

Small Business Truisms

an article by dr. robert sullivan

These truisms can help guide you in starting and running your small business. They represent lessons learned by entrepreneurs like yourself.

The road to success will be much smoother by being aware of the messages they represent. Most of the truisms are accompanied with a supporting vignette based on a real business experience. Many may appear obvious to you ... if so, simply consider it a reminder!

SME Financial Systems,
Campus Innovation Centre,
UCD, Belfield, Dublin 4, Ireland
Phone: +3531 492 5555
Fax: +3531 492 5755

find more business resources at sme.ie

(truism\ˈtrü-iz-em\ n. an undoubted ... truth)

These truisms can help guide you in starting and running your small business. They represent lessons learned by entrepreneurs like yourself. The road to success will be much smoother by being aware of the messages they represent. Most of the truisms are accompanied with a supporting vignette based on a real business experience. Many may appear obvious to you ... if so, simply consider it a reminder!

It takes a leader to successfully start, run and grow a business

The difference between managers & leaders is sometimes subtle but when the going gets tough, it's easy to tell the difference.

While consulting for a large manufacturing company I met with the founder and owner. It was easy to see he was an excellent manager and organiser. He had effectively set up his company, found satisfactory help, and was quickly manufacturing small runs of high quality product. When he called me, the company was in trouble ... poor sales, decreasing order backlog, etc. The problem was determined to be that the market had been slowly moving towards a similar, more effective product type. In overlooking (or not being aware of) this fact, the owner, although a good manager, was not leading the company in a successful direction.

A business is likely to operate at a loss for the first year of operation

Make sure you have adequate resources! Plan for the unexpected. Remember that most businesses fail due to lack of capital! If possible, keep your regular job during start-up.

A personal guarantee will most likely be required if you borrow money from a bank

A personal guarantee is never a problem when you sign it! Think carefully before personally guaranteeing ANYthing. This may seem obvious but when under pressure to keep the business going, you might make a decision that has disastrous long term consequences.

Ted had been in the manufacturing business for about three years and was doing quite well. During this time he borrowed a number of times from his bank to purchase materials and capital equipment. Without warning, his major customer cancelled their order and the business was left with considerable material which had been purchased for this job. Eventually Ted was forced into bankruptcy. Ted has forgotten that he had personally guaranteed the loans when times were good and now was faced with having to deal with the bank outside the bankruptcy proceedings. Business or no business, Ted was solely responsible for the loans.

In order for a business to be successful, it must provide a service or product that people want to buy

Pretty obvious you say? Well, it is forgotten by many. Times change and your business must change with them.

Dave, a good friend and fellow amateur radio operator, started a radio equipment and accessory retail store. Certainly not new, since there are hundreds of such stores throughout the country and, in fact, there were three within 50 miles of Dave's location. However, in less than a year, he was outselling the other two stores and had acquired a good share of their former customers. Why? Dave knew he needed to provide something unique that would make his store more useful than his competitors. Knowing that communications was 'going digital' and there was high interest in combining computers and radio equipment, Dave provided custom software to marry the customer's computer with the radio equipment he sold. He's still going strong.

A really good idea will not last long before someone else runs with it

If you are confident of an idea, move off dead centre and get on with it! Plan carefully but get going. If you wait, someone will beat you to the market!

cont/d

Business success will be directly proportional to how much you love what you are doing

Don't get involved with any business activity for the money only! This is usually a recipe for failure.

Nancy bought a fast food franchise because the opportunity looked too good to pass up. It might have been, but Nancy knew absolutely nothing about the food business or the restaurant business, and as far as I know, didn't even like fast food! Care to guess how successful the operation was? Or how long it lasted? Care to guess what happened even though the franchise dealer advertised that 'all the details are taken care of for you.' Nancy never had a chance.

There is no "best choice" for a business structure

Incorporating is only one of many options. Get professional advice and do what is best for your own specific situation. Each situation will be unique and any advice you receive based on generalisations might not be best for you.

A friend or family member does not necessarily make a good business partner

I believe in partners. It's good to have someone to bounce ideas off of and to have common goals, but choose a partner for the right reasons. Make sure the partner supplements your knowledge and that you share a common commitment. Being good friends is not enough!

I started a business some time ago with a friend who, like myself, was an electronics engineer. We were going to design and market an innovative telecommunications product. The partnership was a fiasco. First, since we were both design engineers, we argued forever about the 'best approach' for the design as well as the design details. After much pain, we got the unit prototyped and were ready to do some marketing. Of course, neither of us had the slightest idea of how to market. Finally, we gave up ... another great idea bites the dust. Why didn't I find a partner who had expertise in marketing? I knew from day one I had to sell my product! I also

knew that I had the expertise to design the product myself. So, while friendship is important, what value was my friend as a partner?

A well thought out and formally executed partnership agreement is a must for a successful long-lasting partnership

Because many partnerships are formed between individuals who know one another quite well, this formality is often overlooked. An agreement is required to address a number of items, including continuation of the partnership in the event one partner withdraws; buy/sell provisions; initial contributions; profit/loss division; partners, compensation; responsibilities. These important elements must be discussed and agreed to by the partners at the very beginning of the venture.

Planning is mandatory for business success. fail to plan and you plan to fail

This is the most important truism of them all! Planning is difficult since there is no immediate feedback as to its value. However, in order to be ready for the contingencies that are sure to confront you, planning is essential. You may or may not need a formal business plan but you do need a strategic plan. This plan, properly formulated, will define your business mission, your present situation, and where you want to be in the next few years. You will address assumptions and risks, goals and objectives and how you will report progress.

A plan that is not periodically reviewed is nearly useless

You must identify a way of periodically reporting your progress as it relates to your planning documents. Your business is constantly changing and your plan must be reviewed and modified accordingly. The plan must be kept current for you to effectively measure your performance.

cont/d

Pay yourself first or you may end up with nothing for your efforts

Don't make the mistake of putting every dollar of profit back into your business. Your business may very well prosper for a number of years and then be plunged into sudden bankruptcy through no fault of your own. If this happens, and you have not planned ahead, you may very well have little to show for your hard work. Remember, YOU are the business ... so pay yourself accordingly.

Lack of professional advice often and early will surely cause problems sooner or later

You are probably not an expert in law, taxes, or insurance matters ... so get advice before making decisions.

Your business attorney will not be proactive

Be careful ... most attorneys are trained to solve problems and may not necessarily understand the business ramifications. They are generally conservative and may not share your entrepreneurial qualities.

During an early business venture, I asked my attorney for assistance in developing a contract form to use with my clients. Well, I got my form ... all three single-spaced pages of it with a total or around 30 items. My attorney had attempted to protect me for every possible contingency but in doing so, generated a document so onerous that no one would sign it, including my current customers. I should have given my attorney more direction ... he assumed, in keeping with his training, that I needed as much protection as possible. With no customers, I would not need any protection!

An independent insurance agent is most likely to provide unbiased advice

Obvious, but don't forget it when shopping for your insurance.

The better your bank knows you, the more exceptional the service you will receive

Don't jump to a new bank for the wrong reasons. When you really need help, it is useful to be able to call your banker by his or her first name.

An effective and successful entrepreneur does not become consumed by the business

Separate home and business as much as possible. "Few people do business well who do nothing else." [Lord Chesterfield]

Stay focused on your objectives but also strive to stay balanced lest you lose friends and family

The rewards of a successful business can be bitter-sweet without friends and family with whom to share the success.

Without marketing, failure is guaranteed

Remember, sooner or later you are going to lose that single big customer. You can't spend ALL your efforts supporting him. Spend some time marketing EVERY day.

Like so many entrepreneurs my first business started with a single customer. The company was a great customer ... steady and increasing orders. My company grew to support their increasing requirements. Suddenly, due to a change in management and corporate realignment, the orders suddenly stopped (the reason why is of no consequence). So, through no fault of my own, I lost my major customer. I was so busy looking after this "big" customer, my marketing efforts were minimal. A foolhardy mistake. Don't you make the same one.

You never know who your next customer will be, so treat everyone as a potential customer

... and don't you ever forget it!

cont/d

A customer whose credit you check will always be a good risk ... don't check and it will be bad

Take the time and save yourself headaches. It is also wise to remember that D&B information is not checked and may be far from the truth. You might get better information by checking the customers business and banking references.

You get what you pay for (employees)

When you hire employees, hire the best you can find. Hire individuals who are smarter than you are in what they do. You want your employees to extend your own expertise or perform tasks you cannot perform yourself. Every employee represents you and your business. Think about this before you say, "You're hired."

Sooner or later, when you least expect it, you will lose some or all of the data stored in your computer

It is very likely you will be using a computer in your business. Pay attention to this truism and do what nearly everyone forgets:

Perform a daily backup of your data.

Loss of certain data could prove disastrous to your business. Don't let it happen to you.

Negotiating will save you money

It is amazing how few people are willing to negotiate a price. Do it! Negotiate EVERYthing, including services. You will be amazed at the results. And don't forget barter. It also works.

A successful business looks successful

An acquaintance started an engine rebuilding business in a small bay of a warehouse. The location was good in terms of convenience and delivery of materials but the bay itself was typical. Cinder block from floor to ceiling, open metal roof girders with hanging industrial fluorescent fixtures. Although my friend had an excellent reputation and was an excellent engine man, the business didn't do well. We literally turned business around overnight by painting the entire place brilliant white (including the ceiling and girders), painting bright graphics on the walls, organising everything in the place, and holding an open house. Suddenly it was the place to go for engine work. The business looked successful.

This article is an excerpt from The Small Business Start-Up Guide by Robert Sullivan. Dr. Sullivan is also the author of United States Government - New Customer!. He frequently lectures on starting small businesses and appears on CNBC's "Minding Your Business" as a small business expert.