

CHAPTER 1

WHAT, EXACTLY, IS A RELUCTANT ENTREPRENEUR?

Philip Knight has a net worth of about \$11 billion. That makes him the twenty-third-richest person in the United States, according to *Forbes*.

If you don't recognize his name, you wouldn't know how he made his fortune. He didn't inherit it. He didn't develop an Internet technology. And he didn't make it trading derivatives.

He made his money as an entrepreneur.

When most people encounter the word “entrepreneur,” they think: “Risk taker. Rule breaker. Someone very different from me.”

There is a good reason for this. The media has long portrayed the entrepreneur as the daring visionary, willing to sacrifice almost everything to realize his dream. Whether it is about one of the great industrialists—such as Carnegie, Rockefeller, or Mellon—or a modern-day example like Ray Kroc or Victor Kiam, these are the stories that capture the public's imagination. These are the stories that sell.

And there is some truth to it. Ray Kroc, the founder of McDonald's, famously said, “If you're not a risk taker, you should get the hell out of business.”

Victor Kiam, president and CEO of Remington Products, put it this way: “Entrepreneurs are risk takers, willing to roll the dice with their money or reputation on the line in support of an idea or enterprise.”

But not all entrepreneurs approach business with such reckless abandon. Some take a more conservative route.

That brings me back to Philip Knight . . .

PHILIP KNIGHT’S STORY

In the late 1950s, Phil was a middle-distance runner on the University of Oregon track team. At the time, American track shoes were made from little more than reprocessed wastage from tire companies. A new pair cost only five dollars. But it didn’t last much longer than a single, five-mile race. Phil customized his track shoes as best he could, and was somewhat successful at getting better traction and durability.

Later, while in graduate school at Stanford, he took a course in small business development. One of the assignments was to invent a new business. Remembering his experience as a college athlete, Phil came up with the idea of making and selling superior athletic shoes. To keep costs down, he would manufacture them in Japan. (It was a lot cheaper than doing it in the United States back then.) And he would then market his shoes in competition with Converse and Keds and other popular American brands.

I don’t know what grade he got on that assignment, but I’m guessing it was pretty good.

After graduate school, Phil traveled to the Far East. In Japan, he was drawn to the athletic shoes he saw in department stores. He was especially impressed with the Tiger brand. So, on impulse, he made a call to the head of the company. He told him about his bad experience with American shoes. They met to discuss a potential business deal. And soon thereafter, Phil was given the right to distribute Tiger shoes in the western United States.

While waiting for his samples to arrive, Phil got a job as an accountant. He also taught classes at Portland State University. But despite the project he'd completed in graduate school, Phil realized he didn't know anything about marketing athletic shoes. So he spent his spare time learning as much as he could about the business.

By the time the samples arrived a year later, he had written a business plan and made several key contacts in the United States. One of his contacts was Bill Bowerman, the legendary University of Oregon track coach. Phil hoped Bowerman would give his shoes an endorsement. But Bowerman did more than that. He agreed to become Phil's partner.

The two men formed Blue Ribbon Sports on January 25, 1964, with a handshake agreement. They each invested \$500 of their own money in the venture.

For the next five years, Bill worked on improving the design of their shoes and Phil sold the Japanese imports out of the trunk of his Plymouth Valiant at track meets across the Pacific Northwest. Meanwhile, both men kept their day jobs. Neither one risked their savings or gave up their salaries. Little by little, they built their little startup into a profitable small business with 45 employees and sales of about a million pairs of shoes a year.

That's when they changed the company's name. Phil's first idea—Dimension Six—was roundly rejected. Then a friend, Jeff Johnson, suggested a name that had come to him in a dream. It was the name of the Greek winged goddess of victory: Nike.

The rest, as they say, is history.

WHAT WE CAN LEARN FROM THIS . . .

The success of Nike is legendary. And sometimes, in telling the story, business writers depict Phil Knight and Bill Bowerman as archetypical risk-taking entrepreneurs.

As you now know, nothing could be further from the truth. If anything, they were cautious—even timid at times.

I am writing this book because the common perception of the entrepreneur never fit with my own experience.

I have started, co-started, or consulted on the creation of at least a dozen successful entrepreneurial businesses. Two of them were holding companies that launched dozens of smaller companies. And in my experience, the safest and surest way to develop a successful business is not to come up with a brand-new idea and put all your money into it. It's to start out slowly, like Phil Knight did. Develop your sources, contacts, and business plan first. And keep your day job until the new business is making so much money that you no longer need the salary.

HATCHING A BUSINESS WHILE YOU KEEP YOUR DAY JOB

The cautious approach to entrepreneurship has helped many of my friends and colleagues build seven-figure incomes. Not surprisingly, it figures heavily in my book *Seven Years to Seven Figures*.

A reporter for CNN Money was particularly interested in the concept. He had six basic questions for me. I'll go over them here because it presents the big picture. Then, we'll get into the details.

One: What does being a “reluctant entrepreneur” mean?

A reluctant entrepreneur is somebody who keeps his day job while he gets his ideal job going in the evenings and on weekends. He is willing to take the initiative to start his own business. But he's not willing to quit his current job and lose the income. The compromise he accepts is that he will have to

work 60 to 90 hours a week for several years before he can either abandon his great idea or fire his boss.

Over the years, I expanded the concept to include employees of a company who, by virtue of extraordinary performance, earn their way into the position of managing a product or division that is their own. They are still employees, but they operate autonomously and share in the wealth they create.

I have been both kinds of entrepreneur . . . and I liked them both.

Two: What does it take to manage a side business while keeping your day job?

It takes discipline, faith, integrity, hard work, and a very understanding family. It's not easy to work a full day at the office and then go home to put in time on your own project. But if you create a plan and follow it in an orderly fashion, you can do it.

Three: What does it take to make a side business succeed?

Start a business you know something about—a business that is based on some interest you have. And take the time to learn about that business from the inside out. That might mean getting yourself some part-time work in the industry.

To succeed in any business, you must understand what kinds of products the marketplace desires and what price points are “sweet.” You must know how those first sales are made—what specific marketing techniques are employed to generate a sale without spending too much money acquiring the customer. You must understand the back end of the business (how to upgrade a new customer into buying higher-margin products). And you must become competent at the basic business skills: marketing, salesmanship, and negotiation.

Four: What common pitfalls should be avoided?

There are several.

The most common is dictating to, rather than listening to, the market. New entrepreneurs often waste precious time and effort hoping to bring something brand-new and exciting to the marketplace. If the product doesn't exist, there is usually a good reason for it. So it's better to take a cautious approach to product development, too. Start off with a better or cheaper version of a product that has already proven to be in demand.

The next-biggest mistake new entrepreneurs make is spending too much time and money on non-essential pursuits. The fundamental activity of a business is the commercial transaction. Natural-born entrepreneurs know that their best chance of success comes when they devote 80 percent of their initial resources to making the first sale. Forget about buying business cards and copy machines. Figure out how to make that sale.

Five: Who is best suited for this approach?

Anybody who has modest intelligence and drive, tenacity, and integrity can do it. That's what's so nice about it. You don't have to have the moxie.

Six: When, if ever, do you have to choose between your two jobs?

That's the easiest question to answer. When your own business is up and running and bringing you more income than your paycheck, you ask yourself "Do I like running this business?" If the answer is "Yes," walk into your boss's office and tell him that you want to talk about transitioning out of your job. (As tempting as it may be to quit on the spot, you have to do this in a professional manner.)

MY FIRST ONLINE PUBLISHING BUSINESS

I had published and marketed information products before, but the first time I did it entirely online, there was a lot I had to learn. I didn't know anything about the Internet. Which meant I didn't really understand how the business would make money.

Knowing how a business will make money is the most important piece of information an entrepreneur needs. It is also usually discovered after the business is launched.

I decided to limit my investment to \$50,000. That is a ridiculously small investment for a full-scale online publishing business. But I figured I could compensate for that with hard work and a team of talented employees.

It took two years for that business to reach the million-dollar mark, and another four years to reach \$8 million. But the year after that it more than doubled in size and enjoyed revenues that were 10 times higher.

Along the way, we made many changes and improvements as we learned more about doing business online. Those improvements made our work easier and the business more profitable.

But if I had waited to start that business until I knew everything about the Internet, I'd still be waiting.

So the formula is this: Invest the minimum. Spend a reasonable but limited amount of time acquiring knowledge. And take action as soon as you can.

In other words, "Ready, Fire, Aim"!

Get ready by learning what you have to know to get started. Take action ("fire") by testing your business idea in the marketplace. And then gradually fine-tune ("aim") the business with what you learn after you're up and running.

In answering the six questions for the CNN Money reporter, I outlined my cautious approach to entrepreneurship, and the wisdom of keeping your day job as you start your business.

In *Ready, Fire, Aim*, my bestselling book on entrepreneurship (published by John Wiley & Sons), I covered the four stages of business growth. But in this book, I will focus only on the first two—getting your business from zero to \$1 million and then from \$1 million to \$10 million.

I will begin by talking about what it takes to follow the “reluctant entrepreneurship” path—and why it’s better than the alternative. I will also provide general guidelines that should work for anyone who wants to become successful without taking much risk. And I will tell you some of the most important secrets I learned about the very early phases of being in business.

In subsequent chapters, I’ll tell you about the problems you are sure to encounter as your business grows. And I will offer solutions for every one of them.

THE MYTH OF THE “ENTREPRENEURIAL TYPE”

Many business books are written by academics who back up their theories with researched data, not life experience. These include prestigious titles published by Harvard Business Press, Stanford University Press, and Wharton School Publishing.

Still others are written by journalists who interview or study entrepreneurs. Seth Godin, author of *If You’re Clueless About Starting Your Own Business*, is an example. Robert Kiyosaki, author of the hugely popular *Rich Dad, Poor Dad*, is another example. And I would add Tim Ferriss, the author of *The Four Hour Work Week*, to the list.

These authors have had modest success as businesspeople. But apart from their publishing empires, they’ve had little or no success in developing multimillion-dollar enterprises.

Writing about something they haven't done does not mean that their observations are invalid. But as a reader of these books, you have to wonder if their recommendations are trustworthy.

The question here is about risk: How risk-tolerant do you have to be to succeed as an entrepreneur?

And my answer is not very. For every entrepreneur who succeeds through boldness, I believe there are a dozen who achieve success by taking small, timid steps and learning as they go.

That's not the conclusion Seth Godin came to. In *If You're Clueless About Starting Your Own Business*, he tells us that these are the traits you must have if you want to be a success:

- A positive, committed attitude so you can stick with it through “change, insecurity, and indecision”
- A natural love of challenge so you will have the energy and enthusiasm to handle the demands you will face
- The ability to manage a lot of stress and work at a high energy level
- The willingness to take responsibility
- A preference for being in charge rather than following orders
- A sense of excitement and urgency about growth and change
- The ability to sell yourself and your business

I identified with some of these (the willingness to take responsibility and the preference for being in charge). But I wasn't sure about the other ones. Luckily, he provided a 25-question self-assessment test to find out if you have what it takes to be an entrepreneur. I took it—expecting to get a very high score. In fact, I scored only 79.

According to Godin, here's what my 79 means:

“You possess some entrepreneurial traits, but probably not to the degree necessary to buck the daunting odds. If your score on the last 15 questions was 15 or below (which mine was), your risk is even greater. Keep working for someone else.”

Keep working for someone else? I gave that up 30 years and \$50 million ago.

WHERE DO SUCCESSFUL BUSINESS OWNERS COME FROM?

Despite what some experts would have you believe, successful entrepreneurs are not the offspring of the privileged elite. Only 6 percent of *Inc.* 500 business owners were affluent when they began their careers. Fifty-eight percent were middle-class, and a very impressive 35 percent were either poor or working-class.

A colleague of mine—the guy who recommended Godin’s book to me—scored very well on the test. And he is, indeed, a superbly confident risk taker. But he has not been able to build a business that lasts. He starts one. And because he is smart and aggressive, it works well for a time. Then it falls apart.

While I admire my friend’s courage, I see his capacity for risk as a deficit, not an asset. In all other ways, he has what it takes: He is knowledgeable. He is responsible. And he has good management skills. But he jumps whole-hog into every new idea he comes up with—and that is his undoing.

So now, let me give you a different test. How many of the following statements do you agree with?

- I don’t like to risk my money. Not at all.
- I would never think of quitting my job and risking my life savings.
- I like the idea of being my own boss, but I am not sure I would be good at it.
- I am willing to take responsibility for my actions—but I still don’t want anyone to find out about my mistakes.
- I sometimes have good ideas but often have no idea what to do.

How'd you do?

If you agreed with most of those statements, you are a reluctant entrepreneur at heart. Like me. And I hereby invite you to join our ranks.

This book will show you how to create a successful, cash-flowing business without doing anything that makes you feel uncomfortable. You will start off taking baby steps. (Reading this book is the first one.) And you will move forward at your own pace.

You will not be required to risk your savings. And you will not be told to quit your day job. In fact, you will be prohibited from doing it.

I would argue that your chances for success are actually better because of your cautious nature. It will keep you from making many stupid mistakes. So embrace the fact that you like security and regularity and order. Those traits will serve you well in building a stable, profitable business.

If you are ready to get started, keep reading.

