

FAIL-SAFE

Small Businesses

- Low-risk new business ideas
- Secrets of financing, marketing, managing

They Work, Why They Succeed

Ron Teppner

Fail-Safe Small Businesses

How They Work,
Why They Succeed

Ron Tepper

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Introduction

While many large corporations are running into difficulties, downsizing, outsourcing, losing their best employees as well as millions of dollars, thousands of small businesses in this country are growing and prospering.

All of these enterprises operate in the same economic environment as IBM and General Motors, yet they are run so well that they have become virtually "failure-proof."

What is there about these businesses that differentiates them from enterprises that are barely surviving? How did they start, where did the capital come from, how are they managed, what do they do to market their products and services, and why are they so profitable?

To find the answers to those questions, more than a dozen highly profitable, small business enterprises were closely examined and their owners were interviewed for this book. The businesses cover a broad gamut, from consulting and janitorial services, to dog grooming and publishing representatives. The businesses are in categories ranging from retail to service; the owners range from college graduates to high school dropouts.

Among their number are: Jay Horoki, an accounting

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major who was less than a year away from entering a profitable profession. Yet he gave it all up to open a janitorial service, where he earned more than \$100,000 his first year. Lana McKendry is a former waitress who sat down to evaluate “where she was going” and decided she needed a direction. She found one, and her young manufacturer’s rep company earned more than \$20 million in revenue in its seventh year of operation.

Jerry Turner, a New Mexico native, “always wanted to be his own boss.” Now he is, and this year his striping/paving company will generate more than \$2 million. Mike Goldberg is a New Yorker who developed a new approach to dealing with magazine publishers and their advertisers; this technique will earn him more than \$150,000 this year.

Kendall Shurcut, a young, ambitious West Coast native, turned his fondness for animals into a professional grooming business that has given him freedom and an income that places him in the top 10 percent of all wage earners. Bob Levinson, a frustrated Madison Avenue advertising executive, got out of agency business, developed an unusual “menu” approach to advertising services, and today works with nearly 40 small business clients.

And there are more: Tony Walton is a computer consultant; Dennis McCuiston is a banking consultant; Ginny Anderson is a mobile dog groomer; Vicky Harrington is the owner of a valet parking service; Delia Ornaz is a young woman who built an enormously successful maid service business.

They are a diverse group who have many characteristics in common. Each person had extensive experience in the business before striking out on his or her own. Nearly all of their businesses had low start-up costs (most were launched for under \$10,000) and low overhead. None spend abnormal sums on marketing or advertising, but they all have developed unique, low-cost techniques to reach their customers and expand their market share.

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Some of these businesses are in small market areas, while others are located in large, metropolitan centers. Every one of them, however, can be taken and placed almost anywhere in the country, as long as the owner's operating techniques are followed.

The principles these entrepreneurs utilized in order to become a success are equally as important as the type of businesses. These techniques apply not only to the fail-safe enterprises in this book, but to every business.

An important point that every one of these entrepreneurs makes is that you do not have to duplicate the business they created in order to be successful—only their techniques.

In addition, aside from interviews with the entrepreneurs who created these fail-safe businesses, readers will also find advice and comments from some of the most successful small businesspeople in the country—individuals who validate the approach that each of the fail-safe owners has taken.

Fail-Safe Small Businesses is about more than a group of enterprises that have managed to prosper despite difficult economic times. It is about a group of entrepreneurs, each taking a different path, but who all ultimately succeeded because they adhered to sound business principles.

Even more, it is about people and the successful small businesses they created—businesses that have not only proven to be viable today but can be duplicated by other ambitious entrepreneurs tomorrow.

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Why Businesses Fail

WHY BUSINESSES FAIL

There are few places more difficult to launch a business than New York City. But for Mike Goldberg, it was "easier than I thought." Goldberg, who started his enterprise when most businesses were downsizing or going through extreme financial hardships, will earn more than \$150,000 this year—and he opened his doors less than two years ago with an investment of just over \$1,000. The same enterprise could be started today, with the exact same investment, and it could be equally as successful.

Three thousand miles away, Joel Kirk is going through an experience exactly the opposite of Mike's. Instead of euphoria, he is feeling depressed. And no wonder. He lost not only his business but his home and life savings as well. Kirk invested more than \$500,000 in a venture that he thought could not lose. It did.

In Chicago, Lillian Helmers sits inside her Michigan Avenue art supply store and wonders why there is no business. She watches her two clerks, both art students, shuffle back and forth between aisles, straightening supplies and waiting for customers. Her capital is rapidly disappearing, and her outlook is similar to Kirk's.

What is the difference among Goldberg, Kirk, and Helmers? Why did one hit it big with a relatively insignificant investment, while the other two failed with an enormous capital expenditure?

Goldberg became a publishing representative, Kirk opened a restaurant, and, of course, Helmers ran an art supply store. One significant difference is in their business backgrounds. Kirk knew little about restaurants, and Helmers knew even less about art supply stores. Goldberg, however, had 15 years of publishing experience before he opened his rep firm.

THE IMPORTANCE OF INDUSTRY EXPERIENCE

Experience is critical to small business success. Experience means knowledge of the industry, competitors and customers. One major common characteristic that every “failure-proof” entrepreneur in this book has is *background*. All knew their industry or business before they invested in it. Small business people take risks, but successful ones do not fly blind.

Retail businesses and those dependent on consumer whims are replete with pitfalls. Restaurants top the list of enterprises that fail most often. Yet budding entrepreneurs often opt to own their own eateries. For example, like Joel Kirk, Ralph Menlo dreamed of his own restaurant for years. He was a successful magazine editor and writer, and says, “I can just see myself welcoming people at the door and presiding over a packed house every night.”

Fortunately, Menlo never invested any of his hard-earned writing revenue in roasts or ribs. But he does provide a clue as to why so many want to enter the field.

“Everyone in America eats, so why wouldn’t a restaurant be a success? It seems to me—and many others—a glamorous field as well. Imagine being just inside the door, alongside the maitre d’, and welcoming people as they come flocking into your restaurant. You’re a minicelebrity. It conjures up images of old, great movies like *Casablanca*, where Rick [Humphrey Bogart] owned his own club. There’s something enormously appealing about it.”

Glamour, being your own boss and “calling the shots,” are definitely appealing. But it is not easy. Menlo and other budding restaurant owners seldom think about food spoilage, labor problems, consistency of meals, location, lack of buying skills, marketing and promotional dollars required, undercapitalization, and, of course, the economy. Those

THE IMPACT OF A RECESSION

pitfalls haunt every business that has perishable products and depends on consumers.

Joel Kirk's lack of expertise in the field did not help, but the economy's nosedive proved to be the death knell for his exclusive dinner house.

Tough times have an impact not only on mid- and high-priced dinner houses, they also alter the habits of families that eat at relatively inexpensive fast-food restaurants. During the past few years, such places as McDonald's, Burger King, and Taco Bell have introduced a great many "low-priced" dinner menus. The food industry recognizes the consumer's belt-tightening, and if restaurant owners want to stay in business, they have to listen to their customers. Even then they may not be able to survive.

THE IMPACT OF A RECESSION

Joel Kirk opened the wrong business at the wrong time. He served his first meal and patron in May 1991, the country was in a recession. Giving up a night on the town is relatively easy, especially if you are without a job or your position is tenuous. National unemployment and downsizing continue.

The recent recession hit mid- and upper-priced restaurants particularly hard. Unlike previous economic downturns, which primarily impacted blue-collar workers, this recession, which has plagued the country since the late 1980s, has been a disaster for white-collar workers. And white-collar workers are the prime customers of upscale restaurants.

Recessions and/or tough times impact other small businesses as well. Take, for instance, the furniture and/or appliance store or the new car dealer. These enterprises suffer because consumers are not interested in buying durable

WHY BUSINESSES FAIL

goods when the future is uncertain. Over the past two to three years furniture retailer ranks have been decimated, as have been automobile dealerships. Entrepreneurs dreaming of opening durable goods outlets should think twice. In today's economy, most of those businesses are headed for failure.

The changing lifestyle of Americans is accelerating the problem of trying to open and run a viable durable goods business. Their tastes are going from BMWs to econovans and Jeeps, a phenomenon that is explored in Chapter 5.

In tough times, consumers traditionally repair and renovate. New home sales and resales of properties slow down. People tighten their belts and wait. While the real estate industry suffers, home remodeling/repair and swap meets where merchandise can be bought at a discount boom. People stay where they are. They even cut their vacations from two weeks in Europe to five days at Yosemite.

Businesspeople who ignore these trends risk disaster. Failure rates for repair/renovation enterprises are insignificant, and most have an excellent chance of becoming profitable with low start-up investments.

THE FIVE CAUSES OF SMALL BUSINESS FAILURE

If we examine the economy and the entrepreneurs who try to defy the odds, the causes for small business failures are no mystery. For the most part, they are the result of the entrepreneur failing to examine the five key elements:

- poor business choice
- poor location

THE "CAN'T-MISS" PRODUCT

poor employees
poor management
poor marketing strategy

Poor Business Choice

Kirk's high-priced restaurant opened in the midst of a recession, and illustrates poor business choice. A similar poor business choice might be opening a Mexican restaurant next door to a senior citizens' complex. Senior citizens tend to shy away from spicy, hot foods.

By "poor business choices" I mean enterprises that do not meet the needs of prospective customers. Consider, for example, an animal grooming parlor in a low-income neighborhood or located near an apartment complex where animals are prohibited; an advertising and public relations consulting agency in a community without businesses; or a janitorial service in an area without commercial properties. Each situation displays the inability of the businessperson to empathize with customers and to understand where customers are, where they come from, and what they want. Successful entrepreneurs can put themselves in their customers' place and objectively ask "Would I buy this service or product?"

THE "CAN'T-MISS" PRODUCT

Some entrepreneurs believe their product or idea cannot miss because "everyone needs it," and they only need "a small portion of the market" to succeed. "There are more than 250 million people in this country, and less than 1 percent will make me a success," they tell themselves. Securing 1 percent of the market is easier said than done.