency gets things done. A sense of panic burns people out
- Every company should have some R&D – even the mom and pop corner shop
- Without a constant stream of new ideas, you business will slowly decay
- Invention takes time. There will be many missteps, delays and frustrations
- Always think about different ways to solve the same problem.
- Crossover products are great sources of innovation
- R&D projects always conserve the trinity: Features, Schedule and Budget

20.2 Discussion

Most companies think they don't need an R&D effort. They would be wrong. All companies, no matter the size, need some sort of forward looking group (or person) to figure out the next big trend or innovation. Even the mom and pop corner shop needs someone to think about the future. Maybe it's not reinventing the corner store but there are plenty of new trends that merit some form of R&D.

20.3 Forward Looking and Thinking

Research is a forward looking endeavor. There may not be any tangible results immediately since research can lead you down many dead ends. The trick with research is to align your research group to the strategic direction of an industry or your company. Focusing them on your high level goals will allow alignment to your overall, long term corporate goals.

20.4 Discipline Pays Off

The discipline required, both technically and organizationally, to pull off effective research can be challenging during tough times. This is largely due to the long term nature of research and it's delayed bottom line impact. Lots of companies downsize their research efforts when times are tough. This is precisely the wrong thing to do. A downturn is the perfect time to invest in innovative since once the downturn is over, you will be ready. Prudence is clearly required to assess the overall health of the company and how a research program will effect the bottom line. More often than not, companies cut their research budgets too severely and are not ready to exploit an upturn.

20.5 Innovation Pipeline

Without a constant stream of products and services, a company will slowly decay into obscurity. Just look at the Dow Jones Industrial Average 100 years ago. There is only one company that is still on the list today – General Electric. Being stagnate and "resting on your laurels" is a sure path to destruction. That's why it's important to have an innovation pipeline that feeds your company with products. The steps are not hard but the discipline can be difficult to impossible to sustain. There are a couple of things you can do to ensure that your innovation pipeline stays full. For example:

- **Have A Patent Process:** Making innovation part of your culture starts with having a process to generate ideas and patents. Patents are one way to see how your R&D pipeline is filling up.
- **Encourage Education:** Learning new things as well as staying current with industry trends is vital to a proper R&D program. Educating your employees not only makes them better but it makes your company more competitive.
- **Cross Train Disciplines:** Lots of innovation comes from crossover products or services. Having an engineer go meet a customer will provide a wealth of insight that almost always leads to some new feature or function.
- **Reward Failure:** I know, this sounds odd but failure is an integral part of R&D. Without failure, you don't know the boundary of your knowledge. It obvious that you can't constantly fail but celebrating the occasional failure shows your employees that it's OK to take a chance.
- **Set Aside Creative Time:** Innovative ideas can happen while you work but to truly innovate, time must be set aside to think of the big ideas and tinker. Allow your employees to tinker in the lab, even if it's a personal side project.
- **Have Innovation Deliverables:** No R&D group can just work and produce nothing. That's a waste of time. The whole point of R&D is to develop products that the company can sell. So, have some deliverables and goals for your R&D group. Challenge them to file patents, launch products or present papers.

20.6 In The End, It's About Making Products

In the end, R&D is about making products to sell. If you don't convert your R&D dollars to sales, you are not doing a good job at R&D. The amount of money you spend on R&D will depend on your company. Don't assume just because you are an established or non-high-tech company that R&D is not important New products and services are the engine of growth for a company. Staving the engine of its needed innovation fuel will make your companies growth sputter to a stop.

20.7 Things To Ponder

1 Research a public company that is know for their R&D efforts. Look up how much they spend on R&D. Compare that to their competitor. Write a paragraph or two about how R&D helps/hinders each company.

2 Go to the United States Patent and Trademark Site. Look up your companies patents. How many do they have? Look up your competitors. How many do they have? What are the technologies that your competitors are patenting that you are not?

3 For your company, figure out how long it takes from innovation to product. Go ask your CTO or VP of R&D to explain the process to take an idea to a product. Write a couple of paragraphs about what you have found.

4 Think of some major product or innovation failure. Why did it fail? Where there any aspects of the innovation that are still being used?

5 Come up with a couple of cross over innovations by combining two different products or services. Don't limit yourself to practical or even something marketable. Just combine different things to see what you can come up with.

20.8 Exploring Further

- Wikipedia R&D definition
- Business Strategy and Innovation blog
- United States Patent Office site
- Interesting blog article on measuring your innovation pipeline

21 Topic #16: Intellectual Property

21.1 Talking Points

- There are 4 main Intellectual Property (IP) categories: Patents, Trademarks, Copyrights and Trade Secrets.
- Patents allow for monopoly practice of an idea in return for disclosing it for the public good.
- Trademarks help create your brand and identity. They can be a picture, graphic or set of words or phrases
- A copyright protects authors of "original works of authorship" by making it illegal for someone else to copy and use it as their own.
- Trade Secrets are important information that companies keep secret to have a competitive advantage.
- US patents have a duration of 20 years from the first filing.
- US Trademarks can be registered or not and have an unlimited duration as long as properly used and maintained
- US Copyrights are valid from the moment of creation to 70 years after the authors death (if created after Jan 1, 1978)

21.2 Discussion

Intellectual Property (IP) has value. Every checklist from company evaluations to investment due diligence has at least a couple of bullet points on your companies IP. For the purposes of this post, I will focus on the US since that's what I know and deal with daily. As you have guested, from reading my other posts, I am not a lawyer but I deal with IP pretty much everyday. So, I have some experience sorting through the complex morass of legal jargon and I have filed ten patents and two trademarks. If you have questions or don't understand something, drop me a line and/or consult a legal professional.

21.3 Patents

From a filing and prosecution perspective , patents are the most complex form of IP you will have to deal with. The reason is that you, as the inventor, have to explain your invention so that someone **having ordinary skill in the art** can reproduce it. Another burden is that the invention has to original, which means that there is no other **prior art** that explains what you want to patent. There is also a burden of **obviousness** as well as breaking the known laws of physics. In the US, you have to be the first to invent something not the first to file, which means if there is a dispute about an invention date, then you need documentation that proves when you invented something. The United States Patent and Trademark Office (USPTO) also has clear guidelines as to what must be contained in a patent and how specific sections need to be written. See Exploring Further for the link.

21.4 Patentable Subject Matter

Under 35 U.S.A. 101, the categories for patentable subject matter are broadly defined as any process, machine, manufacture, or composition of matter, or improvement thereof. The supreme court interrupted this to mean that subject matter for a patent was to"include anything under the sun that is made by man." This broad statement does have limitations. According to the court, the laws of nature, physical phenomena, and abstract ideas are not patentable. Aside from that, pretty much anything else is (Taken from Cornel Law reference below).

21.5 Types of Patents

The two most common types of patents are **apparatus** or **method** patents. There are various others, such as chemical structures but I won't get into those since for the majority of us, apparatus and/or method will cover it.

- **Apparatus:** An apparatus or system is a machine, set of machines that perform a useful, novel function. They can be anything from a better toaster, to a satellite or a nuclear reactor. Think of an apparatus as something physical.
- **Method:** A method patent details a process to create or do something useful. The trick with these is that the method order and the method are protecte
- This means that if someone deviants from the method order and can still make it work, then you are out of luck.

Sometimes, apparatus (or system) and methods are combined in one patent to broadly protect the combined use.

21.6 Parts of a Patent

Patents have several import parts. Each part serves a specific purpose and must adhere to specific criteria. These parts include:

1 **Abstract:** A short summary of what the patent is about. It's really not relevant to the legal definition of what the patent does but is helpful for a general ide

2

3 **Specification:** Contains the background and preferred embodiment of the invention so that someone with ordinary skills in the art can recreate the invention. The specification is a critical component but secondary to the claims.

4 **Drawings:** Along with the specification, the drawings detail the preferred embodiment and any other relevant information that will aid in the reproduction of the invention.

5 **Claims:** Claims are the most important part of a patent. Claims are what is being protected and come in two flavors: **independent** and **dependent**. An independent claim is said to stand on it's own, which means that, along with the specification, the claim describes either an apparatus or a method that can be created. A dependent claim depends on an independent claim to support the creation of the combined apparatus or method.

Patents take a while to prosecute and create. In some cases, inventors will file a **provisional** patent application that officially records at filing date. A provisional patent application does not require the same level of detail nor format as a full patent application. The advantage is that you can file early while working on the full application. A provisional patent application must be converted into a full patent application within one year.

21.7 Trademarks

Trademarks are words, symbols, or phrases that are used to identify a particular manufacturer or seller's products for the purposes of distinguishing them from other products. When the word, symbol or phase is used to distinguish a service, it's called a service mark. Some well known trademarks include: Coca-Cola, Nike, Pepsi, NFL, etc. The whole point of trademarks is so that a company or person can build and maintain an identity so that consumers can easily identify different products and services. Trademarks can be registered with the USPTO or not.

21.8 Criteria for a Trademark

Since the whole purpose of trademarks is to identify different products and services, they need to be distinctive and non-confusing from other marks. In broad terms, trademarks fall into four categories: (1) arbitrary or fanciful, (2) suggestive, (3) descriptive, or (4) generic. Each category has specific rules, which I will not get into. The thing to remember is that trademarks or service marks are meant to be associated with some product or service so people can relate that back to the company that provides the product or service. The more distinctive and unique, the better.

21.9 Copyrights

Whenever an author (or coder) creates an original work that is in a fixed, tangle form (like an article or source code), it becomes the immediate property of the author. For example, as I create this article in a fixed tangle form, I automatically own the copyrights. As the author, I can choose to do with those rights as I see fit. Bestowing or selling copyrights is at the sole discretion of the copyright holder.

21.10 Logistics

Since copyrights are established automatically when the work is in a tangle form, no registration with the copyright office is required. In fact, since 1989, you don't even have to mark that the material as copyrighted. In practice, it's always a good idea to identify that the work is copyrighted by adding the word Copyright, the date and the owner. That way, there is no confusion.

21.11 Fair Use

Fair use of copyrighted material is a bit tricky. In general, fair use is primarily designed to allow the use of the copyrighted work for commentary, parody, news reporting, research and education. There are several tests that are applied to determine fair use. These include:

1 **The purpose of the use:** If the work is used for educational or non-profit means, then it's probably OK.

2 **The nature of the work:** Is it purely facts or someones creative writing. More factual works are easier to fairly use.

3 **The amount of the work used:** This is kind of subjective and usually determined by a judge.

4 **The effect of the use on market or profit:** This is basically do you compete in the marketplace with the copyrighted work. If so, then it's probably not fair use.

21.12 Trade Secrets

The last piece of IP is the trade secret. This can be anything that a company uses to gain a competitive advantage. As the name implies, the company keeps this information secret so competitors don't use it. Trade secrets are the least protected type of IP from a legal point of view. Usually, trade secrets are protected by Non-Disclosure Agreements (NDAs) and the limitation the company puts on who knows the information.

21.13 A Comprehensive Approach

Most companies have all four kinds of IP. There is no hard and fast rules as to what you should patent, trademark, copyright or keep secret. In general, companies patent physical objects or processes to make things, trademark a logo or saying, copyright all their manuals and websites and keep secret a wide variety of formulas or knowledge that gives them a competitive edge.

21.14 Things To Ponder

1 Look up a famous trademark. How long has it been in use? What is the legal definition of it? How does that compare to what you see.

2 Look up one of your companies patents. Read through the claims. How close are the claims to the title or abstract? After reading the claims and specification, write a couple of paragraphs on how you would create the invention.

3 Do a search for a famous trade secret. Why do you think it's a trade secret? How do you think the company protects it? Write a paragraph on your thoughts.

4 Invent something simple. How would you go about patenting this invention? What prior art might you have to deal with?

21.15 Exploring Further

- Explanation of US Patent duration
- Cornell Law School Patent Page
- Harvard's Overview of Trademark Law
- Copyright Clearance Center Copyright Basics Page
- The Daily MBA's Patents on a Budget

22 Topic #17: Product Launch / Management

22.1 Talking Points

- Launching the product is just as important as developing it
- It's important that your Go to Market Strategy be aligned with your development plans.
- Customers and partners needs to be engaged early and often for a successful launch
- Managing the launch and support provides valuable customer feedback
- The Product Lifecycle is important to understand since it can dictate your development schedules.
- Knowing when to kill a product is just as important as launching it

22.2 Discussion

Too often, people focus on getting the product done and little time on how to launch it into the marketplace. This oversight delays many a good idea from realizing its full potential. Product launch is just as important as developing the product itself. The logistics required are immense. Sales needs to be trained, marketing needs to get materials together, manufacturing has to figure out how to build it and development needs to wrap up those last features and functions. To do a product launch right, you need to have a plan.

22.3 Go To Market Strategy

Hopefully, that new gizmo you are working on had some thought put into who will actually buy it. If not, your efforts will be for not. Your go to market strategy is critical to your products success. Without it, your product will languish. To better understand how integral this strategy is, lets take a look at the components of a solid go to market strategy.

1 **Market Analysis:** Redo your market analysis to make sure your target market is still valid. As a general rule, you should be monitoring your market during product development so you can react to changing needs.

2 **Competitor Offerings:** Scan the competitive landscape to see if anyone has released something similar to your product. If they did, then figure out how well it launched and where they failed. This kind of intelligent will make your launch more successful.

3 **Target Customers:** Always be cultivating your target customers and make sure your pilot or beta customers are actively engaged. It's also good to validate your target.

4 **Unique Value Position:** Before launch, you should have a pretty good idea of your unique value position and should be refining your message to hammer it home. Again, this is a continuous task that should be done throughout the product development process and validated at launch.

5 **Pilot or Beta Customers:** Your first few customers will be critical to your success. Make sure that their experience is the best it can be. These customers will be who you will ask to vouch for you.

6 **Collateral Plan:** There is a lot of collateral that needs to be generated to launch a product. Make a checklist of everything you will need and ensure that plenty of stock is on hand when you, hopefully, get flooded with inquires.

7 **Measurable Success Metrics:** Each product launches differently. Make sure you have several measurable metrics that track your progress. Be realistic and check them often. Some metrics to consider include: customer inquires, quotes, sales, returns, support calls or customer feedback.

8 **Field and Support Training:** If your product is complex and requires extensive support, then make sure it's in place before your product hits the market. I know this sounds obvious but there are plenty of companies who fail at this. The failure usually stems from lack of training or buy in from the support staff. This means you need to get buy in early and often.

9 **Press Plan:** Coordinating the press will assist in your overall launch and promotion efforts. A proper press plan will garner a ton of great free publicity if you cultivate those relationships.

10 **Manufacturing Ramp Plan:** Your operations and manufacturing people need to be prepared to actually make your product. Don't just assume that when you throw it over the fence, they will catch it. Manufacturing lines and procedures take time to develop and debug. The early and often mantra also applies here. The sooner you are engaged with your manufacturing and operations group, the smoother your launch will go.

As you can see, launching a product takes more than just getting the thing done. There are several critical logistical and collateral plans that need to be executed along with your product development. Integrating the two is a great way to check and balance the other. This means that marketing have to be actively involved in both defining, planing and executing the product.

22.4 Product Lifecycle

Managing your product or line of products requires a keen understanding of how your customers use your products and how your competitors complete against you. Naturally, this is a process that goes through many stages. These stages include: Introduction, Growth, Mature and Decline. Part of the product lifecycle is knowing when your product offerings are maturing and you need to develop new and better products. Most companies define their product lifecycle around some industry metrics or trade shows. For example, the semiconductor industry uses Moore's Law to drive the development and launch of new technologies, toy companies focus on the christmas sales season, while consumer electronics are pretty much defined at the Consumers Electronics Show (CES). All of these product categories have a well defined product lifecycle that all companies need to manage.

22.5 Pruning the Product Tree

Since technology evolves so rapidly, it's natural that some products will become obsolete. Well, obsolete is a strong word since some of your customers will be happy to use your old products forever. Knowing when to prune your product tree also has the benefit of moving your customers on to your latest and greatest offerings. Some customers will clearly be annoyed by this because your old products might work just fine for them. This is a tough judgement call since you want to please your customers but you also want to move on to selling and supporting new products. It's best to have an up front policy as to when you refresh your product lines or when product support for your aging product lines will stop.

22.6 Things To Ponder

1 Recall a product launch that was wildly successful. Write a paragraph or two about why it was so successful.

2 Think of a product launch that flopped. Write a paragraph or two about the flop. Compare the two launches. What were the differences.

3 Research a product that had a strong launch but then fell flat. What product management mistakes did the company make? How would you have salvaged the produce.

4 Make up a product to launch. Answer the go to market strategy questions above to craft your launch plan.

5 Look up a favorite companies product line. Which one should the purge or cut? Write a paragraph as to why you would cut it.

22.7 Exploring Further

- Product Launch Checklist
- An informative blog on Product Management
- Product Launch Blog
- Product Development and Management Association site
- Product Life Cycle post

23 Topic #18: Operations / Manufacturing

23.1 Talking Points

- Operating a company is far different than building a product
- Operations is critical to the day to day existence of the company
- Processes play a vital role in a proper operations organization
- The day is won or lost on logistics no matter how great your products are
- Ideally, manufacturing wants to make one and only one thing.
- The more consistent and standard you make your product, the better manufacturing can build it.
- Continuous Improvement, Lean Manufacturing and 6 sigma all strive to measure and improve a manufacturing line

23.2 Discussion

For most of you creative types, operations and manufacturing are just those guys overseas that make the stuff you invent. This is partly true. Depending on what you make, your operations and manufacturing organization can be flung far and wide. Coordinating this logistical nightmare usually rests on either the VP of Operations or the Chief Operating Officer (COO). These folks are part general, part cheerleader and part magician.

23.3 A Typical Operations Group

When you think of operations, think of the daily tasks that keep the company afloat. This can range from making sure the bathrooms are clean to figuring out how much to pay for raw materials. Operations and manufacturing probably have the most diverse set of people in your organization. Their skills can range from the basics of a line worker to the PhD. statistician looking at product yields. In a sense, these groups cut across more of humanity than any other group. That's a great strength and a bear to manage. If you look at a typical operations organization, the following functions can be found:

- **Manufacturing:** Anything the company makes will be done in manufacturing. Even software that is bundled in packages, which nowadays is kind of silly, needs to be manufactured.
- **Configuration Management:** Most companies have a vast array of products. Keeping track of all those options falls under configuration management. This is important to get right because this information feeds into what to manufacture and purchase.
- **Purchasing:** Anything the company buys usually goes through purchasing. The job of purchasing is to get the company the best deal they can on the materials they need to design and build products. This is usually why they like to deal with big companies and standards configurations.
- **Inventory:** If a company physically makes something, then it will have some sort of inventory. Inventory is the finished goods that are ready to be sol
- They can be already sold and just waiting to ship or the the company can build up inventory to meet customer demand. In a lean operation, the goal would be to have zero inventory, which is next to impossible.

- **Service and Support:** Once the product is done and at the customers site, there needs to be a support team that services (if required) and takes support calls. All products have problems, so the support staff needs to be able to rapidly fix any issues customers have.

- **Quality:** Critical to a properly functioning manufacturing line is the compliance to quality standards. A poor quality product will get more support calls and make customers angry. The overall goal of the quality group is to catch all those defective products before they leave the factory.

- **Logistics and Transportation:** Logistics is responsible for moving all those products, raw materials and people to where they need to go. Without a detailed knowledge of where your raw materials, people and products are, you can miss deadlines, ship things to the wrong place and run out of inventory.

- **Facilities** The physical location of where the company does it's businesses is important to maintain and keep compliant to local laws and codes. The facilities group is in charge of making that happen. This includes routine maintenance (like cleaning the bathrooms) all the way to selecting and building a new factory.

- **Distribution Channels:** Companies can have many distribution channels for their products. Distribution channels are just places where your companies products are sold. Think of it like this. You can go to a store to buy an ink cartridge or you can by it on-line. Each is a distribution channel (actually, more like a sales channel). Another example would be buying direct from the manufacture or via a third party.

As you can see, an operations group has a lot going on. A well run operations group is an invaluable asset to a company. Many a company has folded because their operations were sloppy and they could not get their innovative products to market.

23.4 What's not Measured, Does Not Improve

One aspect of operations that warrants some additional discussion is manufacturing. A companies manufacturing line is what creates, in volume, the companies products. Without a properly functioning manufacturing line, a company will struggle to produce products. For the manufacturing group, the single more important thing is to produce high quality products at the lowest possible price. To achieve this, they will constantly look at ways to improve efficiency while still maintaining a high level of quality. The tools they use to achieve this include:

- **Statistical Process Control (SPC):** This method uses statistics to measure and monitor critical process steps so that actions can be taken. The output of SPC is usually a control chart that shows how a particular process step is trending and whether or not it's "in control."

- **Lean Manufacturing:** Deals with eliminating as much waste (be it time or materials) as possible so that an optimum cycle time through the manufacturing process is achieved. It tends to focus on simplify process steps and reducing the need for inventory at each step.

- **Continuous Improvement:** Probably the most well know continuous improvement is the Japanese KAIZEN, which means improvement. It's basically a method to maintain and improve a production process by always looking for ways to do tasks better. All levels of the organization work together to make that happen.

- **6 Sigma:** Refers to a process and level of quality that a company wishes to strive for. Six sigma refers to the overall outgoing quality of a product and when achieved means that only 3.4 defects per million opportunities are seen by the customer.

Operations and manufacturing are intensely data driven because they are always looking for ways to improve both costs and quality. That's why most people who work in those areas adhere to the mantra, what is measured, improves. Remember that the next time you wonder what they do over in operations and manufacturing.

23.5 Things To Ponder

1 Ask your VP or Operations or COO how many facilities they manage and where they are. Ask them what't it like to manage all those sites.

2 Look up a manufacturing procedure. How complex is it? What are the components that it contains? Write two paragraphs on what you learned.

3 Interview one of your companies purchasing professional. Ask them what criteria they use to make decisions. What makes a good vendor as opposed to a bad vendor? Write a paragraph on what you find.

4 Visit your companies manufacturing line. Ask the supervisor to give you a tour of the line and have them explain what they make and how much. Write two paragraphs on what you learned.

23.6 Exploring Further

- Wikipedia article on Operations Management
- Free Management Library article on Operations Management
- Wikipedia article on Manufacturing Process Management
- What is 6 sigma?
- Lean Manufacturing definition
- KAIZEN – The Japanese Strategy for Continuous Improvement article

24 Celebration Of Knowledge #5

It's hard to believe that we are already at COK #5. Great job making it this far. This last series finished up the mechanics of operating a company. There is a lot of moving parts to inventing, making and selling products. Only one more series of topics and your done. So, let's see what you know.

24.1 Without a constant stream of new ideas, a company will:

A Thrive and survive

B Sell more new products

C Slowly decay

D Attract more customers

24.2 Which practice helps ensure that your innovation pipeline is full?

A Yell and scream when things fail

B Slash R&D when your product is done

C Wait till you need to innovate

D Have a patent process

24.3 What are the four main types of Intellectual Property?

A Patents, Trademarks, Copyrights and Trade Secrets.

B Patents, Copy Prevents, Trade Law and Trade Secrets

C Patents, Trademarks, Service marks and Trade Secrets

D Proof of Concepts, Trademarks, Copyrights and Trade Law

24.4 How long is a copyright valid for?

A For all of time

B 20 years after the authors death

C 70 years after the authors death

D Up until the author dies.

24.5 Which item is not part of a go to market strategy?

A Collateral Plan

B Detailed product design

C Field and Support Training

D Manufacturing Ramp Plan

24.6 What are the stages of a Product Life Cycle?

A Introduction, Growth, Mature and Decline

B Introduction, Trough, Growth and Mature

C Brainstorm, Introduction, Mature and Decline

D Brainstorm, Trough, Mature and Decline

24.7 What plays a vital role in a properly functioning operations group?

A Intellectual Property

B Press Plans

C Processes

D Trademarks

24.8 SPC stands for:

A Special Process Control

B Super Process Control

C Spectacular People Contributing

D Statistical Process Control

24.9 Answers

1 C

2 D

3 A

4 C

5 B

6 A

7 C

8 D

25 Topic #19: Managing People

25.1 Talking Points

- A managers biggest challenge is to manage employees
- Successful employee relations takes effort and patience
- The most important management skill is empathy. Without it, you will never relate to your people.
- People are messy – they have lives outside of work
- Getting the people right is just as important as getting the product right
- Management comes in various styles from collaborative to authoritative to dictator and all points in between.
- Ultimately, someone has to be in charge. Corporate democracy only works to a point.

25.2 Discussion

A friend of mine once told me that when he was a teacher, he went to his boss (the principal) for some advice. Being a new teacher, he figured that his boss would have some insightful tips on how to manage his kids. What he got was what most mangers think but never say: if it were not for the people, my job would be easy. Now, that's a bit glib and unrealistic but out of all the management challenges, nothing comes close to managing people.

25.3 Emotions, Ego and Miscommunication

If you were to pick the top three things that make managing people so hard, it's got to be: emotions, ego and miscommunications. All three of these things will, at some point, conspire against you. No manager is immune to the volatile cocktail that results when any one of these three ingredients are in the mix.

25.4 Emotions

People are emotional – they just can't help it. Some people are more emotional than others but all of us have something that makes us emotional. Emotions are a powerful thing. They can make a normal person quiver in a corner, drenched in their own urine or fly off into a psychopathic rage. All of these states are bad. As a manager, your job is to be the control rod for emotional situations. This takes a keen sense of self and how your words and actions affect other people. When dealing with emotions, it's important to keep a couple of things in mind:

1 **High emotional states make people irrational:** When tempers flare, people can get nasty and irrational. Make sure to lower their emotional state before dealing with whatever problem.

2 **Emotions can make people defensive:** Sometimes people get defensive when confronted with a problem that they might have caused. Defusing this requires focusing on the situation and not the person.

3 **People can be vulnerable:** Someone that is emotionally drained or "beaten" down will be susceptible to all sorts of suggestions that might not be a good ide

4 Be careful when making decisions or having people sign up for tasks when they are vulnerable.

5 **Staying motivated is challenging:** Motivation can wane when people are emotional. Strive to understand what motivates your staff so that you know when emotions might be getting in the way.

6 **Resolutions can take longer:** When you mix all of the above together, you get a situation that requires a lot of work to get stuff done. This will lead to resolutions taking longer than required. Be sensitive to this and watch out for the warning signs.

25.5 Ego

We all have an ego. It's that little voice inside our head that pushes us to be recognized and admired. When that little voice gets in the way of rational decision making, things start to get personal. When managing people, careful attention needs to be paid to their ego. Consider some the different types of people you might manage and how their ego affects how you interact with them:

- **Starter:** They want to start new things but never seem to finish anything. They really like the fuzzy front end of defining and launching projects. That for them is enjoyable. It's best to let the starter start and pair them with a finisher.
- **Finisher:** Enjoys nothing more than getting stuff done but never wants to start anything new until everything is done. They are usually good at following checklists and don't get bored with the mundane tasks associated with making products shippable.
- **Mechanic:** Has a deep desire to make progress and get stuff done. They really don't care why it works or how it works just that it works. They have a deep desire to do because to them, that is what work is all about – getting stuff done.
- **Scientist:** Wants to understand why things work. If given the opportunity, they will think and ponder all day. Task completion is a little more of a challenge with a scientist because of the deep desire for understanding. This can sometimes get in the way of progress.
- **Superstar:** Produces great work and gets along with everyone. They are your "go to" people that will one day have your job. They strive for more and more challenging projects and feel that they constantly have to prove themselves.
- **Solid Citizen:** Works hard and does a good job performing tasks. They are a pleasure to manage since they understand what to do and just do it. They aspire to better things but will remain patient until the time comes.
- **Higher Life Form:** Thinks they are always right and are the only people who "get it." These types of people will be your most challenging person to manage. Sometimes you may even need to get rid of them because they just can't work as a member of a team.

Of course, there are many shades in between these groups but remember that ego and motivation go hand in hand. Someone who likes to start things will respond differently than a finisher. The mechanic has different ego needs that the scientist. The trick is to identify these ego needs and cater your management approach to each different type.

25.6 Miscommunication

Nothing makes a stressful situation descend into chaos like miscommunication. The most evil form is the email flame war where the escalation of the rhetoric gets downright nasty. Avoiding miscommunication, or rather clearly communicating, is vital to managing people. Your style of communication will vary depending on the situation but there are some general guidelines that are worth following:

- **Set exceptions:** Most miscommunication centers around the expectations that people have. It's critical that you ensure that exceptions are communicated clearly and repeatedly.
- **Keep on topic:** Nothing distracts and confuses like discussing multiple topics. Try to remain on one topic at a time until conclusions are made.
- **Use simple, declarative speech and prose:** Vital to clear communication is to always craft your message to your audience. This does not mean you dumb down your message but it does me you use common prose that is easily understood.
- **Respect debate and dissent:** Nothing closes off channels of communication faster than squashing honest debate and decent. Respectful debate will always clarify positions and allow people to truly understand what is being discussed.
- **Make decisions:** Decisions solidify communications into something tangible that can lead to action. Indecision will just leave things hanging and people wondering what to do next.
- **Admit when you are wrong:** Critical to constructive dialog is to admit when your or someone made a mistake. This allows for people to voice concerns and shows that correct communication is more important than appearing to be right.

25.7 Management Styles

Part of effectively managing people is to figure out your management style and how that affects people. The type of people you manage will require you to adjust your style to meet their needs. In general, most people want to feel that their manager is fair, balanced, respectful and listens to them. These traits go a long way in effectively managing people. If you were to bucket the types of managers into categories, it would look something like this:

1 **Collaborative:** Managers that collaborate try hard to include their staff in all important decisions. This style relies a lot on inputs from others and an understanding of the political dynamics of your group.

2 **Authoritative:** Tend to make decisions and stick with them. Authoritative managers like titles and use these titles to garner influence and get their way.

3 **Dictator:** Manages by decree with zero input from their staff. This type of manager will never admit they are wrong and will continue on a course even if it will lead to disaster.

4 **Micro-Manager:** Wants to control every aspect of how work gets done. They have the attitude that they are the only ones that know the "right way" to do things. These type of managers tend to burn out quick as they ascend to power since their management bandwidth gets stretched thinner and thinner.

5 **Mash-up:** Most managers are a mix of the above categories but tend to gravitate to one dominate trait. At times, it makes sense to be more like a specific category, given the situation.

25.8 Empathy is Your Friend

One skill that every manager needs to nurture is empathy. Out of all the skills a manager must rely on, empathy for the plight of others is far and away the most important. Being able to understand where people are coming from while also seeing why they behave in certain ways will make you a better manager. A couple of ways to work on your empathy include:

1 **Listen:** Most managers don't listen enough. Listening is such an important skill that it should be practiced everyday. Truly listening will allow you to get at the heart of matters quickly and without miscommunication.

2 **Experience What Your Staff Experiences:** Nothing opens a managers eyes more than experiencing what their employees experience. Sometimes the decisions a manager makes has implications that are not obvious until the decision is implemented.

3 **Communicate Your Expectations:** Setting expectations about performance and behavior allows the manager and employee understand what is acceptable. This also allows for easy correction and clarification when things start to go wrong.

4 **Trust People:** Ultimately, a manager has to trust their people. Without trust, nothing can be accomplished. Trust is a two way street that must be earned and constantly fostered. As a manager, you should always trust your people unless given a solid reason not too.

25.9 Things To Ponder

1 Write two paragraphs on your management style. What type of manager are you? If you are not a manger, then describe your present manger's style.

2 In two paragraphs, describe your ideal manager. What traits does she have? Why are these traits important to you.

3 Recall a particularly stressful interaction with an employee. Why was it stressful? How did your manager handle it? Could the situation have been avoided?

4 What do you look for in a good employee? How does your interview process find these good employees?

5 Take a sheet of paper and draw a line down the middle. On the left side write easy. On the right side, write hard. List as many traits of easy/hard employees to manage. Compare the lists. Which one has more?

25.10 Exploring Further

- Personal MBA Reading List
- Maslow's Hierarchy of Needs wiki article
- The Quick MBA Managing People page
- The Art and Science of Management

26 Topic #20: Doing Business Internationally

26.1 Talking Points

- The human condition is universal – everyone smiles and cries.
- Strive to understand the culture before you meet
- Learn a phrase or two in the native language
- Remain formal until you get to know people
- Cultures may be different but business is universal
- Always dress professionally and ask locals how to behave
- Speak clearly and refrain from using slang
- Do even more homework than usual before you negotiate a deal

26.2 Discussion

The reality of todays world is that we are all connected. When you call customer support, you are most likely getting routed to another country to take your call. If you manufacture anything, changes are, its done somewhere in Asia. To survive in this global business climate, you need to know the culture you are dealing with and how the local laws and customs work.

26.3 People are People

Wherever you go in the world, most people share a common condition. The language, food or ethics maybe different but the realties of daily life, love, joy, sorrow and death are all the same. Sure, some places are poor, some rich, some even downright horrible but all places share a common thread. This thread is what binds all of humanity together. When you do business internationally, you need to rely on this thread to make the cultural barriers a little easier to deal with.

26.4 Our Common Thread

Since we are all human, we share certain commonalities that transcend culture. Things like happiness, sorrow, frowns, smiles, having children, our desire for food, water, shelter and safety. These commonalities make understanding each other a little easier when we realize that almost all humans desire the same things. The awkwardness comes when our cultural and language barriers get in the way. To better deal with these awkward moments, keep in mind these universal behaviors:

- **Always remain respectful:** Respect is universal. All cultures understand it and expect it.
- **When in doubt, apologize:** Sometimes it may be unclear if and how you may have offending someone. If you respectfully apologize for any indiscretion , that will usually be enough to get past it.
- **Dress professionally:** Cultural norms do dictate that certain attire is considered professional while others are too causal. Business suits are universally considered proper professional attire.

- **Refrain from using slang:** All languages have slang that is specific to the culture it came from. It's best to avoid slang since it will be awkward to have to explain the meaning and it may also embarrass the people you are talking to.

- **Appear friendly by smiling:** A smile goes a long way in appearing open and friendly. Every culture smiles, so try your best to always appear friendly.

- **Respect the cultural norms:** It can sometimes be hard, but cultural norms do need to be respected or your ability to do business will be in jeopardy. This may be hard for some of you but make sure you understand the norms and either avoid the situations or just grin and bear it.

- **Listen carefully:** Listening is a particularly important when dealing with accents. Spend more of your time listening then talking since it may take longer to absorb the information you are being told.

- **Share a meal or drink:** Everyone eats so why not enjoy a meal with your potential business partner. Make it a point to eat a local speciality and if you host someone, take them to your favorite place to eat but be respectful of dietary constraints.

There are many more commonalities so focus on what you have in common then doing business will go a lot smoother.

26.5 Hire Locally When Practical

Hiring local is a great way to get the inside track on how a culture works. This is critical if you plan on having a long term presence in a country. Locals understand the culture, speak the language and can build long lasting relationships. Another thing that locals give you is some creditability. In some cultures, the only way to do business is to have a local presence. Cultures that have a strong sense of class will almost certainly want a local, respected "elder" type that they feel comfortable with. Don't take it personal if they would rather deal with "one of their own."

26.6 Dealing with Gender and Age Issues

In some cultures, both gender and age are handled differently. In many countries, the traditional roles of men and women are strictly adhered too. This can be quite a culture shock to someone that has never been exposed to these cultural norms. To better deal with these issues, you really need to do your research as well as be prepared to adhere to cultural norms. Some of you may have a problem with that but it's important to be respect of a cultural and not to thrust your value system upon someone else.

In some cultures, the traditional role that women play is strictly enforced. If you happen to be a businesswomen trying to do get stuff done, you many need to think about your strategy and how your style will fit into a culture. It's extremely difficult to change cultural norms and also get your business done. To this end, the local employee will be an invaluable resource for how to navigate tricky cultural issues. While gender roles are easily recognized, age issues are more subtle. The typical cultural clash with age has to do with young (or young appearing) people that are in positions of power. In a lot of cultures, the amount of gray hair you have seems to directly relate to your seniority and your competence. Dealing with this situation can be stressful since if you are the younger player, your opinion or decisions may be undermined. The best way to deal with this is to ensure that the other party knows that you are in charge and making the decisions.

26.7 Negotiating

All negotiations are tricky but international negotiations are downright complex. Most of the complexity comes from the cultural and language barriers that exist. That's why it's important to keep these techniques in mind:

- **Focus on long term relationships:** Most cultures value the long term commitment and some won't even talk to you until you can prove you are staying for the long haul
- **Figure out the interests behind the positions:** Several cultures will say one thing but mean something totally different. That's why it's important to understand what motivates a position. Don't just listen to what they say but dig deeper into why they really want to do the deal.
- **Don't generalize:** Just because a culture has a certain trait does not mean the person you are dealing with has them too. Treat individuals as individuals and get to know there style and how they approach things.
- **Understand the timeline:** Some cultures have vastly different timelines than others. You have to respect that sometimes the cultural norms will require a longer timeline than you want. Strive to figure out what drives the timeline and how you can manage it.
- **Remain flexible:** It's always good to remain flexible but it's especially important when you deal with other cultures. Being flexible also shows that you want to work extra hard to make a deal work.
- **Prepare, prepare, prepare:** It's uber important to prepare for any international negotiation since the cultural aspect adds a whole other dimension. Being ill prepared with only amplify contentious issues.
- **Listen more than you speak:** As we discussed above, your listening skills will be put to the test when dealing with other cultures. Take it all in and listen intently to what is said and what it means.
- **Understand the local laws and ethics:** Laws vary from country to country as well as their ethical code. Just remember that you should still adhere to your ethical base even when it might be easier to just adhere to the local customs.

26.8 It's Tough But Doable

There is a lot that can go wrong with international business but just remember that people have been trading with each other for thousands of years. It's challenging but clearly doable if you do your homework and understand the cultures you are dealing with.

26.9 Things To Ponder

1 Recall the last time you went to a foreign country. Write a paragraph or two on how you felt about interacting with the locals.

2 Research a large foreign corporation. How would you approach negotiating a deal with them, given their culture?

3 Learn how to say hello, goodbye and thank you in two different languages.

4 Look up a country on the International Business Center Site. Write a paragraph on how you would do business with the selected country.

26.10 Exploring Further

- Lee Iwan Blog post about his experience doing business internationality.
- Work Etiquette article on Conducting International Business
- International Business Center site has great resources for cultural differences, among other things.
- The Daily MBA post on negotiating

27 Topic #21: Organizational Structures

27.1 Talking Points

- There are two main types of organizational structures: centralized and decentralized
- These two main types divide into several hybrid types, depending on the organizations needs
- The hybrid types include: team, matrix, functional and divisional
- In practice, a manager will struggle to manage more than 7 +/- 2 direct reports
- Reorganizations seem to always happen when another company gets acquired or new management gets put in place.

27.2 Discussion

Debates rage about the best way to organize a company for success. Some say that the decentralized, push the power to the individual worker is the most efficient why while others stress the need for a broad strategic vision that can be acted upon. No matter which side you come down on, the way you organize your company will play a vital role it its success. The other thing to remember is an organizational structure needs to evolve as the business needs evolve. What worked as a five person startup does not work for a 10,000 person company. Many an organization has made the fatal mistake of not evolving when it made sense. The other extreme is the constant changing organization that struggles to find it's way. That's bad as well.

27.3 Types of Organizational Structures

There are several different types of organizational structures that spawn from the centralized/decentralized continuum. These structures all have pluses and minuses depending on the stage your company is in. In broad terms, organizations can be categories as follows:

- **Team:** A small group of people that solely focus on one thing. Teams have leaders because someone has to reign in the chaos. Think of a sports team with a captain. The team performs when they work together and the captain keeps them motivated while contributing.
- **Functional:** An organizational is functional when the common functions (e.g. Engineering, accounting, manufacturing) are all managed in the same group. Things get done by farming out the resources to who needs it.
- **Divisional:** Aligns all the necessary resources to go after a particular market or set of markets. A divisional structure contains all of the necessary functional areas to stand on it's own. It's like a mini-business.
- **Matrix:** is a hybrid between a functional and a divisional organization wherein some resources are functional (e.g. Engineering and sales) while others are divisional (e.g. Marketing and management). These organizations try to gain efficiencies by having the functional groups work for many different divisional entities.
- **Hierarchical/Bureaucratic:** Can be either functional, divisional or matrix but share a common trait that decisions are typically made at the top and trickle down. These structures rely heavily on process and systems to ensure compliance with all the rules. The bigger an organization gets, the more hierarchical and bureaucratic it will become.

- **Flat:** These organizations try and remove layers of management so that, ideally, everyone would report to the boss (or CEO). In practice, this is harder and harder to do as the company grows. The benefits of a flat organization is that everyone knows exactly what management wants since they all report to the highest level.

- **Entrepreneurial:** Considers all opportunities like a mini business. Thrives on creating products and services not just selling the same old stuff. Formal structures are lacking and things tend to chaos quickly when scaled.

- **Virtual:** No formal office or people in the same state or country. These types are the collaboration environments where people come together for specific projects and then fade away. Several consulting firms use this model since talent can be anywhere. and the Internet has made it easy to collaborate.

27.4 Stages of an Organization

Organizations go through many stages. These stages require different structures in order for the organization to be successful. There is really no magic formulas here but you do need to understand when you are moving between each stage and what stage you are at. These stages include:

- **Start-Up:** This stage begins the organization. It's the spark that ignited a small group of people to come together and figure out how to change the world. The official end of the start-up stage is somewhat nebulous. Some consider product launch, first sale or being profitable as the sign that the organization is moving to the next level.

- **Growth:** At this stage, the organization has a product and it's selling it into the marketplace at an accelerating rate. This rate is challenging to keep up with and it feels like things are happening so fast that no one knows what to do. At this point, companies hire like crazy. The official end of growth seems to be when your sales growth slows to your industry average or the organization starts to feel comfortable.

- **Expansion:** Once growth ends, management will look to expand into additional markets to kick start growth again. This expansion phase will be riddled with mergers, new divisions or business units. It can be as chaotic as the growth stage because of managements overwhelming desire to restart growth by any means necessary. In some organizations, expansion never ends but when it does end, maturity sets in.

- **Maturity:** At some point, a company will stop growing and expanding. At this stage, the company will look to make systems and processes that focus solely on reducing costs and improving efficiency. Maturity feels comfortable and the creative spark that might have existed has been extinguished.

- **Destruction:** There are very few companies that stand the test of time. If you look at the Dow Jones of 100 years ago, there is only one company that is still on it. This means that all those other companies either merged with others or went out of business. This phase is pretty obvious when you are living it. Sales are slowing or sluggish, the company is losing money and employees are just waiting for the hammer to fall.

One complexity to this is that organizations can be at two stages at the same time. During these times, it's always challenging to maintain a stable organizational structure since each stage tends to have conflicting requirements.

27.5 Signs You May Need to Change

The stages above are broad enough that it might not seem obvious which organizational structure is the best one to choose. In general, there are several signs that the organization you are presently in needs to change. Consider some of the more obvious situations like:

- **New businesses are fighting with old ones:** There will always be a healthy tension between the people who make the money now and the ones working on making money later. If it gets too out of hand, it will create silos that will fight each other to the death at the expense of making the company successful.
- **Systems and procedures are constantly breaking down:** One sure sign of growing pains is when the old systems (or lack of them) your organization had in place start to break down under the strain of growth. When this starts to happen, you need to take a look at your structure and see how it can change to overcome this.
- **Morale is low and people are leaving:** Organizational change or lack of change can make your talented staff leave. This is a sure sign that whatever structure you are presently under needs to change.
- **No new products are being released:** New products drive growth. Without them, a company will fad away. So if your innovation pipeline is drying up or you have not released something in a while, then you need to rethink your companies structure to support more new products.
- **Revenue or profit accelerating or decelerating:** Revenue and profit will drive your organizational decisions either way they go. During highly accelerated revenue times, there will be a mad dash to grow and expand. During a deceleration, the organization will want to shed cost (read people) as fast as they can.

27.6 Focus on What Makes Sense

Organizations evolve over time. This is an inevitable fact of life. You need to be able to adjust your organizations to meet there needs but not adjust them so much that you loose the soul of your company. The desire to change will always be present no matter what stage you are in. This desire is rooted in managements need to build a better organization. Resist the urge of constant change because that will just create chaos. What you should focus on is what makes sense for your organization at the stage that it's in.

27.7 Things To Ponder

1 Determine the type of organization you are presently in. Write 2 paragraphs on how it's organized.

2 How would you reorganize your group or division to be more effective?

3 Which organization do you like to work in? Write a paragraph on why you like the one you choose.

4 Take a look at a recent merger. How did the two companies sort out their organizational structure? Write a paragraph or two on the challenges they faced and how they solved them.

5 What stage is your organization in? How will you transition to the next level? Write a paragraph or two about your plan.

27.8 Exploring Further

- Wikipedia article on Organizational Structures
- Article on Organizational Structures from Buzzle.com
- Types of Organizations article

28 Topic #22: Legal Aspects of Running a Business

28.1 Talking Points

- Just because it's legal, don't assume it's the right thing to do
- Lawyers are advisers not business people so you need to make the business decision
- Given free reign, your lawyer will protect you so much that a deal will not be doable
- It's essential to get the lawyers involved, at the right time, or you will spend needless money
- Lawsuits consume a huge amount of management bandwidth – a lot more than you think
- Have boiler plate legal documents like Non-Disclosure Agreements (NDAs) created and on hand.
- Contracts will probably be the most interaction you will have with your lawyer.

28.2 Discussion

A business operates within a legal framework that, for the most part, works. This legal framework has a long history and many reams of laws and regulations that will make your head spin. At some point, most companies will have to deal with some sort of legal issue related to their business. Don't be afraid of this. I won't lie. It's scary when someone wants to sue your company but the legal system, for all it faults and issues, does provide a reasonable framework for resolving business disputes. What follows is meant as an overview to get you exposed to the legal aspects of running a business. As most of you know, I am not a lawyer nor do I play one on TV. So, if you have legal questions, please seek out professional advice.

28.3 Legal Entity

All businesses are categorized as some sort legal entity that governs the way they are treated under the law. Some structures (like LLC's, C-Corps, S-Corps or LLPs) are considered free standing entities that have special rights (e.g. They can enter into contracts) and the owners have limited liabilities. While others, most notability the sole-proprietorship, the owner assumes all the liability and rewards. The type of entity you pick will depend a lot on your liability profile and whether or not you will have investors. Just remember that the law treats different entities according to criteria that will vary, so make sure to become familiar with you structures particular laws.

28.4 Compliance

Compliance to local (city and county), state and federal laws will be something that all businesses will need to deal with. Unfortunately, these laws vary enough that it makes sense to call up your local chamber of commerce or local government and have them give you a reference. In general, your biggest compliance headache will be in trying to figure out what taxes you owe, employee rules and safety laws. In most cases, compliance is left to the business owner and as long as the taxes are paid on time and no one registers a complaint, most government departments will not be knocking at your door. Compliance becomes challenging when the law changes or you assumed you did not have to performa a certain task. In these cases, ignorance of the law is no excuse. So, to cover yourself and your business, ensure that you get "no need to comply" decisions in writing. That way, at least you will have a something in writing as to why you did not comply.

28.5 Contracts

Most businesses will enter into a contract with a person or another business at some point in their existence. These contacts are what define how the working relationship will be carried out and who is responsible for what deliverables or payments. Contact language can vary but in general, most contacts will have standard boilerplate provisions such as:

- **Definitions:** All contracts will have a section that will define the terms used in the contact. The most typical terms that will be defined include the parties entering into the contract and what the project is they will be working on.
- **Notice:** This refers to where any communications should be sent or which parties are responsible for the contract.
- **Governing Law:** What laws govern the contract. This is usually a county, state or country.
- **Entire Agreement:** Says that no other agreements are required to execute the contact. This is usually done so that it's clear what the contact is and what it depends on.
- **Force Majeure:** Extraordinary event or circumstance beyond the control of the parties such as riots, acts of nature, government collapse, etc. This term says that if these types of events happen, that the parties are not responsible for the consequences.
- **Term and Termination:** How long the contact is good for and what causes the contract to terminate.
- **Payment Schedules or Deliverables:** All payments related to the contract and what tangible thing (be it code, hardware or documents) will be delivered in order to receive payment.
- **Severability:** This means that if a term in the contract is determined to be illegal that does not nullify the entire contact, just that section or provision.
- **Warranties And Indemnities:** Usually deliverables are warranted against defects of craftsmanship or other things. Indemnification says that the seller says that they have the right to sell or transfer the properly and will fight any lawsuit against the receiving party.
- **Default:** What is consider a breaking or breach of the contract. This usually spells out specific instances or events that trigger remedies or ways that a party can collect when the other party triggers a default event.
- **Counterparts:** Means that the contact can be signed in parts and put together as a whole document without everyones signature appearing on the same page.
- **Confidentiality:** Says that certain items, terms or pricing will remain confidential. It sometimes deals with intellectual property disclosure but those types of issues are usually handled via a Non Disclosure Agreement (NDA).

There are many, many more sections of a contract, depending on the type but the ones above are almost always in a contract. Make sure you do a little research before you contact a lawyer since that will save you time and money.

28.6 Resolving Disputes

The legal system is setup to resolve disputes. These disputes usually revolve around some sort of breach of contract, violation of intellectual property or breaking a law. When you are faced with a legal action, it's best (and I mean it) to seek out counsel to assist you in navigating the nuances of the legal system. Once you have contacted a lawyer, there are a couple of things you should do right away. These include:

- **Remain calm:** Lawsuits happen. Don't freak out just because someone wants to sue you. Relax. Take a deep breath and go find a lawyer.
- **Don't call your adversary:** Whatever you do, don't call your adversary until you have talked to a lawyer. Whatever you say in the heat of passion will be used against you. If you have to vent, go yell at a wall.
- **Gather up all your documents:** Start to collect any and all documents that relate to the matter. Be as detailed as you can be.
- **Keep a Notebook:** Any conversation or phone call or meeting related to the law suit or action you should write down in a dedicated notebook just for the particular matter. This is important since you can use these notes during a trail. Remember to number, date and sign the page.
- **Write down everything you know:** In your notebook, write down as much as you can recall about the matter. Keep a list of questions you need answered and things that may be fuzzy.
- **Read the contract:** Go dig up all the old contracts related to the matter and reread them to ensure you understand what's in them.
- **Discuss with your partners/employees:** When appropriate, disclose as many details about the suit as you can. It's important to be open with partners and employees about legal dealings. In some cases, your partner or employees may hold valuable insights into the matter.

There are a lot of companies who abuse the legal system and these companies make it miserable for everyone else. So, don't fly off the handle and sue people. Rather, a lawsuit should be your absolute last resort if you can't find a equitable solution to your problem.

28.7 A Necessity That's Not That Evil

Having good corporate counsel will make your business better. I know, it feels like a necessary evil but it's really just part of doing business. Just like all your hires, you need to find the right lawyer for your stage of business and work with them like they are part of your team.

28.8 Things To Ponder

1 Look up a lawsuit among two businesses in your market. What is the lawsuit about? What are the major points of contention? Write a couple of paragraphs on how you would approach resolving the conflict.

2 Review one of your companies contracts. List the terms and sections. How many of them seem generic? What are some of the default conditions that could lead to a lawsuit? Write a paragraph on why the contract was written the way it was.

3 Analyze your competitors and figure out which one is likely to sue your company. How would you react? What steps can you take to prevent a lawsuit? Write a paragraph on how you would handle it.

4 Look up all the laws your company has to comply with. How many are there? What are the consequences for failing to follow them?

5 What type of legal entity does your business operate under? What special privileges does that grant it?

28.9 Exploring Further

- Interesting concept of having the right lawyer find you
- Policy Tool website
- Harvard Law On Line Library
- Cornell Law School On Line Library
- SEC website
- List of Business Law Related Articles on Wikipedia

29 Celebration Of Knowledge #6

Wow. The last Celebration of Knowledge. Great work. I hope you got as much out of this series as I did in writing it. It's been fun. You should be proud that you made it this far. It was great that you stuck with this whole series. My hope is that you now have a better grasp on what business is all about. So, the next time you have to deal with a business issue, relax, you now have the fundamentals down. The rest is just practice! Now, lets see what you know.

29.1 What is a managers biggest challenge?

A Managing employees

B Balancing budgets

C Taking enough coffee breaks

D Whipping up presentations

29.2 What is the most important management skill?

A Being organized

B Having a high threshold for pain

C Talking to customers

D Empathy

29.3 When doing business in a foreign country, what's an important thing to have?

A A knowledge of a couple of phrases in the local language

B A bank account in that country

C A local employee that knows the culture

D A taste for the local food

29.4 When doing an international negotiation, which technique should you apply?

A Do all the talking

B Understand the timeline

C Remain inflexible

D Focus on short term relationships

29.5 Which of the following is not a stage in an organization?

A Start-Up

B Expansion

C Maturity

D Construction

29.6 Which is a sign that you need to change your organizational structure?

A Systems and procedures are constantly breaking down

B Morale is high

C Your business units are getting along

D Tons of new products are being released.

29.7 What is the term used for items that are always in a contract?

A The law firms name

B Definitions

C Boilerplate

D Links to other agreements

29.8 When being sued, what should you not do?

A Keep a Notebook

B Remain calm

C Write down everything you know

D Call your adversary right away

29.9 Answers

1 A

2 D

3 C

4 B

5 D

6 A

7 C

8 D

30 Bonus Topic: Public Relations

30.1 Talking Points

- Public Relations (PR) should be your communications command center
- A solid PR plan ensures that your message is consistent
- Good PR will naturally generate quality leads
- Building your brand will require coordinating marketing and PR so that the message is uniform
- PR is an important part of your companies valuation since perception does translate into reality
- The best time to do PR is during bad times
- PR can be summed up by two words – Reputation Management

30.2 Discussion

Public Relations (PR) is your outward imprint on the world. It starts with a keen sense of what your company is about and what you want people to remember. PR is a constant, evolving function. In good times, PR strengthens your reputations and in bad times it protects it from the evils of the world. Even the smallest one person business needs to be aware of how the public (read customers) views their company.

30.3 What is Your Reputation Worth?

A companies reputation has a tangible value. This is why companies protect their reputation by trademarking their name and slogans but this is only a small part of it. Your companies reputation is made up of several tangibles that gravitate around your PR effort. These tangibles need to be cultivated and maintained or your companies reputation will fall into disrepair. Some of these tangibles include:

- **Brand Reputation:** Brands are powerful when the wiz-bang marketing campaigns are augmented by a solid media presence. In fact, sometimes the low-key PR efforts are more effective than a big branding splash.
- **Community Involvement:** Being involved in the community benefits you and the community. Customers like it when companies are connected to who they do business with.
- **Customer Confidence:** Your satisfied customers can be your best source of good PR. Customers that love your product should be nurtured as your number one PR representative.
- **Press Relationships:** Good relations with the press will pay huge dividends when you need exposure or to get your side of the story out.
- **Investor Relationships:** The investment community has a lot of power. Poor relations with investors will cause any bad news to be amplified and good news to be marginalized.

All of these activities will build up and sustain your reputation. Developing these tangibles does take time and money but mostly it takes time. Reputations are built over long periods of time. Build your reputation early so that when a crisis or opportunity presents itself, everything is lined up.

30.4 Getting to Know Your Company

The most important aspect of building your PR presence is for the public to understand what your company stands for. This is usually accomplished through your branding efforts but is augmented by the events you hold, the press releases you do and how the press treats you. With the surge in social media and the Internet, your customers and potential customers have a wealth of resources available to them to get to know your company. A savvy company needs to foster these new public relations avenues and make sure that the companies message is consistent and getting through. Some of these new media avenues include:

- **Web Page:** An informative webpage helps customers interact with your company. A poorly done webpage shows that you don't value helping you customers.
- **Company Blog:** Your company should have a blog. This blog should provide useful information for your customers. Blogs are also a great way to get your side of the story out.
- **Employee Blog:** Let your employees blog. In fact, encourage your best employees to share their stories about how great it is to work at your company.
- **Facebook Page:** A Facebook page is now one of your best reputation builders because customers can actually become fans of your company. This also allows you to craft your reputation by making your fans feel special.
- **Twitter:** Lots of companies now monitor twitter to see how their company is trending or if problems are occurring. It's also a great way to build a fan base since customers can follow your feed.
- **Key opinion leaders blogs:** Strive to have a relationship with key opinion leaders in your industry. These leaders can help you in your PR efforts by providing an independent perspective and leads on developing situations.

30.5 Crafting Your Story

Your story is a critical component of your PR efforts. Without a good story, most people will just tune out. The ideal story will be short, simple and inspire. It should capture the essence of your company and what it's about. Your companies story is akin to your slogan but expanded to go a little deeper. Think of it as your 30 second elevator pitch that intrigues your audience enough to dig deeper.

30.6 The Cover-up is Worst Than the Event

Scandal is when your PR efforts will be put to the test. Refrain from trying to cover up a scandal because it will eventually get out and ruin your reputation. The best approach is to be as open and honest as you can about the situation. If you don't know something, just say you don't know. Covering up a scandal will drain your PR staff and once found out, will tarnish your reputation more than the event. The public has a long memory and they really don't like being lied too. The way you handle scandal or bad situations is just as important as the good news. Remember that all press is good press as long as you can take advantage of it.

30.7 Out of Sight, Out of Mind

It's important to realize that your PR effort has to be a constant. Your customers will forget about you if you don't remind them that you exist. This does not mean you have to pay for expensive services or hire a huge staff. Rather, think about how your can leverage new media and your employees to keep you in the public eye. In the end, a good PR plan will keep you relevant.

30.8 Things To Ponder

1 Recall a particularly bad PR campaign. Write a paragraph or two about why it was so bad.

2 What brands come to mind when you think of: cars, beer, soft drinks or clothing? How do you think PR contributes to their brand awareness?

3 Recall a crisis event that was handled well from a PR perspective. Why was it handled well?

4 As a consumer, what PR sways your opinion of a company? Write a paragraph on your thoughts.

5 What is your companies story? See if you can write it down. If not, try and craft one.

30.9 Exploring Further

- Counsel of PR Firms case study page
- List of PR blogs
- Public Relations Society of America site
- List of Press Release Services

31 Bonus Topic: Starting A Business

31.1 Talking Points

- Start with your **Business Narrative**– a one page description of your business
- Nothing sells your idea like a solid **Pitch**
- **Executive Summaries** are meant as summaries. They should be no more than 2 pages and put your pitch into words
- **Financial Models** are the only way to really figure out if your venture will make any money.
- To succeed you need to get the Trifecta Perfect: Team, Technology and Target Market
- Business plans have marginal use but the process is critical

31.2 Discussion

Planning is vital to building a successful business. Without a plan, you have no way of knowing what is required to launch your new venture. The traditional model is to develop a business plan that details every aspect of your business. This is antiquated and not as effective as focusing what your business really is. To focus on your business, you need to develop the four documents – a business narrative, pitch, executive summary and financial model.

31.3 Business Narrative

A business narrative is a one to two page description of your businesses that outlines your vision and goals. It's different than the executive summary because it's your first shot at describing your business. The business narrative is more like a story of where you want to go and how you will get there. The components of a narrative include:

- **Name the businesses:** Naming your business is the first step in making it real. This is the main character of your story and the name should reflect the attitude of the company.
- **Describe what it does:** Be as specific as you can when it comes to describing your business and what it does. The more specific the better. Being too general will defocus your efforts.
- **Uniqueness of the business:** Like any good character, your business needs to have that something special that resonates with readers/customers. This description needs to be written with vivid words that conger up feelings that people can relate to.
- **The market the business is going after:** Understanding your market space is vital to a successful business. Markets are complex, so it's best to be as specific as possible in choosing what market you will address.
- **The customer base:** Customers are an important part of your marketing effort. You need to reach them in order for them to purchase your goods and services.
- **The customer pain you cure:** Most customers only buy something they need (or want). These purchases are usually driven by solving a problem or curing the customers pain.

- **Long term goals of the business:** It's always a good idea to look ahead a bit to see where you want your business to go. When doing this, be pragmatic and realistic. Don't assume your next gig will be as big as Facebook or Google.
- **Resources required:** Now that you have a long term goal, you need to figure out what it will take to achieve it. This may be getting investors, developing products or services or hiring staff.
- **Summarize why you will succeed:** It's always best to end with a summary of what the reader just read and come to some resolution. This pulls the narrative together and allows the reader to leave satisfied.

Narratives are a great way to play around with your business ideas until something solidifies. Once cast in stone, the next step is to bring your business alive with a stellar pitch.

31.4 The Pitch

Every perfect pitch starts with perfect slides. Each slide has to tell a story. Each slide has to summarize the important elements of your venture. Even if you never give a pitch to an investor, it's vital to do a pitch. The pitch allows you to outline all of the critical aspects of your business. You will find that the more you review and hone your pitch, the better you can talk about your business. Your base pitch should ideally be 12-14 slides and include these essential elements:

- **Title Page (1 slide):** The title page frames your pitch. It should have the name of the venture, your tag line and maybe a quote from a customer. This introduces you and it will be the first slide investors see. Make it your lede to the great company you just created.
- **Team (1 slide):** Introduce your team. CEO at the top, followed by 2-3 additional executives. These should be brief bios that contain information relevant to the venture. Include companies worked for with an emphases on any that were investor backed (including ones that had successful exists).
- **Market Overview (1-2 slide):** A general overview of your ventures primary market. These slides should have both US and World Wide (WW) market numbers. Describe the market in easy to understand terms. It is also a good idea to explain the market dynamics and growth rates. What factors, in a macro economic sense, drive your markets growth.
- **Market Pain or Need (1-2 slides):** Capture the need or pain the marketplace. This is where you start to craft the story as to why your product or service will garner sales.
- **Product Offering (1-2 slide):** Once the need is described, the next step is how you will address it. Summarize your offering in an easy to understand way. Don't use a lot of buzz words. Do use some industry specific jargon that has been properly defined. If you are uncomfortable with that, then just use plain simple language.
- **Technology (1-3 slides):** These slides should explain the essence of your technology and why it is different than the present start of the art. If your venture does not have a special technology component then explain your unique approach. This section is also a great place to put any issued or pending patents.
- **Customer Traction (1 slide):** If you have lead customers that are willing to talk to investors, then add a slide for them. Just 2-3 top customers, preferably ones that are leading in the marketplace.

- **Schedule, Milestones and Funding Needs (1 slide):** A graphical representation of the schedule, milestones and funding required. You should include the major milestones that the investment will be used for along with follow on rounds that get you to an exit event (like purchase or IPO).

- **Financials (1 slide):** Include 5 years of financial projections including: Total Revenue, Cost of Goods Sold (COGS), Gross Margin $ and % of Total Revenue, Net Income $ and % of Total Revenue, Units sold, Unit ASP and Projected Market share. All of these numbers should come from your Financial Model.

- **Thank You / Q&A (1 slide):** This last slide should have your contact info. You may never get to it but putting it up on the screen during a question time allows your audience to remember who you were.

- **Appendix (Optional):** There is no harm in putting backup slides in the appendix. You may never get to them them but if a question arises, it is perfectly acceptable to jump to the appendix. Appendix slides should have more details than your normal pitch slides. They can bend the rules of form and function.

I know, this seems like a lot to do. Relax. The critical thing is to get your ideas down in a tangible form that you can craft and hone. Doing this will make your idea real and give you a better sense of how feasible it might be.

31.5 Executive Summary

Ideally, an executive summary is no more than two, single spaced pages, using twelve point font. The layout should use ample white space and sections should be accented with bold or underlined text. Like the pitch, there are critical sections that need to be included. These sections, in order of appearance, are:

- **Centered Company Name and Executive Summary:** It should be obvious from across the room that this is an executive summary. Centering that fact, in a larger font, primes the reader for what is to come.

- **Elevator Pitch (100-150 words):** This is the most important paragraph you will ever write. It's the lede that hooks the reader. A dull or flat first paragraph will ensure your summary gets circularly filed. Make it bold. Make it stand out. Make it grab the reader. Distill the essence of your company in this first paragraph. Doing this shows that you can focus on what is important and that you know your business. Any business, I don't care how complicated, can be distilled into a paragraph. Revise this first paragraph until it flows like water when read. Say it out loud. Craft the words so they do the maximum amount of work while not over complicating it.

- **Customer Pain (150 words):** Describe why what you are proposing solves a customers pain or problem. This should also be part of the elevator pitch but here, you need to elaborate to convince the reader to read on. Give statistics like customer savings, performance improvement, etc. Again, make the words crisp but not overly complex. Use market jargon if appropriate but make sure it's properly defined.

- **Market (100-150 words, tables help):** Define your target market. How big is it? Who are the major customers? What is the size and scale of the dollars you are going after? Add a table to break out the various sub-markets so that it is clear where you will focus.

- **Product Offering (150-200 words, pictures help):** Explain your product offering. This should include technical advantages as well as form, fit and function. It's also good to put in any issued or filed patents.

- **Competitors (100 words):** Describe any competitive threats that are present or may be present. Along with these threats, explain why your solution will beats them.

- **Customers/Partners (100-150 words):** Summarize your lead customers and partnerships. This should be your top one or two for each. Elaborate on your relationship so that it is clear where it's at. Make sure to list any signed agreements.

- **Management (150-200 words):** Brief bios (a short paragraph each) of your executive team. Keep the content relevant to the present venture. List recent accomplishments as well as successful exits.

- **Schedules, Milestones and Capital (150-200 words, maybe a table):** Start this section with any capital raised to date as well as how it was raise

- Explain how these initial funds were used. Next, state the amount you want to raise and what those funds will be used for. Give some details as to the milestones, along with dates, that this new round of funding achieves. As space permits, describe any additional round that may be required to launch the product or become profitable. In some cases, a table might be the best way to show this.

- **Contact Information:** Include who to contact about additional questions or to setup a meeting.

Executives summaries are meant for one and only one thing – to get the face to face meeting. Your summary has to be exciting enough that an investor wants to pick up the phone and setup a face to face meeting.

31.6 Financial Model

Financial models are a critical component of any venture. Modeling how you spend and earn money is the only way to know how much to ask for. A proper financial model also forces you to ask the tough questions about where each and every dollar is going. Your potential investors need to understand that the money you are asking for has some basis in reality. Having a financial model sets that reality. It also is a tool for you to refine your ventures operations and run scenarios. In some cases, you may not get all the money you want. With a solid financial model, you can adjust accordingly.

Today, the best available tool to model your finances is a spreadsheet. Some financial packages (like Quickbooks) do have budgeting capability. The only problem with that approach is the learning curve, cost and inflexible input. You really can't enter in equations nor can you format the output like you want it. There are many schools of thought on granularity or details for a model. The level of detail will depend on your business and how much money you need. If the business is a coffee shop, single person consulting firm, dog walking business or restaurant, then the simple one month is a good start. For a more complicated business (like one that needs a significant amount of investment), a detailed monthly cash budget makes more sense. The simplest financial model is a basic cash (Income/Expense) budget. In a startup, cash is king. So, understanding every single expense is critical. For a simple one month cash budget, follow these steps:

- **Format Your Spreadsheet:** The best way to organize the spreadsheet is to have income on the left and expenses on the right. See One Month Cash Budget for an example.

- **Start With Expenses:** List all of your anticipated monthly expenses. Start with things like rent, insurance, utilities, Internet, cellphone, etc. Once you have those down, then work on the salary and benefits. A common mistake most entrepreneurs make is they don't pay themselves. This is neither practical nor a good ide

- Running the business is your job. You should get paid for it.

- **Estimate Production Costs:** If you are making a product, on a separate sheet, calculate your Cost of Goods Sold (COGS). This will be your variable costs. Variable because they vary depending on your level of production. If you don't make anything physical (like a car, meal, widget or whatever), then you can skip this step.

- **Determine Selling Price:** Don't freak out too much. It's an art to get the selling price right. You really don't know exactly someone will pay for something until they actually pay for it. The best initial approach is to look at your competitors.

- **Figure Out Break Even:** The break even point is the amount of sales you need to generate in order to cover your fixed costs. Knowing this determines how many sales you need to shoot for. This is dependent on how much profit you make on each sale. The equation is: Break Even = Fixed Cost / (Unit Price - Variable Unit Cost). Check out this link for more details. Once your cash budget is completed, it's now time to double check your assumptions.

- Scrub through the entire budget and validate your expenses.

- Look at the sale unit break even point. Is it doable or completely insane?

- Compare your sales numbers to competitors. Is it roughly inline or vastly different?

- Have I under/over estimated expenses or price?

After scrubbing a couple of times, find a trusted (and willing) friend. Present the budget to them as if they were an investor. Explain your expenses, income and assumptions. Even if they have little experience with your business, the act of teaching them will flush out your assumptions. When starting your business, it's a good idea to have 3-6 months of fixed expenses in the bank. This "runway" will allow for operations while you build a customer base. Ventures that need to develop a product before they can sell it, need a month by month budget to determine total capital required to launch the product. Initially, the focus should be on the expense side since sales will not happen till after the product is done. This modeling is a little different than the one above. It includes the following changes:

- **Format Your Spreadsheet:** Expenses and income will be separate. Rows will be the expense category while the columns will be the month. You can take it out for as many months as you want. The typical duration is through product launch. See Detailed Monthly Cash Budget for an example.

- **Start With Fixed Expenses:** Just like the One Month, focus on your fixed costs each month. Copy those costs across to all months if you anticipate them not changing.

- **Figure Out Variable Expenses:** In this model, variable expenses can hit at different times. For example, if you need to buy a tool or software for a specific task.

- **Determine Staffing Levels:** Most companies ramp staffing up. The detailed month budget handles that well.

- **Sum and Accumulate Monthly Expenses:** Sum the expenses for each month them accumulate them over the months. This will show you how your cash burn rate varies over the months. It also allows you to figure out the total amount of money needed.

Initially, break even analysis for a venture that develops products is not as critical. It still has to be done but only after you to the sales model. Once you have completed the detailed budget, do exactly the same procedure as the one month. Vet your assumptions with a trusted friend to ensure that nothing has been missed.

31.7 Iterate as Required

Planning a business is an iterative process. As you get into the details, you will adjust your plans until it starts to gel. Following the advice above will give you a good framework in which to iterate without getting frustrated. Remember, you plans may change but in order to change a plan, you first must have one.

31.8 Things To Ponder

1 Write a business narrative for your new business.

2 Create your business pitch based on the narrative above

3 Review your business narrative and pitch to see if they match. Iterate them until they do.

4 Build your executive summary based on your narrative and your pitch.

5 Do some research on the types of expenses your business might have.

6 Build your financial model. Check some of the assumptions by looking up competitors in your market space.

31.9 Exploring Further

- Check out Guy Kawasiki's excellent post on Power Point pitches here
- Quicksprout has some advice on pitching venture. Check out the post here
- A Great post on Executive Summaries
- Reuters article on startup costs
- Break Even Analysis post

32 Bonus Topic: Business Startup Checklist

32.1 Planning

- Choose a name
- Write your business narrative
- Develop your Pitch
- Refine your executive summary
- Build your financial model

32.2 Legal Requirements

- Choose a business structure
- Obtain an EIN number
- Apply for a business license
- Purchase insurance

32.3 Infrastructure

- Select an accountant or setup accounting software
- Find a lawyer
- Secure an office space
- Purchase office equipment
- Open a bank account

32.4 Marketing

- Develop a marking plan
- Obtain a logo
- Design business cards and letterhead
- Register a URL
- Put up a website

32.5 Operations

- Establish Distribution Channel
- Secure inventory