
CHAPTER 1

The 10 Most-Asked Questions from Entrepreneurs

Some entrepreneurs dream about starting a business but don't quite know how to go about it, while others have an existing business that is barely breaking even or just making a small profit. Both categories of entrepreneurs have many questions about the world of entrepreneurship. That is why I was asked to write a weekly column in the business section of the Rocky Mountain News, now syndicated by Scripts Howard.

In the column, entitled "Entrepreneurs Ask," entrepreneurs were asked to send their business questions to me. I was immediately flooded with over 100 letters asking a myriad of questions, from "Do you think I have what it takes to be an entrepreneur?" to "How do I go about writing a business plan?" to "How can I attract venture capital to fund my business?" I continue to be deluged by letters from entrepreneurs across the country asking thousands of questions about starting and operating entrepreneurial ventures. Many ask the same questions over and over again. Here are the "10 Most-Asked Questions from Entrepreneurs" who have been responding to my column for the past 10 years. The answers are concise, helpful, practical, and present cost-efficient strategies. They are intended to help entrepreneurs grow more profitable ventures and to positively impact job creation and economic development. In this chapter, each question is discussed at length.

Question #1

I'd love to start a new business, but I don't have a great idea. What kind of business should I start?

Answer

You do not need a great idea to start a new business. If you wait for that phenomenal new idea to strike, you may never find it. Having the best idea is not the critical element in launching a successful venture. The truth is that many successful entrepreneurs decide to start a new business first

TIP

It is far better to start a new business because you find an unmet need in the marketplace with a competitive advantage that matches your experience, rather than because you come up with an idea that will revolutionize the marketplace.

and then go looking for a product or service to offer. Seldom does a successful founder start a new venture with a great idea. People are successful if they are doing what they truly love to do. Entrepreneurs should combine their likes and desires with potential venture ideas.

Consider many laid-off workers who have spent 10, 15, 20, or more years in the corporate environment and are in the process of starting new ventures because they cannot find comparable jobs. Many do not have a great idea but search for products or services to offer that match their experience and expertise.

You begin the venture hunt by assessing your personal criteria to determine what kind of business will fit your lifestyle requirements. Ask yourself about the type of business that would satisfy you and your lifestyle. Then consider the following list of soul-searching questions:

Entrepreneur's Venture Checklist

1. What do you like to do?
2. What are your interests and hobbies?
3. What are your areas of expertise?
4. Do you have any special skills or talents?
5. What industry are you most interested in?
6. What are your financial needs?
7. How much financial risk are you willing to expose yourself to?
8. Would you be more comfortable with running a small business with few employees or a larger business with many employees?
9. How many years do you want to work?

10. Will your current physical condition withstand the pressures and stresses that come with starting a new business?
11. Where do you want to live and work?
12. How many hours per week are you willing to work?

Entrepreneurs must identify and evaluate what is important to them in starting a new venture. The key is to assess your personal desires and then decide which business venture matches your personal criteria and represents a significant marketing opportunity.

Once you have found products or services you want to offer, don't forget to calculate the opportunity costs involved in starting a new venture. If you don't have the right skills for that business, sign up for entrepreneurial courses or seminars to develop your business skills.

Question #2

I want to open a business in my home. What do I need to do to get started?

Answer

There is a growing trend for men and women to start and operate successful small businesses from their homes. Recent studies show that one out of three new businesses in the United States is run from the home.

Before starting a home-based business, assess your capabilities and abilities to run a business from your home by taking the following quiz. The more yes answers you have, the more likely it is that you are suited to start a home-based business.

Home-Based Business Quiz

1. Do you have adequate living space to devote a section of your home to a business without disturbing your family?
2. Will your family refrain from interfering with you while you work on your business?
3. Are you comfortable operating independently?
4. Can you organize your time well, set aside the necessary hours to run your business, and stick to it?

5. Can you make decisions on your own?
6. Are you a self-starter?
7. Will you leave your home and go out to make customer calls?
8. Do you tend to complete projects on time?
9. Do you have sufficient funds to start a home-based business?
10. Are you willing and able to acquire the right equipment to operate a home-based business?
11. Will your local zoning rules and regulations permit you to run a business in your home?
12. Are you willing to research your home-based business idea and write a business plan to make your dream a reality?

TIP

Run your home-based business as if it were located in a separate office.

Next, consider whether the type of business you want to start lends itself to working at home. If location is not important to your venture, then a home base might be perfect. One of the benefits of operating a home-based business is the attendant economies of scale—that is, getting started with minimal capital and overhead expenses. In

addition, you have more time to work because you no longer need to drive to and from an office location.

Be sure you establish a network of professional contacts, since running a home-based business can be lonely. Take advantage of the many available home-based resources, support groups, and professional associations.

Question #3

How do I approach a banker to get a loan to start my new business?

Answer

This is one of the most frequently asked questions by entrepreneurs who have the misconception that a bank is the first place you should go to finance a new venture. Just the opposite is true. Most first-round financing for new ventures comes from family and friends. When looking for start-up capital, first talk to your family, friends, and relatives about investing in or loaning you money for your venture. Next, look to some of the alternative sources of financing discussed in Chapter 8.

Many entrepreneurs do not realize that the available sources of capital change dramatically depending on the stage and rate of the venture's growth. Most debt and equity financial sources are not available until the venture progresses beyond the early stages of growth.

Many commercial banks do not need or pursue small-business clients. By the same token, owners need the support of banks and their services to deposit checks, process credit card transactions, obtain lines of credit, and so forth. Therefore, establishing a banking relationship is extremely important to all entrepreneurs. However, it is difficult to obtain a small-business loan unless you have a significant amount of initial equity money, including both a primary and a secondary source of repayment. In addition, banks prefer to lend to businesses that have at least a three-year operating history, with accompanying financial statements. *Banks lend almost exclusively to existing businesses with identifiable cash flow and capital.* Typically a loan officer will require the following documents before considering a loan request:

Banker's Lending Checklist

1. Current interim balance sheet and income statement.
2. Cash flow projections.
3. Pro forma balance sheet, income statement, and cash flow.
4. Fiscal year-end financial statements.
5. Three-year historical balance sheet, income statement, and cash flow statement.
6. Business tax returns for the past three years.
7. Current accounts receivable.
8. Current accounts payable.
9. Inventory, furniture, fixtures, and equipment lists.
10. Business plan.
11. Current personal financial statement.
12. Personal tax returns for the past three years.

Generally, a start-up venture is able to provide only a business plan, pro forma or financial statements, a personal financial statement, and personal tax returns. Bankers know that the younger the company, the riskier the investment. Remember, banks and risk do not mix. Bankers feel that start-ups have little if any proven capability of a strong management team, much less an ability to generate sales and subsequently pay off short-term debt.

The first step in establishing a banking relationship is to get a referral for specific loan officers at several different banks from business associates and other business

TIP

Establish a banking relationship before you ever need to borrow money. Finding the right banker is more important than finding the right bank.

owners. Ask your referrals to call ahead and let the loan officer know that you will be calling to set up an appointment. The following checklist of questions is provided for you to use when interviewing and selecting the right banker:

Checklist Questions to Ask Bankers

- What type of commercial loans does the bank make? Does it prefer loans under \$500,000? Over \$1 million? Does it secure loans by assets of the company, such as accounts receivable, equipment, or inventory? Or does it prefer to use real estate and personal assets of the owner? Do they offer term loans that amortize, or revolving lines of credit?
- What type of repayment options are available? Interest for only 6 to 12 months? Principal and interest payments due monthly, quarterly, or semi-annually? One-year term? Five-year term?
- What criteria are considered when the loan is first submitted? What documentation is required?
- Ask what documentation will be needed when the loan matures and you wish to renew.
- What will be the interest rate and all other fees?
- Are the interest rate and fees open to negotiation?
- What determines rates and fees?
- How long does the process usually take from application to closing?
- What other business services does the bank offer? What types of deposit accounts are offered and how is interest paid? Does the bank offer credit card deposits? Are money bags supplied to make deposits in? What are the related fees?
- May the applicant (or applicant's attorney) review all loan documents prior to signing them?
- Does the bank have an advertising program where businesses can put ad coupons in the statements mailed to bank customers?
- Ask if the bank can use your services.
- How long has the bank been open? Under its current management?
- How long has the loan officer been with the bank? In banking? Determine if he or she understands your business and its needs.
- Find out how, in the event of a temporary downturn in your business, the bank will work with you.
- If the bank would be unable to help you at such a time, could it recommend a bank that might be able to?

Question #4

Where can I find a venture capitalist to finance my new venture?

Answer

Very few start-up businesses can qualify for venture capital funds. Most research shows that less than 14% of investments made by venture capitalists are in start-up ventures, and most of these investments are for new product development. Venture capital firms are not a good source of financing for start-ups.

To begin with, a very limited number of venture capitalists are interested in funding raw start-ups. Although venture capitalists frequently invest in high-risk ventures, usually through an equity purchase, they look for a 20% to 30% annual return on their investment—and, if successful, 10 times their investment in about five years. They are interested in the strong cash flow and profits that a business can generate. Like bankers, they prefer to see several years of operating history before they consider investing. They also have stringent criteria for their investments and fund less than 1% of the deals that come across their desks.

For their financial help, venture capitalists usually get a healthy percentage of ownership in the business. It is not unusual for venture capitalists to take up to 75% ownership of a start-up high-technology venture. They want a hand in managing the company, usually through active participation in management decisions and/or through board seats—either as directors or as advisers.

In addition, they prefer to invest in companies that will go public within a reasonable time period, usually five years, at a share price high enough to give the venture capitalist a significant gain on the investment and an exit. Last, they usually invest in certain types of industries like computer hardware, electronics, and health care.

Instead of looking for a venture capitalist to fund your new business, look to informal sources of venture capital, such as family, friends, private investors or angle networks (groups of independent investors interested in lending to entrepreneurs), professional advisers, business acquaintances, successful entrepreneurs, customers, suppliers, and prospective employees. It has been estimated that over 95% of capital for new businesses comes from these sources.

Question #5

How do I go about obtaining a patent for my new software program?

Answer

Many investors do not understand the field of intellectual property, the need to become more familiar with it, and how to protect their ideas. Overall, there is much confusion about how to protect intellectual property and the differences between a patent, a trademark, a copyright, and a trade secret. Determining the form of protection to pursue is critical before marketing your invention. See

Chapter 6 for more detailed information on different types of intellectual property and how to obtain protection for them.

To begin with, software programs can now be both patented and copyrighted. A patent may be obtained for a new and usable process, machine, manufacture, or composition of matter or any new and useful improvement. A patent gives the inventor the right to exclude others from making and selling the product for 17 years, provided that maintenance fees are paid every 3½ years. A patent keeps others from using or selling the patented invention and is in a sense a legal right to litigate against those who infringe on the patent.

To apply for a *patent*, you must file an application with the U.S. Department of Commerce, Patent and Trademark Office, Washington, DC 20231. Although you can do much of the legwork yourself, I strongly recommend that you consult with an intellectual-property attorney to assist in this process. Become knowledgeable about the process before you begin. Also read *Patent It Yourself* by David Pressman.

If your creation involves any written or artistic matter that includes a symbol, word, shape, or design, you can qualify for protection under trademark law. *Trademarks* are used by a manufacturer or business to identify goods and to distinguish them from other goods. *Service marks* are slogans or phrases used in the sale of advertising of services as opposed to products. A trademark can be easily obtained by attaching the letters TM to your mark (or SM for a service mark). It is advisable to register with both your state and federal trademark offices. Unlike patents, trademarks have an indefinite life when used properly. Federal trademarks are issued for a period of 10 years and can be renewed if still in use. For the appropriate forms and information to register a trademark federally, write to the Patent and Trademark Office, Washington, D.C. 20231.

A *copyright* includes any book, poem, speech, recording, computer program, statue, painting, label, cartoon, dramatic or musical work, pantomime, choreographic work, motion picture, video, map, game board, packaging design, or instructions. Copyrights offer legal protection just like patents and trademarks but are much easier and less costly to obtain. To give notice of your copyright, write “Copyright,” followed by the year the work is completed, along with your name or company name. You can also use (c) as an alternative to writing “Copyright.” It is advisable to register your copyright with the U.S. Copyright Office, Washington, D.C. 20559.

Trade secrets include techniques, designs, materials, processes, and formulas that are not known by the public and can be licensed in the same way as a patent. Trade secrets last as long as you keep them secret. To qualify as a trade secret, the information must have economic value and be a secret; also, you must attempt to protect it. It is strongly recommended that you stamp all such information “confidential” and use a confidentiality or nondisclosure agreement for information you consider to be a trade secret.

To remember the differences between patents, trademarks, and copyrights, think of Coca-Cola:

- The artwork on the can or bottle can be copyrighted.
- The way it is expressed can be trademarked.
- The formula for Coca-Cola is a trade secret but could have been patented.

Martha Blue's *Making It Legal* includes an extensive section on patents, trademarks, and copyrights.

Question #6

I have already patented a new invention but need to find a marketing company to distribute my product. Where can I find one?

Answer

Don't bother looking for one. The problem with most invention marketing companies is that they promise you the moon but deliver little. Many of these companies advertise in entrepreneurial and invention magazines looking for investors with novel ideas who want to take their invention to the marketplace.

For an initial fee, usually \$500 to \$800, these companies will research your invention to determine its marketability. You will receive a boilerplate research report that indicates an exceptional potential for your invention that will bring in thousands of dollars and make you rich and famous.

Next, these companies will entice you to send in more money—this time between \$2,000 to \$8,000—to produce an in-depth report on how to market and sell your invention. The second report, like the first one, promises a huge success and forecasts spectacular earnings for the invention.

The problem is that few if any invention-marketing firms deliver on their claims. According to *The Wall Street Journal*, fewer than 1% of investors ever get a penny from their inventions, despite the high fees they paid up front. Many of these companies are being investigated by the Federal Trade Commission. See Chapter 8 for further information and hints on how to investigate invention-marketing firms.

TIP

Research the market potential for your invention. Write a business plan to determine if the invention could be profitable, and then learn how to market your product yourself.

Question #7

How can I increase my sales and find new customers?

Answer

Add sales to your business by first concentrating on developing and expanding your current customer list. Many entrepreneurs spend the majority of their time looking for new markets instead of trying to cultivate their current customer base. They make the mistake of responding to the many different market segments without successfully penetrating any of them. Also, they forget the 80/20

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rule: 80% of sales come from 20% of customers. Your marketing goals should be to concentrate on the 20% who generate most of your business. Remember that new sales and spinoff products or services often come from customers and employees.

Pinpoint your best customers and then work at increasing their individual orders. Here are the advantages of developing your own customer list:

1. It is probably the most inexpensive marketing strategy you can use.
2. You can increase your ability to accurately measure the results of your marketing efforts.
3. You can zero in on this target market and personalize your message.
4. You will receive the highest response rate from this group.
5. You can experiment on different marketing strategies and receive feedback on what works best.
6. You can increase your sales to proven customers.

Seasoned entrepreneurs have been compiling their own mailing lists of current and potential customers since opening their ventures. Research your customer base and develop a detailed customer list containing such information as your customers' backgrounds, how they discovered you, purchasing history, buying preferences, and specialized needs. Look for common customer characteristics and purchasing trends. Use the following tips to increase your sales.

Smart Customer Marketing Tips

1. **Send postcards announcing an upcoming sale.**
2. **Send an informal newsletter or a "For Your Information" memo to keep customers informed about new products/services or special offerings.**
3. **Send a fax about a special promotion.**
4. **Send a direct mailing about items customers might be interested in purchasing.**
5. **Call customers at various times during the year when they make their biggest purchases.**
6. **Try using coupons and track which ones are redeemed.**
7. **Send an attractive promotional one-page flyer.**
8. **Follow up after customers have purchased from you to determine if everything was satisfactory.**
9. **Visit customers at their offices and ask about how you could improve your product/service.**

10. Take people out to lunch to keep them informed about your business and to inquire about their future needs.
11. Send a thank-you note after people have purchased from you.
12. Ask your customers for new customer referrals.
13. Ask your best customers for testimonial letters you can use to solicit new customers.
14. Experiment with Internet marketing.

The more you find out about your current customers, the better able you will be to increase the amount of business you get as well as to receive referrals for new customers. Develop creative ways to stay close to and continually communicate with your customers. See Chapter 5 for more information.

Question #8

Since I don't have much money to market my business, where should I advertise?

Answer

First, consider whether advertising is the best market-penetration strategy for your business. Many entrepreneurs take the easy way out and just place an ad in a newspaper or magazine without first determining whether that type of advertising will bring in more sales. Using ads and mailing brochures is a lazy marketing strategy that usually does not bring about desired sales. You may reach many people, but how many will take action and purchase your product or service? Ask yourself if advertising is the best marketing method to use.

According to *Marketing Without Advertising*, more than two-thirds of profitable businesses operate successfully without advertising. There are several reasons that advertising may be inappropriate for your business:

- It may not be cost-effective.
- Directly reaching your target market is more important than reaching a large audience.
- Advertising may not establish a second customer base with repeat sales.

Instead, develop a sound marketing plan that evaluates several different market-penetration strategies and the costs of each, then identify which types of media should be used to obtain the greatest amount of response and sales. Each type of media has its own particular strength and should be selected for its ability to meet your marketing goals and fit your marketing budget.

Entrepreneurs have been experimenting with many new marketing tools during the last decade: e-mail blasts, internet banner ads, bumper stickers, T-shirts,

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contests, skywriting, 800 telephone numbers, personal letters delivered via overnight mail, movie and theater advertising, and so forth. There are many choices.

Start by analyzing each market-penetration method and determining which ones will reach your target customers, whether you can use the method properly, and whether you can afford it. Read Chapter 7 to get more ideas about developing a marketing plan.

Question #9

How can I successfully market my product with a limited budget?

Answer

Be creative and develop a marketing plan. Begin by developing a marketing plan that includes identifying your best target markets and then developing a strategy for penetrating each. First, study your markets and determine who your best customers are or could be. Prepare individual profiles on all your current customers, listing important demographic and lifestyle information.

Next, identify your target markets. Prioritize them according to profitability, size, and the share of your market they represent. Pick the markets that will produce the most sales and are easiest to penetrate. Then observe your competitors to determine what kinds of marketing tools they utilize. Look at which marketing methods work well and which kinds do poorly. Try to learn from others' mistakes. Attend your industry trade shows and professional meetings. Ask other owners what works well for them and which pitfalls to avoid.

Consider the various market penetration methods available:

Direct sales force	Direct mail
Manufacturing representatives or sales agents	Infomercials
Telemarketing	Distributors
Trade shows	Franchising
Consignment sales	Licensing
Media advertising	Exporting
Flyers	Interactive computer disks
Signage	Internet and E-mail

Look for cost-saving ways to use each of the preceding market-penetration methods. For example, buying remnant space in magazines can reduce your media costs. Writing feature stories about your business is another cost-free way to obtain media coverage. Look for additional innovative marketing tools. Evaluate each market-penetration method and its costs. Then match these strategies with your markets.

Successful entrepreneurs use multiple market-penetration methods. They begin by trying to determine which methods will be most successful and then experiment with a few. Your market research will indicate which methods are

likely to be the best ones for you to pursue. Remember that your market-penetration methods will change as your business matures.

Finally, write a marketing plan that outlines realistic short- and long-term goals. Include a marketing calendar. Stick to your marketing plan; evaluate its effectiveness and the results of your marketing efforts. Revise your plan accordingly. Flexibility is important. Remember, most entrepreneurs severely underestimate the amount of money it takes to successfully penetrate just one target market.

Question #10

What kind of franchise should I purchase?

Answer

Purchasing a franchise eliminates many of the headaches associated with starting a new venture from scratch. Also, proven franchises offer lower risks of failure than unproven franchises or new start-up businesses. *Inc.* magazine has reported that 38% of start-up businesses fail within the first year, while less than 4% of franchises experience failure in the first 12 months. However, considerable due diligence should be exercised in evaluating and choosing a franchise before ever entering into a franchise agreement.

First, visit your library to review franchise handbooks that contain information about existing franchises and their parent companies. Next, ask the librarian to assist you in locating some of the electronic databases that contain financial information and disclosure statements on franchises. It is critical that you evaluate the financial strength of the parent companies. These databases contain annual reports, quarterly financial statements, and other detailed financial information.

While at the library, obtain copies of anything written about the franchises you are interested in pursuing. Also examine the various magazines that publish annual listings of franchise opportunities. For example, each year *Inc.* magazine publishes a list of the 100 best franchise operations.

During your evaluation process, compare the different front-end fees, royalty payments, expenses, and so on. Franchising can offer an easier alternative to starting a new business, but entrepreneurs must carefully assess and analyze each opportunity.

Potential franchisees who think this is a slam-dunk business venture have been misled. Instead, finding the right franchise to purchase, locating a site, negotiating a lease, finishing the tenant space, obtaining the equipment, putting together the management team, and hiring the right staff take much time and effort.

TIP

Most entrepreneurs think that purchasing a franchise is a turnkey operation. In reality, much due diligence, research, and up-front work is necessary.

