

the Entrepreneur's Survival Guide

How to Bankrupt Your Company Without Really Trying!

As I write this chapter, it occurs to me that over the past 17 years of consulting and interim executive work, I have seen the same problems and mistakes over and over again. When you are in the middle of day-to-day crises, personnel problems, customers' demands, and market shifts, the reasons for "why things go wrong" can elude the best of us.

So here are my thoughts, written so that you might rise above your operational melee and see if these apply to you in any small way. The items on these lists should ring alarm bells to you and your management team. This list is valid if you are just starting a company or trying to take your company to its next level.

1. Assuming only start-up costs for your plan's financials: All too often, entrepreneurs just list the costs they think they will incur to start the company. "What other costs could there be?" some have asked me. Without an understanding of cash flow (plus an income statement & balance sheet to support the cash flow), you can't perform "what-if" assessments. What if the sales cycle is longer than expected? What if accounts receivable take 60 days instead of 35 days? What if we hire those three people two months later instead of immediately? No one ever

went out of business because they had too much money! Projecting your cash needs is essential to successfully charting your course. Without it, you're flying blind!

2. Too detailed: Entrepreneurs tend to think that if they could just convey all the great information they've amassed, the investor will simply have to write a check. I've actually seen a 117-page business plan! Unbelievable! Who has time to wade through that plan?

3. Too vague / too general: On the other side of the coin, just stating that "According to 'so & so,' " the market will be \$1.3 trillion in the year 2006." is too broad a statement, which doesn't explain how you'll sell just one customer. This caught the imagination of the investment community in 1998 through April 2000, but not any more!

4. Risks not identified: It is easy to be enamoured by the upside and excited to become a leader in some new thing. But it can also make for a rude awakening when you haven't taken the time to account nor plan for an "I gotcha" that puts you out of business. Identifying risks can actually be an optimist's method for making darn sure that there is cash available in the

budget to deal with problems that will arise.

5. Assuming the sales cycle is 0: I've lost count how many times financial statements will show a sales person hired in July with sales increasing that month! What is the learning curve for each sales person? How long will it take for them to be 100% efficient? Sometimes up to six months are required before they're hitting on all eight cylinders.

6. No assumptions in financials: Every financial statement has a set of assumptions, whether you state them explicitly or not. Might as well state them. Some examples of fundamental assumptions that should be understood for every financial statement are shown in the sidebar.

7. "We have no competition:" This is the most-used red flag there is. If what you have developed is, in fact, brand new, the single largest impediment to adoption of your product / service is that people have to change. It can take a whole generation for people to change behavior. Underestimate this at your own risk!

8. Any "web" positioning: Ugh! There's serious money to be made in applying Internet Protocol technology to a business. (It can be done. I ran a company and led the effort to create and sell a web-based information service, which generated a net operating profit of over 80% within a month after it's launch, in 1996!) Just make sure your web company is enabling someone else to make money in some sort of traditional

way. In fact, if technology is seen as the tool it is, instead of a business model it is not, you will be better in the long run.

9. Not sure who your customers are: I've seen many companies not really know who their customers are, why they're buying, nor how they buy. Without this knowledge (gained through market / customer research), you're just shooting moving targets in the dark. These days, there's not enough ammunition (capital) around to do this.

10. "We're going to capture X% of the market:" A corollary to the "too vague" red flag is that the CEO / management team build their expectations around capturing 5 or 10 or 25 percent of the market. The real acid test is how you're going to sell your product to just one customer, and then how cost-effectively you can replicate this sale.

11. "I am the management team:" Very often, the CEO feels s/he can do everything and is afraid to give up control of the company. If you want to seriously grow, get over it! Your company is best served by your ability to make outstanding strategic decisions, not in the day to day operations that tend to bog you down. If you hire the best, they will pay for themselves many times over.

12. Too focused on the product: Very often (especially in technology-based companies), the founder and/or management team is enamored with the product – which comes across in day to day decisions. This can lead to the inability to morph the product to meet an even larger market demand.

In charting your company's course, as well as developing a business plan, the product / service is but one part of the entire 'story' to be told. Typically, not enough time or efforts are spent on the opportunity or need.

13. "We're going to 'focus' on five different markets:" I've seen this in start-ups and Fortune 500 companies alike. If you have one dollar and need to spend it on one market, which one will you choose? Why? Then why would you spend money on any other market? Sometimes a second market requires the company be organized differently. This can be the fastest way to ruin your company.

14. No outside Board of Directors / Advisors: An "outside" team can be your savior! With additional people looking out for your best interest, you'll have access to an unbelievable talent pool. People who have "been there and done that" can save you significant time, money, and maybe even your company. Select them wisely, pay them well, and respect their time.

15. "Market share matters more than revenue" / "Revenue matters more than profits" / "Profits matter more than cash flow:" Careful – Customers may be King, but Cash is Queen! Meaning – you have to keep them both happy. Focusing on market

share causes decisions to be made that typically include lowering price instead of delivering value. And delivering value is essential to being able to argue why your offering is the best around (if it is).

16. Viral marketing: Sounds great. Doesn't work as well as everyone assumes.

17. The technology will sell itself: Sounds great. Doesn't work.

18. "Just do it:" The shoot-from-the-hip approach is fine if you have tons of experience and lots of cash on your side, but few companies can afford this luxury. Yet most companies act as if they are immune to the effects of decisions made on insufficient information, or "idea-of-the-quarter" with little or no planning. Remember the equation "S=G x P x A x M" (Success equals Goals times Planning times Action times Motivation). If there is no real planning, success is much more difficult to achieve.

It is very difficult to get all of these things right, especially at the same time. But in many cases, if one of these issues goes unresolved for a few months, you may quickly find your company in a downward revenue spiral. And right now, that could be disastrous!

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Mark Paul has more than twenty-five years of executive level leadership experience - including 11 years at Global 500 companies (Ford and Northrop Corporations, where he built a \$50 million business unit in two years) and 17 years of business leadership consulting as the president at Phoenix Management, Inc., and most recently as a partner at Synergy Consulting Group, LLC, an executive / business development consultancy. Synergy Consulting (www.synergy-usa.com) helps companies increase their revenue, profitability and company value. Mark has a degree in Physics, a patent and has served on boards of directors and advisors for several companies.

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