

Avoid Small-Business Hell

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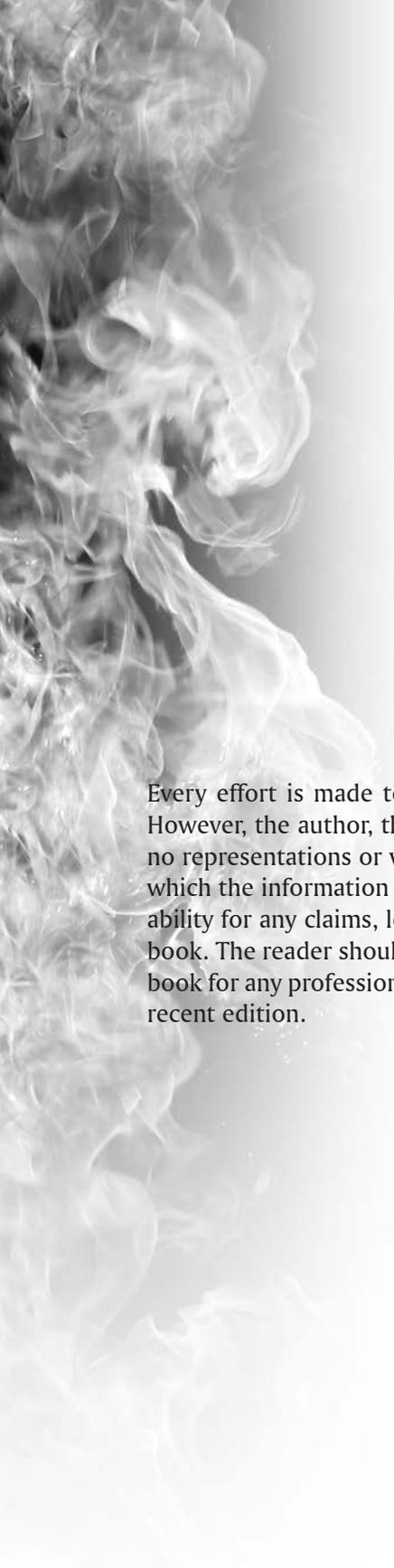
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Acknowledgments

Dedicated to my wife, Elaine, who has been dragged through Small-Business Hell a few times, thanks to me. She has stuck by me through all of our ups and downs in business and is surely the backbone of the success of my numerous ventures.



Foreword

The publisher and I really struggled with the name for this book. When I first proposed the name *Avoid Small-Business Hell* it raised a few questions and a few eyebrows. Just what did I mean by these words? Is there really a place called “Small-Business Hell”? Yes, there really is such a place, and I am here to tell you that as a small-business entrepreneur, a trip into Small-Business Hell is something you want to avoid.

The words “Small-Business Hell” best describe the situation that many small businesses find themselves in from time to time. You just need to conjure up the image of what hell would really be like and then apply it to your situation if something seriously went wrong with your business.

I have been in Small-Business Hell more than once; therefore, everything I am writing in this book comes from my experiences or from the stories I have heard from other small-business entrepreneurs. The reason I am writing this book is to teach other small-business owners how to avoid Small-Business Hell. If I can save one person or one business from a devastating trip into Small-Business Hell, then the effort of writing this book will be well worthwhile.

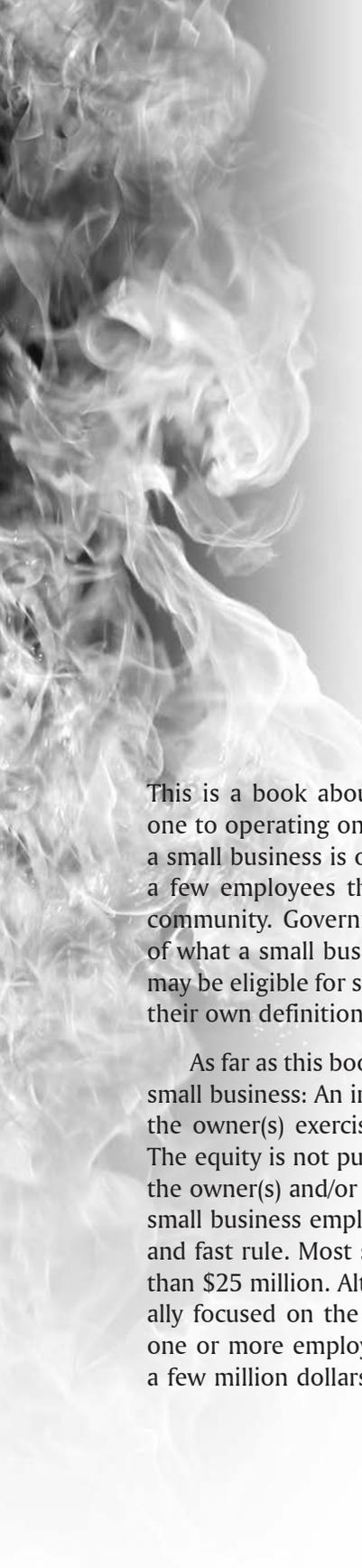
Throughout the book you will see in bold and italics where I have inserted comments from readers, comments from small-business entrepreneurs, and real life small-business experiences. I hope you enjoy this diversion from theory to reality that takes place throughout the book.

Reader

So Jack, have you ever been in Small-Business Hell?

Jack's response

Yes I have, a few times, so I am writing this book based on personal experience. I am not going to say, "Unfortunately, I have been in Small-Business Hell" because sometimes a trip into Small-Business Hell is a beneficial experience as long as you can survive both business wise and personally, and return to prosperity sooner rather than later.



Introduction

This is a book about all the aspects of small business from starting one to operating one. What is a small business? Many of us think that a small business is owned and operated by an employer who has only a few employees that provide products and/or services in the local community. Governments around the world have various definitions of what a small business is in order to determine whether a business may be eligible for small-business programs. Many other agencies have their own definitions.

As far as this book is concerned, I prefer a very broad definition of a small business: An independently owned and operated business where the owner(s) exercise(s) close control over operations and decisions. The equity is not publicly traded and business financing is provided by the owner(s) and/or personally guaranteed by the owner(s). Typically, a small business employs fewer than 100 workers, but this is not a hard and fast rule. Most small businesses have annual sales revenue of less than \$25 million. Although this book is for all small businesses it is really focused on the “smaller” small business: Businesses that employ one or more employees and have sales anywhere from a \$100,000 to a few million dollars. Therefore, if your existing or proposed business

fits into this very broad definition of small business, then this book is a must read for you.

Other important definitions used throughout the book are as follows:

- **Entrepreneur:** One who organizes and assumes the risk of a business or an enterprise.
- **Small-business entrepreneur:** One who organizes and assumes the risk of a small business.
- **Small-Business Hell:** A place where small-business entrepreneurs find themselves when something has gone terribly wrong and where the business and/or entrepreneur are facing significant challenges. Small-Business Hell is a period of time when a business is facing extremely difficult challenges and these challenges have put the owners into a position of extreme stress and worry. The business is in a state of jeopardy where even the survival of the business and the health and well-being of the owners may be put into question. I came up with this term a few years ago and it is based on my 40-plus years of small-business experience.
- **Small-Business Heaven:** A place where small-business entrepreneurs find themselves in when everything has gone right in their business for an extended period of time. All the customers' objectives are being met, sales are on target or ahead of budget, costs and expenses are on target or under budget, and profits are in the range of good to excellent. Just reading these words should bring feelings of joy and satisfaction to all small-business entrepreneurs.

Getting your business into Small-Business Heaven is no easy task, as most entrepreneurs will attest. There are a lot of things that need to go right in a business in order to arrive at the pearly gates of Small-Business Heaven. There is no magic formula; there are no get-rich-quick schemes; there is only hard work, dedication, and smart business practices — that's what it takes to be successful.

No matter what a small-business entrepreneur does, and no matter how well the business is managed, almost every small business ends up in Small-Business Hell at least once. This book is about achieving all the things you need to do in order to be successful and to reach the pinnacle of Small-Business Heaven, as well as how to avoid the trip into Small-Business Hell. If, for whatever reason, you do find yourself in

Small-Business Hell, this book should help you navigate your way out of purgatory and back into Small-Business Heaven.

Reader

Whoa! Wait a minute. Are you telling me that if my business gets into difficulty and into Small-Business Hell that it could put my health and well-being in jeopardy?

Jack's response

That is exactly what I am telling you.

Reader

OK. Now you really have my attention.

After reading these words I hope you are saying to yourself: "I never, never, never want to get into Small-Business Hell. I will do whatever it takes to avoid the trip into Small-Business Hell. I pity those small-business owners who have gone there."

How do businesses get into Small-Business Hell in the first place? I can tell you, no entrepreneur plans on getting into trouble but almost every small-business owner ends up in Small-Business Hell at least once in his or her career.

Reader

Why do businesses end up in Small-Business Hell? What did the owners do wrong that they ended up there? Okay, I am going to read this book because I will do everything I can do to avoid going to Small-Business Hell and taking my business with me.

Jack's response

Good! Please keep reading.

There are likely thousands of reasons why a business ends up in Small-Business Hell and they are all devastating. Of all these reasons they can typically be classified into one of these four categories:

- Financial
- Sales
- Operations
- Personal

More specifically, let's look at a few real examples of business challenges that could force a business and its owners into Small-Business Hell:

- Business is losing money.
- Lack of sales to sustain the business.
- Too much competition such as a new competitor took away a chunk of the business sales that were needed to keep the business going.
- Entered into a contract or an obligation that is creating a significant loss for the business.
- Misjudged the economy and now the business is devastated by an immediate downturn in the industry.
- Key employee has quit and then advised that he or she is going into competition with the business.
- Customer who owes your business a substantial amount of money has gone bankrupt.
- Flaw in the production process has forced the immediate shut-down of the production line.
- You have, your spouse has, and/or a close family member has encountered a major personal setback and this is affecting your ability to operate your business.

These are just a few examples of things that could happen in your life or the life of your business that may thrust you immediately into Small-Business Hell, typically without warning.

Throughout this book, you will find real small- and big-business stories. These stories will be told in the first person but the first person is not me, they are entrepreneurs I have met and who have told their stories to me, or their stories have been relayed to me by others. Let's look at an example:

Small-business story

I lost my best and biggest customer to my competitors and I just found out today. Over the past few months I have invested heavily into my business in anticipation of new orders from this customer and now the opportunity is gone. Gone! Now I have to lay off employees. I borrowed

money and I don't know how I am going to pay back the bank. I am in trouble. Everything was great yesterday but today I am in Small-Business Hell. What did I do wrong?

Jack's response

This looks like a case of putting the cart ahead of the horse. What were you thinking hiring additional employees and making capital and inventory investments without a valid and secure contract from your customer? Yep, you are in Small-Business Hell. Read on to find out how to get out of Small-Business Hell or, more importantly, how you could have avoided the trip in the first place.

I aim to make this book extremely interesting to all small-business entrepreneurs and to keep your attention throughout the entire book. Business books are usually long and boring and you have to work hard to extract the information that is important to you and your business. This book as well as my previous book, *Faster, Cheaper, Better: Starting and Operating a Business in the Trades*, were written specifically for small-business entrepreneurs and are intended to provide you with the information you need to be very successful. Please note that some of the information in this book overlaps with the information provided in *Faster, Cheaper, Better*.



1

Small-Business Hell

After I published *Faster, Cheaper, Better*, I often heard from experienced businesspersons who commented, “Where were you 25 years ago when I was starting my business? That’s when I really needed you!” However, younger entrepreneurs seem to be less interested even though they are the ones who could derive the most benefit from reading my book. It doesn’t make sense, does it? Do all young entrepreneurs go into business thinking that everything they touch will turn to gold and they can do no wrong? I think many do.

Experienced small-business entrepreneurs who may have taken a trip or two into Small-Business Hell are much more receptive to some advice from someone with a lot of small-business experience. No matter who you are, whether you are an experienced entrepreneur, or a person just starting out, or contemplating a venture as an entrepreneur, please take the time to learn some very valuable lessons. Hopefully investing a few hours into reading this book will save you and your business from the devastation of a trip into Small-Business Hell. Please take it from me, I wish I had had the benefit of this book when I started my life as a small-business entrepreneur back in the early 1970s.

I don't want to just focus on the negative; I want to focus on the positive aspects of the lessons to be learned in this book. After all, this is what life is all about: Learning from experience. The question is, do you want to learn from just your own experiences, or would you like to learn from the experiences of others with the hope of not having to repeat their mistakes?

Reader

The competition in my industry is fierce. Some of my competitors must be working for peanuts based on the prices they are offering to their customers. I don't know how we are all going to survive.

Jack's response

In life, as a small-business entrepreneur, you are guaranteed three things: death, taxes, and competition. Love your competitors or hate them, it is competition that is the backbone of the free-enterprise system. It is competition that will drive you to be the best that you can be. If you fail to compete, your business will fail; it is that simple.

Another very important aspect of this book is how to avoid the trip into Small-Business Hell in the first place, but if you do find yourself there, I will discuss how to get out of it. Typically there are only two ways out of Small-Business Hell: You can manage your way out, or you can declare bankruptcy or take some other similar form of action to shut down your business. For many, the easiest way out is to abandon the business; the repercussions of this action can have a lifelong, devastating, negative impact. However, managing your way out of Small-Business Hell can be very rewarding and when you successfully exit it, you can chalk it up as the best small-business experience you can get and you will be better for it for the rest of your career.

Reader

Are you overexaggerating the impact a trip into Small-Business Hell will have on me and my business? You make it sound like it is the end of the world!

Jack's response

I have been in Small-Business Hell a few times and, trust me, if you can avoid the trip, you should. The most devastating part of a trip into Small-Business Hell is the impact it has on you, your personal life, and your family. Your business is supposed to provide you with

a living and to allow you to have the lifestyle you envision. Personal tragedy has struck many families when a business is in Small-Business Hell. Maybe you even know someone who has experienced Small-Business Hell and the negative impact it had on him or her: Divorce, alcoholism, mental illness, sleep disorders, suicide, bankruptcy, negative impacts on one's personality, constant worry, and stress in relationships — just to name a few things that could happen. So no, I don't think I am overexaggerating the impact of a trip into Small-Business Hell. It really is HELL!

Reader

Okay, I am convinced. I want to avoid the trip into Small-Business Hell.

Jack's response

I like the way you think. Read on.

What makes a small business successful? Obviously if you have a successful small business the chances of being thrust into Small-Business Hell are much lower than if you are running a business that is on the edge of trouble or facing unidentified risks. There are only three aspects to every business; whether large or small:

1. You have to sell your product and/or services to meet the sales targets you have established for your business.
2. You have to produce your product and/or services for less than you sell them for with adequate margins to sustain your business and earn a fair and reasonable profit.
3. You have to account for your business, which means all aspects of the paperwork, such as finance, banking, management, invoicing, receivables, bookkeeping, accounting, and human resources.

That's it. That is all there is to having a successful business. Small-Business Heaven will occur if the following happens:

- Sales targets are met.
- Great production with room for good margins and profits.
- Well-managed business practices.

This all sounds too easy so why do so many businesses fail? Back to the three business basics:

- Lack of sales.
- Poor production, quality problems, high costs.
- Poor business-management practices.

Reader

So Jack, are you telling me if I want to have a successful business I need to have good sales, great production, and excellent business management?

Jack's response

Yes, this is what you need to do to be successful.

Reader

What if I do two out of three really well and fail at the other?

Jack's response

That's really easy to answer. Welcome to Small-Business Hell!

Now that you have a feel for what it may be like to be a small-business entrepreneur you have to ask yourself if you are really cut out for this type of career. There are many other choices. You can work for someone else in your chosen field and never have to worry about the risks related to owning your own business. After all, you can't be thrust into Small-Business Hell if you aren't a small-business entrepreneur. So there is the first word of advice on how to avoid the trip into Small-Business Hell: Do not become a small-business entrepreneur. There, that solved that problem!

I have defined the three basic components of every business:

- Sales
- Production/operations
- Accounting/paperwork

For the most part, every business that makes the trip into Small-Business Hell has had an issue that would fall into one of these three business components or some combination thereof. Of course, businesses are more complex than just the three primary business components. Every small business will usually deal with one or more of the following business matters as well:

- Customers
- Employees
- Suppliers and subcontractors
- Buying Faster, Cheaper, Better (more on this later)
- Partners
- Family
- Competition
- Risk
- Business planning
- Succession planning

All of these are extremely important and I will deal with every one of these subjects throughout the book.

Small-business story

I got involved in a business with two other partners. The business was in the recreation field and required a substantial investment to acquire the business. The business was quite diverse and involved an operations side as well as a development component. There came a time when the business had to make a substantial investment into infrastructure in the millions of dollars.

In the final analysis of the investment, we had to choose between two suppliers for the equipment. One supplier was \$1 million less than its competitor (about 10 percent). We really wanted to go with the more expensive supplier but we opted for the lowest bid without really taking into consideration the downstream effect of this business decision. One year later the equipment failed, the supplier went broke, and it cost more than \$2 million to make the necessary repairs. This was \$2 million that we didn't have in the business, so as partners we all had to contribute more money.

It's hard to believe but this story actually gets worse. A few years later one of our competitors, who had the same (inferior) equipment, decided to rip it all out and replace its equipment with the brand that we should have bought in the first place. Therefore our competitor had all of this surplus equipment that was of no value to it so we

decided that we should buy it for spare parts; after all, we could have the equipment for virtually nothing. Unfortunately, “virtually nothing” became another \$500,000 by the time we removed the equipment, packaged it, transported it, and stored it at our site.

Now you may not believe this, but this story actually gets even worse. The following year we were approached by a competitor and it wanted to buy us out. We had to look very seriously at its offer as we had serious financial matters to deal with due to all of the additional costs related to the equipment that we had purchased. We had the business appraised and the buyer was prepared to pay the appraised price — less \$10 million to replace the equipment that we had. The buyer’s business policy was that it would only use the equipment that we should have purchased in the first place. We finally succumbed and accepted the buyer’s offer. Hindsight, as we know, has 20/20 vision. At the time of our fateful decision, if we had taken the time to fully assess the situation, we would have determined that the higher priced supplier was actually a better solution in all ways — Faster, Cheaper, Better. But we didn’t.

The final cost to the partners was losses in the millions and we sold the business for a loss. Our partnership was dissolved (and not amicably, I must say) and I am still paying off the debt that was left behind. All of this because of one business decision that was made that we didn’t take the time to fully research and understand the downstream effect that this decision would have. We knew better and we certainly know better now. What happened to the surplus equipment that we had stored on our site? It went to the salvager’s for scrap.

Jack’s response

This is a real trip into Small-Business Hell that lasted for a few years for these entrepreneurs. I feel sorry for the partners in this business, but they made a mistake that cost them dearly. The partners did not recognize the magnitude of the decision they were making. They did not adequately research the equipment, and they did not analyze the potential downstream effects of their decision if something did go wrong.

What should they have done? They should have created a business plan for this major expansion to their business. The business plan needed to include a complete risk analysis, a project objective analysis, “what if” scenarios, a financial analysis, and options that

could have been considered to reduce the overall cost of the project that may have allowed them to buy the superior equipment in the first place. I am confident if they had gone this extra mile they would have found a way to purchase the equipment that they really wanted and they wouldn't have compromised and selected inferior equipment.

Buyers who thoroughly analyze major purchases using the Faster, Cheaper, Better purchasing method will inevitably make better buying decisions than those who do not take the time to complete this process. I have dedicated a chapter in this book on how to buy Faster, Cheaper, Better so read on.