1

YOU MAKE YOUR OWN MIRACLES

What is it really like to take an idea and fashion it into a successful business? Are the new entrepreneurs like the success stories crowding the pages of the money-making opportunity books with their happy tales of the John Js and Sally Ss waxing rich overnight, or is there something more to it? Do the inspiring words match the realities?

Let's separate the wheat from the chaff. Real people create businesses, not words from the pens of creative writers. And these very real people have interesting stories to tell. Meet and talk to these people and you begin to share their experiences, their triumphs, and their tragedies in trying to put together a business—and make it work.

In writing this book I have talked to hundreds of people who have journeyed through the entrepreneurial process, with an abundance of enthusiasm if not an abundance of cash. Like snowflakes, they were joined by this common thread while weaving a story with their own unique pattern. They were found in retail shops, small manufacturing plants, service businesses, and in hundreds of very different enterprises ranging from a deep-sea treasure salvage firm to a manufacturer of telescopic lenses. Seduced by the attractions of a new and better life, they come from every background, age group, and educational or work-life level. Some seem to have made it and many others didn't, but for most the final scorecard still isn't in as they struggle one day at a time.

I remember how it was with my own first "shoestring" venture.

Monday, October 1, 1973.

Zero hour minus one minute.

It was my big day. With bright purple letters the proud banner flurried over the near-empty parking lot announcing the grand opening of Discount City. Beneath cavorted two clowns anchoring dozens of colorful balloons for the crowds to come.

Thirty seconds to launch.

A shrill noise broke the air as three kids hired from the local high school band trumpeted "Dixie." Quite unusual, I thought, considering we were in Massachusetts, but then again, Discount City was an unusual store.

Zero minus ten seconds.

My eyes scanned the mountains of merchandise jam-packed on a wide array of used fixtures painted a nauseating green to hide their disparate origins. "Who could resist?" I mused. To my left were the $3.98 garbage cans and to my right, the crates of six-fingered back scratchers direct from Taiwan at the incredible 49-cent price. Wherever I looked there were bargains galore, hustled and conned on credit from every corner of the map.

Outside the cacophony of noise changed to the lively tempo of "Alexander's Ragtime Band." Everything was set. All was ready. It was the moment of truth.

Four . . . three . . . two. . . one . . . blast off!

The doors swung open to welcome swollen crowds. All that appeared was a little old lady in tennis shoes swinging an oversized pocketbook. Out she quickly marched with a deftly shoplifted $6.98 can opener safely tucked in her now heavier pocketbook. It was a start. Discount City was christened; the Discount City with $120,000 in unpaid-for merchandise heaped on $20,000 in fully mortgaged fixtures sitting on retail space with three months' deferred rent. It was the Discount City which came to life owing everybody for everything. But it was also the Discount City built on a financial house of cards that somehow made the grade and mushroomed in three years to 12 more stores ringing up a profitable $6 million in sales. Best of all, it was the Discount City started on a shoestring with only $2600 of my own cash.

It's never easy. You wonder how it can ever happen when so many people say it shouldn't and predict it can't. Sydney, my Valium-popping accountant, would label me the "lunatic with the big dream and the small bank balance." It hardly inspires confidence. And while you're in the trenches trying to turn a dream into reality, your family thinks you've lost your marbles and you find your friends scanning the auction pages anticipating your bankruptcy. They may send you flowers when you open, and with them their well wishes. Still, they never quite believe.

But that's the thrill of it all. You want a business of your own so you go for it. You connive, beg, borrow, hustle, and manipulate to get it together and keep it together. You work your butt to the bone to make it happen. In the process you thumb your nose at a world of nonbelievers, skeptics, pessimists, and conventionalists with their words of wisdom on why you can't or why you shouldn't. No, it's never easy, but when you're through and have the business off and running, you stand tall and pat yourself on the back. You did it and did it on a shoestring. In short, you made your own miracles. It's quite an experience.

Flushed by my Discount City days, I journeyed into nine more shoestring start-ups. By then I had the money to invest, but I was spoiled. I didn't want to invest. My philosophy was simple and it never changed. Any idiot with a bushel basket of money can land himself a business, but also it doesn't take a genius to do it without cash. Chutzpah is a powerful substitute. Tight with cash but heavy on chutzpah, I wound up my entrepreneurial spirits, took a few working partners in tow, and opened two drugstores, a health food store, two greeting card and gift shops, a furniture manufacturing plant, and even a direct-mail firm for import items. Total personal investment? Less than $10,000. Were they all successful? Nope. Most came under the broad heading of "winner," but a couple were blunders and would have been the same blunders even if heavily bankrolled. The education was had and the lesson learned as these and so many other businesses capitalized with little more than heart, hope, and hard work have taught me. You can start on a shoestring and succeed.

ARE YOU THE ONE IN THE CROWD?

No longer is my office a dank corner of my first store, spartanly equipped with a war surplus file cabinet and discarded door bolted to two orange crates. Today I'm in a high-rise office building. Directly across the road from my building—in easy view of my office—is a large tire plant employing thousands of people. At precisely 8:45 each morning they stream through the front door to punch a clock. The executives, salespeople, clerical staff, and factory workers—like bees abandoning a hive—all stumble out the same door at precisely 5:00 each afternoon.

How many are happy at their work? How many would rather be at the helm of their own business? You never know the answer. Some probably never even thought of their own business, quite content to punch a clock, pick up a paycheck, and head home to drink a few beers before the television. Others harbored the idea but are slaves to the illusive security of employment, afraid of the gamble, the inherent risks of running their own show. Still others, the timid and the tired, lack the self-confidence while they mistakenly believe management is magic. Whatever their reasons, these same people wouldn't venture out on their own under the best of circumstances. And they shouldn't even try.

No, we don't know who they are, but in that endless stream of people marching in to work every morning there are the few who want their own business and have what it takes to run it successfully. There's only one thing holding them back—money. They have yet to develop the shoestring mentality.

Now let's turn the spotlight on you. With this book in your hands you're planning, or perhaps just thinking about, starting your own business. You too are wondering about where the money will come from. Now I know nothing about the type of business you have in mind, but it doesn't matter. Shoestring startups are pretty much alike for all businesses. I have no conception of how large or successful it will become. That's for you to decide and achieve. My job is to show you how to put together your business and get it started without digging deeply into your own pockets. In the next several hours you'll see how. Your job is to take the ideas and turn them into action. But I know as well as anyone that it's easier said than done. Standing between you and success may be a lot of fuzzy thoughts and nonsense ideas of what it takes. That's what this chapter is all about. If you're the one in the crowd, it's time to develop your own shoestring mentality.

Let's get to work on it. And the only way to start is by knocking out a few dangerous myths.

MYTH #1: YOU NEED MONEY TO MAKE MONEY

People say it and people believe it. That explains why there are so many poor people. I agree that the rich get richer, but that doesn't preclude a bit of success for the rest of us poor souls.

It's easier selling vacuum cleaners door-to-door than selling people on the idea that they too can get started on a money-making venture without using their own money. Robert Allen, best-selling author of *Nothing Down* (Simon & Schuster, 1990), had just this problem when he tried to convince his readers that they could buy real estate with little or no money of their own. Allen was no fool. People could read, but would people believe? Not according to Allen. The skeptics were everywhere. So Allen threw out an interesting proposition. "Put me in any city," siad Allen, "give me $100 for living expenses, and in 72 hours I'll return owning several properties without using a dime of my own money." The *Los Angeles Times* took the bait, handed Allen $100 and shipped him to San Francisco to turn his boast into proof. A few days later the triumphant Allen returned, clutching a few deeds to some choice Frisco properties.

Oftentimes I'm tempted to match Allen's challenge by boasting that you can land me in any city or town and within one month I'll have a good, solid, healthy business started and running without spending a dime of my own. But who needs another business?

Now what's the message? It's not boasting, and it's not about either real estate or starting a business. It's about money. While you may need money to make money—it doesn't have to be *your* money. Better yet, it *won't* be your money.

Shoesting entrepreneurs understand it. So did Henry Ford.

Henry was fond of saying that he might be flat broke but he'd never be poor. Armed with nothing more than a good idea, old optimist Henry would soon have all the money he'd need pouring into the venture from everyone else's pockets. You may not be Henry Ford, but his philosophy will work equally well for you. If you have that solid business idea, you'll find the money to make you money.

MYTH #2: A HEALTHY INVESTMENT MAKES A HEALTHY BUSINESS

Accountants always advise it, professors teach it, bankers love it, while the gullible swallow it. What nonsense!

Bob Kuzara knows how to punch holes in this fallacy. Bob started his successful North Pine Furniture with $80,000 in borrowed funds and today grosses $2 million annually, distributing his natural pinewood chairs, tables, and bookcases through local furniture stores and his own packed showroom. So as a shoe-stringer extraordinaire, Bob frequently joins me to address business start-up groups.

Not long ago a young lady attentively listening to Bob's pitch at a start-up seminar jumped up and said, "If I don't invest a substantial amount of cash from my own funds, my business will collapse from excessive debt before it even has the chance to get off the ground. How can you dare suggest I do it on a shoestring?"

Bob had a ready answer. "First," he said, "whether your business makes it or not has little to do with your own investment. The secret is to structure the debt so it fits the payment capabilities of the business. You can safely start any type of business with 100% leverage once you know how to program the debt. I agree. There's no such thing as the undercapitalized business, only the poorly planned business."

Bob overlooked the most important reason why a healthy investment does *not* necessarily make a healthy business. In fact, it usually creates a sick business. Owners throw more money into the business than it needs. It spoils them. They don't start out "lean and mean," and that leads to foolish expenditures. I'm reminded of a young MIT grad who started an electronics assembly firm with his wealthy father's generous $150,000 investment. A healthy business? Hardly. Six months later the Bankruptcy Trustee auctioned off its swanky furniture, a $38,000 Mercedes, and $20,000 of computer equipment. A healthy start would have been the father throwing his son $5000 to rent a garage and sit behind his own orange crate desk. If the business was destined to make it, it would make it building from the bottom rather than destroying it from the top. And the only way to build from the bottom is to lock up your checkbook so you do have to pinch pennies. And when you're borrowed to the hilt you'll have few pennies to pinch. It's therapeutic.

MYTH #3: DEBT IS BAD

Not by my book. I love debt. No, not when it comes to personal finances, but when you're talking in terms of business. And you can't really shake yourself clear of the first two myths unless you're willing to start in over your head and walk a financial tightrope until a business is eventually on its feet.

Most people are terrorized by the thought. They've been programmed to think of debt as a curse since they were old enough to understand the word. You may have the same problem. It's time to change your perspective.

Several years ago a young man retained me to help him start a marina on Cape Cod. His grandfather left him some choice waterfront property so it was only a matter of construction. The demand was fabulous and boaters hearing of his plans were already lined up. Within a month we had the lowest construction bid—$250,000. "How much money do you have, Jack?" I asked. "About $10,000 to $15,000," he replied. No problem, I figured. With the valuable land owned outright we'd have no problem finding a $240,000 construction loan from a local bank. And the numbers worked beautifully. Projected income would exceed expenses and mortgage payments by about $50,000. Jack would have a perpetual annuity and would hardly have to work for it. Do you think he did it? You know the answer. His mental block to signing a

$240,000 note blocked his success. Eventually Jack leased the land to a "go-getter" who did build the marina and is now the owner—mortgaged to the hilt—who's making the big money.

Sure, debt can be scary. A cash-poor start-up puts you in the twilight world of constant bank overdrafts, overdue bills, sleepless nights, and robbing Peter to pay Paul. It comes with the territory. But you do it because it's the only way you *can*.

Look at it the way I do. On the tenth of each month I sit down and write out some pretty hefty mortgage payments and payments to suppliers. As I write each check I'm actually creating wealth. It's a simple philosophy. What I owe today I'll own tomorrow.

Think about it. How many wealthy people do you know who didn't start out up to their eyebrows in debt? It's the American way. For most of us it's the *only* way.

MYTH #4: STARTING ON A SHOESTRING IS STARTING SMALL

Not always. Remember my first Discount City? It opened its doors with over $200,000 in assets working for me. It was a shoestring deal because I had so little of my own money into it. That's the only definition of a shoestring start-up.

They say that Monsanto Chemical started with only a $5000 investors pool. It didn't start out as the industrial mammoth it is today, but it didn't begin in someone's basement, either. It started at the logical size that could get it off and running as a viable company.

Plenty of shoestring start-ups are nothing more than cottage industries with industrious entrepreneurs moonlighting at a kitchen table or tinkering in the basement. For some it's the best place to start. Small can be beautiful, as the saying goes. In a year or two many of these same businesses will have graduated to full-time, full-scale ventures. Others will begin operations with considerable assets behind their launch. As I write this book I'm consulting to a husband-wife team who developed and patented a "zip-lock" rainhat. It's an interesting device to provide a rainhat that folds to the size of your thumb. You'll find them hard at work in a spare bedroom, slaving away behind two used sewing machines. All they needed was $1200 to start, and when it comes time to grow they'll find plenty of backing.

Ever hear of Boston-Bio/Tech? You will. At least I think you will as soon as we can find the final $200,000 to complete a $1,300,000 capitalization package. Behind it are two bright Harvard Ph.D.s holding some interesting genetic engineering patents.

Right now they're busy cloning frogs but they evidently assured plenty of investors they'll soon be cloning money once their capital intensive laboratory is complete. And it'll take every penny of the $1,300,000 to put it together—scrimp and save as they may. What are our bright Harvard boys investing? Only an assignment to the company of their patent rights. Here's a case where large is logical, while showing shoestring start-ups come in all sizes and shapes.

Later in this book you'll see how to shape your start-up to just the right size. And it may be healthier looking than you think.

MYTH #5: MY BUSINESS CAN'T BE STARTED ON A SHOESTRING

Sure it can. It'll work for any type of business. Now that's a bold statement, considering I have no idea of the business you have in mind. But I make the statement because I have seen it work in just about any business, and the few that haven't crossed my path are no different. Service businesses are a snap. They usually require so little start-up capital that it hardly pays to read a book about it. Retail shops? They account for about 70 percent of the shoestring start-ups. And they're the most fun because you can bootstrap them in so many interesting ways. Whether it's a bookstore or a bagel bakery, if you can't shoestring it your creativity is on the blink.

How about starting your own manufacturing plant? From aircraft components to zipper factories, thousands have started on a shoestring, although it's always a bit more of a challenge when you consider how capital intensive and risky they can be. Scan the list of Fortune-500 companies. Trace their histories. Check their pedigree. Whether it's Apple or Zenith—most started with less capital than you can probably raise right now.

MYTH #6: ONLY WHEELER-DEALERS NEED APPLY

This is the biggest myth of all. Experience and watching hundreds of ordinary people bootstrap their way into business have taught me otherwise. Wage earners who don't know the difference between a profit and loss statement and balance sheet have done it. Housewives who have never signed a check have done it. I've even witnessed a group of high school kids do it.

Northeastern University did a bit of research to find out just who shoestring entrepreneurs are likely to be. They discovered the best bets were people who were never in business before, had no business education, and were cash shy. In plain language, they didn't know any better and couldn't do any better. It once again shows that what you don't know can't hurt you. To solidify the case, the least likely people to start a thinly capitalized business were MBAs, or people with extensive business experience. You'll find them hiding behind a desk at General Motors, believing businesses are really started "by the book." They've been reading the wrong books.

Now most people starting out in business don't consider themselves entrepreneurs any more than they perceive themselves as "wheeler-dealers." I point that out because I sometimes use the word in this book. It may throw you off track, as it does conjure the image of a dashing promoter overseeing a vast conglomerate that he started three weeks earlier and will probably bankrupt three weeks later. But that's not you, either. All you want is your own little shop to open with short money. Wheeler-dealers need not apply.

WHAT IT TAKES

Starting a business with little or no cash of your own is more than a technique, a mathematical formula, a way of business, or even an objective. It's a state of mind.

After you finish this book you'll know the techniques and the strategies, but to turn it from theory to practice requires a unique individual. It's not everyone's cup of tea.

Precisely what does it take to go for it and succeed? I offer no long shopping list of personal attributes or managerial skills. It doesn't work. Too many times we have seen the village moron end up owning the largest and most successful business in town while the smartest kid on the block ends up his bookkeeper. So put away all the books prodding your managerial IQ. It's only filler and doesn't mean a thing. You never know if you have what it takes until you actually do it.

Neither does it matter why you want to do it. Most people don't really know why they want their own business. Their mind plays nasty tricks on them. Ask them why and they'll say money, when it's really the challenge. Or they'll say the challenge when they can't bring themselves to admit it's only to break away from an overbearing boss. It may be an ego trip or a combination of a hundred reasons. What difference does it make? If you want it—or only think you want it—then do it. Either you'll swim like a fish in water or decide it's not for you. But at least you'll have it out of your system and stop wondering about it the rest of your life.

I will tell you this. Whatever any reasonably capitalized business takes to succeed, it will take more to succeed in a shoestring start-up. There's no such thing as a free lunch. In one way or another you pay the price for going it on a hope and a prayer. And the two absolutely essential ingredients you must provide are:

1. Double determination.
2. Ten times the work.

"Bull," you say. "You can't scare me." Well, that's good. It shows guts. And you'll need plenty of that also to succeed. Earlier in this chapter I called it chutzpah, a precise word with an imprecise Anglo-Saxon equivalent made up of equal parts of aggressiveness, courage, daring, and plain moxie. I've yet to see a shoestring business succeed without it.

DOUBLE YOUR DETERMINATION

You never quite know what the word *determination* means until you try to build something from nothing. You can't do it with half-hearted attempts. That's one reason why so many bootstrap deals do succeed—once the doors open. An enormous determination brought it that far and that same determination usually carries it over the survival stage. It's a far cry from the owner who mortgages his home, then invests all that cash into the business on a whim. That's not determination. It's only a mortgaged house. When you knock on a hundred doors, tell a hundred stories, and with sweat on your brow try still another door—then you know what determination is. It turns the soft metal of ambition into the tempered steel of resolve.

I opened this chapter telling you about the first day in the life of Discount City. Words are easy to write, but it wasn't quite so simple. The mountains of inventory didn't just appear at the loading platform. Without cash and without credit it was a mighty tough sell. We had to bang on the doors of 980 prospective suppliers before we could find 38 who would gamble on us and ship on lenient credit terms the business could handle. We had to listen to 300 suppliers laugh us out of their offices before the first order was accepted.

It's enough to send you back to the time clock. It was the same for everything the business needed. Fixtures? We scoured 27 auctions before we landed an assortment of gondolas, showcases, and counters we could buy dirt cheap and on credit. Location? It was the hardest part. We needed both a high-traffic location and a landlord who'd wait two to three months for his first check. Mission impossible. Finally, after two months, we found a strip shopping center whose landlord would talke a chance on us in return for a higher rent in the later months. Heck, we couldn't even afford the $900 for an electric deposit. Using a borrowed portable generator we had the lights to operate for several weeks until we could cover the $900. It may sound like war stories, but that's how it happens in the real world when you don't have money behind you.

Others have their own stories. Don Pendergast is an interesting example. Don designed a new style boat anchor offering the twin advantages of lighter weight and greater holding power than conventional anchors. Boating firms and enthusiasts endorsed the anchor, but it wasn't enough to help Don raise the $200,000 he'd need to start production. For almost four years he banged on doors. He contacted over 200 venture capital firms and 60 banks. Still no money. But Don never threw in the sponge. Early in 1983 his determination paid dividends. An investor from Spokane heard about the anchor, investigated, and decided to capitalize the start-up for a 50 percent interest. Think about it. Over four years between dream and reality.

I came across plenty of people with business ideas and limited or no capital. It's interesting to test their determination. Many will make a few feeble attempts to raise a few dollars from a bank or relatives, and when they come up empty they walk away from the idea. It's a blessing in disguise. If they can't walk the extra mile to get it going they don't have the determination to work it through the trouble spots and make it succeed.

THE ONE-TENTH PRINCIPLE

I borrowed the term "One-Tenth Financing Principle" from Jerome Goldstein (no relative) because he aptly sums up what I'm now about to say. You can start a business with one-tenth the capital normally required (or even no cash at all), but in return you must work ten times as hard to make it succeed.

Any business—even the heavily capitalized firm—takes plenty of commitment and elbow grease to make it. That's common knowledge. The shoestring start-up needs more. Lots more. It all comes down to doing things for yourself instead of using precious capital to have other people do it for you. You find yourself working around the clock, and typically, your family by your side. Every penny saved is a penny less you need to start. Before you know it you're a genuine workaholic.

Peggy Lebow is. She admits to working 16-to 18-hour days to make her artificial flower distributorship hum. "It's all economics," says Peggy. "I spend evenings making the flowers instead of buying them ready-made at double the price. During the day, I'm out selling rather than paying commissions or salary to someone else." She's not alone.

Hard as you may work, it's all to your advantage. Control is one. Nothing escapes your eye because you are involved in every phase of the operation. You measure costs, control waste, and don't hesitate to knock three hours from a stockboy's schedule if you can. Costly mistakes are few and far between because you realize you can't afford mistakes. As you grow you do it with extreme caution because you remember where you came from.

While studying for my MBA I burned the midnight oil with two brothers. One went on and is now a regional manager for Coca-Cola. The other scraped together a few dollars and started a wholesale bakery firm. "You know," he said, "I work morning, noon, and night and my brother, the Coca-Cola executive, never understands why. And he'll never understand it until he's in his own business—a business he enjoys. Then and only then will he realize that it only looks like work."

THE TIME IS ALWAYS RIGHT

Behind my desk is a framed self-portrait of an elderly gentleman named Harold, poised with a palette in one hand and a paint brush in the other. Neither the artistry nor a deep personal relationship with the artist compelled me to buy the painting. It was his smile. It carried an important message, and I wanted that smile to be my continued warning that hopes can grow old.

I met Harold while visiting my grandfather in a nursing home. As a patient he'd spend his day painting and smiling. Striking up a conversation with him, he confided the reason for his ever-present smile. "You know," he said, "when I was a young art student just out of high school, I wanted to open an art gallery. My father wanted me to be a dentist instead. Well, I spent six years getting through NYU Dental School, hating every minute of it and wishing I owned my own art gallery instead. I wanted a career in art, not pulling teeth. But life plays nasty tricks. First came the Depression, so I drilled teeth to make a living. Then came the war, and the Navy needed dentists. When I got back I had a wife and two kids to support, so I pushed aside my dreams of an art gallery and resumed my dental practice. When I hit 50 I figured it was time. My kids were on their own and I had money in the bank. My wife called it mid-life crisis and my kids thought I was insane to give up a lucrative dental practice to open an art gallery. So for the next 20 years I continued to push aside the idea of my own gallery and drilled more damned teeth. Well now I'm 73 years old and too ill to start an art gallery so I paint instead. You wonder what happens to all the years and all your dreams." I never wanted to forget those words.

People always have reasons for pushing their ambitions into the future. Excuses come easy. If you really want your own business you'll face only one real enemy—procrastination. You can read this or any other book 56 times and memorize every word, but what good does it do if you don't put it into practice?

The procrastinator always has a reason. How many times have you heard someone say "the time isn't right," "the economy is bad," "money is too tight," or "I want to make certain there'll be no war in the Mideast." The list is endless. Year in and out the procrastinator reasons while someone else makes the money.

One thing is certain, my friend. Nobody is going to knock on your door, lead you by the hand, and do it for you. Nobody is going to give you the push to get started today. Why should they?

So let's face facts. Some of you will never start your own business. Your dreams are nothing more than fantasies. You'll hope for it, think about it, and fabricate ten more reasons why you can't do it. And you shouldn't. Whatever you want from your business, your business will need more from you.

Then again, you may be one of the few who are ready. Perhaps you've been in business before and know what it's all about. Maybe it's your first time and you have kicked aside all your fears and doubts and are anxious to tackle it. Welcome to the club. Someday you'll look back at your own grand opening—your first day at the helm of your own business. And when you do, you'll also stand tall and give yourself a hefty pat on the back. You'll deserve it. You made your own miracles.

2

CHECKING OUT YOUR WINNING IDEA

You can imagine the pained expression on the faces of Gary Dahl's astounded bowling buddies when he announced his plans to package ordinary sandstones in cage-like cartons and market them as everyone's favorite pet—"The Pet Rock." Who in his or her right mind would want a rock for a pet? It can't curl up on you lap, beg for a treat, or fetch a newspaper. In fact, it can do none of the heartwarming things we've come to expect from the more animated variety of household additions. About all it can do is slumber in its clever striped box with the $4.98 price tag and hope people would learn to love it. And they did. For a while, "Rocky" ranked third as a household pet, after Fido and Tabby. As one proud master asked, "Why can't you love a pet rock? Did you ever see a rock bite?"

Marketing experts scratched their heads in predictable disbelief, while psychologists threw up their hands in mock surrender. Saner people laughed, while the rest of the world bought. It was the story of one more idea—and one more instant millionaire.

So who wants to be a millionaire? Not Beverly Zintgraff, who at 32 is still scraping together a few dollars to open a lingerie shop in Cleveland's swank Shaker Heights suburb. "I'll be happy if I can someday take out enough money from the business to have a home without a leaky roof, a mortgage that doesn't pinch, a Buick in the driveway, and a few bucks for my kids' college."

You'll also find Ken Engour on the slow track to success. "I'm not looking for a quantum leap to a fast fortune. What I do want is a sideline business to augment my salary as a flight engineer. And that sideline business is a newsletter to corporate pilots." Listen to the stories. It's the stuff the American dream is made of. Ordinary people in ordinary businesses, however, do make very unusual stories. But it makes you wonder. How many are selecting their right business? Are you?

THE ONE MOST IMPORTANT DECISION

This year maybe half a million Americans will start their own businesses. Burt Nicholas, a career consultant, estimates that 60 to 70 percent will select the wrong business for them. That's why so many people do fail. There may be nothing wrong with the business idea itself, or their own management capabilities, but still the owner and the business may not fit together. And when that happens the venture never works out. The first ingredient for success is the perfect match between the entrepreneur and the enterprise.

I enjoy talking to entrepreneurs planning their first venture. It's interesting to probe their thoughts and discover how they came to choose their intended business. One young man recently told me he looked at various opportunities over a two-year span. He considered everything from a restaurant to a franchised real estate office, finally settling on opening an automobile tire and accessory shop. "So why did you pick that business?" I asked. "Easy," he replied. *Entrepreneur Magazine* predicted auto-related businesses will be the best money-makers in the years ahead." Maybe so. But will it be *his* best money-maker?

It's an easy trap to fall into. Some are blinded by what they see as the best way to make money. Others mistakenly look for prestige or glamour. Many others simply go into the easiest entry business. And with less thought behind it than in selecting a new car, they somehow think it will work for them. Too often it doesn't.

Doesn't everyone want to run a restaurant? Kirk Begogian thinks so. Kirk manages a Boston brokerage firm specializing in restaurant sales, and he'll tell you that the money motive can be a killer—and everyone thinks the biggest, fastest, and easiest money can be made in the food business. "Not so," Kirk adds. "The restaurant business is the world's toughest business, and for every millionaire it produces there are 100 bankruptcies. Still, they line up knowing nothing about the business except the delusion it's their pot of gold."

"Whenever we sell a business brokerage franchise," reports one unnamed executive of a franchise brokerage system, "we do sell opportunity, but we're also selling prestige and glamour. Seventy percent of our franchisees have no business trying to sell a business. Mechanics, assembly line workers, route delivery people, and other blue-collar types are always dreaming of the day they can trade dirty work jeans or a soiled apron for a three-piece suit and a chance to sit behind a desk. Most of them don't belong behind a desk. They belong in dirty work clothes or a soiled apron doing what they do best. But they will shell out $30,000 for a chance to grab what they see as prestige."

"We can put people into a franchised food store for as little as $4000 down," claims a supermarket executive who started a successful program for licensing convenience stores. "So as you'd expect we have a waiting list of hundreds of willing food store operators. If you cull the list you'd find out that 90 percent are interested only because we do give them the opportunity to get into business with so little cash. How many are on the list because they really want to operate a convenience store? Damn few. That's why we have such a high turnover of franchisees."

You can't fault many of these people who opened in haste and repented in leisure with little to show for it but boarded up store fronts, going-out-of-business sales, and broken dreams. Choosing the right business is one of the most important decisions of your life, and before I show you how to start on a shoestring I want to help you check out what you intend to start. Let's make it a winner.

NARROW THE RANGE

Start-up entrepreneurs can be divided into two categories. First are those with a reasonably precise idea of what their business will be. They know the type of business, its size, marketing approach, and general location. They have a fixed mind-set. They can close their eyes and visualize it—make it come alive. Some do even better and have it all reduced to a comprehensive business plan nailed down to its smallest detail. Well, that's good. It's a starting point and the essential starting point for this chapter and the chapters to come. If you're such an entrepreneur, you have your own mind made up. That doesn't mean that what you have in mind is a right or logical choice, but it *is* the starting point. We have something to test. We can kick its tires and see if it'll stand up. When we're through you may decide to go ahead with it, reshape it, or abandon it altogether. Keep an open mind.

The "shoppers" are the second category. Their mind is far from made up. In a maze of indecision they wander through a wide selection, hoping to narrow the range to the one best choice. If you're a shopper, make a list of businesses you're most interested in. Rank them so you too have your starting point. Let's see how your list looks when we complete the chapter.

CREATING THE PERFECT MATCH

When is there a perfect match between entrepreneur and enterprise? I recommend a four-part test:

1. Can you *enjoy* the business?
2. Can you *manage* the business?
3. Can you *earn* from the business?
4. Can you *afford* the business?

Doesn't it make sense? These four points answer the question of what you can bring to the business, and in return, what the business can do for you. As with any relationship, you and the business must mesh together to create a workable bond, and it only happens when you score on all key points. Consider them one by one.

THE PSYCHIC REWARDS

For Gary Gygax, forming his own company, TRS Hobbies, Lake Geneva, Wisconsin, was like a return to his childhood. "The real motivation is that I like games," he reports. "I've been playing chess and Parcheesi for longer than I can remember, so I made a business out of my hobby." You probably know Gary through his now popular "Dungeons & Dragons" games. Gary, I bet, is a man who whistles while he works, and that always means a man in the right business.

Most people think money is the number one priority in selecting a business. Put it on the bottom of your list. The psychic rewards—enjoyment—head the list. When you enjoy your business, the success and money are bound to follow, but it never quite works in reverse. And if you happen to make serious money in a business you don't enjoy, I'll guarantee you'd make twice the money in a business—any business—that does get your adrenaline flowing.

So what business would you enjoy? No quick answer is needed. It may be the line of work you have experience in, but in a real sense you're never sure what will provide the greatest pleasure because you are limited by your own experiences. The unknown may be even better.

Starting your own business may be breaking away from your working past. For many, it signals not only the transition from employee to entrepreneur but from "what they have been" to "what they really should be." And for many, it's like being reborn. But for many others, breaking from the past for the challenge of a totally new career path is too much to tackle and there are always the few with their blinders on who never really think about it.

One of my brightest associates in our law firm had this problem. Peter would sit behind his desk poring over legal briefs but was always thinking about marketing an adult game he was developing. He'd walk into my office and talk games while I wanted to talk law. Finally I asked him why he didn't quit the practice of law and go into the full-time business of promoting his game. It wasn't money or security. Peter, lucky enough to be born to the right parents, had more money than any senior partner in our firm. It was his own self-image. "My folks would have a heart attack if they found out their son the lawyer was selling toys." So Peter's not selling games. And as an unhappy lawyer he's not living much of a life either.

Peter's story isn't unique. People everywhere are so busy making a living they think they can't switch gears to have a more enjoyable career. Not long ago we were asked to handle the legal work for a 42-year-old gas station attendant about to open his own service station. So you talk and you learn. What I learned was this chap was a photography buff. Pumping gas was his life. It wasn't easy to convince him to give up his idea for a gas station and go for a photo shop instead. With 25 to 30 productive years ahead of him, why waste it on a business he didn't enjoy? Today you'll find him operating not one but three camera shops and loving every minute of it. You only live once.

I've been in many businesses. Some I thought I'd enjoy and learned to dislike, while others I enjoy more than I thought I could. That brings us to the other side of the coin. Sometimes the grass only looks greener.

One misadventure of mine was a movie theater. I was a movie fanatic since I can remember and can tell you who won the Academy Awards in 1956. So when I had a few chips to spare and another adventure to conquer, it was only logical a movie theater would catch my eye. That's when I learned you don't know a business until you're in it, work it, and live it. While I thought I'd be partying with movie stars, I discovered it was a headache business, hassling film distributors, chasing rowdy kids, and working weekends. It cost me $30,000 to find out that you have to look before you leap.

Look *before* you leap. Important advice. Since my bygone days as a movie mogul I fight like a madman with clients going into a business they don't know, just as I'll push to get a client involved to test an untried business. Then, and only then, do you know whether the business will give you a psychic reward or a royal headache.

This may be your best opportunity to experiment and try your hand in several situations of interest to you. Why jump into uncharted waters? When Taylor Lynch decided to leave his job as a dispatcher for a freight-forwarding firm his target was to open a travel agency. As Taylor admits, he knew nothing about the travel business. While keeping his daytime job he learned fast, working in a local office evenings and Saturdays. It still interested him, but he had his doubts. Taylor never realized how difficult it was to satisfy the vacationing public. "I didn't think I had the patience to handle it," says Taylor. "Not after a lady phoned me from the Bahamas screaming that her plane was late for take-off. When you're in the travel business, everything's your fault." But that's what it's all about. When you're on the outside looking in, any business can look good. You have to crawl inside to feel the pulse, see the problems, detect the difficulties, and see if it's for you. Try it on the installment plan.

Every aspect of a business can add or detract from its enjoyability. The type of business—and nature of the work—is only one factor to be considered. "But even a slight modification from what the entrepreneur is comfortable with can throw him off balance and make him a fish out of water," says career counselor Burt Nicholas. "Some people are totally inflexible. For example, a manager of a high-class steak house reasons he can enjoy operating any type restaurant. But throw him into a different type restaurant with a different clientele and you may as well put him into another business. On the other extreme are entrepreneurs who can happily adapt to a wide range of opportunities within or beyond a given field. The entrepreneur has to discover this about himself."

The structure of the firm is one more dimension to consider. Frequently people will hunt for a franchise for management support because it offers a financially attractive opportunity, and never consider the control they have to surrender. A franchise can make a free-wheeling entrepreneur's life miserable or it can be a bonus to a less secure type happy to exchange decision making for firm guidance. The same can be said for partners.

Don't overlook business hours or travel demands. Frequently the opportunity for travel is an attraction because it is a novelty. The novelty wears off as so many people discover, and spending half your life away from family can quickly destroy enthusiasm.

When you're in the right business, there is a thrill to it all. You see the business born. You nurse it through the survival stage. You navigate it to its apex. And when you're through you'll probably sell out, if only so you can start again and enjoy it again. It sure beats going to work.

Will you enjoy your business?

MEASURE YOUR MANAGEMENT MENTALITY

What management mentality will your start-up need? Plenty. And it will need considerably more than the venture that started with a healthy investment, because when you start on a shoestring you don't have any margin for error. And as the Bankruptcy Courts can tell you, entrepreneurs don't always use the right yardstick when they do measure their management mentality.

Elliot Galahow, a small business consultant, says, "It's not so much a matter of *what* the entrepreneur can manage as much as *when* he or she is ready to manage the start-up they have in mind." So it's timing and prior experience rather than capability that's usually the decisive factor. "And while you're learning you can be nickeled and dimed to death with 100 small but nevertheless fatal mistkes," adds Bill Portnoy, who confesses to making enough slip-ups in his embryonic Philadelphia restaurant to teach a course in "mis-management" at the Harvard Business School.

Just as a business can look like *fun* to operate, it can also look *easy* to operate. Illusion on the first point means only less fun. Illusion on the second means failure. And few businesses are as easy to operate as it may appear. But still the naive optimists beat their drums: "What do you have to know about running a pinball arcade, shoe store, or coffee shop?" I don't know. I never operated one. But why don't you ask someone who has? Take your notebook along and be prepared for a long and hard education. Every business has its tricks.

It amazes me how many people have never worked in a business, know nothing about it, and with a refreshing mixture of chutzpah, enthusiasm, and sheer optimism throw their life's savings into the venture. What's more amazing is that some people actually make it. They're the fast learners. The slow learners are wise to make their mistakes with an employer's money, so they'll make a few less with their own.

Experience alone does not magically transform itself into management ability. Years of experience coupled with narrow responsibility still deprive the enterprise of the broad skills necessary to master the operation.

One characteristic of a shoestring start-up is the ability of the entrepreneur to parlay his managerial strength into financing. Creditors have their own perception of your management ability, and when you're collateral shy, it becomes the major selling point. One wholesaler comments, "We helped a young fellow get started in his own liquor store with a lenient credit line. We had confidence in him because he managed a large liquor store for one of our accounts and did a hell of a job building the business. In fact, we knew him better than we did his boss. It's a different story with someone off the street who wants to try his hand in the liquor business."

So the message is clear. If you don't have the experience in the type business you have in mind, then don't try to open it just yet. Defer it until you can obtain valuable "hands-on" experience as an employee. You may have to moonlight to pick up the experience or sacrifice some income for a few months, but it will be a much smaller loss than what you will sustain by operating a business you know nothing about. There are some other steps to consider:

1. A franchise is one. A major selling point of most franchises is that they will train you and then provide the close supervision to keep the business on track. It works well in the fast food fields, but I question whether it's enough background in more complex fields such as business brokerage. Watch the economics. If you're essentially buying the "training," you're over-spending. The reason to pick up a franchise is that you want the name and system a good franchise can offer.

2. Partners are another possibility. I have seen many cases where a partner provided the experience and management "know-how." A partnership can also be ideal for a larger business requiring either a broader span of management or a division of responsibility. It also has its downside, as you'll see in Chapter 7.

Don't be what I call a "minimum-wage manager." What's a "minimum-wage manager"? Anyone who knows so little about a business that all he or she is worth is the minimum wage. Few can take an idea and make it a winning idea.

LIVING WITHOUT A LIVING

"Tighten your belt and don't expect to eat for a few years," comments Pat Mone who is still waiting for enough money from her struggling bookstore to finance her first legitimate meal in as long as she can remember.

Nobody can predict with a straight face how wealthy your business will make you 10 or 15 years from now. That's up to you and the business. It's the first year, or second or third, that counts. That's when the mismatch between what you need from the business to live and what the business can afford to give you takes its toll. And the answer can only be found with a realistic look at the business itself.

The mismatching process continues. Entrepreneurs, for example, will leave a $100,000-a-year position and start a bootstrap business that can only generate $50,000 a year for the first year or two. For some people it's not a problem. For the guy who *needs* $50,000 to support a wife and three kids it's a $50,000 problem. Common sense? Maybe. Usually, however, it's a wildly optimistic type who either overestimates his earnings potential from the business or somehow thinks he can live on less.

It's endemic with all shoestring start-ups. You pay a price for starting poor, and the price is staying poor for some time to come. But what entrepreneurs don't realize is that some businesses will keep you poorer longer than others. An example: When Phyllis and Barry McLean decided to leave their respective jobs as teacher and commercial artist to start their art gallery, they knew they would immediately sacrifice $83,000 in combined income. "We had several options," explains Phyllis. "One of us could have remained with our job until the business was large enough to need us both, but we wanted to start with myself handling retail sales while Barry went after corporate sales. But even with the two of us pitching sales we knew our art gallery was a business with a very slow take-off. So to create a larger cash flow—and base to draw a salary—we altered our plans and made it a combination art gallery and greeting card and gift shop. It required very little additional capital to triple our sales but now the numbers begin to make sense."

Take off your rose-colored glasses when assessing the short-term income potential of your business. What you need is a cash flow statement that shows how much you can safely draw from the business. And with your rose-colored glasses beside you, look at it with a jaundiced eye. Whenever I project income I deliberately underestimate projected income by 20 percent while overestimating expenses by 10 percent. It usually takes you closer to reality.

Here's another mistake to avoid. Don't think you can defy the odds. Even shrewd management isn't magic. Three years ago I was taking two young partners through an exercise of projecting their cash flow and take-home income from a planned tool rental shop. Admittedly, a cash flow statement is at best a guesstimate of what a business actually will do, but even under the best of circumstances the business couldn't afford more than $10,000 a year for each of its two partners. That's not how they saw it. Working backwards they conveniently pumped up the projected sales to give them the bottom line they were looking for. It's an idiot's game.

Frequently a partnership produces a greater strain on earnings. While a single-owner business can juggle personal finances to subsidize what a business can pay, it's rare that two partners can perform the same juggling act. So with one partner willing to bite the bullet and take home less, the other needs more. It's not only poor partnership planning but poor business planning. The solution is usualy a larger business.

Don't concern yourself with the income potential a few years into the future. The business at maturity may be too small or unprofitable to provide the income you want. In itself it's not the criterion for defining your business. You can always expand, sell-out, or trade-up. What you want now is a threshold business. Something to get you started.

Ron Chisholm, who started many bootstrap companies and most notably a four-store music and stereo chain, says it's all a matter of "staying power." "When you recognize how little a business can afford you can plan for it—deal with it. I went for broke in my first record shop and instead of opening a small 1000-sq.-ft. store, I gambled all the way on a 3000-ft. operation. With a larger store I'd have a larger cash flow and that always translates into more cash to take home. Why die on the installment plan?"

There are a hundred ways to shape a business—or shape a situation—to make ends meet so you have staying power. Thousands of successful start-ups had their owners moonlighting to keep their income flowing so the cash could remain in their business. Others live on cash reserves. Still others, the retired or bored housewives, may not need present income. The same is true if you have an income independent of the business. But when you can't shape the situation, you do have to shape the business to give you the income you do need.

CAN YOU AFFORD IT?

I'll have considerably more to say about this in the next chapter, but capital is the *least* important factor in selecting a business or in defining start-up size. Perhaps that one point is the central theme of this entire book. You can start just about any type of business, regardless of how much capital you personally have, once you know how to put together what you do want with everyone else's money.

A case in point: Overlooking Cape Cod's Buzzards Bay you'll find several very successful restaurants. But the largest and most successful was started with absolutely none of the owner's cash. Several years after it opened I came to be friendly with the owner, and he confided, "I came to the Cape from New York not only penniless but $300,000 in debt from an aborted business deal. I was ready to go bankrupt, but decided to wheel and deal just once more. Either I'd bail myself out or go bankrupt with a few more creditors. So I decided a restaurant would be my logical choice. Now, of course, I couldn't afford to open even the smallest restaurant, so why not go for the largest? It's my way of making the illogical logical. Within six months I put together a syndicated partnership. The 20 investors each contributed $40,000 for a total of $800,000, while I retained 50 percent ownership as the mastermind. But I looked ahead and gave myself the option to buy out my partners for $1,200,000 payable over five years. Within a year of the opening I exercised the option and just finished paying down my ex-partners. Now it's worth $2.5 million and it's all mine. You don't start a business on what you can afford—you start the business with what others *let* you afford."

It was an interesting story and I never forgot it. Neither should you.

What do these four points really come down to? Self-assessment. Admittedly it's never easy to be objective when you're asking the tough questions about yourself. But when you do know your own goals and needs, strengths and limitations, you have one part of the matching process. And only then can you define your perfect match.

THOUSANDS OF SUCCESSFUL NEW VENTURES

The small business movement is on the march. The number of start-ups has grown to about 950,000 new ventures yearly. Why the groundswell of entrepreneurial activity? New consumer trends and recent technology, coupled with the fact that more people than ever before want to be their own boss, create the momentum. And while large corporations can't or won't respond to the needs, it leaves vast pockets of opportunity for the small venture.

I simply don't understand people who want to start their own business but complain the opportunities don't exist. They're wrong—dead wrong. Not only do more opportunities exist today than ever before, but even newer opportunities are on the horizon for tomorrow.

Consider all the new businesses surrounding you. A nearby shopping mall tells part of the story. Almost half the tenants are operating businesses unheard of only ten years ago. Specialized shops—a designer jean store, a video shop, a store devoted only to jogging shoes, to name a few—are peppered throughout the mall. Turn to the yellow pages, 40 percent of the listings are businesses in embryonic industries bypassing the imagination of yesterday's entrepreneur. Did you know that more than 50 percent of all service businesses offer services that only recently came into demand? The computer revolution alone created its own tidal wave of opportunities. I can point out 30 publishing firms, for example, riding on the coattails of a public clamoring for computer information. Not one of these firms was around in 1975.

If the future presents its opportunities, the past makes its own contributions. Traditional businesses are being reshaped into brand-new opportunities as people discover new ways—better ways—to do business and grab their healthy share of a market from traditionalists who won't change.

You can't find one industry that won't go through a radical restyling in the next several years. Society is on too fast a track for anyone to stand still. And as always, the change will be pioneered by enterprising individuals who can see opportunities while others see none.

So your winning idea is more than an inward look at your own talents, interests, and motivations. You want to find a market niche for a viable, successful venture. And thousands of opportunities await you.

Where can you find ideas for a moneymaking opportunity?

Entrepreneur magazine is one of the best sources I have found. *Entrepreneur* is on the cutting edge of all that is new and promising in the small business field. Each month they feature several new and unique businesses that can be easily opened in other areas.

HOW OTHERS FOUND SUCCESS

How do people find success? What formula do entrepreneurs use to discover opportunity and their perfect business? There is no one answer, but a wide range of approaches. For some it came after months of active, deliberate searching and sifting, while for others the transition from personal interest to business took place so gradually that they were surprised to discover themselves actually in business. And not a small number will tell you that "something snapped—an idea was born."

Let's meet some of these people as they tell their stories.

A visit to the dentist to cure a cantankerous molar was the launching point for Gary Klein, a shipper for a New York firm. "While waiting for the novocaine to put me out of my misery, I studied the deplorable condition of my dentist's aquarium. It was a natural observation for me," says Gary, "because I'm an aquarium buff and have a few fish tanks of my own. My dentist clearly didn't have the time or inclination to keep his fish happy, so I offered to—for $25 a month. Within three months he referred me to several other professionals with their own problem aquariums. By moonlighting I could handle about 50 calls a month, and at $25 an office visit (less than what my dentist charges), I was soon making more money by moonlighting than from my regular job. Before jumping into the business full time, I advertised for new accounts in local professional magazines, and surprisingly, obtained a slew of new customers. Now I have two panel trucks on the road, and a full-time assistant helping me handle 300 accounts a month in the New York boroughs. It's still a small business—grossing about $100,000 a year—but the net profit is fantastic because I'm only selling a service. Within the next year or two I plan to triple the number of "office calls" and perhaps open a retail aquarium shop. For me it all started with a toothache."

Ask Bob Crisafi if he expected to own his own business. "No way," voices Bob. So how was it that one month later Bob was the stereo king of Cambridge's Harvard Square? "I owned a small block of stores near Harvard, and one of my tenants was a highly successful stereo shop pushing hi-fis to the college crowd. And I knew just how successful they were because their rent was based on sales, and that gave me a look at their books. One blustery winter evening the store had a fire, destroying most of the inventory. Although the partners in the business collected insurance, they decided not to reopen and instead parted company. Well, that gave me an empty store. I lined up another tenant in a hurry, but when it came time to sign the lease my hand froze. I kept getting flashbacks to the income statement from the stereo shop and simply said, what the hell—I'm going into the stereo business. I didn't agonize over the decision. I just knew what I had there and the idea wouldn't let go. Since I knew nothing about the business I hired a top-notch manager away from Tech Hi-Fi and never regretted the decision."

A warehouse loaded with imported neck pendants was the starting point for Dave Scribner's Royal-Wear Jewelry, a mail-order firm nicely chugging along. Dave explains how the company came to be: "My father was a commercial auctioneer. Very often he'd bid in himself for the merchandise and re-sell it later at a profit. Evidently a large jewelry firm in Providence folded, and my dad purchased $60,000 worth of jade and gold neck pendants for about $10,000. He planned to sell the merchandise to a few department stores when he unexpectedly died. At the time I was just graduating from Brown University and had the task of liquidating my dad's estate—including the warehouse loaded with jewelry. So I toyed around with several methods to unload the merchandise and finally settled on a mail-order campaign. I gave the neck wear the 'Royal-Wear' name and had a Boston freelance ad man work me up several ads for *Cosmopolitan* magazine and *Ladies Home Journal*. We tested the ad in one or two journals and found they pulled orders. It's a great feeling to look in your mailbox and see it stuffed with 200 to 300 envelopes—each with a $15.95 check. Within two months the inventory was gone and we had a $20,000 profit. It was then I decided I thoroughly enjoyed mail-order promoting and wanted it as my career. Borrowing my share of the inheritance, I scouted out new direct-mail items—from digital watches to a unique collapsible hunting knife. Of course, I had to change the name of the firm to 'Royal Sales' because I was no longer just in the jewelry line. Growth has been deliberately slow. Mail order is a tough business, and you need the instinctive touch for gauging the market. Now that I've been in the business several years, I'm developing the touch and expect the company to reach the $1 million mark within two years. It's interesting. I was forced into the business by circumstance, and I always wondered what I'd be doing today if I wasn't left a warehouse full of jewelry."

For Martha and Joe Beaumont, everything about their decision was slow, painstaking, and deliberate. "We knew we wanted our business to be a family affair," says Joseph, a burly ex-marine with a service pension. "We had no particular skills, but we knew that the business would in some way be connected to food, beause both Martha and I enjoy cooking. Opening a small restaurant or even a coffee shop looked like our logical choice until we took a trip to New York and spotted a crowded gourmet shop selling delicacies from around the world. We immediately liked the idea because it was not only the food business—but one with an exciting twist. Best of all, our neck of the woods in southeastern Massachusetts didn't have a comparable business. Rather than rush into it we spent a full year talking to suppliers, reading specialty food journals, and checking out similar businesses on the east coast. And the more we learned the more we were convinced it was our *right* business." Today, the Continental Gourmet has 12 employees and sales of nearly $2 million—but you'll still find Martha and Joe behind the counter explaining to yet another amateur gourmet the secret pleasures of their 27 blends of imported coffee.

You won't read about these people in the *Wall Street Journal*. But each in his or her own way found the path to success. Gary Klein perhaps says it best when he philosophizes, "Somewhere in the zigzag of life, you snare your enthusiasm on an idea. that's when you've found your opportunity."

GIVE YOUR IDEA THE ACID TEST

Do you have the *right* business idea? Don't look for the answer in this book. If I had the foolproof crystal ball I'd be too busy sipping piña coladas in the Bahamas to tell you. And nobody else (except for the few quacks who pretend to have all the right answers) can tell you either. That too is part of the fascination of business. It bears its similarities to the Las Vegas slot machines.

Ask Gary Dahl, "Mr. Pet Rock," how many people believed that not all his rocks were to be found in cardboard cages. Ask Henry Ford about the 400 MBAs with 198,000 pages of "market research" who *proved* every American wanted an Edsel in the driveway.

So, my friend, being an entrepreneur is being a gambler. But there are ways to stack the odds in your favor. Put your idea to the test.

Test One. *The Test of Time.* Stay with the idea at least several months before you take the plunge and commit to the venture. If the idea fades before then, it doesn't necessarily mean it was a bad idea, only an idea that you didn't believe in strongly enough to make work.

Test Two. *Measure the Market.* Identify, isolate, and rate the potential users. Plenty of ideas collapse, not because the market isn't there, but because it's too small or poorly defined to turn into a money-maker. This advice extends to even traditional retail stores who may enter under-populated or overly competitive areas. Are the customers there to support your business?

Test Three. *Test the Pulling Power.* You may see a huge demand out there for your winning idea, but the way to turn demand into dollars is to convert your demand to *demand pull*. In other words, come up with the selling point. Nobody sells a product or service. We all sell a "benefit." How will customers benefit from what you have to sell?

Test Four. *Test Your Reach.* Even with a well-defined market and an approach with pulling power, you need the means to reach your market. Many start-up firms stumble on this one, underestimating what it takes in advertising or promotion costs to capture the interest of a sufficiently large percentage of users to make the venture worthwhile.

Test Five. *Pretest the Idea.* This is a particularly important point in product marketing. Always pretest the idea. Try it out on a small scale with select advertising, or try to line up your customers before you commit yourself to the business. Gary Klein pretested the demand for his aquarium service business before he ventured into it on a full-time basis, and so do the largest corporations. Always test the gamble first with a few disposable dollars.

Test Six. *Game-Plan the Entire Venture.* Acid test the basic assumptions on which your business will be built. Market potential is only one of many assumptions. Check the others: Can you obtain the product? Can you buy—and sell—at the right price? Do you know your costs? Will the numbers work? Every business is a long chain of integrated factors, never stronger than the one weak link.

Test Seven. *Test Your Knowledge.* This is the key to it all. Businesses fail because the entrepreneur at the helm didn't know enough about the business to psyche out and correct the weaknesses or exploit the potential strengths. It's all in the homework. And while you never come up with foolproof conclusions there's no excuse for overlooking the obvious. So become a sponge, soaking up as much information as you can about the business, because eventually you'll need it all.

KEY POINTS TO REMEMBER

1. Your success—or failure—will depend more on selecting the *right* business than on any other decision. It's your most important decision.
2. Don't chase elusive reasons in deciding upon a venture. Money, prestige, and easy entry are never strong reasons.
3. Develop the mind-set of what your business will be. Visualize it in as much detail as possible so you can evaluate it.
4. Match the business to yourself before you match it to the market. Remember, you want a business you can enjoy, manage, and earn from.
5. Don't limit your sights by what you *think* you can afford.
6. There are more opportunities today than ever before. Boot-strap pioneers are invading traditional fields and pathfinding new industries.
7. There's no one right way to come across your perfect opportunity. In the zigzag of life, you too will snare your enthusiasm on a winning idea.
8. Put your idea to the seven-point test. It can improve your odds, but never expect foolproof results.

3

SHOESTRING ECONOMICS

Shoestring economics? Don't look for it in the catalogs of the Harvard or Stanford Business Schools. Yet this year many thousands of bootstrap entrepreneurs will enroll and sweat through the course on the self-study plan. Their laboratories are the countless shoestring enterprises started with high hopes and low cash. The exams come fast and furious, testing skills on how to make a cash-shy business come together and stay together. Tuition? The willingness to dig in and do whatever's needed to survive. Four out of five drop out. The graduates never receive a sheepskin but do win a successful business. The class motto: "Who needs cash?"

Building a shoestring enterprise demands mastery over numerous problems ignored by the well-capitalized entrepreneur. Essentially they can be boiled to one—an acute shortage of capital to follow conventional economic rules. You plan differently and operate with different priorities. Survival is the ability to always compensate for lack of cash.

The economic theme is the same during each of the four stages of the venture's development: the planning stage, the start-up stage, the survival stage, and the growth stage.

During the planning stage, the entrepreneur conceives and roughly shapes the idea for the venture. He may do preliminary research on a fixed idea or seek out opportunities. It's at this stage that most shoestring ventures become "still births," as the entrepreneur concludes either that the idea is in itself unworkable, or the capital needs are too excessive. For every business that is started, many more are put on hold or dropped because the entrepreneur didn't analyze how the business could come together using the right economic perspective.

At the start-up stage, the organization begins to take form. During this period the entrepreneur begins to assemble financing, assets, locations, and personnel. It may be a methodical approach, or the venture may simply stumble together as a predestined event. In either case, the later success of the enterprise is chiefly dependent on whether the organization is formed on a financial foundation that will get it through the early years.

The survival stage can be roughly measured as that period between commencing operations until the business is both profitable and operating with a surplus cash flow. For most firms this represents at least the first two or three years. During the survival stage the focus is on the operational decisions to build sales and cash flow to stay ahead of the cash demands. It's during this period that most failures occur because either the entrepreneur couldn't achieve this objective or the financial commitments made during the start-up stage were too burdensome to begin with.

The growth stage may, in reality, be more an expression of stabilized operations rather than actual growth. The majority of small ventures do not expand much beyond their original size and scope and for them "growth" is only the "light at the end of the tunnel" when they can declare themselves free of a constant cash crisis. It's at this point that the shoestring start-up begins to converge with the economics of the well-capitalized firm. Still, 20 percent of the small start-ups will considerably expand. Here the economic decisions are on both the timing and the growth strategy.

Each stage presents its own economic pitfalls. That's what this chapter is about. Although you can't anticipate all the booby traps, most are predictable and confront every type venture. So let's put you through a primer course on what I see as the fourteen essential economic lessons to be learned by every shoestring entrepreneur.

FOURTEEN ESSENTIAL LESSONS FOR EVERY SHOESTRING ENTREPRENEUR

Lesson #1: Set Realistic Goals

Pinpointing the right size and scope for the start-up is the essence of a successful blueprint. While every business can begin within a broad range, you eventually reach the extremes when the planned venture is too large or too small.

Those who go beyond the reality zone are entrepreneurs who either try to match their venture to their dreams or try to match the venture to their pocketbook.

The ambitiously large and grandiose blueprint brings about self-defeat during the planning stage, since the entrepreneur can seldom reconcile the financing needed with the financing available. Rather than lower his or her sights from the desirable to the attainable, the idea is on perpetual hold. These are the dreamers.

The danger is not necessarily in thinking big, but in refusing to think smaller by carving a fall-back position that is attainable. I have seen many shoestring entrepreneurs put together six- and seven-figure start-ups, but for every one who can there are ten other entrepreneurs who plan on the same scale only to run into stonewalls. Reality for them is the ability to redesign the venture on a smaller scale. There's an old adage that advises: "You never know what you can afford until you try." It was tailor-made for the shoestring entrepreneur.

Thinking too small is an appreciably greater danger than thinking too big. While the stubborn dreamer simply doesn't start, the overly cautious entrepreneur finds it easy to start—only to fail. From my viewpoint, the majority of shoestring ventures do fail because they began on too small and unrealistic a scale. The venture simply didn't have enough momentum to get off the ground. It's not necessarily true with service and sideline businesses that can flourish from microscopic beginnings, but it certainly is so with retail ventures dependent upon internally generated profits for survival and growth.

The anemic start-up is almost always the creation of the entrepreneur whose plans are based on his pocketbook rather than the profit potential of the venture. What he thinks he can afford overrides the question of what makes sense. So with a few dollars he whips together a few assets and expects it to turn miracles. That's not planning a business but planning a disaster.

When is your venture the right size?

1. When it's *small* enough to be financed.
2. When it's *large* enough to give you a healthy start.

Stay within this range and you have the correct yardstick.

Lesson #2: Nail Down Start-Up Costs

The actual start-up is always the end point of converging costs with financing. While you may have an approximation of what the business will be, you can't seek financing until you have nailed down the cost components of the start-up.

Don't proceed with vague ideas of what the costs will be. Even a small venture can demand $100,000 or more to be properly capitalized. Conversely, many entrepreneurs overestimate start-up costs because they didn't make the effort to seek lower-cost alternatives.

The first step is the preparation of a detailed and itemized schedule of all the beginning assets required. For example, when I plan a retail operation, I divide inventory down into product lines, and can estimate within 5 percent what the actual beginning inventory will be. It's the same with fixtures and equipment, listing even items as small as office supplies.

The Small Business Administration (SBA) has prepared this excellent start-up costs worksheet (Figure 3.1). It lists several start-up costs frequently overlooked.

The shoestring objective at this point is twofold. First, you want to go through the detailed list of what you *think* you need and reduce it to what you *actually* need. There can be a substantial difference. The main characteristic of the shoestring venture is that it always begins on a Spartan note, confining assets to the bare essentials.

WORKSHEET NO. 1			
ESTIMATED MONTHLY EXPENSES			
Item	Your estimate of monthly expenses based on sales of $ ______ per year	Your estimate of how much cash you need to start your business (See column 3.)	What to put in column 2 (These figures are typical for one kind of business. You will have to decide how many months to allow for in your business.)
Salary of owner-manager	Column 1 $	Column 2 $	Column 3 2 times column 1
All other salaries and wages			3 times column 1
Rent			3 times column 1
Advertising			3 times column 1
Delivery expense			3 times column 1
Supplies			3 times column 1
Telephone			3 times column 1
Other utilities			3 times column 1
Insurance			Payment required by insurance company
Taxes, including Social Security			4 times column 1
Interest			3 times column 1
Maintenance			3 times column 1
Legal and other professional fees			3 times column 1
Miscellaneous			3 times column 1
STARTING COSTS YOU ONLY HAVE TO PAY ONCE			Leave column 2 blank
Fixtures and equipment			Fit in worksheet 2 and put the total here
Decorating and remodeling			Talk it over with a contractor
Installation of fixtures and equipment			Talk to suppliers from who you buy these
Starting inventory			Suppliers will probably help you estimate this
Deposits with public utilities			Find out from utilities companies
Legal and other professional fees			Lawyer, accountant, and so on
Licenses and permits			Find out from city offices what you have to have
Advertising and promotion for opening			Estimate what you'll use
Accounts receivable			What you need to buy more stock until credit customers pay
Cash			For unexpected expenses or losses, special purchases, etc.
Other			Make a separate list and enter total
TOTAL ESTIMATED CASH YOU NEED TO START WITH		$	Add up all the numbers in column 2

Figure 3.1. SBA Start-Up Costs Worksheet

The second objective is to find ways to reduce each item cost to the absolute minimum. This is particularly so with fixtures, equipment, and leasehold improvements where there can be enormous price spreads. In Chapters 10 and 11, I show you specific ways to slash start-up costs on these items, but for the moment the strategy is to shop alternatives and price until you know what each item will stand you.

"Knowing your costs is the key to financial planning," advises Steve Carmoy, whose first business was an ice cream shop in a resort town. "My original estimates were that it would take $30,000 to equip the shop and another $12,000 to install plumbing, electrical, and leasehold improvements. Another $8000 was budgeted for signs and furniture. The $50,000 price tag came from talking to one fixture supplier, but it's only when I began to shop around that I found ways to cut costs to about $12,000. Used equipment was located for $7000 and the particular store I had in mind offered the plumbing and electrical service with very little additional cost. It's a different ball game when you're trying to put together a $12,000 deal compared to a $50,000 proposition."

Legwork is also the science of uncovering unanticipated costs. One dismal story involved a small manufacturer who scraped together the assets to produce an organic fertilizer, only to shut down when town officials required installation of a $150,000 waste converter to avoid pollution. Hidden start-up costs are an ever-present problem with manufacturing and technically oriented start-ups who face a host of regulatory requirements. For this reason I always suggest bringing in someone who knows the technical problems that may escape the entrepreneur unexperienced in the industry.

The same can be said of marketing costs. All too often an entrepreneur will accurately predict product demand while overlooking the capital really needed to push the product through the channels of distribution.

Lenders and investors may detect a business plan hurriedly rushed together without adequate homework and research. Typically it is a case of not uncovering all the costs or not putting a realistic price tag on them.

The well-capitalized firm can cope with a few unanticipated expenditures. Not so with the shoestring enterprise with a taut financial tightrope. Guesswork doesn't count. Know your costs.

Lesson #3: Put the Money Where it Counts

When you do have limited cash and borrowing power, the objective is to deploy them where they will do the most good. An over-expenditure in one area is likely to result in a forced underexpenditure in another.

Balancing investment between "fixed assets" (furniture, fixtures, and equipment) and "working assets" (inventory and working capital) requires special consideration with the shoestring enterprise. The successful start-ups throw as much money as possible into the working assets and as little as possible into fixed assets.

There are two reasons for this strategy. First, it's the working assets that create the lifeblood for the shoestring venture—sales and cash flow. The second reason is that the carrying costs on expensive fixtures are a fixed cost the struggling shoestring venture can well do without.

I have seen many start-ups, particularly in the retail trades, with the fanciest fixtures in town and reciprocally the least amount of inventory in town. The lesson is that customers buy inventory not fixtures. My philosophy has always been that I'd rather see twice the inventory on used fixtures instead of half the inventory on spanking-new fixtures.

Upgrading the physical plant can always come later when the business is on a more solid plane, but during the start-up stage your money should be in the assets that will work the hardest for you.

Lesson #4: Financing Is the Sum of its Parts

Financing a business is a misnomer. You never finance a business. What you do finance are the individual assets needed for the business. The sum of the parts always produces more financing dollars than could be achieved by financing the whole.

Consider financing much as you would a giant jigsaw puzzle—one small manageable piece at a time. The strategy allows you to exploit each asset for its maximum borrowing power.

And you'll be amazed to see how much of the venture is financed once the pieces come together.

The conventional financing path on a $100,000 venture is to borrow perhaps $50,000 to $60,000 from an institutional lender and add the difference from investment capital.

The shoestring strategy can't follow the conventional niceties. Leverage is putting together every financing block possible to build a total pyramid with few of your own dollars.

This has been the key to my own shoestring ventures. Using the schedule of assets needed for the start-up. I'll go down the list item by item asking, "What's the best way to finance this asset with the fewest upfront dollars?" Merchandise is a matter of wrangling trade credit from suppliers, as I discuss in Chapter 12. Fixtures and equipment go through the same exercise. For example, on a cash register I'll not only negotiate price, but negotiate to buy it on terms, lease, or financed through a finance company. However I do it, it typically means that I'm spending few or no upfront dollars.

As you go through this book, you'll see the various ways to exploit the credit potential of the assets needed in your business. Once you're fully familiar with all the sources of money that can take the place of your own cash, you may find that the available financing blocks come remarkably close to 100 percent of total start-up costs. Experience will not only let you design a 100 percent financed pyramid, but in many cases you'll have sources of financing actually competing for a place in the financial pyramid.

Only *after* you have exploited sources of credit offered by the respective assets should you consider institutional financing. For example, you may line up credit for 90 percent of the start-up costs through a potpourri of trade credit, leasing, or equipment financing, and be shy the 10 percent to complete the package and for working capital. Now you can reasonably borrow for these purposes and probably can borrow enough to create a healthy cash reserve.

That's one advantage of using bank financing as the capstone of your financial pyramid. Once you've amassed the assets with supplier credit, you can use bank financing for working capital. And that's when the sum of its parts can exceed the whole.

Lesson #5: Building the Best Financial Pyramid

Achieving 100% financing—or as close to it as you can reasonably come—is only one part of the strategy. You need a strong financial pyramid, and every building block has its own characteristics—its own advantages and disadvantages.

The trade-offs must be considered both from the point of view of the business and yourself. The ideal financing block will:

1. Provide the longest payback period.
2. Carry the lowest interest rates.
3. Require little or no collateral.
4. Demand no personal liability.

No one source of financing will display all these characteristics. Bank loans may give you an adequate payback period, but the downside is your personal liability and tying up the business assets as collateral. Supplier financing ordinarily won't involve personal liability but may require a speedy payback. Partnership funds will satisfy all these points but require you to give up a piece of the action.

Considering these conflicting characteristics, the objective is to shape each so that it both makes sense to the business and yourself. For example, I'm risk-conscious, so I won't take on more bank financing than I think the collateral can safely cover. My next objective is to select financing with the longest payback. For the shoestring venture, reducing cash flow demands is considerably more important than a slightly higher interest rate or whether the debt is secured. Supplier financing is conventionally short-term, but properly negotiated it may be an excellent source of long-term financing. But at what point is short-term debt still so excessive that you're forced to retrench either to more long-term bank financing or partnership funds with their own inherent disadvantages?

It's always a matter of profiling your interests with the business. Understand your priorities before you seek financing.

Lesson #6: Navigate by the Numbers

Cash flow controls every decision in the shoestring process. Cash flow is the name of the game and the only way to navigate during every stage of the start-up.

Don't be your own navigator. Preparing a legitimate cash flow projection takes both objectivity and competence. It's the role for your accountant. Your role is to make planning and operational decisions based on what fits within the cash flow framework.

A start-up without a carefully planned cash flow statement is a ship without a rudder and a compass. You neither know nor can control where you're heading. It explains why so many small ventures do fail. It's not a matter of being undercapitalized, but of failing to properly plan the undercapitalized operation.

While in broad terms the cash flow statement measures projected income against the outgo of cash (operating expenses and the paydown of debt), its initial function is to test the viability of the financial pyramid. Only the cash flow statement can tell you whether you're top-heavy on short-term debt, necessitating a switch to more long-term financing. You live by the numbers.

"Mastering the shoestring start-up is really a matter of mastering cash flow under the worst of circumstances," says David Dube, a management and financial consultant to small firms. "It's a twilight world of constantly trying to get money in so you stay ahead of what you're forced to pay out. When you achieve that constant objective—you survive. When you fail—you sink. It's all in knowing how to go about it."

I agree. A cash flow orientation takes the place of even a bottom line orientation during the start-up and survival stages. It's only when you're in the growth and stable periods that decisions can be made to enhance profits instead of cash flow. Entrepreneurs sometimes stumble over this one. They'll start a venture and every decision is directed to profits. Yet the decision that's right for the bottom line may be counterproductive from a cash flow viewpoint. The two don't always coincide. Only when the business becomes strangled does the entrepreneur become forced to focus on cash flow. By then, however, it may be too late.

That's the overview. Shoestring economics is the ability to master your own cash flow game. The next several lessons can show you how.

Lesson #7: Test the Timing

There's a right time and a wrong time to open a business. This is particularly true when the venture is cyclical in nature or in a seasonal location. And not surprisingly, many shoestring start-ups are small ventures in tourist areas or selling goods of a seasonal demand.

The ideal opening date is about one month before the peak selling season begins. The month's lag gives you time to work out operational problems before the bustle of the season, yet the launch coincides with the positive cash flow of high sales. And you need that positive cash flow to get you through the dry seasons.

While it may be common sense, many entrepreneurs overlook timing's importance and begin the business based on their own convenience or when a location becomes available. Bob Braunstein, a bankruptcy attorney practicing on Cape Cod, reports, "Any business can make it through a Cape Cod summer. But come October half the businesses are gone. It's amazing to see how many new bootstrap ventures quickly take their place and fold before they even reach the summer season."

I share the same observation. Many of the ventures that withered on the vine with an ill-timed start might have had the staying power if they started strong with a strong beginning cash flow. Momentum is the best word for it, and when you don't have the cash to play the waiting game you wait until you can bring in the cash.

Opening at the right time is only one part of the "timing" strategy. The second objective is to smooth out cash flow by structuring payments to coincide with income. For example, a business may open on Cape Cod and have plenty of money to cover expenses and financing payments. When you ride the crest of the wave there's always plenty of money to go around. Then the tide ebbs and cash slows to a trickle, but the heavy note payments continue. When the cash reserves are frittered away, the business heads for trouble.

Handling a cyclical business requires both planning and discipline to reap the harvest and save it for the off-season. Even squirrels know that much. It's a point overlooked by too many entrepreneurs. For this reason I suggest structuring note payments and other fixed obligations to parallel income. Few lenders will refuse and it can keep your cash flow on a steady course.

Lesson #8: Prime the Pump

Since your venture faces a cash drain from the moment you open your doors, make it a goal to build sales as rapidly as possible *before* you open as well as after you open.

Many ventures have an exceptionally slow sales curve. How long it will take to reach respectable (if not profitable) sales depends on the nature of your business, location, competition, and your own ability to prime the pump through promotion.

Of course, every sensible business person wants the fastest increase in sales. The difference with the shoestring entrepreneur is in what he or she will do to achieve it. More than an objective, it becomes a business-saving necessity.

When I opened a retail pharmacy, I estimated the business needed $6000 a week to break even and cover note payments. We couldn't wait the eight months or a year to gradually build sales. Up to our neck in debt, we had to quickly turn dollars. Every week was another promotion. Flyers advertised "specials" at our net cash price and coupons for a $5 savings on prescriptions. We probably lost 5 percent on sales, but we quickly grossed $10,000 to $12,000 a week. We could afford a paper loss of $500 a week, but what we couldn't afford was an income of $4000 a week while we were obligated to pay out $6000 a week. So our objective was to turn dollars.

Priming the pump before you open can pay dividends. It was handled the right way by a friend of mine who planned an awning installation business. Before he set up shop he had over 100 orders guaranteeing him a fast income of over $40,000. His cash flow began to roll the moment he opened his doors. It was smarter than opening his doors and chasing his first dollars while the bills began to mount.

Creating fast sales is so important that we allocate twice as many dollars to a launch promotion as is standard in the discount industry. Make your own commitment "to go after those fast nickels—particularly when you can't afford to wait for the slow dimes."

Lesson #9: Plan on a Lean Year

Since cash flow projections are only a "guesstimate" of what you *think* will come in, measured against what you know will be going out, it's wise to hedge by planning on a lean year.

Any cash flow statement can look rosy on paper if you want to be the confirmed optimist expecting to start with a boom. That's typically the anatomy of a failure. The entrepreneur says to himself, "The business will gross $500,000 the first year and $700,000 the second." With these self-deluding numbers in mind he takes on financing to match. One year later the venture sputters to a stop, grossing $200,000. Nine out of ten entrepreneurs are optimists, which explains why there are so many entrepreneurial ventures and so many entrepreneurial failures.

The right way to project sales is to ask yourself, "What's the *least* the venture can gross?" Make it a worst-case situation. Check industry averages and comparable businesses. You may be a better butcher, baker, or candlestick maker, but few of us are the geniuses to defy the odds.

Underestimating sales has a pleasant cure. You can always take surplus cash and reinvest for faster growth. The process is not reversible. Being locked in with excess financing and expenses predicated on higher sales requires either very understanding creditors or a journey to the Bankruptcy Court. Since the first is improbable and the latter unthinkable, plan on a *very* lean year.

Lesson #10: Don’t Choke on Receivables

Few shoestring firms are sufficiently capitalized to sell on terms and wait for their money while watching accounts receivables build. It’s the fastest way to strangle cash flow.

If your business is in an industry that typically sells on credit, this puts you at a decided competitive disadvantage. It may even be the controlling factor in not selecting a particular type of business—with plenty of justification.

Fortunately, most shoestring ventures are retail or service firms that can limit sales to cash. Manufacturing and distributing start-ups are another story. Their ability to finance the launch depends on their ability to either operate without extending credit—or make arrangements to finance the receivables.

The common method to finance receivables is by factoring the receivables to a factor who will pay you up front, while holding back a reserve for bad debts. Despite the liquidity the arrangement does offer, it still places an added strain on the thinly capitalized firm. Factoring receivables can be expensive both in terms of interest charges and bad debts that you eventually have to absorb. Cash receipts can still be delayed for 30 to 60 days while you wait for the factor to take over the receivables and pay you. And even a “hold-back” on 20 percent of the receivables as the factor’s cushion for bad debts puts a sizable crimp in cash flow.

Lesson #11: Keep Fixed Costs Down

For the small start-up, fixed costs are dead weight. You can’t afford them. To the extent possible, every dollar in expense should be directly tied to income. It’s only when income and expenses follow parallel paths that the business escapes a cash drain.

Commission salespeople are safer than salaried. Direct ads with a measurable dollar pull are better than institutional ads that only add to good will. A rent based on a percentage of sales can preserve more capital during the survival stage than will a fixed rent. Every expense item has its own possibilities.

David Dube of Silverman & Co., a Boston CPA firm specializing in small business finance, counsels, "The strategy is always to open with the smallest committed overhead. From that point expenses can grow only when you have a favorable cost-volume relationship."

When I'm called in to rescue a start-up venture, my first step is to evaluate whether there's enough gross profit for the business to be viable. Assuming it has the right margin, the next step is to see how it's dissipating the difference. What I normally find is a venture pregnant with needless overhead expenses eating more dollars than the business can produce.

Above all, the one common characteristic of successful shoestring entrepreneurs is their "lean and mean" attitude. They seldom spend a nickel unless they're sure it will quickly produce a dime.

Lesson #12: Protect Gross Profits

Strategizing gross profits for the bootstrap firm must of necessity follow a different route than that of the well-financed counterpart who can afford to buy on better terms and price lower.

"What it comes down to," say Elliot Galahow, "is being smart enough to know you can't stand head-to-toe with a big boys and slug it out. You need a counterstrategy to corner a niche of your market that allows for higher prices and leaner inventories."

Many entrepreneurs go after increased sales—always a worthwhile objective—but give away too many profit points in the process. The business that should operate on a 35 percent profit structure finds itself crippled with a 20 percent profit on sales. Usually it's an entrepreneur who thinks he'll set the world on fire with the lower prices in town. While one eye is on sales that other isn't focused on gross profit. The profit given away seldom matches the sales increases.

There's always the temptation to recapture margins on discount prices by buying deals to save an extra 5 to 10 percent. The shoestring operation can't afford it, because it only builds inventory and further strangles cash flow already strained by a leveraged beginning inventory.

The priority must be on turnover and buying lean quantities so the goods move fast enough to pay for themselves. Set a minimum price spread that not only insures reasonable sales but also reasonable profits to cover overhead and note payments. Industry averages can show you what your right numbers should be. Try to maintain gross profits at least equal to the industry averages and improve turnover by 20 to 30 percent to give the business the best balance between profitability and turnover needed for cash flow.

Lesson #13: Cultivate Creditors

The shoestring enterprise rarely fails because it starts out with too much debt. It fails because the entrepreneur couldn't cultivate the creditors and put them on hold until the venture gained a financial foothold.

The undercapitalized firm has remarkable staying power. And it can stay alive with beginning debt that would have the financial experts shaking in their boots if it follows common sense strategies.

1. Intelligently structure debt from the beginning. The secret of the leveraged start-up is not the amount of debt you take on, but how long you have to pay it down. Financing an opening inventory on 100 percent trade credit terms becomes a problem only if the payback period isn't logically tied to a cash flow projection.
2. Don't let debt panic you. No matter how carefully you plan, you'll journey through the survival stage with desktops heaped with unpaid bills. It's the price you pay for using creditor money instead of your own to finance the start-up. The cure for your sleepless nights is the reality that the stack of bills is dwindling as cash flow and profits take hold.
3. Communicate with your creditors. Creditors will remain patient, provided you keep them abreast of the venture's progress. If you can't stay on schedule let them know about

it before you default. You may begin the venture with one idea on how the debts can be liquidated and be forced to renegotiate several times before the reality of the situation dictates how you *can* pay.

4. Future business and even a dribble of cash toward older bills can keep a creditor satisfied. Creditor problems become serious when you buy on credit only to shut them off and ignore what's owed.

5. When you lay your problems on the line with creditors, you'll have to accept the risk that one or more nervous creditors will go for the jugular and try to push you over the brink. Try to get your major creditors behind you. They can be very persuasive in controlling the smaller creditors who are likely to be more troublesome.

6. Set up a pecking order to give certain creditors priority. Essential overhead—rent, payroll, and utilities—always comes first. Next come payroll taxes. The IRS plays rough. Suppliers selling the essential lifeline merchandise for your business also stand at the head of the line. Banks and other lenders holding security also require priority because they do have the immediate remedy of foreclosure. Cash flow problems are invariably handled by delaying payments to secondary suppliers.

The goal of the shoestring entrepreneur is to make it through the survival stage, albeit under considerable pressure of trying to make ends meet. Many don't succeed because they can't find the path to a profitable business. Others manage to create a company heading in the right direction, but give up too easily under mounting creditor pressure. Staying power is the realization that drastic problems demand drastic solutions. Thousands of small struggling start-ups have made the grade only through a major restructuring of their debt. It may be an out-of-court composition settlement or a Chapter XI reorganization through the Bankruptcy Court, but saving the business may be a logical sequel to starting the business.

Lesson #14: Take Total Control

Most entrepreneurs, being creative types, dislike accounting and finances, preferring to make "seat of the pants" decisions or, as I sometimes say, "decisions from the gut," instead of from the cerebral cortex. Nobody who has been in business will suggest you can run a business entirely by computer, but when your margin of error is somewhere between slim and nonexistent—as it is with the shoestring enterprise—you hedge your decisions with numbers, numbers, and more numbers.

It's all part of taking control—knowing where you've been—where you're going, and how fast you're getting there. What controls will you need?

1. Cash flow statements head the list. Break it down by month, and project ahead at least a year in advance. These pro forma predictions are even more important than past performance records because they help you plan, spot problems, and devise solutions in advance.
2. Work up a tight budget for purchases and your controllable expenses. Without budgeting you're likely to overspend in these areas, destroying the validity of your cash flow projections and profit planning. Don't hesitate to adjust your budget as the conditions change. A new start-up may go through many "ups" and "downs" within a brief period, and you need a budget to control outgo, not restrict growth.
3. Calculate your break-even point. That's the magic number that tells you when the venture crossed the line and is making money. Your accountant can approximate your break-even point with very little work, and it then becomes your target. Plot your growth toward break-even. Monitor the sales curve. It's the easiest way to see if your business is heading in the right direction—and moving fast enough.
4. Profit and loss statements should be published monthly. You can't afford to wait for semi-annual or end-of-the-year reports. The start-up needs immediate corrective

action to cure excess expenditures, sluggish margins, or weak sales. Only up-to-date and timely statements can tell you where you've been and the steps necessary to keep you on track.

5. You should get a readable warning flag report. Program it into the sensitive areas of operations. At a minimum you want constant readouts on working capital, inventory levels, accounts receivable, accounts payable, orders on hand, slow collections, out-of-stock situations, and customer complaints. Keep your finger on the daily pulse of the venture to detect dangerous changes from the norm.

Having the right information is only one part of the equation. It has value only when turned into action. You'll make your mistakes, and the best reporting system won't change that. What it will do is keep your errors down to a manageable minimum.

Check out any small start-up that grows and thrives and pays its bills, and somewhere within you'll find someone who's something more than a creative entrepreneur with an idea. He or she may be one part Scrooge and one part Simon Legree, but it's someone who can keep a cold, calculated eye on the numbers and squeeze every nickel for all it's worth. It's intrinsic to all money management. When you're a shoestring entrepreneur and understand the economics of the situation you squeeze harder.

YOUR SHOESTRING ECONOMICS FINAL EXAM

You've been through a cram course. And there's plenty more to learn, but those lessons will be in the laboratory of your own small venture as you try to turn theory into practice. Are you ready for it? Try a quick pretest.

1. Review the business you have in mind. Is it within a range that's both attainable and desirable?
2. Do you know your true start-up costs, or are you just guesstimating?

3. Do you know how to deploy your capital among assets to create the healthiest start?
4. Are you ready to exploit each asset for its own borrowing power to achieve a shoestring start-up?
5. Do you know your priorities—and the priorities of the business—so you can build the best financial pyramid?
6. Have you tested your financing against cash flow projections?
7. Are you planning to open the business at the right time to quickly tap maximum cash flow?
8. Do you know the steps you'll take *before* you open and *after* you open to maximize sales and help the business to fast sales increases?
9. Have you based your financial projections on sheer optimism or the reality that you may have a lean year?
10. If you plan on selling on credit, have you tested whether you can support the receivables?
11. Are your fixed costs slashed to the rock bottom so you can operate "lean and mean"?
12. Do you have a solid policy of capturing sales without sacrificing needed profit margins?
13. Are you ready to do combat with creditors to keep the business afloat until it is healthy?
14. Are you ready to take total control so you can make "thinking cap" decisions?

Find some interesting answers?