

TEN *Evil* TRUTHS

About Starting a New Small Business

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PREFACE

As a Business Development Advisor working for the Nevada Small Business Development Center at the University of Nevada, Las Vegas, I have been able to assist hundreds of small business owners in their entrepreneurial ventures. I hope that these Ten Evil Truths will assist you in strategically planning for your new small business.

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TRUTH #1

Most People Are Not Cut Out to Run a Business

You might be one of these unprepared people. Lets face it. We are trained in our K-12 school system to be employees. Our school system was created to supply workers for the industrial revolution that could read, write, and do math in order to work in the factories that were powering our economy at the time. We were not trained to think outside the box. We were trained to be compliant “worker bees”. We also don’t teach financial literacy in schools. A student is lucky to get out of high school with one business class. That will not prepare you to start and run a small business. Most entrepreneurs don’t even know the basics of accounting. A well-rounded practical education for a potential small business owner should include: Accounting, Finance, Marketing and Management training. These skills are vital in order to run a successful small business venture. If you have never run a business before, you are at a disadvantage in all areas. Get help from knowledgeable advisors. Visit with a Small Business Development Center, or SCORE Advisor. It’s Free!

Bindrup’s Advice: Use business advisors and mentors to help you along the way or don’t quit your day job.

TRUTH #2

You Will Probably Fail

Statistics are not on your side. Statistically, you will fail within a year. 90% of all small businesses fail in the first year. 90% of the remaining businesses fail within 5 years. In addition, most everyone wants you to fail. Your friends want you to fail. Even your family wants you to fail. They want you to get your head out of the clouds and get a normal job like they have. You are going against the status quo by trying to start a business. In fact, they are expecting you to fail. After all, they know you. You have a terrible track record. Chances are that as an entrepreneurial soul, you have had many attempts at creating some kind of business. Remember that get-rich-quick scheme you invested in a couple of years ago that went bust. And, oh yeah, don't forget about that Multi-level company that you got your whole family to join only to realize that the product stinks and was too expensive (You still have 8 boxes of product in your garage). You have probably lost money that your loved ones gave to you for the venture. Friends and family members want to believe in you, however after a failure, they want you to prove yourself to them first.

Bindrup's Advice: Fail early. Fail often. Then pick yourself up and do it again; just do it better.

TRUTH #3

If You Build it They Won't Come

I have had many inventors as clients that come to me for marketing assistance. They all have the same problem: the product isn't selling. They all came up with a brilliant idea, patented it, found a manufacturer, and sunk their savings into production run of their invention. Now they are broke, sitting on a garage full of their great idea gathering dust. What is really funny is that most of the inventions seem like they would sell. They seem like wow! This is a great product! But, no one purchases the product. Sometimes the best inventions don't sell in the marketplace. Sometimes the best product doesn't sell. Consumers are fickle. They are taken by fads. They are predictable in one moment and erratic in the next. Even when the product is extensively tested in the marketplace there can be unpredictable results. Just ask Coca-Cola. Remember "New Coke" formula that was introduced in April 1985. It tested well in focus groups. It was abandoned 3 months later due to 400,000 complaint letters and phone calls that Coca-Cola received from disappointed customers. Coca-Cola has big enough pockets to recover from such a disaster; Start-ups don't.

Bindrup's Advice: Build a prototype, protect it, and get it in front of your market. Let sales drive the production.

TRUTH #4

Your Business Plan is Fiction

Don't get me wrong; a business plan is a useful tool. Businesses who write business plans tend to survive. We write them for two reasons. Reason 1: It helps us as small business owners assess risk on paper so we can make an informed decision about the viability of the business. Reason 2: Financial institutions want it to assess how risky you are as a potential borrower. A business plan is fiction. It is a fabrication; a story of what could be. I often hear entrepreneurs say when pitching a business plan, "Our numbers are very conservative". No, your numbers are not conservative. They are fiction. They have not happened yet. It is all "Pie in the Sky" thinking. By its nature, a business plan is optimistic. No one ever comes into to the bank with a business plan that shows how the business fails in nine months. Once you commence operations, all bets are off. Your business is in a constant state of flux. Customers, marketplace, and technology are continuously evolving and placing new pressure on your business to evolve in order to serve them better. Your business plan needs to be continuously updated to reflect the changing business environment.

Bindrup's Advice: Write a Business Plan. Plan for a regular time to re-visit and update the plan.

TRUTH #5

Sales is The Only Way to Prove Value

The bank and potential investors don't care about how much you "believe" in your new business. They know that most small business owners are delusional about the level of profitability they foresee in their business. One of the questions from a potential investor is "Have you sold anything yet?" The only way to prove that your business concept is valid is by sales. In business, nothing happens until somebody sells something. Your constant goal as a startup is to focus on sales. Forget about everything else. A small business owner should spend all business hours on sales. Handle accounting and other administrative tasks after business hours and on weekends. Focus on driving sales. It is the only way that you can prove value in your business. If you cannot prove that there is demand for what you are selling in the first six months of operations, your business is sunk. It sounds appealing to a potential investor that you have generated \$15,000 in sales during your first month in operations, or that you have sold 124 units out of the trunk of your car before you even got the business going. Sales prove value.

Bindrup's Advice: Always be selling! Create daily and weekly sales goals for yourself.

TRUTH #6

Professional Doesn't Always Mean Professional

I am talking about Attorneys and Certified Public Accountants (CPA's). Attorneys are trained in the law. They are not necessarily trained in business. Don't expect them to be. More CPA's understand the law than Attorneys understand accounting. In fact, many attorneys have never had to take a business course in school. Moreover, there are many different specialties of the law. You usually don't want the attorney who fixes your speeding tickets to be your business litigator. Don't get me wrong, a small business Attorney and a CPA are invaluable advisors to your business. You just need to be careful when interviewing and selecting these professional advisors. Some things to ask: How much are their fees? Can you call them for advice? Will they charge you for the advice? (I had a CPA who used to charge me \$75 every time I called him with a question on the phone!) I have heard horror stories from clients who retained the professional services of an Attorney or a CPA only to find out that they were less than professional, even unethical in their level of service. Do your homework: ask other small business owners whom they use for their business needs.

Bindrup's Advice: You should feel a good business chemistry with your Attorney & CPA. Choose Wisely!

TRUTH #7

The Government is Not Your Friend

Government often works against the small business owner. Government does not create jobs in the economy; it can only provide incentives to business owners like yourself to create jobs. Quite often, Corporate America, not small business, is the recipient of direct help from the Government. The \$787 Billion Stimulus Package that Congress passed on February 11, 2009 benefitted Corporate America, financial institutions and Wall Street, but did little to help the plight of struggling small business owners. Federal, State, and local governmental agencies tend to pass legislation that favors businesses with a large amount of workers. These large businesses have lobbyists who convince politicians to vote for legislation that favors big business over small business. A small business owner has to be smart and take advantage of tax laws. A good citizen and business owner pays their taxes. Avoid paying more than you need to. Hire good tax advisors and financial advisors to help you chart a course for success within the bounds of the law. New ordinances and tax changes take effect every year. Be aware of these changes.

Bindrup's Advice: Be aware of pending Governmental action that affects small business. Get involved!

TRUTH #8

Everyone Eventually Ends Up in Court

Plan on being sued. Just get over it. This is America, and people here sue for fun. I was sued 8 times in 8 years in business. 4 of the lawsuits were legitimate disagreements that we had with other businesses and they sued so we could work it out in court. 4 of the lawsuits were absolutely frivolous. In one of the lawsuits, our company was sued out of Chicago and we were named as a codefendant with Donald Trump's company and Disney! I consulted our Attorney and he told me that if I wanted to fight the case I had a couple of choices: First, we could hire an Attorney over the phone in Illinois to represent us. Another option was that he could represent us because he is licensed to practice in Illinois. We discussed legal fees, meals, airfare, per diems. He reminded me that Disney and Trump would fight this with numerous delay tactics. It was going to take a long time. I got the point. We settled. It felt unfair. Remember, it's not personal, it's legal. And legal matters need to be dealt with in court. Make sure you have already interviewed and retained a good business Attorney. Do not wait until you get served with a lawsuit to begin the search for a business Attorney.

Bindrup's Advice: "Lawyer-up" before you get sued!

TRUTH #9

Timing is Everything

As I was finishing my undergraduate degree in the late 90's, I asked a question: Why did college textbooks have to be so expensive? I started to brainstorm with a colleague about the possibility of an affordable electronic device that could be loaded with all of your textbooks for college at a reduced price. We did some research and realized that there were Palm Pilot and Pocket PC devices already in the marketplace, but no one seemed to be working on a project involving books. There seemed to be an opportunity in the market. We went to work on creating an electronic device that could be loaded with books targeted to college students. We got legal counsel, prepared non-disclosure agreements, and worked on an interface design. We needed a prototype. We found an electronics engineering student at the University joined our team and began making the prototype. Just as the prototype was finished, Sony announced a new ebook device that would hit the market in 90 days. We were crushed. The funny thing is that the device failed. The market wasn't ready for an ebook reader yet. It took nearly a decade for ebooks to be accepted into the mainstream.

Bindrup's Advice: Be on the lookout for emerging trends, but don't get too far ahead of the curve.

TRUTH #10

Employees Suck

The minute you hire an employee, your life changes. You are suddenly responsible for a lot of things. Payroll taxes, unemployment insurance, Workers compensation. Are we having fun yet? Once you own a small business with employees, Fridays will never be the same. As an employee, I used to look forward every other Friday to getting a paycheck. As a small business owner, every other Friday brings a sense of panic. You are constantly asking yourself: “Can I make payroll on Friday?” Welcome to Management. Managing people is a challenging task. Employees have been known to lie, cheat, steal money, etc. You probably can’t afford the best employees within your startup budget. You have to hire who can afford to take your low paying job. Additionally, No one will care about your small business venture like you do. You cannot expect employees to do so. Remember, this is your dream, not theirs. The worst thing about employees is that you have now magically turned yourself into a boss. You will probably be a lousy boss at first. Take a management class and try not to drive away your employees. Employees suck...Bad bosses suck worse.

Bindrup’s Advice: Be prepared before you hire! Think about Compliance, Management & Mindset.