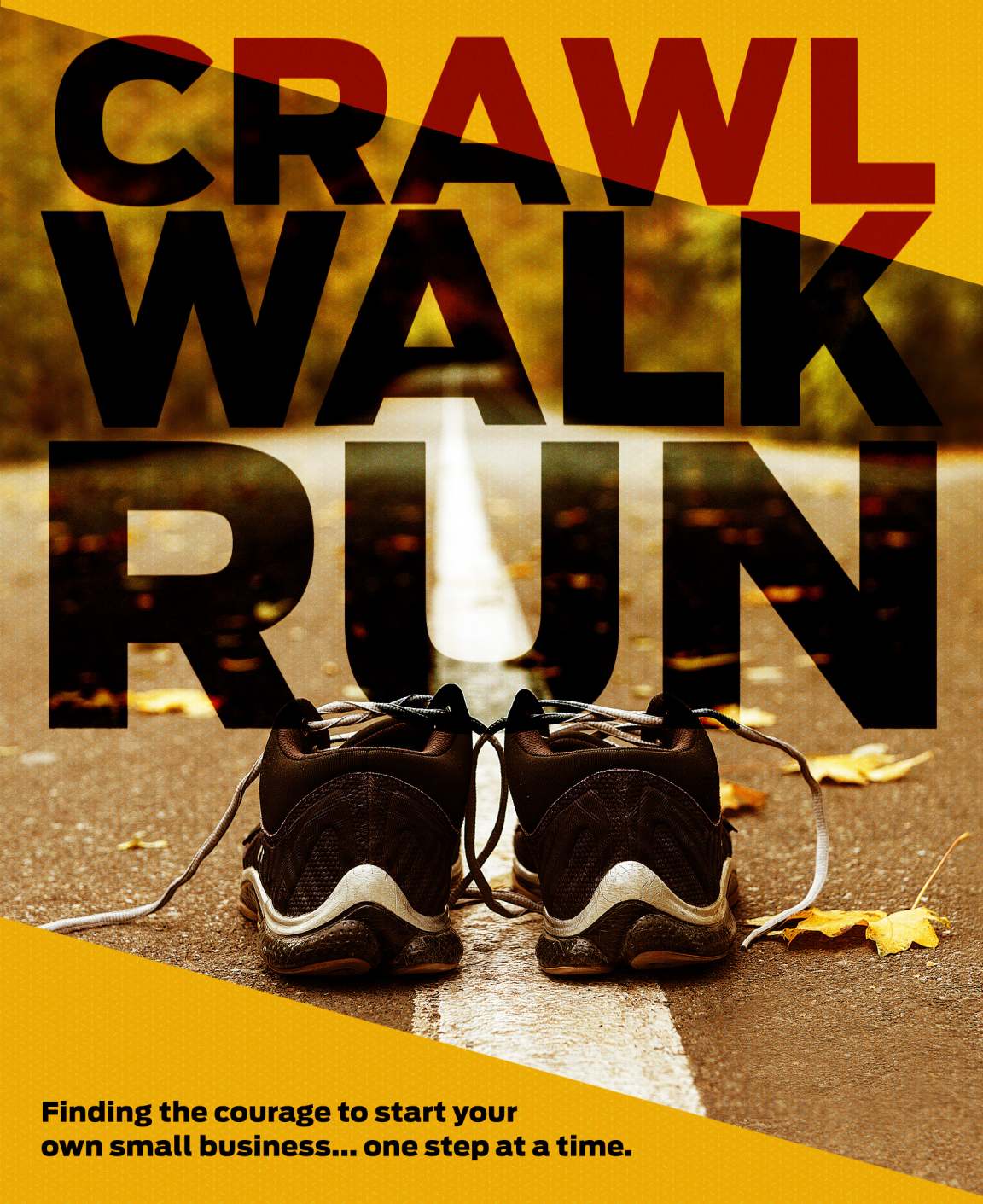
CRAWL WALK RUN



Finding the courage to start your own small business... one step at a time.

DEAN DIEHL

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To all the students at Trevecca Nazarene University who have taken good old BUS 2300-Introduction to Entrepreneurship and Small Business Management. In teaching you, you taught me what I needed to know to write this book. I am in your debt.

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Introduction

So, you want to start a business? Well, you're not alone. With over 30 million small businesses in the United States and thousands more created every week[1], there are millions of people just like you, only with one small difference... they started.

Ouch! Tough start!

True, but sometimes it takes tough talk to help people move from dreaming to doing. And, that's what this book is all about...helping you move from dreaming to doing and getting you to start that business you've always wanted to own.

So, what is it that separates dreamers from doers?

Two things: they have the courage to act and they have a plan. Without a doubt, the single largest reason people hesitate to start their own business is fear. What if I fail? What if I lose my life savings? What if I put my family at risk? What if I quit my job, fail, and then cannot find another job?

Once you start down this path of fearful questions, it can go on forever, down the rabbit hole and into, well, not wonderland, but nowhere land. People who move from dreaming to doing do not have answers to these sorts of questions, no one does. They simply do not let the questions stop them. They find a way to act.

Starting a business is risky. Only 49% of new businesses make it to the fifth year[2]. The 51% that fail do so for a lot of reasons. They had a bad idea, they ran out of cash, they were driven out of business by competition, they ran into pricing and cost issues...the list goes on and on. It can be very discouraging.

However, when I look at that list, do you know what I think? If you know what you are doing and take time to plan, you can eliminate everything on that list before you even start!

While no plan can totally eliminate risk, the *Crawl, Walk, Run* method lets you identify risks early on and come up with a way to minimize the chances of them ever happening. You see, the problem with a lot of start-ups is they go too big too fast. They jump in thinking if they can just create a big enough splash, they'll make it. Unfortunately, instead of a splash, most of them just get a crash.

With the *Crawl, Walk, Run* method, we're going to start small… really small. First, we are going to crawl our way through some early experiments, test our ideas, learn what we can, adjust, and try again. Then, we are going to walk through our best-case scenario, sort of like a beta test for a new piece of technology, debugging our idea until we feel we have the right combination of product/service, customer, market, and finances. And then, we are going to run!

So, you want to start a business? Now is your chance. But first, there are two important questions I need to ask.

Two Important Questions

Before you start digging into the *Crawl, Walk, Run* method for starting a business, there are two very important questions I want to ask:

1. *Why?*

Why do you want to start a business? What problem will this solve or what opportunity will this create for you? This is the most important question posed in this book, which is essentially a book of questions.

2. *What?*

What is it you want to do? Many aspiring small business owners get stuck on this point and so I want to get you moving. To be candid, the rest of this book is not very helpful if you do not have a general business idea you can use to apply the method to.

These two questions are so important that I've written a chapter for each. So, take your time with these and really think about your answers.

I also suggest you start a journal. As I mentioned, this book asks a lot of questions and your answers, if you spend time to really think them through, will provide the foundation for a solid business plan.
Are you ready? Then, lets jump into these two very important questions.

CHAPTER ONE
Why Start a Business?

Why? It is one of the hardest questions you can ask yourself. It is also one of the most important questions you can ask. Philosophers as far back as Aristotle have told us that behind every decision we make, every action we take, even every idea we conceive of, is a concept of a life towards which we have aimed ourselves. So, what sort of life are you aimed at and how will owning your own business move you closer to that life?

The fact that you are reading this book says you have thought at least a little about owning a business. Why? What can owning a business do for you that you cannot accomplish some other way? When you imagine yourself as a business owner, what do you see?

Knowing your reason—your why for starting a business—is important for several reasons. First, your why determines what success is. If you start your business to occupy your time and have a sense of deeper purpose, you may be successful even if your business does not make much money. Likewise, if your why is to free up more time to be with those you love, a rapidly growing business may actually be a failure when it comes to your why if that growth keeps you from your loved ones.

Another reason your why is important is because it can keep you motivated. Starting a business is hard and often involves times of deep disappointment. A powerful why, a vision of the life you believe owning a business will provide, can help you survive those difficult times.

Finally, your why—your compelling vision of the life you imagine you can have if your business works—can guide decisions you make about your business. Going back to the example of the person whose why is to spend more time with those they love, the decision whether or not to take advantage of a growth opportunity should be determined by the

impact the growth would have upon your why of spending more time with loved ones.

As you can see, knowing your why and being able to articulate it to yourself and to others is a critical first step in considering whether or not to start a business. Also, as you are about to discover, if you dig deeply, if you really allow yourself to delve into your own dreams and desires, you may find your why is not what you think it is. A hidden why can create havoc and dysfunction in a business. You need to spend some time and try to discover what is really driving your desire to own a business.

There are many reasons people give for wanting to own their own business. If you search online for reasons people start their own business, you'll find literally thousands of articles have been written on the subject. In scanning through many of them, despite the different ways they are expressed, most answers fit in the following categories: Money, Freedom, Control, Passion, and Purpose.

Money

Many people want to start a business because they believe they can make more money as an owner of a business than as an employee. Some potential business owners even go so far as to desire to build a business so they can sell it. Still others, for one reason or another, find themselves out of work and unable to find a job capable of generating enough income so they start a business in the hopes of creating the job they need. Finally, there are many small business owners looking for the side hustle—the ability to make a little extra money on the side so they can build up savings, pay off debt, or simply enjoy a little breathing room in their budget.

Freedom

Some people start businesses to have the freedom to work when and where they want, doing what they choose. Their decision to start a business is not so much about the business itself as it is about the

freedom to travel, to live in a remote location, to have the flexibility to work whenever they choose as opposed to punching a time clock, or some other reason that translates to greater freedom. Sometimes people start a business to be free to do something else; for example, the dad who chooses to start a business in order to have the flexibility to spend more time with his family, or the mom who chooses to stay home and raise her children and work on her own side business in the gaps when she can.

Control

The idea of *control* takes many different forms. Many times, when people list *control* as their why, they mean they want to be their own boss. They want to do things the way they think things ought to be done. These business owners are often driven by a desire to pursue excellence. They want things done the right way. Of course, some of these business owners simply do not like to be told what to do!

Passion

As with *control*, the idea of *passion* as a why can have many meanings. For some, owning a business allows them to do something they are passionate about. For example, someone who has always dreamed of owning their own bakery.

Business owners can also be passionate about aspects of business ownership that have nothing to do with the product or service itself. For example, some business owners start businesses so they can provide jobs for people who struggle to find work. Still others start businesses to bring about social change such as selling fresh produce in food deserts—neighborhoods where fresh produce is hard to find.

Sometimes business owners start a business to pursue a passion in another area of their lives. They are not necessarily passionate about the business itself so much as they are passionate about the ability of the business to fund their dreams. For example, the business owner who uses the funds from their business to fund a charity or ministry.

Purpose

Finally, some people dream of starting a business to fill their lives with purpose. Many of these potential business owners are flexible about the actual type of business they start. They just know they want more out of the time they spend at work than simply showing up and getting a paycheck. A great example is the empty-nester looking for new meaning now that their children are grown.

As you read these, you are probably thinking that *passion* is not so different from *purpose* and that *control* kind of describes all of them to some degree. Also, you may be thinking there is a little bit of all of them in your own *why*. This is the reason discovering your *"why"* can be so difficult. We often have many reasons for doing the things we do.

The hard work of self-examination required to determine your biggest reason, your true *why*, is important. This is because, as your business develops, the various reasons for owning a business can begin to interfere with one another. For example, the stay-at-home father who starts a home business so he can be with his family may have to turn down opportunities to grow if growing the business means he will be away from his family more. Another example is the woman who starts an organic farm to provide jobs for women recently released from prison that may have to accept the additional costs and delays that can come from using an inexperienced staff.

From these simple examples, you can see that the various reasons why someone might start a business are interrelated. This is especially true of Freedom, Money, and Control. If your primary *why* is *freedom*, that *why* may require you to pass on opportunities to earn more money. If *control* is your primary *why*, certain types of financing may be off the table because they come with a board of directors and lots of oversight. If you are trying to maximize *money*, it may cost you *freedom* and loss of *control*.

When small business owners end up dissatisfied with their business, even when it appears successful, it is often because they either did not truly know their inner *why* or they unconsciously made decisions that went against their *why*. For example, the small business owner who starts a bakery because he loves to bake but ends up spending all his time minding the shop instead of working in the kitchen.

Your Turn

Take a moment now and think about your *why*. As I mentioned earlier, it may be helpful to start a journal at this point to track your thoughts. Below are some questions that can guide you in this process.

Journal Questions

1. *What about your current life is causing you to think about starting a business?*

2. *How do you see owning your own business as changing your current situation?*

3. *If you had to choose between freedom, money, or control, which would you see as most important?*

4. *If you think you know your "why", how would you define "success" in relation to that "why"?*

5. *If someone were to ask you, "Why are you starting your own business?", what would you say?*

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CHAPTER TWO
What Should YOU Do?

Once you know your *why*, you should begin thinking about *what* you want to do. It is important that your *why* shapes your *what* so that you do not create a conflict between the two. *What you do* should always be driven by *why you are doing it*.

When it comes to choosing what sort of business they decide to start, most small business owners tend to fit one of three categories: *dreamers*, *pragmatists*, and *true entrepreneurs*.

Dreamers are the people who say, "I've always wanted to own my own consulting firm" or "I've always wanted to run a bakery". They start a business to do a specific thing; they know what they want. They do not think of themselves as *small business owners* so much as *bakers*, *consultants*, *builders* or whatever it is they are passionate about.

Pragmatists are those who start a business for some reason other than the business itself. The business is simply a means to an end. For example, a pragmatist may be a stay-at-home mom who does alterations so she can have the freedom to raise her children, or a college professor who has a "side hustle" to fund her dream of seeing the world. Yet another example would be the laid-off middle manager who starts a business simply because there are no suitable jobs in the market. While pragmatists are small business owners, that fact is secondary to whatever is causing them to turn to self-employment to earn money.

True entrepreneurs are a different sort of person entirely. True entrepreneurs see the world through a lens of opportunity and then they act. They view themselves as opportunists and problem solvers. When it is raining, they think about selling umbrellas. When they hear about a problem with unemployment in an urban area, they think about ways to create jobs. Many true entrepreneurs become what are called *serial*

entrepreneurs, creating multiple unrelated businesses simply because they see so many opportunities or problems.

Social entrepreneurs are a particular type of true entrepreneur driven to use businesses to bring about justice and equity. They use their unique ability to see and act to bring about needed social change. Many social entrepreneurs eventually become serial entrepreneurs as well as they discover multiple ways to make the world a better place.

So, which are you? Are you a *Dreamer*? When you picked up this book, did you already know what type of business you wanted to start? Are you mostly looking for how to get started as opposed to deciding what kind of business to do?

Or, are you a *Pragmatist*? Are you looking for a side hustle that will provide extra income to chase some passion or dream? Maybe you have a dream that requires you to have more freedom and control over your time or location and owning your own business seems a good way to go.

Perhaps you are a *True Entrepreneur*. You are the kind of person who sees business opportunities everywhere you look, but you just do not know how to get started. Maybe you are even a *Social Entrepreneur* who wants to make a difference in the lives of those around you through the businesses you start.

If you are a dreamer and know what kind of business you want, you should still read this next section just to make sure your idea is a good fit for you. For the pragmatist, you need to decide what kind of business will provide the money and freedom you desire but that is still compatible with your other goals. For the true entrepreneur, the challenge may be to decide which idea, among the many you have considered, should be the one you should try first.

Choosing a Business

As I said in the Introduction, *Crawl, Walk, Run* is about removing many of the risks associated with starting a small business. By easing

your way into a business, you can learn what works, what doesn't work, and what's needed for success. That said, as you start thinking about the kind of business you want to start, try to focus on ideas that can begin small and grow.

This is the opposite of what large corporations do. When large corporations think about innovation, they start with the marketplace. They examine their target market (the people they serve), their competition (other businesses serving those same people), and their own unique position (how they compare to their competition). Then, they look for new opportunities to create products or services and the resources they would need to do so including people, expertise, and capital. In other words, they start outside of themselves and then work inward.



In the *Crawl, Walk, Run* method, we are going to do the opposite. We are going to start by looking *inward* and then work our way *outward*. If you want the best chance at success, the search for a potential business idea should start with **you**. The best business ideas will be those that align with *who you are*, *what you know*, *who you know*, and *what you have*.



Who are you?

What are you like? What are your dreams? Why do you want to own a business? What are your greatest passions? What are your greatest frustrations? Do you know your personality type? What are your greatest strengths and weaknesses? What talents or gifts do you have?

What do you know?

Most people know a little bit about a lot of things, and a lot about a few things. Your education, both formal and informal, has provided a broad base of knowledge including how to learn. Your work history, including even part-time jobs you held as a teenager, has given you experience and skills. Your interests and hobbies have taught you how to do things. Even being a fan of something has given you a type of knowledge about that area. So, what experiences have you had that might lead to a business idea?

Who do you know?

Nobody starts a business alone. We all rely on the advice, aid, connections, and support of others. Who do you know that might provide access to the people, knowledge, resources, or capital you might need to start a business in a particular field?

What do you have?

Most people looking to start a business already have or at least have access to many of the things they need to get started, particularly for the *Crawl* phase of their business. What do you have in the way of space, equipment, capital, and other resources that might be useful in starting a business?

The Business Idea Chart

As you answer these questions, it could be useful to try creating a chart that allows you to see your responses in one place. Any format for doing this would work but the model below is one I have used in the past.

Who Am I?	What Do I Know?	Who Do I Know?	What Do I Have?
Creative	English/Writing	Church Friends	Small Condo
Teacher	Sewing	New Moms	Sewing Machine
"Mom"	Childcare	College Friends	"Baby Stuff"
Caregiver	Food Service	Family	

When my wife and I had our first daughter, my wife really wanted to quit her job as a High School English teacher and be a stay-at-home mom. Being self-employed seemed the best option. This placed her in the *Pragmatist* category because her goal was not to own a business, but to stay home with our daughter. Her business simply made that possible.

While we didn't use a formal chart like the one above, it pretty much sums up our discussion at the time of how we could make her dream of being a stay-at-home mom work. When we thought about who she was, what she knew, who she knew, and what she had, there was one option that seemed the best choice: seamstress.

My wife loves to sew. During her time as a college student, she even worked at a fabric store. She owned several machines and had even made her own wedding dress. Sewing was clearly her best option.

Through a former college friend, she connected with a man who had a small business called *Fun Fashions* that sold custom, made-to-order clothing. He was looking for talented, self-employed seamstresses to handle the manufacturing for his special-order business. My wife started a custom sewing business with her primary client being *Fun Fashions*. This small business allowed her to follow her dream of being a stay-at-home mom while providing much-needed income for our young family.

Going back to the example business idea chart, being a seamstress was a good fit for my wife given her answers to the four questions. She was able to be creative, use her experience as a seamstress, take advantage of college connections, and, while she did have to upgrade some of her sewing equipment, she already had many of the tools and resources needed to get started. She started inward, working with who she was, and then looked outward, eventually finding a combination of connections and needs that led to a great small business.

Your Turn

It's time to journal. Whether you use the chart above or your own method, it's time to look inward and answer some questions about yourself. As you ask these questions, start thinking about businesses that blend those things you discover about yourself.

Journal Questions

1. *Who are you?*

2. *What do you know?*

3. *Who do you know?*

4. *What do you have?*

5. *What are some business ideas that combine your answers to these questions?*

If you are still stuck, the list below includes some of the more popular areas for new business startups over the last decade[3]:

POPULAR NEW BUSINESS START-UP AREAS

- Health Care Related Businesses (In-Home Care, Visitations, Dieticians, Personal Trainers)
- Food Services (Catering, Delivery, Restaurants, Food Trucks)
- Arts & Entertainment (Photography, Dance Studios, Music Lessons)
- Computer & Internet Services (Website Design, Graphic Design, IT Support, Computer Repair)
- Auto Repair
- Secondhand Online Stores
- Pet Care (Pet Sitting, Pet Training, Boarding)
- Cafés

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Part I. Crawl

Years ago, I had a friend who started a consulting business. About two months after he resigned his corporate job to pursue his own thing, he asked me to go to lunch. I met him at a very expensive restaurant and he insisted on picking up the tab. Then, as we walked to his car (a brand-new top-of-the-line Lexus) he invited me to come and see his office space. We drove a few blocks to a pricey part of town and he showed me a beautiful suite of immaculately furnished and decorated offices. I was impressed and complimented him on his fast start.

"How many clients do you have?" I asked.

"Oh, I don't have any clients yet. This is all just preparation," he replied. "If you want to be successful, you have to project success".

I think you know the rest of the story. About a year later, my buddy was working out of his home and driving a well-used but reliable car. He had clients, but most of what he was earning was going towards paying off debt.

Okay, I know this is a predictable story. Why is it predictable? Because it keeps happening! There seems to be this persistent idea that if you want to start a business, you have to go big. Go big or go home might sound cool, but it usually ends up with a trip back home.

I believe that for most small businesses, you must crawl before you can walk and walk before you can run. I know it's not as cool as go big or go home. Nobody wants a mental picture of their business to be that of a baby crawling along the floor. Nobody, that is, except those who have experienced a bad fall.

You see, there is a reason babies crawl. You can't fall when you're already on the ground! About the worst that can happen is you sort of tip over. But crawling isn't just about safety. Crawling builds up muscles, instills confidence, and provides a way to begin exploring the world.

I wrote in the introduction that the biggest difference between dreamers and doers is that dreamers have the courage to act. The crawl phase of the *Crawl, Walk, Run* method is designed to help you find that courage. It allows you to build up your business-owner muscles, it instills confidence, and it allows you to start exploring your idea safely, hopefully with the security of a day job that keeps paying the bills!

Simply stated, crawling equates to creating a downsized model of your business and testing it out on a small number of hand-selected customers. The main goal of this phase is to refine your business idea through a process called microtargeting—finding a small niche within your chosen area that you can own. This requires you to narrow down your business idea, research your competition, identify a unique niche, develop specialized products and services, and then craft an offering that is irresistible to that targeted niche. Finally, you develop a way to test your idea to see if it will work.

All you need to get this whole process started is a solid business idea. So, let's get crawling!

CHAPTER THREE
Your Business Idea

Hopefully, after reading the first two chapters, you have narrowed down your options to a business idea that fits who you are and takes advantage of *what you know*, *who you know*, and *what you have*; an idea that is compatible with the kind of life you want to live—your *why* for starting a business. Now it's time to begin to fine-tune that business idea by answering some questions and making a few decisions. The goal is to get enough of an idea of the kind of business you want to be able to develop the rests of your *crawl* plan.

The whole idea behind the *Crawl, Walk, Run* method, is to try to avoid that big scary list of reasons why new businesses fail. We want to take our time, test our ideas, and make sure that we have the right combination of products and services to win. To do that, we need to start out with a broad business idea, choose a trade area, analyze the competition, and try to identify a group of customers who are being underserved or ignored. Only then will we start to narrow our idea down to a specific set of products or services.

Throughout the *Crawl* section of this book, I will be using an example based on a young woman named Susan, who wants to open her own photography studio. At this stage, all she needs to know is that her overall interest is in photography. Over the next several chapters, we will watch as she begins to narrow that idea down into a viable business concept with carefully chosen products and services designed to super-serve a segment of customers in her chosen market.

That said, all you need at this stage is a clear enough idea of your business to be able to go through a competitive analysis and identify a group of underserved customers. To do that, there are a few questions you need to consider that will help you with the next couple of steps.

Product or Service

The first question to consider is whether your business should be primarily product-oriented or service-oriented. To state the obvious, a product-oriented business primarily sells tangible items whereas a service-oriented business focuses on providing intangible benefits. For example, a hardware store selling tools and supplies is a product-oriented business and a car wash providing auto detailing is a service-oriented business. Some businesses, such as restaurants, are both product and service oriented because they do a combination of the two. A restaurant sells tangible items such as food and drink but also provides services in the form of preparation and a bit of pampering as well.

Product-oriented and service-oriented businesses have different types of challenges, so it is important to identify which direction you want to go. Product-oriented businesses usually have the challenge of supply chain management, warehouse and storage, shipping, returns, product support, warranties, and repairs. Product-oriented businesses can also involve higher initial investment due to the costs of developing, purchasing, displaying, and managing an inventory. Finally, product-oriented businesses can require more sophisticated accounting which can call for further investment in an accounting infrastructure.

Some business owners work with products that are somewhat intangible, like Susan and her photography business. In our digital world, a photo is simply a data file. There is no supply chain, inventory, or repairs to worry about. However, you do have to worry about theft. Intangible products and intellectual property (songs, videos, books, logos, designs, etc.) have a unique set of challenges. The business owner must make sure their intellectual property is protected and that it is clear to the buyer what rights go along with the purchase.

Service-oriented businesses face their own difficulties especially at the beginning when trying to establish expertise in a service area.

Also, a service business often requires skilled, well-trained personnel, which can be a challenge as the business grows and you increasingly have to rely on employees rather than yourself to provide your services. In addition, if a service-oriented business relies heavily on your own expertise, as in a consulting or coaching business, it is hard to build value that would allow you to sell the business without your ongoing involvement.

B2B or B2C?

The next issue to consider is whether you would like your business to primarily interact with other businesses, called a business-to-business model (B2B), or with individuals, referred to as a business-to-consumer model (B2C). This is an important decision because selling to businesses is vastly different from selling to individuals.

Consider the example of a plumber. On the product side, they might decide to open a plumbing supply store that sells to plumbers rather than individual homeowners. A hardware store selling supplies to plumbers would be oriented around bulk sales of a relatively small number of inventory items. The emphasis would be on providing a reliable supply of those items plumbers need most in large quantities at a good price.

That same plumber might choose, instead, to open a general hardware store that specializes in plumbing supplies for the DIY market. This type of store would have to include a broad inventory of a wide variety of items for individual consumers who only need one or two things. So, the move from B2B to B2C would mean going from offering a limited number of items for bulk sale to professional plumbers to offering a wide variety of individual items for sale to individuals. Also, with a B2C store, the plumber would have to pay a lot more attention to location, merchandising, advertising, and competition from mega-retailers like Wal-Mart.

On the service side, our plumber has both B2B and B2C options as well. The B2C option would involve going on plumbing calls to individual homes either for repair or installation. Again, working with homeowners would require a lot of single visits to individual homes. A plumber choosing to go the B2B route might work with contractors to manage the installation of all the plumbing fixtures in an apartment complex. So, with the B2B model, the plumber might have one client provide work for several months or even years.

As with the plumbing example, B2B businesses typically do a lot of business with relatively few clients where B2C businesses do a small amount of business with a relatively large number of clients. B2C businesses, as a result, need a larger supply of customers, which typically translates to higher advertising, location, merchandising, and customer support costs. However, because both product and service oriented B2B businesses usually deal in bulk sales, they often operate on smaller profit margins. As with so many things in business (and life), there are trade-offs no matter what you decide. At the end of the day, it comes down to your preference and the needs of the market whether you chose to go the B2B or the B2C route.

Initial Needs

The last thing to determine at this stage of developing your business idea is what resources you need to get started. For now, just make a simple list of your most basic needs as this list will be fine-tuned as you continue through the planning process. The goal here is to think through your options by taking inventory of *what you have* and *what you still need to acquire* in order to get started. This list may also help with other decisions such as whether to focus on a B2B or B2C model.

For example, a plumber considering whether to focus on a product-based model or a service-based model might find that the initial investment required to establish a plumbing supply store is so much

greater than that required for setting up a plumbing business that it pushes him towards the service model, at least initially. A key thing to remember in the *Crawl, Walk, Run* method is where you start is not necessarily where you will end. So, for now, focus on building a list of initial needs and find the option that seems doable based on your current resources.

Example

In thinking about her potential photography business, Susan realizes that, while she is selling photos, what people are really buying is a service. After all, we are all walking around with cameras on our phones that are better than almost any camera you could buy 10 years ago. What people are buying is her expertise, her work ethic, her creativity, and her promise of great photos. So, while people are buying a product, what she is truly selling is a service.

As to the B2B or B2C question, Susan feels herself drawn more to the people side of the business. She likes working with individuals and families more than businesses. However, she also wants to stay close to her hometown, so she is willing to stay open-minded as she examines the needs of her local market.

Finally, one of the reasons Susan is drawn to photography as a potential business is the fact that she already owns a lot of the equipment she needs. Apart from some more sophisticated lighting gear, she really does not have many things to buy. Of course, she won't know fully until she finishes the next few chapters and decides exactly what kind of photography studio she will be opening.

Your Turn

It's time to journal. Take a look at the questions below and answer them as best you can. At this stage in the process, you need to narrow down your choices to one business idea. The concepts in this book are best understood when you can apply them to a specific business. Once you have fully gone through the planning process, you can go through it with other business ideas and compare them. So, what is your best idea so far?

Journal Questions

1. *Should your business be product-oriented or service-oriented?*

2. *Would you like your business to use a B2B or B2C model?*

3. *What do you need to get started?*

Visit www.crawlwalkrun.online for free video instruction on the *Crawl, Walk, Run* method.

CHAPTER FOUR
Researching the Competition

Every business has competition. Even brand-new inventions have competition. This is because few of us have unlimited resources so, if we want to start doing something new, we must stop doing something else. Competition, then, includes *any* alternative to what you are asking people to do.

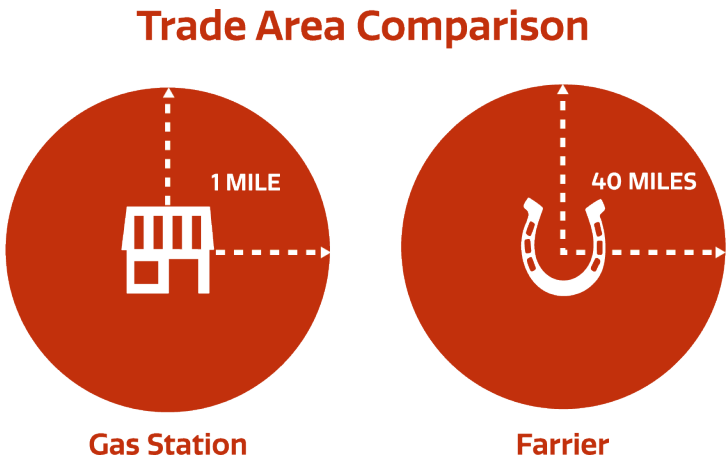
Working in the music industry, I learned quickly that my competition involved more than just other music companies. For many people, the money set aside for buying music was also used for movies, eating out, video games, sporting events... pretty much all entertainment. So, when I say *competition*, I mean a lot more than *businesses doing exactly what you want to do*. I mean anything taking up the same resources you are trying to tap into.

When identifying your competition, then, it is important to look at three kinds of competitors. *Direct competition* includes those businesses that are, for the most part, doing the same thing you want to do. *Indirect competition* includes those businesses with a primary focus other than your business but who also offer what you offer. Finally, *substitutes* are anything that offer a viable alternative to your business.

For example, if you wanted to open a hardware store, other hardware stores like Home Depot or Ace Hardware would represent *direct competition*. They are in the exact same business you want to be in. However, while Wal-Mart is not considered a hardware store, they carry many of the top items a hardware store would carry. This makes Wal-Mart an *indirect competitor* to your hardware store. Potential *substitutes* to your hardware store might include handyman services that allow homeowners to avoid the whole DIY approach and just pay someone to fix the leaky faucet.

When identifying your competition, you must also identify what is called a *trade area*. All businesses operate within a trade area. The size of the trade area differs based on the nature of the business, the density of the competition, and the amount of demand. For example, even small-town gas stations have a lot of competition, usually close by, and very few ways to set themselves apart from one another. So, gas stations have a relatively small trade area, sometimes as small as a few blocks. By contrast, farriers (people who go to farms to shoe horses and provide overall hoof care) have very few competitors and limited demand in most markets and, as a result, can have huge trade areas. My wife and I have horses and our farrier lives 40 miles away!

Generally, the denser the competition and higher the demand, the smaller the trade area, like gas stations. However, businesses with little competition and low demand have larger trade areas, like farriers.



So, how dense is your competition and how high is the demand for your business? That will tell you the size of your trade area. One general rule to consider is that the greater your specialization the bigger your trade area will be. This is an important point we will come back to later

because I am going to push you to specialize… radically specialize!
So, what about online businesses? Do they have a trade area? Isn't their trade area pretty much the world? Is it even possible to carve out a space for a new online business?

Okay, you may think I am crazy, but I believe *all small businesses start locally*. They begin in a particular place. So, I believe even fully online businesses must think just as locally as businesses with a physical location, especially in the *Crawl* phase. To state the obvious, the worldwide web is, well, worldwide. Even an obscure term like eel jelly (a random term I thought I made up) returned over 5 million hits in a Google search. In my opinion, the best way to carve out a business in a massive environment like the Internet is to start with a local presence. Take advantage of the one thing you have that those millions of other online businesses do not have—your friends, your community, your network, in other words, you. I encourage those of you with online businesses, then, to go through this exercise exactly as if you had a physical trade area. The only difference will be instead of sending prospects to a location, you will send them to your online business.

By this point you should have a pretty good idea of the kind of business you want to explore. The next thing is to identify the trade area. Your goal should be to identify a trade area where the competition (direct, indirect, and substitutes) leaves a gap for you to create a niche for your business. This may take several tries, so don't worry about finding the perfect spot just yet. Pick an area and keep reading.

As an example, in the next section we are going to do a competitive analysis for our photographer, Susan, who is looking to open her own studio. To begin with, we are going to look at a trade area that is roughly 20 miles in every direction from the location she is considering in downtown Mt. Juliet, Tennessee, a small town to the east of Nashville, and my hometown.

Competitive Analysis

A competitive analysis is a relatively simple three-step process. The first step is to list the alternatives to your business within your trade area including direct competitors, indirect competitors, and substitutes. You need to answer the question, *what are people currently doing in my general trade area to satisfy the demand which my business is planning to satisfy?*

The second step in a competitive analysis is to begin to examine which customers are being served and which are being neglected. To do this, you need to make a list of the different types of customers, called *market segments*, that might need a business like yours. Come up with a short nickname for each market segment and write a brief description (see example below). Make sure to think about both consumer (B2C) and business (B2B) segments.

The final step is to create a grid that shows the various competitors you listed in Step One arranged in columns and the list of the types of customers from Step Two in rows (see example below). Then, you need to rate how well each type of customer is being served by the options in your trade area. I use a scale of 1-3 with 3 meaning that segment is getting everything they need and 1 meaning that segment is being underserved or ignored. A rating of 2 means the customer need is being satisfied, but not perfectly.

The goal here is to uncover a potential unserved or underserved market segment. In the next chapter we will talk about the concept of *microtargeting*: finding a small niche for your business that you can dominate. The competitor analysis discussed here, if you take the time to do it well, will be instrumental in uncovering potential areas for you to microtarget.

The example below represents the competitive analysis for Susan, our photographer mentioned above. We will return to this grid in the next chapter, so examine it carefully before moving on.[4]

COMPETITIVE ANALYSIS: *Photography Studio*

KEY COMPETITION

Business	Category/ Type	Description
Jocelyn's Photos	B2C/Direct	Session & Event Photography
Sherri Beck Photography	B2C/Direct	General Photography, Babies
Ann Ruff Photography	B2C/Direct	Session & Event Photography (child, family, senior, maternity)
Wilson's Wedding Photography	B2C/Direct	Weddings
Loni Randall Photos	B2C/Direct	Baby, Maternity, Family, Pets
J. C. Penney Portraits	B2C/Indirect	Family, Children, Seniors
Lifetouch	B2B/Indirect	School Photos, Graduations
Bart North Photography	B2B/Direct	Commercial Photography
Richlands Photography	B2B/Direct	Commercial Photography/Mobile Studio
DIY–Family, Friends, Self	N/A/Substitutes	People who use friends, family, or their own equipment

MARKET SEGMENTS

Segment	Category	Description
Family Portraits	Consumer	On location or in studio family pictures
Maternity/Baby	Consumer	Pregnant mothers and newborns
Senior/School	Consumer	Alternative to the school-sponsored photos
Pets	Consumer	On location or in studio pet pictures
Weddings	Consumer	All things weddings
Corporate Photography	Business	Marketing & promotional business photos

ANALYSIS

	Jocelyn	Beck	Ruff	Wilson	Loni	J.C.	Lifetouch	Bart	Richlands	DIY
Family Portraits	2	2	3	1	3	2	2	1	1	2
Maternity/Baby	2	3	3	1	3	1	1	1	1	2
Senior/School	2	2	3	1	2	2	2	1	1	2
Pets	1	1	1	1	3	1	1	1	1	2
Weddings	2	1	2	3	1	1	1	1	1	2
Corporate Photography	1	1	1	1	1	1	1	3	3	2

1=Not Covered, 2=Included but not Primary, 3=Primary Focus

Your Turn

Take a moment now and think about your specific business including your general trade area and answer these questions. You will probably change your answers as you go through the target market exercise, but you have to start somewhere.

Journal Questions

1. *Who are the competitors (direct, indirect, and substitutes) in your trade area? You can find these through a careful web search making sure to limit the results geographically to your target area.*

2. *Who are your potential market segments (both consumers and businesses)?*

3. *Create the grid mentioned above and ask how well each customer type is having their needs met by the existing options by rating them 3 (needs are well met), 2 (needs are met, but not well), and 1 (needs are not being met).*

4. *Do you see any potential customer groups that are being underserved or even ignored?*

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CHAPTER FIVE
Your Target Market

Every successful business has a specific group of people they build their business around referred to as a *target market*. While it may seem counter-intuitive, small businesses succeed when they appeal to a narrow rather than broad group of people. Why? Because it is better to have a small group of people *love* you than to have a large group of people *like* you.

To be clear, the word *small* in this context does not refer to the number of people, but the size of the target. What we want, as small business owners, is a very narrowly defined target, a tiny sliver of the overall market. However, in a world like the one we live in today, where people's interests are so diverse and everyone is connected to everyone else, even a small sliver can produce a large number of potential customers.

The point is, you can't win by trying to reach everyone. For the small business, reaching everyone is equivalent to reaching no one. This is because, in trying to reach everyone, you blend into the noise of all the other businesses trying to reach everyone as well. It is much better to identify a narrow segment of people and not just reach them, but super-serve them by tailoring your business to their needs. It is important to understand that the best way to create space for a small business is to stand out, to be *different*.

This brings us to an important point—one every small business owner should write down and post where they can always see it:

Better is not a strategy.

It is not enough to have better furniture, better cookies, better clothing, or better services. There is always someone better who also manages to be cheaper. For the small business, the only strategy that works is to be *different*.

In the last chapter, you began the process of examining the competition. If your business and trade area are like most, you probably noticed how similar most of the existing options are. In fact, with most small businesses and markets, the available options are almost identical, cookie-cutter copies of each other. That is because most small businesses try to play the *better* game. You are not going to do that! You are going to be *different*.

The ideal scenario for a small business is to find a trade area where there is a group of consumers or businesses whose needs are not being met or are barely being met. That situation provides the opportunity for your business to come in and be different by crafting your business around something the competition isn't doing well or isn't doing at all. Find the underserved people, build products or services that super-serve their needs, and you've got yourself a business!

So, now it is time to start looking for a group of people in your trade area who are either being ignored or underserved by the available options. In a room full of apples, surely someone is looking for an orange! In other words, we're going to look for people who want something different, and then we're going to give it to them.

Microtargeting

This whole process I've been describing is called *microtargeting*. Microtargeting is the practice of radical market specialization. You define a niche, then divide that niche into even smaller segments, then do it again. The best way to explain is through an illustration.

In Chapter Four, we ended with an example of a competitive analysis for Susan, who is looking to open a photography studio. As a reminder, here is another copy of her analysis:

KEY COMPETITION

Business	Category/ Type	Description
Jocelyn's Photos	B2C/Direct	Session & Event Photography
Sherri Beck Photography	B2C/Direct	General Photography, Babies
Ann Ruff Photography	B2C/Direct	Session & Event Photography (child, family, senior, maternity)
Wilson's Wedding Photography	B2C/Direct	Weddings
Loni Randall Photos	B2C/Direct	Baby, Maternity, Family, Pets
J. C. Penney Portraits	B2C/Indirect	Family, Children, Seniors
Lifetouch	B2B/Indirect	School Photos, Graduations
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Segment	Category	Description
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Pets	Consumer	On location or in studio pet pictures
Weddings	Consumer	All things weddings
Corporate Photography	Business	Marketing & promotional business photos

ANALYSIS

	Jocelyn	Beck	Ruff	Wilson	Loni	J.C.	Lifetouch	Bart	Richlands	DIY
Family Portraits	2	2	3	1	3	2	2	1	1	2
Maternity/Baby	2	3	3	1	3	1	1	1	1	2
Senior/School	2	2	3	1	2	2	2	1	1	2
Pets	1	1	1	1	3	1	1	1	1	2
Weddings	2	1	2	3	1	1	1	1	1	2
Corporate Photography	1	1	1	1	1	1	1	3	3	2

1=Not Covered, 2=Included but not Primary, 3=Primary Focus

In examining this analysis, what we are looking for is ratings of 1. If you recall, a rating of 1 means that type of consumer is either being ignored or underserved by the present option. The presence of a lot of 1s

means those consumers need something different from the businesses in your trade area!

In this example, the two B2C areas with the most "1s" are people needing pet photos and people needing wedding photos. Frankly, I get it. Both of these categories are difficult… in one case you have a panicky, restless, stressed-out subject to deal with and in the other, you have pets. Okay, bad joke.

This is such a good illustration though. Almost all the existing photo studios in the examined trade area are going wide instead of deep. They do photos of families, children, seniors, babies, parties, graduations… they do it all. Why? Because they believe by having a wide variety of offerings, they can appeal to more people. The problem is, when you offer exactly what everyone else offers, the only thing to compete on is price or quality, and, like I've said, there is always someone better and cheaper.

In choosing how to start your business, you have two choices: appeal a little to a lot of people or have a lot of appeal to a few people. So, if you are planning a wedding, who would you rather call? A general photographer who mostly does family portraits and maternity photos or someone who has a website full of stunning, perfectly lit, emotion-capturing wedding photos?

The one photographer in the example who is going against the grain is *Wilson's Wedding Photography*. This studio is doing exactly what I would do. They are doubling down on weddings. They know that people looking for a wedding photographer want an expert, someone who specializes, someone who is not going to miss a moment of the most important day of their lives.

Back to Susan… if she wants to create a space for her business in the B2C category, her best options are pets or weddings. And that is where many small business owners would stop, but I want her to go even

further. I want her to microtarget. That means, she needs to find an even smaller niche than weddings or pets.

What if she didn't just specialize in weddings but went even deeper and focused on outdoor weddings? What if, instead of just pet photography, she specialized in competitive horse photography—action photos of you and your horse riding in competition? In other words, what if she was not only different, she was unique… okay, not unique in the world, but unique in her trade area?

She also has the option of entering the B2B category. In her trade area, there are very few options for a business looking for a photographer and the corporate photographers that do show up in her analysis seem to focus on large businesses in nearby Nashville. Small business owners in the local area do not seem to have a lot of options. So, could she be the "go to" photographer for small businesses in Mt. Juliet? What if she went even narrower and focused on photographing food for locally owned restaurants? Taking great food photos is hard and requires a lot of specialization. If she could develop that expertise, maybe that could be her niche… photography for small, locally owned restaurants.

While microtargeting seems risky, it greatly improves the chances for a small business to break through the noise and find customers. What you want is to identify a niche and fill it completely. You want to be someone's perfect solution, not everybody's second choice.

You get big by thinking small!

Now, you don't have to stay small forever. We're not going to crawl forever—one day we want to run. Once you have a foothold in your chosen trade area, you can grow from there by either adding additional services or by expanding into a larger trade area. Also, thinking small does not have to result in a small business. Remember, the *Duck Dynasty* guys built a million-dollar business out of handmade duck calls before they ever made a television show.

Another thing to note: thinking small may require you to expand your initial trade area. Susan started with a trade area of 20 miles in any direction from her location in Mt. Juliet. However, if she specializes in outdoor weddings or locally-owned restaurants, she may need to expand that trade area to have enough potential customers to start a business. As a rule, the smaller your niche, the larger your trade area needs to be, because you will have fewer potential customers.

After much deliberation, Susan decided to go the route of outdoor weddings and is going to call her business Your Perfect Day—Outdoor Wedding Photography. Below is the revised competitive analysis for her trade area with her business included and with the added microtarget of people planning an outdoor wedding.

Susan's Competitive Analysis
UPDATED

	Jocelyn	Beck	Ruff	Wilson	Loni	J.C.	Lifetouch	Bart	Richlands	DIY	Perfect Da
Family Portraits	2	2	3	1	3	2	2	1	1	2	1
Maternity/Baby	2	3	3	1	3	1	1	1	1	2	1
Senior/School	2	2	3	1	2	2	2	1	1	2	1
Pets	1	1	1	1	3	1	1	1	1	2	1
Weddings	2	1	2	3	1	1	1	1	1	2	1
Corporate Photography	1	1	1	1	1	1	1	3	3	2	1
Outdoor Weddings	2	1	2	2	1	1	1	1	1	2	3

1=Not Covered, 2=Included but not Primary, 3=Primary Focus

One last note. Say that you've analyzed your selected trade area and cannot find an area of specialization…all the market segments have ratings of 2 or 3. There are no 1 ratings pointing towards a potential microtarget. In that case, you need to try a different trade area. While that's hard, it's easier to move your trade area than it is to compete in a trade area where there is no room for your business. You must find a trade area where there is space for you to carve out a niche.

This is hard work, but it is much easier to move your business on paper than to start your business, fail, and have start over. This is all a part of

the *Crawl* phase. Remember the list of reasons new businesses fail? We want to remove items from that list now while there is no risk. Research costs us nothing but time, spend it wisely now and you will save so much more later.

Your Turn

So, what about you? Where are the ratings of 1 in your analysis? Are there any segments that are currently being ignored or underserved? If there are, is there a way to focus in on one specific need and microtarget your business to meet only that need? How targeted can you get? Go as narrow as you can, and then try to go even narrower. Are there no potential opportunities to microtarget in your trade area? What other trade area might you consider?

Journal Questions

1. *What market segments do feel drawn to? When you think of your business, who are you serving?*

2. *Is there a specialization you feel drawn to, for example, the photographer who loved doing outdoor weddings?*

3. *Write a brief description of your ideal microtarget, one that combines the kind of people or businesses you would like to serve with a specialization that sounds interesting. Would this work in your market? Is there a market where this would work?*

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CHAPTER SIX
Refining Your Product or Service

In the previous chapters, you started developing your general business idea and then identified a potential trade area and target market. Now it is time to start making sure the product or service you offer is *exactly* what your target market is looking for. You need to make them *love* your business!

To make your target market love you, there are two truths you must embrace. The first truth is that simplicity is the key to breaking through the clutter. When planning out the products or services you will offer, less is more. You can and most likely will expand your number of offerings later, but you have to start small. Think *Chick-fil-A*. Are any of you old enough to remember when they first showed up in your market? They basically had one thing, a chicken sandwich. Simplicity is a must if you want to avoid that scary list of reasons why businesses fail!

The second truth is that it's not all about you. Many small business owners see their businesses as an extension of themselves. After all, this is what they've been dreaming about for years. I love that. I am like that myself. But, if you build a business around what *you want to do* rather than *what your target market wants from you*, you will fail. You cannot build your business around you. You have to build it around them.

Now, you may be asking, "isn't this the opposite of following your why"? That's the tricky part. If you want to be successful, your why must align with the needs and wants of a target market. If you want to hold on to your dream business, you must be able to find a group of people who have the same dream. To be candid, this process usually involves some give and take, which is why we crawl before we walk before we run.

Features and Benefits

So, what does your target market want from you?

If you've spent the necessary time to identify a target market and found a small niche in your trade area that is being overlooked or poorly served—in other words, you should be well on your way to an answer.

In the last chapter, Susan, our photographer looking to open her own studio, decided to focus on outdoor weddings. For Susan, then, the initial list of products and services is simple. For products, she simply needs a list of packages that start at the lowest price she is willing to offer and then expands to the highest price she believes the high end of her market can bear. This list will provide the basic features of her products.

When defining products and services, though, every business is operating on two levels. There are *features*—the basic list of exactly what products or services you are offering—and there are also *benefits*, what you are really selling. Earlier, when Susan was defining whether her business was a product or service company, she realized that, while people would be paying for photos, what they would really be buying is service. They would be paying for things like peace-of-mind, confidence, hope that it would all turn out well, expertise, her good eye... in other words, what she was really selling was not photos, but all of these other intangible things that give her business value.

Value is the key word here. Features get you in the game. They tell the consumer exactly what they are getting. Benefits, though, close the deal. They address two very important questions, "Do I want/need this?", and "Do I want/need this from you?". We shop around for features but we buy benefits.

It is critical that you not only think through the features of your business but also dig in and really think through the benefits. This is because, as we transition to marketing, we *list* features, but we *highlight* benefits. So, how

do we identify the benefits of our product or service? Well, we answer the questions mentioned above by asking ourselves, “Why do they want/need this?” and “Why do they want/need this from me?”.

This is where you must fight the temptation to make this all about you. I had a friend that opened a bakery several years ago. When I asked her how she was going to draw customers, her answer was, “I’m going to bake the best cakes they’ve ever eaten”.

I call this *Field of Dreams* business planning. *Field of Dreams* is a movie from the late 80’s starring Kevin Costner. Costner’s character is wandering through a corn field when he hears a voice saying, “If you build it, they will come.” To shorten the story, he ends up building a baseball field in the middle of his corn field and these long-dead baseball players show up and start playing ball. It’s a bit of a strange movie.

“If you build it, they will come”, is a cool plot line for a movie. It is a terrible business plan. Because, in real life, they don’t come.

So, why will they come? You need to know.

What we’re going to do for the *Crawl* phase of this plan is start with our features. Make a list of the actual products or services you will initially offer. And, again, less is more. The shorter the list the better.

Then, we’re going to list benefits, the reasons why they need our product or service, and most importantly, why they need it from us.

Below is an example of a features/benefits list for Susan’s outdoor wedding photography business.

***Your Perfect Day*–Outdoor Wedding Photography**

FEATURES	BENEFITS
Perfectly Lit Outdoor Photographs	Shows You Have Good Taste, First Class, “The Best”
Traditional & Unique Set-Ups	Peace of Mind, Confidence, Relax–It’s Taken Care Of…
Professional Photoshop Processing	We will make sure you look your absolute best… you will be beautiful!
Beautifully Bound 50-Photo Wedding Album	We will tell YOUR unique story–not just the same set-ups as every wedding
3-Camera Video Shoot w/ DVD & Digital Copies	

Supply, Production, and Distribution

Every business is different and so it's impossible to go into any depth at all in this book about the means of delivering your specific product or service. Hopefully, you've chosen a business you know enough about to get started. If not, there are many resources available online for practically any product or service. However, there are some general things every business needs to figure out.

To get started, you need to go back to your "what I need" list. If you have a product-oriented business, you need to figure out how you will manage the *supply* of materials, the *production* of your product, and the *distribution* channel to your target market.

Whether you are making your product or buying items wholesale for resale, you need to figure out the best way to secure what you need. Where will you buy your supplies? Do you have sufficient space to store materials? How much inventory or production material do you need to get started?

If you are manufacturing an item yourself, do you have what you need? For now, you are not trying to set up mass production; that will come in the *Walk* and *Run* phases. But, for some products, even a small production run can require space and equipment. One little tip, try not to buy what you can rent or even borrow. If your product requires investment in manufacturing equipment, try to get limited access to the equipment without buying anything. The whole point of the *Crawl* phase is to test ideas before you make a huge investment.

What about distribution? Will you sell directly to consumers or businesses or go through an intermediary? Will you sell face-to-face or online or both? I really want to encourage you not to set up a full-blown physical location during the *Crawl* phase. If you need to be in a store, try to find an existing retailer that reaches your target market and see if they will let you test some non-competing products in their store for

a percentage of the revenue. You can also test some products through a booth at a flea market, a craft fair, or even a small kiosk in a mall.

When I was in my 20s, my grandfather, my dad, and I had a small business making outdoor furniture for large houseboats and yachts. My grandfather was the brains behind the actual making of the furniture. My job was sales and labor. Lots of labor! We started out by renting a booth at the monthly flea market in downtown Nashville. Initially, we barely made enough money to cover the cost of the booth, but we learned a lot about our product, our potential customers, pricing, the benefits people really cared about, and how to kill time through hours and hours of being ignored…all good lessons that paid off later.

For online product distribution, you need to work through how you will store inventory and fulfill orders. Amazon has excellent distribution services and can be a great temporary option until you know if your idea works. You can also set up a simple website with a built-in order system. Once you have the order, you need to pull it together, package it up, and ship it. Again, during the *Crawl* phase, you will not have a lot of volume, so you can test your system and see if it works before you start getting a lot of orders.

For service-oriented businesses, you need to make sure you have what you need to deliver your service. If you have a service that requires a major investment in equipment, like operating heavy machinery, see if you can rent or even borrow what you need for the first 1 or 2 clients. You want to test before you buy whenever possible.

Avoid committing to infrastructure like offices, computers, desks, and other equipment if you can. It's fine to hold meetings in a nice coffee shop during the *Crawl* phase. Again, you want to test your idea before you commit to buying a lot of stuff!

Below is a simple supply, production, and distribution plan for Sarah's photography business. As you can see, she started with a list of things

she would need and then filled in how she will handle that particular need for the Crawl phase of her business. It's a good idea to add costs like she did so you can know what your initial financial commitment will be.

Your Perfect Day–Outdoor Wedding Photography

[SUPPLY PLAN FOR SUSAN]

What I Need	Plan	Cost
Canon Digital SLR Camera	Already Own	$0
Canon 50mm lens	Already Own	$0
Canon Ultra Wide Angle lens	Buy Used	$500
Canon Macro lens	Buy Used	$500
On Camera TTL Flash Kit	Already Own	$0
Flash Modifier Kit	Buy New	$100
5 in 1 Folding Light Reflector Kit	Buy New	$150
Canon SLR Adjustable/Leveling Tripod	Already Own	$0
Laptop with Editing Software	Already Own	$0
Assorted Bags and Cases	Buy Used	$300
Various Props for Novelty Shots	Buy New	$200
Total Needed to Start		**$1750**

Your Turn

Now it's your turn to refine your product or service. Make a list of features and benefits like the example as well as an updated list of basic needs related to supply, production, and distribution and then answer the following questions for your journal.

Journal Questions

1. *Is your list of features as simple as you can make it?*

2. *Does your list of benefits answer the questions, "Do I need this?" and "Do I need this from you?"?*

3. *Do you feel you have crafted a list of features and benefits your target market will not just like, but absolutely love? Why?*

4. *What do you need? What are your plans for supply, production, and distribution and what will it cost?*

Visit www.crawlwalkrun.online for free video instruction on the *Crawl, Walk, Run* method.

CHAPTER SEVEN
Your Offer

No matter how carefully you craft your products or services, no matter how much you microtarget, no matter how hard you work to make your target market love you, most people are still going to say no to your business. Why would they say no to the perfect product or service… one created specifically for them?

That is an excellent question!

And, the more completely you can answer it, the better chance you have at turning that *no* into a *yes*. You do this by crafting an offer your target market can hardly refuse.

Crafting the perfect offer is a simple two-part process. The first part deals with removing reasons to say *no*. The second part has to do with *value stacking*—piling on reason after reason to say *yes*. A great offer does both.

Removing Reasons to Say *No*

So, why might someone say *no* to your product or service? Before getting too specific, there are six general questions behind why customers say *no*.

1. *Do I want/need this product or service?*

We've already covered the fact that for any customer to make a purchase, they must answer this question. While it seems like a simple question, it can be quite complicated, and can involve sub-questions like "Do I want or need this more than something else?".

2. *Do I want/need this product or service* ***from you****?*

Once someone has answered the "Do I want/need this?" question, they move from *what* to *where*. They know what they want but now they must figure out where to get it. And, at this point, there is a powerful force lurking in the background… fear of missing out.

They worry that as soon as they commit to one place, another place will pop up with a better deal and they will have missed the *best* option. In addition to fear of missing out, many customers are very concerned about how and where something is made. The organic movement and the fair-trade movement have changed the way people make buying decisions.

3. *Do I need this **now**?*

One of the frustrating things in moving a customer from a *no* to a *yes* is that you can do everything right, convince them they not only need what you have, but that you are the only place on the planet they would even consider coming to, and then you get hit with, *later* or *someday*. On the other side of the spectrum, you can also have people who literally need it now. Amazon has made us believe we can have anything we want within three days and with free shipping of course. The *instant economy* is something you must consider.

4. *Can I afford this?*

Price matters. And the higher the price, the more it matters. However, for big ticket items, a relative term by the way, affordability is not just a matter of price. If someone is looking to buy a car, the difference of a thousand dollars might matter, but affordability might have more to do with financing and payment options.

5. *What if I need help?*

For complicated items like *assemble it yourself* furniture or worse, some *assembly required* toys, there can be a concern that they won't be able to do the assembly. For other items, there could be the fear that they simply won't know how to use it. My mother recently bought a new printer, and her biggest concern was where she would get help if it messed up and I wasn't available.

6. *Can I exchange it or get my money back?*

Things break, sometimes things are the wrong size or color, or

sometimes we just realize we bought the wrong thing. That fear of getting stuck within something we don't want or can't use delays a lot of decisions. This fear can also show with purchases you have to make way in advance like vacation expenses or higher education. What if your life situation changes and you are unable to take that vacation or finish that degree?

While this list is not exhaustive, most of the reasons someone will say no to you will fall under one of these six questions. Of course, depending on the type of product or service, they may take on a different form. But essentially, these are the questions you need to think through and address.

An important point to consider is that when you are first starting out with your business, you may need to come up with some radical ideas in order to get those first few customers. So, as you come up with ideas, you may want to go over the top just to get people to give you a chance. During the *Crawl* phase, this is fine. Do what you have to do to get started. As you move into *Walk* and *Run*, though, you will have to make sure that what you are doing is sustainable financially.

The graphic below takes each of these questions and shows ways you can address them and turn a *no* into a *yes*. Ideally, you should do a similar exercise with the questions you anticipate for your business.

When applied to a specific business, these questions may be expressed differently, so immediately below the general questions and answers, I've included Susan's version of this exercise for her outdoor wedding photography business so you can see the questions in a different form. You will notice some of her ideas, like a money-back guarantee, may not be sustainable over time, but, during her *Crawl* phase, in order to get her first few clients, she may need some radical policies like this to get her name out there.

Moving from "*No*" to "*Yes*"

OBJECTION	RESPONSE
Do I need this?	*Focus on benefits, not features*
Do I need this from you?	*Concentrate on your "difference"/ Offer testimonies*
Do I need this now?	*Build in Time-Based Offers/ Create urgency*
Can I afford this?	*Payment plans, Deferred & Interest-free payments*
What if I need help?	*Offer Customer Support/ Training/Videos*
Can I exchange it or get my money back?	*Guarantees, Exchange Policies, Return Policies*

OBJECTION	RESPONSE
Do I need a professional photographer?	*Contrast amateur & professional wedding photos/list special challenges of outdoor photography*
Why should I hire you?	*Show examples of my photography, Talk about specialization "Who would you rather have?", Testimonies*
Do I need this now?	*Early bird offer...book 3 months out and save 15% on package cost*
Can I afford this?	*Interest free monthly payments for 6 months... balance must be paid in full before final delivery of photos*
What if it rains and we end up indoors?	*Show indoor expertise, offer a rain check second shoot with the wedding party on day of bride's choice*
What if I don't like the photos?	*Money-back guarantee if there are fewer than 50 usable photos*

Creating Reasons to Say *Yes*

Getting rid of a potential *no* is very helpful, but it is not enough to win the day. If you want to make your target market love you and say *yes*, you need to pile up reasons for them to do so.

What does your target market value? What was it about the existing options that fell short for your target market? After all, the whole reason you microtargeted this segment is because something was missing.

The concept we want to follow here is called *value stacking*.

Value stacking involves coming up with the things your market values the most and then giving them even more than they expected. We want to stack value after value until they have to say *yes*.

While they are kind of cheesy, a great example of value stacking is those late-night infomercials where they sell cleaning supplies, knives, cooking appliances and the like. We all know the phrase, "But wait, there's more!" We make fun of the phrase because they all say it, but they all say it because it works.

So, think about what your target market values, make a list, and figure out how to give it to them. You don't have to literally say, "But wait, there's more!", but it wouldn't hurt to have that thought in the back of your mind.

The following is an example of value stacking related to Susan's outdoor wedding photography business. Again, some of the ideas you come up with for the *Crawl* phase may not be sustainable forever, but it might take a radical approach to get things started. When we get to the *Walk* and *Run* phases, we will talk about how to evaluate the sustainability of your ideas. Right now, we need an offer that gets us in the door!

FULL DAY PHOTOGRAPHY INCLUDING:

- **Getting Ready/behind The Scenes**
- **The Ceremony**
- **Group Shots, Family Shots, Bride & Groom Portraits**
- **Reception Photos**

+PLUS...

Individual Portraits of Bridemaids and Groomsmen

Free Professional Photo Retouching

Free 50-Photo Digital Album

Free 3-Camera Video Capture of the Wedding Ceremony

GUARANTEED 50 Photos You Will Love or Your Money Back

Crafting an Offer

After gathering your ideas for changing a *no* to a *yes* and coming up with ways to add more value, it's time to combine all the elements into an attractive offer. As with everything in the *Crawl* phase, simplicity is the key. We want an initial offer that is easy to understand and helps us test our overall idea.

In building your offer, start with those things that you think are most important to your target market, then move through your list of ideas in the order your potential client will think of them. The typical order is:

"Do I need this?",
"Do I need this from you?",
"Do I need this now?", and then the
"What ifs?".

As you work through the questions, incorporate your value-stacking ideas as well as your counterpoints to the different objections. Your value-stacking ideas will be particularly useful in answer the "Do I need this from you?" question.

All you need to do at this point is have the basic elements of your offer in a rough order so you can start approaching potential clients. In the *Crawl* phase, you are not going to be doing a lot of advertising or promotion where you need a nice, crisply written, catchy offer. For 99% of you, your initial offer will be made verbally to someone you know or have a connection with. So, relax about the wording, and just get the offer as clear as you can and in some sort of prioritized order.

Below are the notes for Susan's first sales call. Even though she knew the person she was going to talk to, she wanted to make sure she had a list of the highlights so she didn't miss anything. Your notes can be just as informal. All you need is something to keep you on track.

THINGS TO *HIGHLIGHT*:

Outdoor Weddings are notoriously difficult for a photographer

You need an expert, someone who specializes in outdoor weddings

Peace of mind, confidence that you will be beautiful

Package includes standard and custom set-ups for the entire day, wedding album, 3-camera video shoot of ceremony, professional retouching

Early bird special, 6-month "same as cash", Free Digital Album, Money-Back Guarantee

Your Turn

It's time to build an offer. And remember, in the *Crawl* phase, we want to keep it simple. We need an offer that we can test with our target market. How can you remove reasons to say *no*? How can you create reasons to say *yes*? Then, combine all of this into an offer your target market cannot refuse!

Journal Questions:

1. *What are some of the questions and concerns that would make someone say* ***no*** *to your offer? What can you do to remove those questions and concerns?*

2. *What does your target market value most? What ideas can you come up with that would give your target market more than they expect?*

3. *If you were going to call someone and ask for their business, what would you say? Create an outline for that call.*

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CHAPTER EIGHT
Putting It All Together

The final step in the *Crawl* phase of *Crawl, Walk, Run* is to test your ideas. You need to bring together your product and service idea, your features and benefits, and your offer and see how your target market responds. This is the step that is going to save you time, money, and, potentially, heartbreak. Instead of quitting your day job, borrowing a bunch of money, and jumping into the unknown, you are going to dip your toe in the water and test how it feels.

Three Steps

The Crawl phase has three basic steps.

1. *Find a Test Customer*

First, find someone in your target market that would be willing to be your *test subject*; someone who will go through the process of a transaction with you and give you feedback. To entice this person to be your first customer, you may have to give them a deep discount or even offer your product or service for free. Perhaps you can even do a trade; you give them a deep discount or even free access to your product or service, and they allow you to gather photos, testimonials, videos, and lots of feedback. Remember, your goal here is not to make money, but to learn and avoid future mistakes.

2. *Test Your Process*

Second, once you have someone willing to be your first customer, go through the process of creating and delivering your product or service, taking notes on everything along the way. How long does it take to get materials from your supplier? Is the quality of everything what you expected? How long does it take to make your product or deliver your service? Does everything cost what you expect? What features or benefits did the client really care about? Were there any that didn't

matter at all—things you could drop? Basically, test every assumption you've made up to this point.

3. *Gather the Data, Get Feedback*

Third, capture as much information and marketing material as you can. Get photos of every step of the production or delivery process. You will want these later when you build your website and marketing materials. Capture photos of your client interacting with the product or service. Do what is called an *exit interview* and get as much feedback as you can, capturing it on video if the client will allow it. If you provided the product or service for free or at a deep discount, try to find out how much the client would have been willing to pay for the final product or service now that they have gone through the process. This feedback will be invaluable, and the images and video clips will save you time and money and lend an authenticity to your later marketing efforts.

Once you have gone through an entire transaction process with your first client, do it again. Go through the same exact process including the exit interviews and gathering of marketing materials. However, make small adjustments based on the feedback of your first client. If they did not like the quality of something, try changing the product. If they thought something took too long, see if you can shorten the timeline without losing quality. Remember, we are still trying to learn, so even if you disagree with the feedback from your initial client, try to find a way to test what they say.

Three Goals

As you test your basic ideas, there are three goals to keep in mind.

1. *Your Microtarget*

First, you want to see if you have in fact identified and can reach an underserved or ignored segment of the market and have crafted features, benefits, and an offer that super-serves that segment.

You want to learn all you can. What features and benefits have the greatest meaning to your target market? What elements in your offer matter, and what elements are you just giving away for no benefit? How long does it actually take to make your product or deliver your service? What are the actual costs of delivering your product or service? What is your target market willing to pay for your product or service? You want to gather as much information as you can so you are ready to move to the *Walk* phase.

2. *Your Distribution Plan*

Second, you want to test your delivery system. If you are selling a product, you want to make sure your supply lines, means of production, and distribution channels all work. For example, my daughter used to sell handmade scarves on Etsy. Her biggest challenge was making sure she had enough yarn from the same dye lot to insure she could deliver uniform color throughout the scarf. She also had to make sure she had the capacity to knit the scarf in the promised time frame. Finally, she had to find the most cost-efficient way to mail the scarf to the client. It took 4-5 orders to really work out a system.

3. *Gather Marketing Materials for the Future*

Third, you want to gather materials for future marketing. People are more willing to buy from someone that looks like they've been in business for a while. You need photos, testimonials, and even video interviews if you can get them to help show your future customers that you can be trusted. Your first few customers will be a valuable source for these kinds of materials. In fact, this might well be the most important part of the *Crawl* phase!

In the *Crawl* phase, we're going to repeat this process until we feel we have enough feedback and marketing material to start dealing with clients for real. I promise, if you take the time to do this right, to really work through your idea with enough clients to be confident in your

product or service, your offer, and the target market segment that you've selected, you will have a much higher chance of success. This phase is what will keep you from most of the mistakes first-time business owners make. So, take your time and do it well.

This Won't Work for Me!

Some of you might be thinking there is no way you can test your business idea one client at a time. Still others might think you cannot test your business idea without quitting your present job. Maybe you have a labor intense, high-cost business idea like custom swimming pool installation, or you want to open a business that would be in competition with your present job. Still others might be considering a job that requires retraining or even going back to school.

So, what does the *Crawl* phase look like when you cannot simply test your idea with a handful of clients? Well, the goal hasn't changed. What we're trying to do here is test our ideas and assumptions. If you can't test them through an actual transaction, you will have to do it in one of several other ways.

One way to test your ideas is through a series of extensive interviews. Find two or three potential clients and ask them if you can ask them some questions. Pay them to do the interview if you must. Then, walk them through everything you've decided so far about your features, your benefits, your offer, what they would be willing to pay, what timeline they would expect… everything you can think of.

Another way to test your idea is to interview people who are already in the business. Try to find two or three people who are in pretty much the same business you want to start but are operating in a different trade area and see if they will let you interview them. The key is to find people to interview whose business is as close to your idea as possible and who will not see your idea as a threat.

Once you've identified potential business owners to interview, go

through the same process described above. Walk them through all your ideas and assumptions and gather as much feedback as possible.

Finally, the truly best way to test your idea if you cannot do so with your own business one client at a time, is to get a job working in the area you want to start a business in. If you want to start a custom swimming pool installation business, go work for a custom swimming pool installer for a while. Learn the business while someone else is paying the bills. It sounds extreme but quitting your day job to work for someone else is far less extreme than quitting your day job to start your own business doing something you've never done!

While the ideal *Crawl* phase involves testing your actual business ideas with real clients one at a time, you can still accomplish many of the same goals by interviewing potential customers and current business owners or working for a company doing what you want to do. The main thing is that you test your ideas and assumptions and get feedback on what matters most to your target market. If you can come up with another way to do that, great! Just make sure that before you move into the *Walk* phase, you have tested your assumptions because you are about to make some serious decisions based on them!

It's time to go for a *Walk*!

Part II: Walk

In the *Crawl* phase of the *Crawl, Walk, Run* method, you did a lot of dreaming, planning, researching, and decision-making. Then, you tested your ideas and assumptions and hopefully got some great feedback from a sample of your target market. Now, it is time to set the stage for a small-scale, fully operational version of your business. We're ready to stand up and take our first few steps!

One way to think of the *Crawl, Walk, Run* method is to compare it to building a house. The *Crawl* phase is like the early part of building a house where you look at plans, color schemes, designer drawings, appliances, etc., and make a lot of choices. These days, at the end of all that planning, home designers can even give you a virtual walk through of your potential home before they start construction.

If the *Crawl* phase is like planning the house, the *Walk* phase is like breaking ground and actually building the house. As much as possible, you are going to follow the decisions and plans you made during the *Crawl* phase while staying open to making small changes along the way as the imagined future becomes reality. Then, like at the end of a house building project, you're going to do a final walk through and make sure everything works like you expected.

What this means when applied to your business idea is, in the *Walk* phase, you are going to build the business you planned out in the *Crawl* phase. However, you are going to do it on the smallest scale possible while still being fully operational. To do this, there are several steps you are going to have to complete.

First, you need to decide on a business structure. In the *Crawl* phase, you were mainly planning things out on paper. Now, you are going to start spending some money and investing in your future business. Depending on the amount being spent, there could be considerable

tax savings to setting up a legal business. So, you need to decide what structure will work best.

Next, you need a basic marketing plan. Marketing a small business is a broad topic worthy of an entire book. So, what I am going to do is walk through some of the basic steps of building an introductory marketing strategy including setting prices, selecting a distribution model, and building a promotion plan.

Next, you will take everything you have done to this point and create a budget. Finally, you will get ready to start your business at the smallest viable level so you can do a final walkthrough and see if it is ready for you to move in!

Are you ready? Then, let's go for a *Walk*.

CHAPTER NINE
Your Business Structure

Sole proprietorship, corporation, LLC, partnership—there are a lot of business structures out there and, believe it or not, the way you structure your business matters. The structure you choose can change the way you pay taxes, raise money, distribute earnings, and, most importantly, manage liability. You really want to get your structure right at the outset because it is much easier to start out with the right structure than to change structures later.

While many small business owners wait to formally structure their business, I encourage doing this early in the process for three reasons. First, it gives your business an air of legitimacy when talking to potential lenders or investors. It also creates an air of legitimacy in your own mind. Something about choosing a structure and forming a business helps push you from dreaming to doing. Second, in the *Walk* phase of the *Crawl, Walk, Run* method, you are going to start investing money. Having your business set up can provide early tax benefits if the amount being invested is considerable. Finally, certain business structures have access to capital that others do not. If you intend to raise money through lenders or investors, you will need to have a business structure in place.

There are a wide variety of business structures possible based on the kind of business you are starting. However, most small businesses choose one of six structures, each of which is outlined briefly below. While there are several differences between the structures, the most important differences have to do with liability protection, taxes, distribution of earnings, and raising funds. The following summary of the different business structures is intended only as an initial introduction. You should definitely consult an attorney before making a final decision as to your own business structure.

Sole Proprietorship

A sole proprietorship is the simplest of all business structures. Under a sole proprietorship, *you are the business*. While you may operate the business under a *doing business as* name (DBA), the business is organized under your personal social security number and, as far as the law is concerned, there is no difference between you and your business.

The simplicity of a sole proprietorship has great appeal for many small business owners. It is easy and inexpensive to set up, there are no boards or contrary opinions to accommodate, and paying taxes is as simple as filling out a Schedule C as part of your personal tax return and paying quarterly tax estimates. In addition, a sole proprietorship is exempt from some of the taxes and reports required of other business structures. For this reason, the sole proprietorship is the most popular small business structure in the United States.

There are some challenges to being your business in the eyes of the law, however, and the biggest has to do with liability. As a sole proprietor, you are *personally* liable for any negligence or damage caused by your business. This means if something bad happens your *personal* assets could be at risk.

For example, say you have a hot dog stand structured as a sole proprietorship and a group of people claim to have gotten food poisoning from your food. If you are found to have been negligent, you could end up liable for damages and if the amount of those damages exceeds your insurance coverage and any assets owned by the business your personal assets may be at risk including your home, your car, and any other income sources you may have. Since you are the business, you are personally responsible for anything your business does.

Only businesses with a low risk of liability should consider forming as a sole proprietorship. If your business has high liability risk, for example, food service, childcare, sports, construction, etc., you should look for a

business structure that provides greater personal liability protection.

Another challenge for sole proprietorships is raising funds. Since you are the business, most of your options will be through your own resources such as personal bank loans secured by some sort of collateral, like a home equity line of credit (HELOC) or personal loan. The Small Business Association (SBA) does have programs to help sole proprietorships find funding, however all loans to a sole proprietorship are still considered personal loans and the business owner is responsible for them even if the business fails.

Partnerships

A partnership is the easiest way for a small group of entrepreneurs to form a business together. Partnerships are governed by a partnership agreement, which defines the overall degree to which each partner is involved in the investment, operation, liability, and profit of the business. As long as the terms of a partnership agreement are legal, they are binding and determine the structure of the business.

Forming a partnership is an attractive option for many small businesses because a partnership allows a group of owners to share the investment and risk of starting a new business. Partnerships also allow broader diversity of expertise and access to clients for a business. Finally, partnerships can spread out the day-to-day responsibility for the business so that the owners can get away every once in a while.

There are risks associated with partnerships as well, most particularly in the area of liability. Without proper legal planning, partners in a small business may find themselves subject to what is called “joint and several liability”, which means partners are not only liable for their own actions but also the actions of their partners. There are ways to protect against this, though.

A Limited Partnership (LP) is one in which there is a general partner with unlimited liability, similar to a sole proprietorship, and then

limited partners with little to no liability for the business. Of course, limited partners also have little control in a Limited Partnership. There is also the option of a Limited Liability Partnership (LLP), where all partners have the same degree of liability protection and an equal say in the operation of the business.

A partnership pays taxes in much the same way as a sole proprietor with profits passing through each partner's personal tax return. Financing a partnership usually involves tapping into the personal resources of the partners, which is why businesses choose this type of structure in the first place. While there are loans available, they are usually treated as personal loans as in the case of the sole proprietor.

Corporation

A corporation is a business structure that creates a completely separate *entity* of the state. From a legal and financial standpoint, a corporation is treated pretty much as if it is a person, separate and apart from its owners. As such, a corporation can enter into contracts, own assets, earn profits, pay taxes, and assume legal liability.

Ownership in a corporation is determined by units of stock, which can be sold or traded either privately or publicly depending on the corporate structure. Ownership in a corporation includes certain privileges including a right to vote on important company actions. Profits from a corporation are paid to owners in the form of dividends.

A C-Corp, the most common type of corporation, is more complicated to form and manage than the other business structures discussed in this chapter. Incorporating a business involves a complex legal process, the formation of a board, and the creation of a business charter. As entities of the state, a corporation is formed at the state level with each state having slightly different rules and processes, especially in the area of taxation. Corporations have a lot of accountability to the federal government as well, particularly in the areas of financial reporting and human resources.

On the positive side, because corporations are viewed as entities separate from their owners, corporate owners have no personal liability beyond the money they have invested in the stock of the company. In addition, corporations have more ways of generating capital than some of the other business structures including loans to the business (as opposed to personal loans) and issuing stocks. Finally, because ownership of a corporation is determined by the buying and selling of stocks, selling the business is a relatively straightforward process.

On the negative side, corporations can be expensive to create, are subject to a lot of oversight and regulations, and the people operating the business are accountable to a board. Also, corporations are subject to double taxation meaning the corporation pays taxes on its earnings and then the remaining earnings are paid to owners in the form of dividends and are taxed again as personal income for the owners.

The S-Corp was created as a special type of corporation to avoid the issue of double taxation. In an S-Corp, the earnings and, in some cases, losses of the corporation, are passed through to the owners and are taxed only once. In most other respects, an S-Corp functions like any other corporation.

There are some limitations on forming an S-Corp. An S-Corp can only have up to 100 shareholders and all shareholders must be US citizens. In addition, because the purpose of an S-Corp is to avoid double taxation, S-Corps are actually formed by application to the IRS, a different process than forming a corporation through the state.

Nonprofit Corporation

A nonprofit corporation is a special class of corporation created to meet the special needs of organizations such as churches, schools, charities, and other work that benefits the public. A nonprofit corporation is exempt from paying taxes on any profits it makes. Many nonprofit corporations are also exempt from other kinds of taxes like

state and local sales taxes. However, because of their exempt status, nonprofit corporation are carefully regulated by the IRS. A nonprofit corporation is formed within a state but involves an additional process through the IRS in order to obtain what is referred to as 501c3 status.

In many ways, a nonprofit corporation is very similar to a regular corporation in that it must have a board, a business charter, and is subject to a variety of state and federal regulations. Nonprofit corporations are particularly regulated in how they raise funds and how they distribute profits. This requires a lot of extra accounting and financial reporting in order to maintain one's tax-exempt status.

Strictly speaking, no one "owns" a nonprofit corporation. The organization is its own entity and if it is shut down, the distribution of assets is carefully regulated. There are no shares or units of ownership and earnings may not be passed on to individuals or political organizations. Nonprofits are managed by a board of directors who hire staff to run the day-to-day operations including a president or general manager. So, if your goal is to build a business that you can later sell or pass on to others, you may not want to do a nonprofit corporation.

Limited Liability Company

The limited liability company (LLC) was created to allow business owners to have the personal liability protection of a corporation with the tax benefits and overall simplicity of structure enjoyed by sole proprietors. Like a corporation, an LLC structure protects owners from personal liability. Like a sole proprietorship, profits and losses from an LLC are passed through to the owners and taxed as personal income.

LLCs are entities of the state and each state has its own rules for them. In some states, succession can be difficult if the business charter does not specifically state how ownership is to be bought, sold, or transferred. As with all of these business structures, you should get the advice of an attorney and a CPA before forming an LLC.

The single-member LLC is a special type of LLC designed to function exactly like a sole proprietorship only with the liability protection of a corporation. Check with your local small business administration to see how the single-member LLC works within your state.

Your Turn

Several factors should go into your decision as to what kind of business structure will work best for your business. How many owners will there be? What is your present employment and tax situation? How much capital will you need to raise? Do you intend to build up your business and then sell it? How much control are you willing to give up to a board? Is your business profit or non-profit? What is the potential for liability issues to arise related to injury or negligence?

I cannot stress enough how important it is to get legal advice in this area. Paying a lawyer, particularly one with experience in small business law, is money well spent. You should also check out the resources provided by the small business association and make sure you are dealing with the most up-to-date information (www.sba.gov).[5]

Journal Questions

1. *Will you need a lot of money in the form of investment or loans to get your business started?*

2. *How much liability do you think you will have with your business? How likely is it that someone could get hurt or become ill through interaction with your business?*

3. *Will your business generate large cash profits that will be taxed and distributed?*

4. *Do you want to be able to sell your business some day and cash out?*

5. *Based on these answers, what business structure do you think will work best for you?*

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CHAPTER TEN
Setting Your Price

Setting the right price for your product or service is a critical part of a successful business plan. You do not just want to set the price that makes you the most money nor do you want to simply try to be the cheapest option. You want the price that maximizes profit by aligning three key elements: your *costs*, your *competition*, and *demand* within your target market.

Cost

For most of you, the starting point for setting prices should be your cost for providing your product or service. After all, your price must exceed your costs or else you will lose money on every transaction. By cost, what I mean is any amount that can be directly tied to your product or service. So, things like your rent, utilities, salaries, and supplies don't count. We will talk about those kind of costs later. All we are looking at here are the direct costs of providing a product or service. For example, if you are selling custom golf clubs, your cost would include securing the necessary parts (including shipping, etc.) and your labor for assembling the parts into the final product.

The difference between how much a customer pays you for a product or service and what it costs you to provide that product or service is called margin, *Price - Cost = Margin*. Back to our golf club example, let's say the parts for a single club cost you $35 and it takes you one hour for assembly at $20 per hour. Your total costs per club would be $55. If you sell it to a consumer for $95, your margin is $40 *[$95 - $55 = $40]*.

Cost-based pricing uses your cost of providing a product or service as the basis for setting the price for the consumer. It does this by establishing a *mark-up*, which is a percentage increase over the cost of the product or service. For example, a common mark-up percentage in

independently owned retail stores is 50%. To determine the price of an item using a 50% mark-up, you simply multiply your cost by the mark-up percent plus 1, *Cost x (1 + Mark-up)*. So, if you are selling a custom-made patio chair that cost you $35 in materials and you want a 50% mark-up, you would multiply $35 by 1.5 resulting in a price of $52.50 *[$35 x (1 + .50) = $35 x 1.50 = $52.50]*.

A quick Internet search can reveal the average mark-up percentage for specific industries. For example, the search terms *average retail mark-up for clothing* reveals that the typical mark-up in an independently owned boutique is around 60%, or slightly higher than the average retail mark-up. So, if you sell a designer blouse in your boutique and your cost for that blouse is $45, you could charge *$72 [$45 x 1.60 = $72]*. By contrast, the average retail mark-up for groceries is only 12%, meaning if you, as the owner, pay $2.50 for a dozen eggs, you should price them at $2.80 *[$2.50 x 1.12 = $2.80]*.

Pricing a service using the cost-plus formula is a little more complicated. For example, say you are a seamstress and make custom prom dresses. For this type of business, the formula is Cost + (Time x Hourly Rate) = Price. To come up with the best price for our seamstress, we need to know their cost for materials, how long it will take to make the dress, and how much, on average, they want to make an hour. So, say our seamstress has $50 in material costs (fabric, thread, notions) and it will take them 7 hours to complete the dress. Also, say they want to make, on average, $15 per hour. The resulting price would be $155 *[$50 + (7 x 15) = $50 + 105 = $155]*.

Another example would be an independent auto mechanic. Say someone wants them to replace the alternator in their car. To come up with the price they first determine the cost of parts, which for an alternator would be around $125, then how long it will take, which for our mechanic is 2 hours, then how much they want to make an hour,

which, in this case, is $35 per hour. The formula results in a price of $195 *[$125 + (2 x $35) = $125 + $70 = $195]*.

What if you have no costs? Say you teach golf lessons and the only thing involved is your time? All you need to do in this case is calculate how long it will take to provide the service and how much you want to make, on average, per hour. Say our golf instructor wants to average $40 per hour. Well then, the price of a 1 hour lesson would be $40.

So, easy peasy… do your quick calculation and come up with a price. What's so hard about that? Well, nothing if you happen to be all alone, but no business happens in a vacuum. There are two other elements at work that will determine if your price based on cost will work: competition and demand. So, now we have to look at those.

Competition

Most industries have an average mark-up percentage, which you should be able to find online. However, this is an average. In most industries, you have a few outliers priced much higher than the average and a few outliers priced much lower than the average, with the bulk of businesses clustered around the middle. So, when it comes to pricing within an industry, you can go high, you can go low, or you can match the middle.

In deciding how to position your prices against those of your competition, it is important to know that most people have a strong price/quality connection in their mind; the higher the price, the higher the quality and the lower the price, the lower the quality. The reason so many businesses cluster in the middle is they are afraid of being seen as the cheapest, but they are also afraid that if they go to the high-end of the market, they won't have enough customers to survive.

This is where my earlier statement really holds true: better is not a strategy… different is. If you are offering the exact same product or service as everyone else, a higher price implies you have the highest

quality, and few customers are willing to pay for the absolute best. Most customers are looking for "good enough", meaning the highest quality they can get for the most reasonable price. Again, that is what creates the cluster in the middle.

But, what if your business wasn't offering something better but had something *different*? Now, you've made it harder for your customer to compare you to the competition. When everyone is selling apples, how do you price an orange, especially if you are the only one selling oranges? Well, you can't go crazy with it, but you certainly can go to the higher end of the spectrum more confidently. After all, if someone wants an orange, the fact that someone has a higher quality apple hardly matters.

In my opinion, small businesses have to position themselves towards the high-end of the pricing spectrum. Small businesses get killed on the low end because, if they become successful, a big company will jump in and, because of their lower costs, undercut and take away their business. Also, there is a price/quality connection that says if you are priced higher than the big companies, it is because you are delivering greater value.

Competing in the middle of the pricing spectrum is like being 1 of 10 different vendors at a farmer's market all selling apples at pretty much the same price…who wins? The one by the door? The one who stands out in front of the booth shouting and pulling people in? The vendor who spent all night rubbing wax into their apples to make them shinier? Do you want to compete on closest, loudest, or shiniest? I don't. It's too easy for someone to get closer, louder, or shinier.

No, your best bet as a small business is to go to the high end of the pricing spectrum with something *different*. People expect independently owned small businesses to cost more…but they also expect you to earn it! So, put a higher price on your product or service and then *go earn that higher price* by being radically different and stacking value around those things your target market wants most. If you cannot figure out

how to be different, change your product or service. Small businesses win by being different and bringing more value.

The one big exception here would be if you have the lowest cost. If you have some way of lowering your costs so that you can have the low price, not because you are taking less margin, but, because your low cost lets you get more margin out of a low price, then you can move to the low-price side of the spectrum. For example, say you have a small lumber mill and happen to own hundreds of acres of raw timber. You could have the lowest price for your lumber because, unlike most lumber mills, you would not have to pay for the raw materials. The irony of this example, though, is rough cut lumber from a small mill could probably fetch a higher price these days simply because it is cool looking and unique. But, my point is, if you have a way to have uniquely low costs, you can consider the low price option--but only then. Everyone else should go towards the high end!

Demand

One last elements of pricing is customer *demand*. Again, if you take the time to identify a market segment that is being underserved by the existing options in your trade area, you should have a situation where there is at least some level of demand. However, when it comes to pricing, some types of demand have more impact than others.

Think of demand like a balloon. Certain aspects of a product or service increase demand and put air in the balloon; they push prices up. Other aspects of a product or service decrease demand and let air out of the balloon; they push prices down. We want a full balloon!

One aspect of a product or service that increases demand is scarcity, or the lack of suitable alternatives or substitutes. Another aspect is urgency, the target market not only needs your product or service, they need it now. High visibility, or the degree to which others can see and judge the quality of the product or service, also puts upward pressure on prices.

So, if you can come up with a product or service that is scarce, urgent, and highly visible, you can charge pretty much whatever you can get away with. For example, emergency tooth repair is expensive. Say it is two weeks before your wedding day and you chip or lose a front tooth. I would say that is a highly visible, urgent need for which there are very few options or substitutes. You will pretty much pay whatever you have to. Another example is a tree falls on your carport during a storm. Unless you are very gifted with a chainsaw or very unwise, you will need a tree service and, if your market is like most, the options will be few: *Scarcity + Urgency + Visibility = highest price*.

How do you make your product or service more scarce, more urgent, more visible? Well, you build in scarcity when you go for *different* instead of better. In a room full of apples, an orange is scarce. Find the different! If your product or service does not already have urgency built in, you can always increase urgency through short term promotions—and don't just use sales pricing, you can also create urgency using other elements of value (Free next day shipping if you order today!). Visibility is a little harder to change but it can be done. I have done a lot of work in the music industry and we saw a big shift in behavior when Spotify and Facebook began making listener playlists visible to their friends.

It should probably be obvious, then, that a lack of scarcity, no urgency, and low visibility all take air out of the balloon and put downward pressure on prices. Something else that can decrease demand and put downward pressure on prices is a lack of complementary products or services. For example, when an electronics company releases a new gaming console, the number of games available at the outset determines how high a price the company can charge; lots of games… higher price, few games… lower price. Another example would be a dirt bike for someone living in an urban setting. The complementary need in this case would be trails… you can't ride a dirt bike on the street so, without

easy access to trails or a trailer to take your dirt bike to the country, you have no use for it. Dirt bikes require, well, dirt.

One aspect that has an unusual effect on pricing is frequency. How often does your target market need the product or service? Typically, the more often someone needs something, the more price sensitive they become. This is because they are not thinking about just the one-time purchase but are thinking about the cumulative cost over time. So, someone who gets their hair cut or styled once every 8 weeks is going to be less price sensitive than someone who goes to the stylist once a week. Offering package deals helps manage this aspect.

The chart below lists several aspects of products or services, their impact on demand, and a potential pricing strategy to use.

ATTRIBUTE	EFFECT ON PRICE	DESCRIPTION
	↑ INCREASE ↓ DECREASE	
Demand	↑	People want/need the product/service
Scarcity	↑	The product/service is hard to find
Urgency	↑	People need the product/service immediately (chipped tooth)
Visibility	↑	The need for the product/service is visible (chipped tooth)
Abundant Supply	↓	It's easy to find the product/service
Increased Competition	↓	Lots of businesses offer the product/service
Customization	↑	Choices, Personalization, Variety, Differentiation
Lack of Substitutes	↑	People don't have many other options
Specialization	↑	A product/service that requires special skills that are hard to find
Undifferentiated Product or Service	↓	A product/service that's difficult to make different from others (white rice)
Lack of Complimentary Products/Services	↓	The product/service needs supporting products/services not available
Frequency of Need	↓	The more often a person needs it, the more price sensitive they become

Your Turn

As I mentioned above, the ideal price for your products or services will consider cost, competition, and demand. The best way to determine your final price, then, is to follow the order I've presented here. You want to start with your cost and make sure your price provides an adequate margin. So, you need to know what your price would be if you simply followed the cost-plus formula based on the average mark-up for your industry.

Once you know what your price should be based on cost, take a look at competitor pricing in your trade area. Does your cost-plus pricing place you on the high end, the low end, or clustered in the middle? Most likely you will be clustered in the middle. As I stated before, the best strategy for most small businesses is to position yourself towards the high-end of the spectrum and use value stacking to earn that price.

The last step is to look at demand factors. Will the demand among your target market support the high-end price you want? What aspects of your product or service are increasing demand? What aspects are lessening demand? What pricing strategies will work best for you based on all three elements of cost, competition, and demand?

Journal Questions:

1. *Look up the average industry mark-up for your business. Using your estimated costs for providing a transaction, what should your price be based on the cost-plus formula? (If you have no costs, skip this step).*

2. *Who are your main competitors and what are they charging? Make sure to include direct competitors, indirect competitors, and substitutes.*

3. *What would your price be if you chose to take the high-end of the market?*

4. *Are there any demand factors that increase or decrease demand for your product or service?*

5. *What pricing strategies can you use to take maximize demand in your market?*

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CHAPTER ELEVEN
Selecting Your Distribution Method

It has been said that the three most important elements of success for any business are location, location, and location. And, if your business is an impulse business, like a frozen custard stand, it is probably true. But, what if you are a farrier, you know, one of those people who shoe horses? Or, what if you grow organic produce for local restaurants, sell commercial retail insurance, or provide accounting services for small businesses? Does your location really matter? Do you even need a physical location for your business?

As usual, you have to answer these questions with more questions. What kind of business do you have? Where do you "meet" with your customer…at their place, at your place, online? Are you a B2C business or a B2B business? In other words, what is your distribution model?

A distribution model describes the path from you to your end customer. Sometimes that path is short and direct with you serving the end customer yourself. Sometimes that path is complicated and indirect with one or more businesses, called *intermediaries*, between you and the end customer. The best way to determine what sort of distribution model you need, and, as a result, determine how important your location is (or if you even need a specific location), is by analyzing the *supply chain* for your business.

A supply chain is the path a product or service takes from raw materials to the end user. How important your location is, or if you even need a location, has to do with where you are in the supply chain. Once again, the best way to explain is through an example.

The Muffin Man

Bill had the best gluten-free muffin recipe every invented. His gluten-free muffins were so good that a friend who owned a convenience store

asked if he could sell Bill's muffins at his store. Bill agreed to provide 12 muffins every morning to the store. Bill's friend sold the muffins for $3 and paid $2 per muffin back to Bill. Bill bought his ingredients at the local grocery store and he calculated that his costs came to $0.25 per muffin. Here was Bill's supply chain so far.



Lesson #1. Every business has a supply chain. Even this simple illustration has a three-link chain. Also, as you look at this graphic, who is Bill's customer? It is not the end consumer, but the convenience store, so Bill is in a B2B business. When a business has another business between them and the end consumer, it is referred to as an *indirect distribution channel*. The convenience store, on the other hand, because it deals directly with the end consumer, is using a *direct distribution channel*. Finally, does Bill need a location and does it matter where it is? Well, Bill needs a place to make the muffins, but for 12 muffins a day, he can certainly use his own kitchen and, since he is delivering the muffins to the store, it does not really matter where he is located.

After a couple of months, Bill's friend, who actually owned 10 convenience stores, asked if Bill could provide enough muffins for all of his stores, which required Bill to make and deliver 120 muffins every morning! Bill decided he could handle the baking but not the delivery, so he found a high school kid who agreed to deliver the muffins every morning before school for $0.25 per muffin. Now, Bill's supply chain looked like this:



Lesson #2. Every time you add a link to your supply chain, you are adding costs. The decision to pay a teen to deliver the muffins allowed Bill to serve more stores, but it cost him $0.25 per muffin, roughly 15% of his revenue. Since adding links to a supply chain adds costs, you only want to do it if by adding a link you can increase volume significantly. Since hiring a delivery driver allowed Bill to go from 12 muffins a day to 120 muffins a day, the increase in costs was worth it. What about Bill's location? Does the expansion change anything? Well, at 120 muffins a day, Bill will have to bake several batches, but there is no reason why cannot continue in his own home kitchen, especially since any inconvenience due to the distance from his location to the individual stores is taken care of by having a delivery person.

A few months after agreeing to provide muffins for all 10 of his friend's convenience stores, Bill's friend came to him once again and offered to approach other convenience store owners in the area about carrying Bill's muffins. If successful, Bill's friend said he would need 1,200 muffins every day. That's 8,400 muffins a week!

Bill thought about it and decided to turn his friend down. Making 120 muffins a day was earning Bill $4,200 a month after expenses for only a couple of hours of work a day, more than he ever dreamed he could make from a simple hobby. To expand to 8,400 muffins a week would have taken a major investment in a location, commercial baking equipment, the hiring of personnel, and other dramatic changes in Bill's life.

Lesson #3. Not growing is a legitimate option. Sometimes it seems

we believe *bigger* is always *better*, but that is not always the case. You have to remember your "why"! By saying "no", Bill avoided the trap of many small business owners... he decided to own his business instead of having his business own him.

Distribution Models

As you think about distribution options for your business, the first thing you must decide is where you are in the supply chain. Are you a supplier of raw goods, a manufacturer, a distributor, a sales rep, a retailer...? If you are a service provider, are you completely self-contained, like a consultant, or do you rely on others for your business, like an independent insurance rep who sells insurance provided by multiple companies? What kind of business is directly behind you in the chain; the business you rely on for your supply? What kind of business is directly in front of you relying on you for their supply?

The next thing to consider is whether you are planning on using a direct or indirect distribution model. As mentioned in the example, a direct distribution model is where you are selling to an end consumer whereas in an indirect model there are intermediaries between you and the end consumer.

Bill could have simply sold his muffins directly to customers, but then he would have had to figure out how to reach customers, decide on a location to sell from, and then spend hours every day waiting for enough customers to buy his inventory. In Bill's case, the indirect route was better. He could focus on making the muffins and let someone else worry about getting customers.

Whether you use a direct or indirect distribution channel, you must decide where you will meet with customers. Some businesses, both direct and indirect, are location-based, meaning their customers come to them. This can be a retail store, a wholesale warehouse, a lumber yard...any situation where your customer must come to you. Still other

businesses are site-based, meaning you must go to the customer, whether that is an end user's or an intermediary's location, for example, a lawn care business, a pest exterminator, or a business that delivers building supplies to building sites. Still other businesses are virtual businesses; they meet their customers online, over the phone, or do not even know who their customers are, like someone who creates DIY videos and posts them on YouTube.

Choosing a Distribution Model

There are several things to keep in mind as you decide what sort of distribution model you want for your business. First, not all positions within the supply chain are the same. If you look at the second muffin man supply chain, the two positions that made the highest percentage of the retail selling price were the manufacturer (50%) and the retailer (33%). The supplier of raw goods and the delivery service each received around 8%. While every link in the chain creates value, some do so more than others.

Second, businesses dealing directly with the end customer usually have the highest marketing, advertising, and location costs. They need a relatively high number of customers because end users typically buy in small quantities. As a result, they must spend a lot of their time, energy, and resources on finding and keeping customers. However, they also usually have one of the highest profit margins as well.

By contrast, those at the extreme end of the supply chain, those providing raw materials, usually have a relatively small number of customers who buy in larger quantities at smaller margins. The point is, every link in the supply change has challenges and benefits, you have to find the position that suits you and best fulfills your "why".

My wife is a seamstress who has done custom sewing and alterations for years, largely as a hobby, but, at times in our marriage, as a significant

supplement to our family income. As a seamstress, she has had experience with two different positions within the supply chain. At one point, she was in manufacturing, sewing clothing for a third party called *Fun Fashions*. She really liked this arrangement because she did not have to find or meet with end consumers. She could just focus on sewing.

Later, my wife started doing more custom sewing. While she made a lot more money for each piece she made, she had difficulty keeping a steady stream of customers. She likes sewing, not marketing or promotion, and, while she loves people, dealing with picky teenagers (and mothers) fussing over their prom dresses was a lot more stressful than picking up a batch of orders from *Fun Fashions*. For her, being the manufacturing link in the chain and using an indirect distribution model was ideal.

Location, Location, Location

If a customer is coming to you, whether it is an end consumer or another business, your location matters. However, the fact that it matters does not mean it has to be in a highly visible, accessible place. If you run a lumber yard, it is important that your business has wide entrances and plenty of room for large trucks to maneuver around. That means the ideal location would be somewhere with less traffic and large, open spaces.

There are several factors that determine what kind of location you need. The first has to do with whether your business is an *impulse* or a *destination* business. An impulse business is one where customers do not necessarily plan to come to you, for example, a gas station. For many people, they may know they need gas, but the choice of which actual station they choose is more impulsive than intentional and is based largely on convenience. For a gas station, location truly is the most important decision.

A destination business is one that people make plans to go to, for example a dentist office. You do not just drive by a dentist office and

think, “Oh, I’ll just pop in for a root canal.”. Because you plan to go, the location is not as important. If someone has chosen you as their dentist, they’ll just plug your address into their phone and find you.

Another key factor in determining location is your business’s ability to draw its own customers versus rely on what are called *drivers*. Drivers are businesses that draw a steady supply of customers throughout the week, like grocery stores and big box merchandisers like Walmart and Target. If you look closely at any big grocery store, you will see several small businesses clustered around the location.

Think about the kind of stores you see clustered around grocery stores and mass merchandisers? Take-out restaurants, dry cleaners, shoe stores, dollar stores, small boutiques—these businesses are tapping into the customer traffic created by the driver. For shopping centers and strip malls, these drivers are called anchor stores because they serve as the main draw.

Some businesses rely more on drivers than others. Again, this has to do with whether they are impulse or destination businesses. The more your business relies on impulse, the more important it is to be near drivers. The more intentional your customers are, the more likely you can get away with a much less expensive location further from the drivers.

A great example is Tractor Supply. Part feed store, part hardware store, part “country chic” gift shop, Tractor Supply is a destination business for its core customers who do not have many choices when it comes to large animal feed, bulk fencing materials, and the like. As a result, you will often find Tractor Supply locations in more rural areas away from the high rent, high traffic parts of town.

As a rule, the more your business relies on impulse business and traffic drivers, the more important it is to find a highly visible, convenient, location and, the closer a location is to a major driver, the more expensive it will be. Likewise, the more you can make your business

a destination, driving its own customer traffic, the less visible your business has to be, which will always translate to lower location costs.

One last note, the longer you can put off having your own location, the better it will be during the early phases of your business. Carrying the expenses of a location including rent, utilities, staff, and supplies can quickly drain your cash, especially when you are just getting started. Finding alternatives to a stand-alone retail location can buy you time to build up a loyal customer base and establish a steady cash flow before committing to the expenses of your own location.

As a quick example, say you want to start a clothing boutique featuring high-end vintage clothing. Before opening a physical location, you could start by creating multiple other retail channels including securing booths at various hipster-chic flea markets, setting up pop-up retail tables at similar but non-competing stores, and establishing a webstore and advertising through social media and sites like Craigslist. Then, once you have established your brand and reputation and have a loyal customer base, you can finally move into a retail location with confidence you can handle the expense.

Your Turn

It is time to think about your distribution model and location. Answer the following questions as completely as you can. And, don't worry if you don't have all of the answers right now. Some of these issues may be clearer as you continue through the book.

Journal Questions

1. *Where do you want your business to be in the supply chain?*

2. *Will your business use a direct or indirect distribution method?*

3. *Is your business an impulse or destination business?*

4. *Find 2-3 businesses like your, either in your potential trade area or somewhere else. What kind of location do they have?*

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CHAPTER TWELVE
Building a Promotion Plan

If you don't have customers, you don't have a business. Everything you've done to this point has been about building a product or service around a specific target market. You've crafted features, benefits, pricing, value-adds, and offers and tested them with a small representative group of customers who fit your target market profile. You are ready to go. The problem is, nobody knows about your amazing business yet but you and a handful of friends. It is time to tell somebody!

Three Common Mistakes

As you start to build a promotional strategy, it is important that you avoid three common mistakes small business owners make when planning their marketing.

The first mistake is to *treat everybody the same*. Getting people to buy from you is a process and it takes time. At best, only 2% of your target market are ready to buy (customers), 23% are actively gathering information and comparing options (leads), and 75% are simply curious about or even indifferent to what you have to offer (prospects).[6] You have to help prospects become leads and leads become customers and each of those steps requires a unique approach.

The second mistake is to *focus on the sale*. Yes, you need sales to stay in business, but the long-term success of any small business requires repeat customers and referrals and that takes more than a sale, it takes a *relationship*. Focusing on relationship requires you to show you understand the customer's needs and have the expertise and experience to help them. You need to get them to *trust* you to meet their needs and eventually *love* what you do. We buy what we like, but we talk about the things we love. You need your customers talking about you and that takes relationship.

The third mistake is to *start with you*. Do you know anyone who never stops talking about themselves? It is irritating to say the least, and yet, how many ads do you see throughout the day where all the business does is tell you about themselves? People *love* businesses that care about *them*. What do they need? What problem are you solving for them? Why do they need you? Always start with the customer!

To avoid these common mistakes, what you are going to do is develop a marketing process that meets prospects, leads, and customers where they are and moves them towards a relationship that results in repeat business and referrals. In other words, you are going to move them from *knowing* about you, to *liking* you, to *trusting* you. This process is referred to as a marketing funnel.

The Marketing Funnel

A marketing funnel is a three-step process that identifies prospects and gets them to become leads and then entices leads to become customers. It is called a funnel because it starts with the largest group, prospects, with the goal of getting them to *know you* and, hopefully, connect with you in some form or fashion, which makes them a lead. Then, you take the leads and get them to *like you* and prefer you above all their other options, which gets them to make a purchase. Finally, you take the customers, those who have purchased, and make them lifetime customers by getting them to *trust you*.

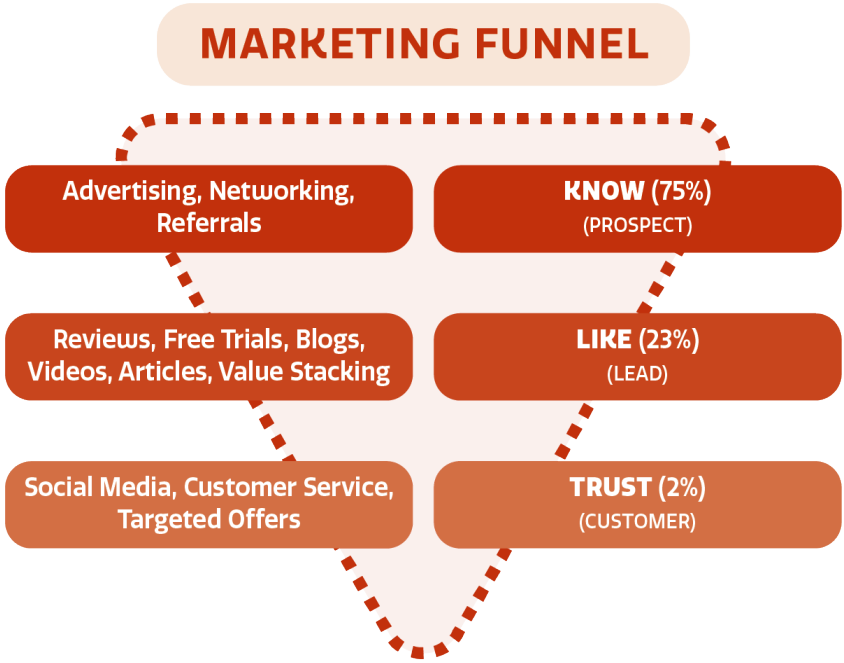
While the marketing funnel looks like an unnecessarily long and intimidating process, especially for a small, impulse business like a frozen custard stand, even the most basic purchase decision follows the know, like, trust path. It's just that the lower the risk, the faster the process moves. My wife can go from *know* to *like* in about 5 seconds when frozen custard is involved--but it better be good or else she is "one and done". You don't get my wife's *trust* unless you really deliver the goods, especially when it comes to frozen custard. The point is, an

impulse business like a frozen custard stand can have a short marketing funnel that is as simple as a compelling sign (Hot and Hungry? We can cool you down *and* fill you up!), an irresistible offer (Love it or your money back!), and excellent service including a significant coupon towards the customers next purchase (Buy one, get one free!). Boom… marketing funnel.

High risk, high-cost decisions, though, take longer and so businesses that involve those kinds of products or services have much more complex funnels. For example, I work at a university and our research shows that a prospective MBA student takes, on average, two years to choose a school. This means, to market an MBA program, you need a detailed, long-term marketing funnel that involves advertising, emails, physical mail, social media, website, phone calls, and even location visits.

Every marketing plan needs a funnel, but not all funnels are the same. The kind of funnel you need depends on such factors as the amount of new business you need to keep your business going, the degree to which your business relies on repeat customers, the level of risk and cost associated with your product or service, the decision process involved, and the nature of your business (B2B/B2C, impulse/destination, location-based/not location-based). In fact, there are so many variables, it is impossible to anticipate them all. So, at best what I can do here is provide an outline of how the funnel works and you will have to decide how detailed or complex your funnel needs to be.

The graphic below shows each stage of the marketing funnel and identifies the main goal of each stage as well as the best methods for accomplishing that goal. This graphic will be your best friend as you craft a plan to promote your business.



From Prospect to Lead

The very top of the marketing funnel starts with prospects. A prospect is a person or business who fits the profile of the target market you identified earlier but does not know anything about you...yet! Because they do not know you, they are not going to find you, you must find them. That means you have some work to do to get started...you need to know where your target market is and how to reach them.

So, think about it. If you want to get a message in front of someone in your target market, how should you go about it? Should you advertise? Could you do some research, look up addresses, and email them or even use physical mail? What about calling them and making an appointment? Maybe all you need is a great sign out in front of your location. There are lots of ways to get a message in front of people, but which one is right for you?

Before you answer, how many prospects do you need and what are you selling? Go back to the marketing funnel graphic. As a rule, you

need 75 prospects for every two new customers you hope to have. So, if you have a business that requires a lot of first-time buyers, you may need hundreds of prospects dropping through your funnel at any given moment. That is most likely going to take advertising. By contrast, if you only need a handful of customers a month, you may be able to fill in the top of your funnel through email, phone calls, or even personal visits.

For example, my wife has a small side business where she does wellness visits at retirement centers with our mini-horses. Her list of centers that fit her target market profile includes less than 50 locations. With only 50 prospects, advertising would be a waste, so she uses email with a link to a video followed by a personal call.

Once you have decided how to get your message in front of your target market, you must decide what you are going to say. As you think about that, remember that at the top of the funnel, your goal is not to *close the sale*, your goal is to get them to respond to you and become a lead. You are looking for an action that tells you the prospect is interested in what you have and wants to know more. That action can be anything from clicking on an ad to visiting a retail location. The bottom line is, you want prospects to come into your world where you can talk to them directly.

So, ask yourself this, what would make someone in your target market curious enough about your business to want to click on an ad, provide an email address, visit a website, or drop by a store? What is the problem they have that you are trying to solve? How can you show them you are exactly what they are looking for?

My favorite way to do this is to ask questions or make statements that make it clear what problem you can solve. Even better, if you can, show them the problem and solution through what is called content-based marketing. Content-based marketing uses short videos, articles, white papers, consultations, estimates, or demonstrations to show prospects

exactly what you do and how you can help them with their problem.

Again, my wife's mini horse therapy business marketing starts with an email with a link to video that shows exactly what one of her wellness visits looks like. Showing a visit is far more effective than trying to describe it. Retirement center activity directors can see the benefits of a wellness visit with a mini horse for themselves.

However you decide to address prospects, make sure you focus on them and their problem, not you. For another example, a *top of the funnel* ad for Susan, our wedding photographer, might look like this.

Outdoor Wedding? *Call the experts!*





5 REASONS OUTDOOR WEDDINGS ARE HARD TO PHOTOGRAPH (click here)
By **Susan Jones** | July 30, 2021

> ***Your Perfect Day Wedding Photography*** **specializes in outdoor wedding photos. We are so confident you will love your photos that we guarantee it!**

After choosing how you are going to get a message in front of your prospects and what you want to say to them, the last thing you must decide is what you want them to do. You need to bring them into your world so you can communicate directly with them. That means you must come up with a way to capture some contact information.

Reaching prospects is almost always the most expensive part of a marketing funnel. Prospects are not aware of you and so you must pay to

reach them. So, one of your main goals for prospects is to pull them into your world by getting an email address, a phone number, a connection through social media, or even enticing them to come to your location. You need a direct (and free) channel you can use to continue communicating with them. Once you have that, the prospect is now a lead.

From Lead to Customer

The goal of the first stage of the marketing funnel is to get a prospect to express interest in your product or service by clicking on an ad, providing an email address, asking for more information, visiting your location, requesting an estimate… basically anything that lets you know who they are and how to reach them. By taking that action, whatever it is, they move to the second stage of the marketing funnel. They become a lead.

The goal of the second stage of the marketing funnel is to persuade a lead to make a purchase and become a customer. The best way to do this is by removing barriers to saying *yes*. Earlier, you looked at a variety of reasons customers say *no* to a product or service and used that information to craft an irresistible offer. Now, you must figure out the best way to communicate that offer to your leads.

One of the key things to consider here is how big of a decision you are asking the customer to make. High risk, high-cost decisions like choosing a wedding photographer, buying a house, or choosing an MBA program, are going to take time. The marketing funnel will have to include multiple communications through various media including email, physical mail, phone calls, visits… pretty much the whole toolbox of options. Businesses involving low risk, low-cost decisions, like trying out a new coffee shop, can be more simple and direct.

So, once again, it all comes down to the type of business you have. This is where it is helpful if you are in a field you truly understand. Just think like a customer. What would it take to move you from a no to a yes? How

would you persuade yourself? Then, do that.

Just a quick word about automation. If you are dealing with large numbers of leads and a high risk, high-cost decision, a customer relationship management system (CRM) can be very useful. A good CRM can organize your leads and keep track of where they are in the decision process. You can use them to send out emails automatically based on an action by the lead or a preset timespan. You can also have the CRM trigger notices reminding you to follow up with a phone call. The more leads you have and the deeper your funnel goes, the more useful a CRM can be. There are a lot of low cost, powerful CRM systems available for small businesses. Simply do a search for "CRM systems for small businesses" and you will get all the information you need.

The final step of moving a lead to a customer is the actual sales process. Even when you have removed all of the reasons someone might say no and given them several good reasons to say yes, you can still lose the sale. Slow lines, discount codes that don't work, hidden fees, poor customer service, shipping delays—there are many ways a sale can go wrong. You need to really think through the process of finalizing a sale and make sure that the process works without a hitch. You want happy customers who not only come back but also tell their friends!

From Customer to Lifelong Customer

The lifeblood of any small business is repeat customers and referrals. Even businesses that deal largely with one-time purchases, like real estate agents and wedding photographers, rely on happy customers who provide referrals. After all, we all trust the opinions of our peers more than advertising, PR, or company marketing materials.

That said, once you get a customer, you must make the most of it. You need to super-serve your customers, make them love you, make them want to come back again and again and tell their friends. As the graphic above shows, this is the best use of your company's social media.

Some small businesses use social media to try to get new business; to get existing followers to share a post or video. While that may work on occasion, most posts on social media should be focused on super-serving your most loyal customers.

Loyalty programs, memberships, exclusive sales for top customers... there are a lot of ways to super-serve existing customers. Automation can really help here as well. A good CRM system can track customer purchases and help you predict when a customer is going to show up and what they will need. Finding ways to anticipate that need (without coming across as a stalker) can create loyalty.

Okay, more than you want to know, but I once bought a small microphone from the online retailer Sweetwater.com so I could mic a trumpet for a home recording I was doing. As I continued to do research, I ended up canceling the order before it shipped. Within an hour, I had a phone call from a Sweetwater rep telling me he noticed I had canceled my order and could he perhaps help me figure out what I needed. We talked for about ten minutes and he actually convinced me I did not need anything, that the gear I already had would work.

Are you getting this? He talked me out of buying anything! I was already a pretty good customer for Sweetwater but now I am a Sweetwater customer for life. Would I want every online store to treat me like this? Of course not, it would be irritating. But, using my purchase history as a guide, the folks at Sweetwater correctly identified me as a priority customer. The point is, you super-serve your best customers and they will stay with you.

Your Turn

As I have said, the topic of promotion is vast and varying. There are no one-size-fits-all promotional strategies because every business is unique. However, there are a lot of books, videos, podcasts, and websites that go deeper into building a promotional plan than I can here. One favorite of mine that you should check out is *The 1-Page Marketing Plan* by Allan Dib.

You have enough information here, though, to build the basics of a marketing funnel. I encourage you to refer to the marketing funnel graphic frequently as you think through how to attract leads and convert them into customers.

Journal Questions

1. *What is the best way to reach your prospects (advertising, social media, email, phone, personal visits)?*

2. *What message would create enough curiosity in a prospect to make them click on an ad, provide an email address, call a number, or visit a location? How can you make a prospect a lead?*

3. *How will you communicate with leads and what can you say to them to persuade them to buy? How can you tie in the offer you developed in Chapter Seven?*

4. *What can you do to super-serve your customers and make them lifelong customers who provide repeat business and/or referrals?*

Visit www.crawlwalkrun.online for free video instruction on the *Crawl, Walk, Run* method.

CHAPTER THIRTEEN
Creating a Budget

Businesses generate money. Healthy businesses generate more money than they spend. So, you must make sure your business is set up to be healthy. As with many aspects of business planning, coming up with a budget is a messy process because every little decision affects every other decision. Not making enough money? Raise your price. But, if you raise your price, you may have fewer customers so you must lower the number of sales you will have, which, if you're not careful, cancels out the increase in price or causes you to increase marketing dollars. You get the point, it's messy.

For the *Walk* phase of the *Crawl, Walk, Run* approach, we are simply going to make sure all of our basic assumptions about pricing, what it costs us to provide our product or service, and our ongoing costs for running the business result in us making more money than we are spending. To do this we are going to rely on the standard formula behind what is referred to as an income statement, which is *(Sales - Cost of Goods Sold) - Operating Expenses*. Let's look at a very simple example.

The Calendar Kiosk

Let's say you decide to open a kiosk that sells calendars at your local mall. Usually, these colorful kiosks pop up around October and stay up through December before disappearing for 9 months and then popping up again. What would a simple budget look like for your calendar business?

Before you can look at the income statement formula, you have to figure a few things out including the price of a single calendar and your cost for a single calendar. So, let's start with *price*. A quick search of high-quality, themed calendars shows an average price of around $15, so let's use that as a starting point.

The next item in the formula is *cost of goods sold (COGS)*, which should include only those costs directly tied to the calendar itself. Let's assume you do not make the calendars but instead buy them from a wholesaler. A quick search shows that the average wholesale cost of a quality calendar is going to be $8. Also, to keep your sales team motivated, you offer them a commission of $1 per calendar. Even though this payment is going to an employee, because it is tied directly to the sale of an individual product it is considered a cost of goods sold. Now you can see how much money you have left when you sell one calendar.

$15 - ($8 + $1) = $6

This means, for every calendar you sell, you have $6 left. Now, you must figure out how many calendars you can sell. Most budgets are built on a month-by-month basis. That is because many of the operational expenses, like rent, utilities, and salaries are already calculated monthly. So, for this step, you need to figure out how many calendars you can sell in a month.

So, unless you happen to be an expert at calendar sales, you have to guess. Once again, this is why it is good to choose a business that you at least know something about or know someone who knows something about it. How many calendars do those kiosks sell? To make the task more manageable, start with how many you think you can sell a day, then a week, and then a month. Another approach is to visit a kiosk in another market and just ask.

Let's say you decide you can sell 50 calendars a day during the week and 100 calendars a day on the weekends. That's 450 calendars a week or 1,800 calendars for the month. Now you can complete the first part of the formula by calculating your gross profit:

(Qty x Price) - (Qty x COGS) = Gross Profit

1,800($15) - 1,800($8 + $1) = $27,000 - $16,200 = $10,800

This number, *$10,800*, is called your *gross profit*. It is how much money is left after you take out the direct costs of the product you sold.

In our example, you have $10,800 to cover your operating expenses for the month with some left over, you hope! So, now you must add up your operating expenses.

Operating expenses are all the expenses you have other than the actual cost of your product or service. Typical operating expenses include payroll, rent, utilities, office supplies, marketing, and other expenses. As with the first part of the formula, you are going to budget these on a monthly basis as well. Here are the operating expenses for the calendar kiosk:

Calendar Kiosk Operating Expenses

ITEM	AMOUNT	NOTES
Payroll	$3960	1 employee @ $12 for 330 hours/month
Rent	$3000	Monthly rent for the mall–utilities included
Utilities	$0	Included in kiosk rental
Supplies	$500	
Marketing	$1500	Mostly mall signage and flyers
Other Expenses	$500	
Total	$9460	

When we finalize the income statement formula, we end up with the following:

Calendar Kiosk: Monthly Budget

ITEM	AMOUNT	NOTES
# of Sales	1800	Based on 50 calendars a weekday, 200/week
$ per Calendar	$15	
Gross Revenue	$27,000	
Cost of Goods Sold	–$16,200	Based on $8 per calendar + $1 in commissions
Gross Profit	$10,800	
Operating Expenses		
Payroll	–$3,960	
Rent	–$3,000	
Supplies	–$500	
Marketing	–$1,500	
Other	–$500	
Net Profit Before Taxes	**$1,340**	

(Sales - COGS) - Operating Expenses = Operating Profit

($27,000 - $16,200) - $9,460 = $10,800 - 9,460 = $1,340

The results show that you have $1,340 in operating profit, which is how we refer to the amount of money left over after taking out cost of goods sold and operating expenses. Operating profit goes to pay for debt and taxes and whatever is left after that is the actual profit for the owner(s).

What if you look at the numbers and decide that going through all of this effort just isn't worth it if you can only generate $1,340 in operating profit a month? What can we do? Well, there are four choices:

1. *Raise your price:* If you raise your price, though, you may have fewer customers.

2. *Lower your cost of goods sold:* You could look for a different supplier or go to a cheaper calendar and try to lower your costs. However, a lower quality calendar may not be able to justify your price.

3. *Increase sales:* You could increase your projections and say you will sell 75 calendars during weekdays and 150 calendars during the weekends and then try to figure out how to make that work. But, are those realistic goals?

4. *Lower operating expenses:* Your rent is probably not flexible, but you could pay a lower hourly rate, reduce the number of hours you are open, or cut marketing expenses, supplies, or "other expenses".

This is what the budgeting process looks like. You keep adjusting the variables until you get to a budget that works. You have to be careful, though. It is easy to come up with a scenario that works on paper but is not realistic. For example, just bumping sales volume up 50% may solve the budget problem, but can you really sell 2,700 calendars a month?

3 Budgeting Principles

When I am building a budget, I try to follow three basic principles that help me stay out of trouble.

1. *Be Conservative.*

A conservative approach to budgeting means you always anticipate sales to be *lower than you expect* and expenses to be *higher than you expect*. So, if I believe it is possible to sell 2,000 calendars a month, I build my budget on 1,800, about 10% less than I expect. Likewise, if I believe my wholesale cost for the calendars will be around $7.30, I budget $8, about 10% more than I expect.

If you can make your budget work even when you are projecting sales to be 10% lower than you expect and expenses to be 10% higher than you expect, you have created some breathing room.

2. *Keep Operating Expenses Low.*

Your operating expenses must be paid no matter what. And, the more expenses you have like payroll, rent, utilities, and marketing, the more sales you need just to break even. So, you want to avoid any unnecessary commitments that result in ongoing operating expenses.

One way to do this is start out borrowing things you need instead of buying or renting. For example, I knew a lady that started a catering business by asking a local church if she could access their commercial kitchen equipment during the week when it was not being used. This allowed her to avoid a major investment until she got her business off the ground.

Another way to avoid operating expenses is to try to make payroll a cost of goods sold. I helped my church start a fine arts academy and instead of paying our teachers a salary or by the hour, we paid them a percentage of the lesson fee paid by the student. That way, we only had to pay them when they were actually teaching. No students, no personnel costs. A by-product of this approach was the teachers actually helped recruit students!

With some careful planning, there are a lot of ways to delay or defer operational expenses or convert them into cost of goods sold. When you are ready to build out your final financial plan, I strongly urge you to hire an accountant to help with this.

3. *Be Honest*.

Many future business owners end up being wildly optimistic in their financial planning. Face it… this is your dream and you want it to work. But, being overly aggressive in projecting sales or too light in anticipating expenses can only lead to disappointment. You must keep checking your numbers and ask, "Is this realistic?".

One way to keep yourself honest is to hire an accountant, preferably one with small business experience. Not only will an accountant tell you when your numbers have moved beyond the realistic, a good accountant will help you find the right balance between conservatism and hope. Hiring an accountant is one expense you should make sure you have money for. A good accountant will save more than they cost!

The Smallest Possible Version

What is the smallest version of your business you can do and keep your doors open? During the Walk phase of *Crawl, Walk, Run*, we aren't necessarily trying to make a lot of money and I strongly encourage you not to try to live off your business during this phase. We are trying to work out the bugs in our plan and test a fully functional version of our business. We want to manage risk and make sure everything is right about our model. To do that, we need to make sure we at least have what is called the *minimum viable scenario*, which for most businesses is also the *breakeven point*.

The breakeven point for your business is the point at which your gross profit is equal to your operating costs. It answers the question, "How much business do I need to not lose money?". The formula for

calculating the breakeven point is very simple: *Operating Expenses / (Unit Price - Unit Cost of Goods Sold)*.

In the scenario above involving the calendar kiosk in the mall, we came up with a monthly operating budget of $9,460. We also found that our unit price of $15 less the $8 unit cost of the calendars and the $1 commission to the employee left us with $6 per calendar. This means the breakeven point for our calendar business is 1,577 calendars.

Operating Expenses / (Price - Cost of Goods Sold) = $9,460 / $6 = 1,577

This means the calendar business must sell 1,577 calendars a month to break even, which is the minimum viable scenario. To avoid losing money, then, the kiosk needs to sell, on average, around 395 calendars a week.

Knowing your breakeven point or the minimum viable scenario is an important part of getting ready to *Walk* with your business. If you do not believe your minimal viable scenario is possible, you are faced with operating at a loss during this phase of the plan and many small businesses do operate at a loss at first. However, the whole point of the *Crawl, Walk, Run* method is to lower your risk, so I would encourage you to keep working on your price, costs, and operating expenses until you reach a minimum viable scenario that works.

Set Up Costs

One last area of finances you need to consider are your set up costs. Set up costs include anything you have to spend up front to get your business going. For example, if you were setting up a calendar kiosk business, you might have a few things you need to pay for before your business is generating cash. I cannot get into accounting principles here, but, while an income statement shows you how much you will make on paper, it does not reflect the timing of when you *need* cash to pay for things versus when you will *have* cash to pay for them. Getting started with any business is usually going to require some cash up front to get

the business going until it can start paying for itself. The following are some sample startup costs for the calendar kiosk:

Calendar Kiosk: Set-up Costs

ITEM	AMOUNT	NOTES
Aprons	$150	3 aprons with logo @ $50 each
Initial Inventory	$15,000	1800 calendars @ $8 each + tax and shipping
Operating Expenses	$9,500	First month operating expenses
Total	$24,650	

So, in this example, we would need $24,650 to get our business going. If you look closely at the example, this is actually a risky number. To be really safe, since the calendar kiosk is only going to be open for three months, you should be buying all three months of inventory up front to make sure you do not run into supply issues during the holidays. However, the $24,650 would represent the lowest viable amount of cash you would need to get started.

Startup costs can be prohibitive for many aspiring business owners. Some business ideas, like setting up a restaurant, can cost hundreds of thousands of dollars. That is why the *Crawl, Walk, Run* method tries to get you to think of ways to start as small as possible. Getting a kiosk up and running is a lot cheaper than having to convert an entire retail space to a calendar business. Maybe, instead of opening a restaurant, you could try your hand a catering first?

When I was in my early 20s, my dad set up a business for my grandfather making custom outdoor furniture for high-end yachts and houseboats. Instead of opening a retail location, we went around to various boat shows and paid for a booth. Our overhead was low enough and our furniture expensive enough that we did not need a lot of orders to get started so the boat shows provided enough business to get us going. The whole idea of the *Walk* phase is to be creative, keep your risk

low, and see if your idea works.

How do you pay for startup costs? Many small business owners save up and pay cash. Others look for small business loans or secure personal loans using a home equity line of credit or similar debt instruments. Still others try to use micro-investment sites like Kickstarter or Indiegogo. No matter how you come up with the money, it is important to make sure you have enough cash to get you through your *Walk* phase with as little risk as possible. Try to be as frugal as you can. We are trying to test the system, not launch our dream. If you are patient and truly walk through your business model with as little risk as possible, you can move into the Run phase with confidence and take more risk then.

Your Turn

Now it is time for you to start assembling your budget. At this stage of the process, you can keep your budget very simple. By the end of the *Walk* phase, you will have enough real data to be able to create a more sophisticated budget. For right now, simple and conservative will do.

If your numbers are not coming together into a scenario that works, remember you have several levers to use to improve your situation including price, sales projections, cost of goods sold, and operating expenses. Use all four of these to try to find the right scenario, but remember, changes to one area will inevitably cause changes to the other three. Make sure you allow for this interconnectedness, particularly between price and sales.

Journal Questions

1. *What is your average price for your product or service?*

2. *What is your cost of goods sold? It is not unusual for many service-oriented businesses to not have any cost of goods sold, so do not worry if you cannot think of any costs here.*

3. *How many transactions do you think you can have per month?*

4. *What are your basic operating expenses?*

5. *Using your answers above, calculate the two following numbers:*

Operating Profit: (Sales - Cost of Goods Sold) - Operating Expenses

Breakeven: Operating Expenses / (Price - Cost of Goods Sold)

6. *How much money do you need in start-up costs? How will you fund these expenses?*

Visit www.crawlwalkrun.online for free video instruction on the *Crawl, Walk, Run* method.

CHAPTER FOURTEEN
Ready to Walk!

It is time to take the next step. At the end of the *Crawl* phase, you tested your basic business idea by going through a transaction or two with someone who was willing to experiment with you. Now, it is time to *Walk*; to go out and find some real customers.

If you have been answering the journal questions at the end of each chapter, you have what you need to get started. Remember, in this phase of the model, you are trying to implement the smallest viable version of your business. If your *Run* plan is to open a restaurant, perhaps your *Walk* plan is to do catering. If your *Run* plan is to make and sell custom patio furniture in your own showroom, perhaps, like with my grandfather, your *Walk* plan can be to buy a booth at a Boat Show or Flea Market.

In the *Walk* phase, we want to test everything: our pricing, our distribution model, our promotion strategy, and the basic assumptions behind our budget. So, we are talking about a real business here, not just calling in favors with friends and family. I've seen several small businesses set up for failure by the false security of family and friends carrying them through the first painful months. You can only sustain a business that way for so long. At some point, you have to be able to draw real customers!

As you test your plan, keep careful notes of what works and what doesn't. Make small tweaks, or even major ones if necessary. You want to come out of the *Walk* phase with one of two conclusions. Either you have a plan that works and is ready for the next phase, or your need to go back to the drawing board and try again. Let me be clear, either outcome is a great outcome. If your plan works, you can move to the next phase with confidence. If your plan doesn't work, you've avoided

what could have been a disaster had you launched your business on a larger scale without testing it first.

In the opening of this book, I talked about a handful of reasons small businesses fail including having a bad idea in the first place, running out of cash, getting put out of business by a competitor, or running into price and cost issues. To that list, I would add having an inadequately defined target market, no real marketing strategy, trying to compete on price alone, a poorly managed supply chain, and drifting away from your *why*. The good news is, every one of the things on this list has to do with poor planning...and you have a plan!

Now, I'm not suggesting that if you follow this model, you will automatically be successful. There are plenty of reasons for a business to fail that have nothing to do with the business itself. However, if you follow all the steps of this model, there is no reason why you cannot greatly reduce your risk of failure.

The idea here is, if you have a bad idea or did not plan enough cash flow, or competition is tougher in your trade market than expected, you find that out while you are crawling or walking. Walking through the smallest viable version of your business model gives you a chance to see if you've defined your target market, if you are as different as you intended to be, if your marketing funnel really works, how well your supply chain operates... in other words, you get to test the water before taking the plunge.

So, let's go for a *Walk*. Identify the smallest viable version of your business, go through your notes from both *Crawl* and *Walk*, find out what works, what needs to change, what needs to go, and what needs to grow because next, we are going to *Run*!

Part III: Run

The *Crawl, Walk, Run* method is designed to help you move from an idea or dream into a business that can meet your "why", whatever that "why" may be. While there is no such thing as a perfect method or guaranteed success, following these three different phases can help you lessen the risk of failure, particularly the most common failures, which are almost all due to a lack of proper planning. That means, if you have carefully moved through both the *Crawl* and *Walk* phases, you should have learned what you need to know to move into the final phase of starting your business; you're ready to *Run*.

The overall goal of this book is to get you to the point where your business is fully up and running. However, transitioning from *Walk* to *Run* does involve some activities that go beyond simple launch strategies and into operating your business in its early stages.

The first of those activities is moving from a *Walk* to a *Run*. You need to take what you have learned so far and figure out how to move from a trial size to a full-scale version of your business. Another activity we will look at is building your *internal team* including hiring people and creating a culture for your business. We will also discuss building an *external team* including hiring an attorney and an accountant. Finally, we will talk one more time about *holding onto your why*... about not getting distracted or pushed into building a business that no longer provides the kind of life you dreamed of.

Let's get ready to run!

CHAPTER FIFTEEN
From Walk to Run

If you have been able to test your ideas by setting up a *Walk* version of your business, you should have learned if your basic business model works. This includes your pricing, your distribution method, your promotional strategy, and your budget. If you ran into difficulties, hopefully you were able to make adjustments and fine-tune your plan. Now, it is time to transition to the *Run* phase by creating a full-scale version of your business.

Scaling Up Your Business

The most critical step in moving from a *Walk* to a *Run* is seeing if your business idea will *scale*. In this context, the word *scale* refers to a business' ability to expand while holding all the original assumptions in place, or even improving on them. For example, Bill, the muffin man from an earlier chapter, when asked to go from providing muffins for one store to providing muffins for 10 stores, was able to make the change without much adjustment to his original business model. He did have to add a delivery driver, but the increase in volume more than made up for the cost. However, when asked to provide muffins for 100 stores, his business model did not hold together because he would have had to find a larger space, purchase commercial baking equipment, switch to wholesale suppliers, hire employees, set-up a more sophisticated delivery system...in other words, his business model could scale to 10 stores, but not to 100 stores.

For most of you, the *Walk* version of your plan was simply a small-scale, lower risk version of your full business idea. When this is the case, scaling is accomplished by simply expanding your capacity and your marketing efforts. For example, when my wife started her custom sewing and alterations business, *Stitches and Seams*, she began with

just a handful of clients until she felt comfortable that she had the right space and equipment and a pricing approach that was fair to her and her clients. Then, she started getting the word out that she was accepting more clients and allowed her business to grow.

For others of you, though, moving to the *Run* phase will take more effort. For example, I mentioned earlier that if you want to open a bakery, you might start out with catering. By starting with catering, you can get your name established, work on your recipes, fine-tune your systems, and see if you enjoy the work. However, moving from catering on the weekends to opening a bakery is a big leap.

In cases like this, you may need to baby step your way from *Walk* to *Run* by making gradual moves towards the full version of your business. Staying with the bakery example, perhaps you start with catering jobs on the weekends. Then, once you feel you have tested your overall model and have started to build a reputation, perhaps the next step is to go to local flea markets, farmer's markets, and craft fairs and set up a booth with your bakery name and branding and sell some of your baked goods. The next stage might be to find a small, independent grocer—one who appeals to your target market—who would be willing to carry some of your baked goods, again, with your business name and branding. Finally, after using these several methods to get your name out there and build a clientele, you could find a location and open your bakery.

The whole point here is to avoid the straight plunge into a full-blown business idea with no prior planning or experience. Take the time to plan. Get the experience. Learn what works and what doesn't, and then take the plunge.

Systematic Review

Moving from *Walk* to *Run* begins with a systematic review of the plan you developed. While your *Walk* plan was developed based on what you learned during the *Crawl* phase, you had to make a lot of assumptions

and use estimated costs and pricing. After running the *Walk* version of your business, you should be able to be more accurate in planning for the *Run* phase. Here are some questions you need to ask yourself as you prepare to *Run*:

Have you correctly identified an underserved segment of the target market and have you successfully created a product or service offering that meets their needs better than the competition? If not, is the problem in your targeting or the product or service you have created?

How has your target market responded to your offer? Have you identified ways to utilize value stacking until your target market can hardly say no?

If you've been getting a lot of people saying, "no", what is the reason? Is there a way to shift your value stacking to turn that "no" into a "yes"?

How is your pricing working? Is your target market balking or complaining about your price? Is price a major barrier? Before you lower prices, can you add value and "earn the price" you need?

Is your distribution model and your supply chain efficient and working? Have you had any problems getting what you need from your suppliers on time and at a good price? What about your upstream partners (if you are using an indirect channel)? Are your delivery and retail partners representing you well?

Does your marketing funnel work? Are you getting the number of leads you need? If not, where is the weak link; finding prospects, converting prospects to leads, converting leads to customers, or generating repeat business by turning customers into lifelong customers? How can you fine-tune your promotional efforts and keep people moving through the funnel?

Is your budget accurate? Is your cost of goods sold close to what you budgeted? What about your sales volume? Are your projections too high, too low? Are your operating expenses about what you expected?

Are there any areas where you have budgeted too little or too much? Are there ways to tighten up the budget now that you have a better idea of what things cost?

What will it take in each of these areas (target market, offer, pricing, distribution, promotion, budget) to go to the next level? What needs to expand? What needs to change? What is dialed in perfectly and needs to be preserved? What sort of additional investment will you need to grow and how will you pay for that?

Lots of questions! But this is the whole point of the *Crawl, Walk, Run* model... experiment/learn... experiment/learn. If you do not back away and learn, you might as well just jump in and take your chances. Keep asking these questions over and over again. Take your answers, adjust, get help if you need it, and try again.

Should You Quit Your Day Job?

Many small business owners live for the day they can be self-employed, running their business their way, and seeing the benefits for themselves. For those of you that have that as part of your "why", my advice is to avoid drawing income from your business until you can do so without draining the business of much-needed cash. However, that does not mean you cannot start working in your business.

As with so many concepts in this book, the question of when or if you should quit your job and work for your business is very situation dependent. How much money are you making in your day job? What benefits are you giving up for you and your family (vacation, health care, dental, vision, expense account)? How hard is it to get a job like your day job if your business doesn't work out and you have to go back? How dependent is your family on the income from your day job?

A basic rule of thumb is, if you have a salaried job with standard benefits, you need to pay yourself as much as 30-40% more than your current salary if you want to maintain your same standard of living.

This is because you have to cover self-employment taxes, health care, and other costs on your own; items that your employer is currently paying but that do not show up in your salary. This means a person earning a salary of $50,000 will need to earn $65-70,000 from their business just to stay even with their current income.

If you are the primary earner for your family, I strongly urge you not to quit your day job and go to work for yourself until your business is healthy enough to provide the income you need to not just survive but maintain your current lifestyle. Small business owners who try to sacrifice their way to success usually end up putting their family and their business through a lot of unnecessary stress that could be avoided by simply waiting a little longer before quitting.

Some may argue that quitting your job and placing your hopes in your new business galvanizes your resolve to make the business work. This sort of "burn the ships" mentality has caused a lot of heartache and pain for families and caused more business failures than successes. Since my wife and I have horses, I like to think of it as buying a colt in the hopes of riding it one day. If you try to ride the colt too soon, you can maim it so that you can never ride it again even when it is older. It is unfair to expect your business to support you from day one, especially if you're the primary earner for you family. Let your business grow up a bit before leaning on it for support.

If you are currently unemployed, a part-time employee, or the supplemental earner for your family, I would still be cautious about simply jumping in and living off your business. Small businesses need cash like babies need milk. You want to leave cash in the business to carry you through unexpected downturns or shifts in business patterns. Remember, until you've run your business for a year or two, you do not really know what your business is like. There could be seasonal patterns, shifts in competition, or changes in the economy that you will need to

respond to. Cash provides flexibility.

My advice is, if you can comfortably get along on what you would pay someone else to do a job within your business, then it is okay to employee yourself. For example, in Chapter Thirteen, we looked at the operating expenses for a business selling calendars at a kiosk in the mall. The budget included paying a salesperson $12 an hour to work the kiosk. If you are willing to work at the kiosk for $12 an hour and that amount suitably replaces any income you were previously earning, then, great, hire yourself. But, if hiring yourself means you have to pay $20 a hour instead of $12, find someone who can do it for $12 and you work somewhere else that pays $20. The bottom line is, you cannot afford to pay yourself more than you would have to pay someone else. If you need more than you can afford to pay, work for someone else until your business gets going.

I realize this is the exact opposite of what many small business owners do. But, remember, *40%* of small businesses fail. Don't be one of them.

What if you *are* your business? What if the business cannot exist without you, like my wife, the seamstress? Well, you really don't have a choice, you must hire yourself. But that does not mean you have to quit your day job. You can (and should) do both for as long as you can. The same rules apply; you cannot afford to quit and move to your new business full-time until you are confident that your business can replace your income.

Obviously, all of this is harder when the prospective business owner is the primary earner. In my case, my wife and I have always lived on my salary from my various jobs and anything we have earned from side businesses has been supplemental. However, when you are supporting a family on your income, you are just going to have to be patient, work hard, and look forward to the day when you can move to your business with confidence that it can support you.

This is why I wrote this book: to show potential business owners that there is a way to start a business without the awful, crushing, pressure of "risking it all" for the business. You can do this! It just takes planning, patience, and persistence.

Your Turn

It is time to take stock of everything you have learned from both the *Crawl* and *Walk* phases of your business and move to the *Run* phase. Take your time, think about everything that has happened, and answer the following questions:

Journal Questions:

1. *Do you feel you have identified a market segment that really needs what you have to offer? Does your product or service fully satisfy their needs?*

2. *Does your offer hit all the right points with your core target market? Have you used value stacking so that it changes a "no" to a "yes"? If you are getting a lot of people saying "no", what can you do to take away the reasons?*

3. *Is your pricing working for your customer and for you?*

4. *How is your promotional plan working? Are you finding prospects and moving through to be leads and then customers? Are you getting repeat business or referrals? Why or why not?*

5. *Is your choice of distribution methods working out for you? Is your supply chain running smoothly?*

6. *How accurate has your budget planning been? Is your cost of goods sold coming in on target? What about sales projections? How have your actual operating expenses compared to your budget?*

7. *As you think about moving to the full-scale version of your business, will you need to make any major purchases? If so, how will you pay for these?*

Visit www.crawlwalkrun.online for free video instruction on the *Crawl, Walk, Run* method.

CHAPTER SIXTEEN
Choosing Your Team

As you can guess by now, starting a business is hard work and something you should never undertake completely on your own. Every small business owner needs the support of family, trusted friends, mentors, and professional advisers. In addition, many of you will eventually find yourself in need of help in the form of employees or partners. Making sure you have surrounded yourself with the right team is critical to success.

Family, Friends, and Mentors

Pretty much every bad decision I have ever made has involved ignoring the advice of family, friends, and mentors. One decision in particular that involved a significant job change early in my career was advised against by everyone I asked. I did it anyway and it was one of the worst years of my life before I could get out of what turned out to be a terrible situation… just as everyone had told me it would be.

Why would I ignore my wife, my father, my friends, and my professional and spiritual guides? Because I had my heart set on that job. All I could see was the position, the title, the opportunity (did I mention I was young?). I ignored the glaring negatives, the warning bells going off for everyone around me because I believed I could overcome all of them (I believe I mentioned that I was young).

I was wrong and I failed… completely.

As a small business owner, one of the beautiful things is you are in charge, you get to do things your way. As a small business owner, one of the biggest challenges is you are in charge, you get to do things your way. The freedom and control that comes with owning a business has to be guided by a team of people who have your interests in mind, people who can be totally honest and transparent with you, people you trust completely.

Every small business owner needs a personal support team including family, friends, and mentors. This team can be as formal or as informal as you like. They can be one team or three teams or even just a collection of individuals you go to for advice, support, and guidance.

If you are married, it is absolutely a must that your spouse be part of this support team. In my opinion (based on years of experience), if your spouse does not support what you are doing, you will fail... well, the business might work, but if it kills your marriage in the process, that would be a fail to me. Some things are more important than a successful business and family ranks right up at the top of that list.

While my dad was alive, he was always an important part of my support team. My dad was a great team member for two reasons: he loved me and we disagreed on a lot of things. Both elements were important. You want to surround yourself with people who care more about you and your well-being than about the potential success or failure of your business. You also want people who are not afraid to disagree with you. If you surround yourself with people who simply agree all the time, stop doing that!

In addition to family and friends, you need to make sure you have mentors you respect and who have experience doing what you want to do. There are elements of running a business you cannot possibly know unless you have done them. Mentors help close those gaps by sharing their experiences and support. Be careful, though, to choose mentors who love and support you enough to not try to control you. You want advice, guidance, and support, not puppeteers trying to tie strings to you.

Your External Team

In addition to family, friends, and mentors, you also want to make sure you have a team of professional consultants including a lawyer and an accountant. I have an MBA, a doctorate in Leadership, teach college-level courses in small business management, and have helped

lead businesses for over thirty years and I still reach out to lawyers and accountants on a regular basis. Even if you ARE a lawyer or accountant, you should still have a lawyer or accountant looking over your shoulder because we never see our own efforts with the same objectivity as when we look at the work of others.

It is important, when hiring an attorney or accountant, that they have experience in your particular field. I learned that lesson working in the music industry. Like any industry, the legal landscape of the music industry requires experience in entertainment law. I do not care how good of a lawyer someone is, if they have not navigated the complexities of copyright law, I'm going to get someone else. Likewise, you need team members who know your field and have happy clients willing to recommend them.

It is also important, particularly when choosing an accountant, that they have experience with start-ups. Starting a business from scratch requires an accountant who can help you set up systems that you can manage on your own. They also need to help you move from projections (called pro forma statements) to actual financial data. Finally, they need to be up on the latest tax and human resources laws for small businesses to insure you are making good decisions.

At the front end of starting your business, you may feel paying a lawyer and a CPA is overkill and too expensive. However, it has been my experience that getting the advice of a lawyer on things like your business structure and legal arrangements does not have to cost very much. And, it has definitely been my experience that a good accountant will save you more than they cost.

Employees

For some of you, your business may never grow beyond just you…you are the business. However, many of you, particularly as you move from walk to run, may find you need help. Hiring the right people is critical,

especially at the very beginning.

Usually, the first few people you hire for a small business fall into one of three categories. Many of you will simply need help, whether it is clerical, administrative, sales, labor, or simply someone to run errands and keep things organized. For example, our outdoor wedding photographer may need someone to go with her on day long shoots to help haul gear, set up lighting, or even serve as a second photographer.

Another group of you may need more of a partner, a second you to meet the needs of an expanding clientele. For example, if you set up a hair salon and add a second chair. You are looking for someone who can do what you do.

Finally, some of you may need someone who offsets your weaknesses. For example, you excel at some craft, like making outdoor furniture, but find you have little aptitude for the sales or finance side of the business. You need someone that is strong where you are weak; someone who can take on those areas of the business you do not have an aptitude for so you can focus on what you do best.

Regardless of the kind of help you need, hiring your first few people is a critical step and you need to get it right. Here is the key. You have to hire people who *get* what you are doing.

No matter the size of a business, every employee, to some degree, is the *face of the business* to someone. The smaller and newer the business, the more important this fact becomes. When you are just starting out, a teenage delivery driver who is having a bad day can wipe out months of relationship-building in a matter of seconds. The newer the business, the easier it is to lose people. After all, you do not have years of goodwill and reputation to fall back on; all you have is the present experience. If that experience is bad, you're done.

Even team members who never interact with the public need to fit into the culture you want for your business. One team member with a

bad attitude can create a negative atmosphere and rob you of the joy of having your own business. Every team member, whether they are packing boxes or heading up sales, needs to fit the culture.

Which brings up a good point. What kind of culture *do* you want for your business? As the owner and leader, your two biggest responsibilities are *vision* and *culture*. As the keeper of the vision, you must constantly remind yourself and others of the *why* of the business as well as *where* you are going. As the keeper of the culture, you must also intentionally create a *how* for your business.

How are you going to treat people? How are you going to treat one another? What image do you want to project as a business? What policies will you put in place to make sure your team is consistent in all of these things. How will you measure performance? What will you reward and how will you reward it? What will you discipline over and how will you discipline?

Culture can include everything from what your team wears on the job to what holidays you recognize. As the leader, you really need to think about every aspect of the work experience for your team and make sure you produce the culture you want. Every business has a culture. The best businesses have the culture they want, the worst businesses end up with the culture they deserve… and they fail.

The more intentional you can be about shaping vision and culture, the easier it will be to identify when someone fits or not.

Lastly, one of the biggest shifts I have seen in my 30+ years of working with businesses is the expanding role of human resources. Hiring people, managing payroll, keeping up with legal requirements for small businesses, decisions about health care…taking on employees is a big deal and it is very easy to make mistakes.

In the early stages of expanding your business, you should strongly consider outsourcing some of these human resource needs. To be clear,

you should never delegate the responsibility of who works for you, especially at the beginning. However, if you start adding more than one or two employees, you should add a human resources consultant or service to your external team.

While many recent laws have helped small businesses, several have placed difficult administrative burdens on small business owners. Trying to navigate all of the nuances of reporting and compliance can become a second full-time job. Get help, get expertise, and stay focused on what you do best.

CHAPTER SEVENTEEN
Defining Success

I want to leave you by asking one very important question.

What is *success*?

We live at a time when the primary measure of success seems to be money. However, when most of us think about the things that make us happy, when we imagine the kind of life we want to live, we do not think about sitting in a room surrounded by stacks of money. No, we think about the people we want to share life with, a place where we want to live, activities we enjoy doing, or things that bring us pleasure. Money may help, but money, in and of itself, is often not enough.

I once asked a very wealthy friend just how much money would be enough to make him happy. He simply replied, "More".

You need a better measure of success than money.

I would encourage you, here at the end, after all this thinking, planning, and strategizing, to once again think about the life you want. Try to imagine your business 3 years from now, the true *Run* version of your business...everything you hope will happen as you think about your goals and outcomes.

As you imagine this future you, what are you doing? What is your day like? What is a week, month, year like? Are you better able to live the life you say you want? Or, has your business actually made it harder?

Is your future you happy?

If you wanted *money*, do you have it? If you were looking for *freedom*, is the future you freer than you are today? If you wanted *control* over your time, do you have it? If you wanted to pursue a *passion* or fulfill a *purpose*, is your future you doing that?

The reason I'm asking these questions is, many of the decisions you make at the outset of starting a business will set a trajectory towards

some particular future. As you make all these decisions, are you still aimed at the future you want?

Can your "why" change?

Absolutely!

Business owners all begin at different starting points. Some of you are very young, maybe even teenagers. Some of you may be older, much older. Life is a journey of discovery and it is very easy to imagine that someone's *why* could change over time.

My own story includes arriving at the top of a corporate ladder I'd been climbing for 20 years only to discover there was nothing there at the top that I wanted. I had achieved my *why* only to learn my idea of the good life was askew. So, at the age of 43, I literally started all over with a brand-new ladder… a new *why*.

I know that next to thinking about things like target markets, contribution margins, and efficiency, all this talk about *why* can feel too emotional for some of you, but, if you do not have a clear vision of success when you start out, you will never get there.

I know, I know, a person's reach should exceed their grasp, etc..

There is a difference, though, between having aspirational goals that keep you motivated and constantly moving goal posts that make happiness elusive at best, impossible at worst.

Each of us is currently creating the conditions that our future selves will live with. As you go through the process of starting your business, do it with your future needs in mind. Make sure the future you inherits a life worth living.

Last Thoughts

So, you want to start a business?

I've given you a lot to think about. I've shown you ways to *Crawl* before you *Walk* and *Walk* before you *Run*, greatly reducing your risk along the way. I've tried to get rid of many of the fears and barriers that keep people from acting.

Now, the rest is up to you.

Are you going to be a dreamer or a doer?

The choice is yours.

ENDNOTES

1. According to the U.S. Small Business Administration Office of Advocacy 2020 Small Business Profile.
2. According to the report Small Business Statistics as reported by Small Business Trends (www.smallbiztrends.com).
3. This list was compiled from several sources including the U.S. Small Business Administration, Entrepreneur Magazine, and Forbes Magazine.
4. This is an actual survey of photographers in my hometown, however, I altered the names of the privately owned businesses.
5. There is an excellent comparison of the different types of business structures provided by the U.S. Small Business Administration website under the Business Guide section. In fact, this website is full of valuable information that can help you make good decisions and discover a wide variety of resources available to small business owners.
6. I am indebted to Jeff Bullas and his excellent article, "Content Marketing 101: All You Need to Know to Grow Your Business" for the percentages used in this section as well as many foundational ideas behind how marketing funnels work. You can find his work at www.jeffbullas.com.