

LEARNING MADE EASY



5th Edition

Small Business

for
dummies[®]
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Write a strategic
business plan

Start, establish, or
rejuvenate a small business

Hire and retain
employees

Eric Tyson, MBA

Bestselling author of *Investing For Dummies* and *Personal Finance For Dummies*

Jim Schell

Small business consultant

Eric & Jim's 20 Tips for Small-Business Success

- 1. Not everyone is cut out to be a small-business owner.** Take the time to explore whether you're compatible with running your own business. Some people are happier (and better off financially) on the other end of a paycheck.
- 2. Get your personal finances in order.** Before you jump into the entrepreneurial fray, get your own money matters squared away.
- 3. Pick your niche.** Take stock of your skills, interests, and employment history to select the business best suited to you. Choosing a niche that you can be passionate about will also help improve your chances of succeeding. Remember: Many small-business owners succeed in businesses that are hardly unique or innovative.
- 4. Benefit from your business plan.** The exercise of creating your business plan pays dividends. Answer the tough questions now, before the meter is running.
- 5. Don't think you need bankers and investors at the outset.** The vast majority of small-business start-ups are bootstrapped (self-financed).
- 6. Know the hats you wear best.** In the early months and years of your business, you'll have to acquire many skills. Gain the background you need to oversee all facets of your business well, but determine what tasks you should outsource or hire employees to manage.
- 7. Remember that "nothing happens until a sale is made."** How many good products go nowhere because they don't reach the shelves? Sales are what will drive your business. You need a crackerjack marketing plan that details how you intend to package, promote, distribute, price, and sell your product or service.
- 8. You have to see a customer to know one.** No matter how busy you are, especially in the early years of your business, be sure to spend at least 25 percent of your time with customers. You can't make the right business decisions without understanding the customer's viewpoint.
- 9. Solve your customers' problems.** The best way to satisfy your customers is not by selling them products or services but by providing solutions to their problems. Understand the difference.
- 10. Keep in mind that quality takes only moments to lose and years to regain.** Quality isn't a destination but rather a never-ending journey. After you've strayed from quality's path, your journey may be sidetracked forever.

- 11. Put profitability first and rewards second.** Beware of the small business that treats itself to hefty salaries, high-priced consultants, and waterfalls in the lobby. In small business, profitability must come first. In order to understand profitability, you must first learn how to measure your cash flow and understand your key financial ratios.
- 12. Hire superstars.** If you intend to create a growing business, your number-one duty is to assemble a team of superstar employees in your game-breaker positions.
- 13. Don't go it alone.** Tap into resources such as small-business peers, mentors, and trade associations that can help take some of the energy-draining trial and error out of starting and running your business.
- 14. Remember that vendors are partners, too.** A good vendor is as important to your business as a good customer. Treat your vendors like customers and watch the partnerships grow.
- 15. Make use of benefits.** The most valuable long-term benefit you can offer yourself and your employees is a retirement savings plan. Also learn how to provide insurance and other benefits and cut your tax bill at the same time.
- 16. Ignore regulatory issues at your peril.** Federal, state, and local government agencies require an array of licenses, registrations, and permits. Obey them or face stiff penalties, including possible closure of your business.
- 17. Know the tax laws.** Invest in understanding tax issues that affect your small business. You can avoid trouble and, at the same time, legally slice thousands of dollars off your tax bill if you know the right moves.
- 18. It's the people, stupid!** Whatever happens to a small business happens at the hands of the people who work it and work for it.
- 19. Fast, good, or cheap — pick any two.** Serious trouble awaits those who attempt to be all things to the marketplace. Focus on what you do best.
- 20. Develop a passion for learning.** As your business changes and grows, you need to change and grow along with it — particularly as you transition to manager. One common denominator can be found in all successful business owners — a passion for learning.

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by Eric Tyson and Jim Schell

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Introduction

Small business is many things to those of us who have participated in it or have dreamed about participating in it. Without a doubt, the concept of “being your own boss” is an alluring one.

But not everyone can be his or her own boss — at least not a good or successful one. If you’re currently someone’s employee (not a boss), fantasizing about owning a business of your own is perfectly natural on those days when you’re fed up with your current boss or job. Your fantasy is made even more attractive by the rags-to-riches stories you hear about entrepreneurs who’ve turned their visions into millions or even billions of dollars.

Please know, however, that small-business ownership has some not-so-appealing aspects as well. Most often, you have to spend many years working hard and making tough choices before the risks you take turn into rewards. Furthermore, a significant percentage of small businesses don’t survive to enjoy the long-term rewards. And perhaps most difficult of all, the entrepreneurial career can be lonely at the top.

Of course, the thrill of being the ultimate decision-maker may be exactly what attracts you to small business in the first place. But you need to realize that this attraction also has its downsides, the most prominent of which is that it breeds trial and error, and trial and error begets mistakes. Mistakes are the most expensive (and most dangerous) way for the small-business owner to learn.

But wait! Before you plod back to your day job, we have some good news for you: The mistakes that you’re likely to make have already been made by those who have gone before you — including us. If you can somehow avoid the trial and error that leads to mistakes (which is what we’re here to help you do), your chances for success multiply many times over.

Despite the previously mentioned downsides, it’s impossible to describe the sense of accomplishment you’ll get from starting and running your own successful business. Like so many before you, you’ll know the thrill of creation, you’ll feel the pride of watching that creation grow, and you’ll realize that your work and your vision have filled an identifiable void for your customers, for your employees,

and, of course, for you and your family. And for those of you who rise to the top of the small-business pyramid, you'll enjoy the greatest upside of them all — *unlimited* upside. Ask Bill Gates about how this reward feels.

Although you can find plenty of small-business books out there, most of them aren't worthy of your time or dollars. *Forbes* magazine once said of the marketplace for small-business books, "Warning: Most how-to books on entrepreneurship aren't worth a dime." The marketplace apparently agrees — the vast majority of small-business books don't sell after their first year or two. We're proud to say that this updated and revised fifth edition launches the 15th year of this book's history! We're grateful for reviewers' kind words, such as the praise from Hattie Bryant, creator of the PBS series *Small Business School*, who said of our book, "No one should try to start a business without this book."

Michael Gerber, author of *The E-Myth* series of business books (HarperCollins), makes the point that "the one common denominator in every successful entrepreneur is an insatiable appetite to learn." If Michael is right, and we believe that he is, you've passed the first test of the successful entrepreneur: By purchasing this book, you've displayed a desire to learn. Keep it up — you're on the right track.

Small business isn't rocket science. You don't need to be a genius to start and run a successful small business. What you do need is help, which is exactly why we wrote this book. We're pleased that you chose us as your guides into the stimulating world of small business.

About This Book

The following backgrounds and philosophies serve as a guide to the advice we provide — advice from the field that makes our small-business book stand out from the rest:

» **We're small-business experienced, and we share the benefits of that experience with you.** Between us, we have six-plus decades of experience in starting and running seven successful small businesses. In addition, we've worked with thousands of small-business owners. Jim has led numerous small-business peer-networking groups and has provided volunteer counseling services to small-business owners. Eric has conducted financial counseling for small-business owners, taught financial-management courses, and worked as a management consultant.

Throughout this book, we share the experience we've gained, in the hopes that you'll use our advice to purge the trial and error from your inventory of management tools. We also share an ample collection of straight-from-the-horse's-mouth anecdotes, each one based on a true story.

» **We take an objective view of small-business ownership.** Although we firmly believe in the creative power of small business, we're not here to be its pitchmen.

Sadly, too many small-business books are written by folks with an agenda: a franchise to sell, a multilevel marketing scheme to promote, or a high-priced seminar to foist on the reader. Free of conflicts of interest, we're here to pass on the truth and let you decide. If you're the type of person who wants to get into this competitive career field, we'd like you to enter the race informed as well as inspired.

» **We take a holistic approach.** Because small business can at times be both demanding and intoxicating, running your own shop can threaten to consume your life. Although everyone knows that life is more than just business, striking a balance and staying in control can represent a colossal challenge. With that in mind, we take care to present the realities of running a small business within the larger (and more important) framework of maintaining a happy personal and financial life.

We're committed to updating this book so that you have the best and latest information and advice at your fingertips. Tax laws change, benefits change, technology changes, and so do many other facets of the small-business world. That's why we've remained on top of these changes and revised this book.

Foolish Assumptions

Many small-business books assume that their readers are ready to make the leap into small business and are cognizant of the risks and pitfalls. We don't make that assumption here, and neither should you. That's why we include sections designed to help you decide whether small business is really for you. We spell out the terms of starting your own business, break down the tasks, and point out the dangers. We don't think that you're incapable of making the decision yourself; we just know that time is your most precious resource, and we think we can help you save it. You'll lose too many years of your career if you make the wrong choice.

Much of this book is targeted to running and managing your existing small business intelligently. Even if you have a great idea, operating a small business is much harder than it appears, so we show you the best ways to manage and grow your enterprise.

We've organized this book to satisfy different reading and personal styles. Some of you may read it from cover to cover, while others may refer to it to answer a specific question or address an immediate concern. For this reason, each chapter of the book is designed to stand on its own. We're flexible — read it as an all-in-one project or use it as a reference guide.

Icons Used in This Book

To help you find the information you need to assist you on your entrepreneurial path, we've placed icons throughout the text to highlight important points.



INVESTIGATE

This icon asks you to do some thinking and checking before you take the plunge. You have a lot of important choices to make when running a small business, so don't rush in.



REMEMBER

This icon points out stuff too good (and too important) to forget.



TECHNICAL
STUFF

If you like to sweat the dull stuff, this icon points out the inner workings of the business world that you're likely to ignore as you get down to the real work.



TIP

This symbol indicates time-tested tips to make your small-business journey more profitable and easier. Often straight from the heart of experience, we clue you in on what works for us as we navigate the oft-troubled waters of small-business life.



TRUE
STORY

We present tales from our own experiences to save you some trial and error. Enjoy the company of your fellow entrepreneurs and benefit from the lessons we've learned.



WARNING

The path of small-business ownership can be fraught with peril. Some deals may be too good to be true, and some people may have their own interests at heart, not yours. This icon points out the dangers and helps you steer clear of them.

Beyond the Book

To access this book's Cheat Sheet, go to www.dummies.com and enter "Small Business For Dummies Cheat Sheet" in the Search box. There you will find the key themes that we emphasize throughout this book.

Where to Go from Here

Where you go from here is up to you, but if you're just beginning to think about small business, we recommend that you read straight through, cover to cover, to maximize your small-business intelligence. But the A-to-Z approach isn't necessary. If you feel confident in your knowledge of certain areas, pick the topics that you're most interested in by skimming the table of contents or by relying on the well-crafted index at the back of the book.

1 Getting Started with Small Business

IN THIS PART . . .

Test your entrepreneurial aptitude and see if you have the right stuff to start and run your own business.

Assess whether your personal finances can withstand the strain of starting a small business.

Determine which business niche is right for you.

Turn your dream into reality with a well-designed business plan.

Survey financial and ownership options.

IN THIS CHAPTER

- » Understanding the role of small business
- » Determining whether you have what it takes to successfully run a small business
- » Reviewing the reasons to own (and not to own) a small business
- » Identifying alternatives to starting a business

Chapter **1**

Is Small Business for You?

An old friend of ours, who has been a small-business owner for more years than most of us have been alive, says, “Small business is a place where you can take your dog to the office whenever you choose.” That’s one way of looking at it, but we offer several other viewpoints as well.

Owning and running a small business can be rewarding — personally and financially — but only if you have what it takes to succeed. This chapter gives you all the know-how you need to be sure that you’re making the right decision. In it, we pose a series of questions to ask yourself about your skills, talents, and abilities. If you’re honest with yourself — don’t worry, there are no right or wrong answers — this test can give you the information you need to determine whether running a small business is the right move for you. If you find that running a small business isn’t for you, we provide several alternatives, which may give you exactly what you’re looking for.

Lots of important issues — from your financial situation to your desire to create a needed product or provide a needed service to your ability to be a jack-of-all-trades — should influence your decision to become an entrepreneur. This chapter

helps you understand the realities of starting and running a small business so that you can figure out how and why it may or may not work for you.

Defining Small Business

The lingo of the business world — cash flow, profit and loss statements, accounts receivable, debt-to-equity ratio, and so on — makes small-business ownership appear far more complicated than it really is. Don't be fooled. You're probably more acquainted with the basic concepts of doing business than you think. If you've ever participated in a bake sale, been paid for a musical performance, or operated a baby-sitting, painting, or lawn-mowing service, you've been involved in a small business.

Being a small-business owner doesn't mean that you must work 70 hours a week, make a six-figure income, or offer a unique product or service. We know many successful small-business owners who work at their craft 40 hours a week or less and some who work part time at their business in addition to holding a regular job. The clear majority of small-business owners we know provide products or services quite similar to what's already in the marketplace and make reasonable but not extraordinary sums of money — and, thanks largely to the independence that small-business ownership offers, are perfectly happy doing so!

Small (and large) business basics

Imagine back to your childhood . . . it's a hot summer afternoon, and you're sweating it out under the shade of an elm tree in your front yard. "Boy, it's hot," you say to yourself, sighing. "I could sure go for a glass of lemonade." Eureka! With no lemonade stand in sight, you seize upon your business idea.

You start by asking some of your neighbors if they'd buy lemonade from you, and you quickly discover that the quality, service, and location of your proposed business may attract a fair number of customers. You've just conducted your first market research.

After you determine that your community has a need for your business, you also have to determine a potential location. Although you can set up in front of your house, you decide that your street doesn't get enough traffic. To maximize sales, you decide to set up your stand on the corner down the road. Luckily, Mrs. Ormsby gives you permission to set up in front of her house, provided that she gets a free glass of lemonade. You've just negotiated your first lease (and you've just had your first experience at bartering).