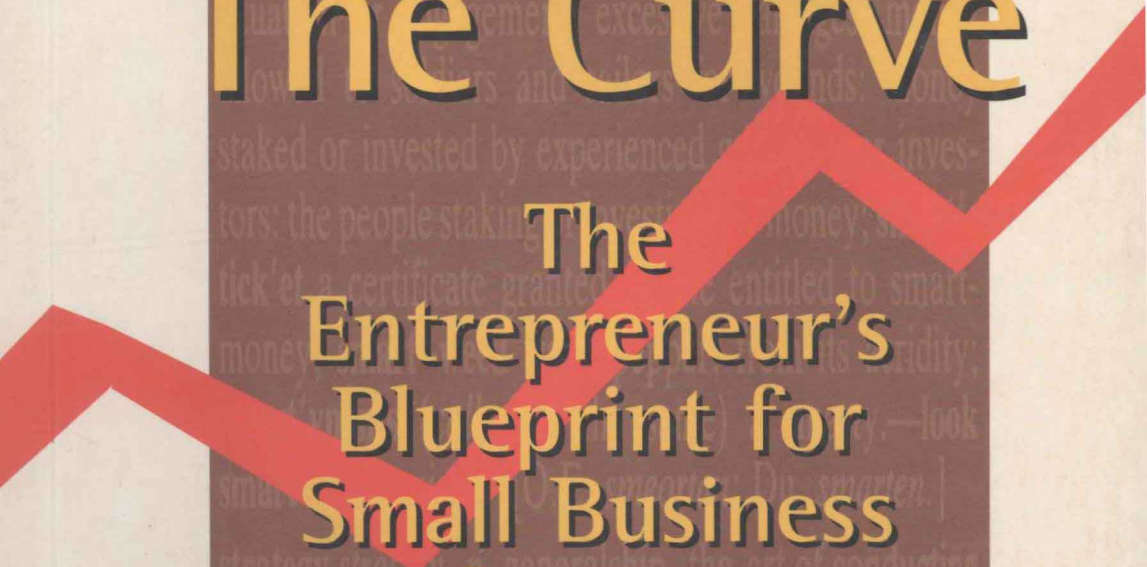


**Smart  
Strategies**



# Break The Curve



**The  
Entrepreneur's  
Blueprint for  
Small Business  
Success**

**Tim Burns**



■ SMART STRATEGIES SERIES ■

# Break The Curve

The Entrepreneur's Blueprint  
For Small Business Success

Tim Burns



INTERNATIONAL THOMSON BUSINESS PRESS

I(T)P® An International Thomson Publishing Company

---

London • Bonn • Johannesburg • Madrid • Melbourne • Mexico City • New York • Paris  
Singapore • Tokyo • Toronto • Albany, NY • Belmont, CA • Cincinnati, OH • Detroit, MI

## **Break the Curve**

**Copyright © 1999 Tim Burns**

First published by International Thomson Business Press

**ITP**® A division of International Thomson Publishing Inc.  
The ITP logo is a trademark under licence

---

All rights reserved. No part of this work which is copyright may be reproduced or used in any form or by any means – graphic, electronic, or mechanical, including photocopying, recording, taping or information storage and retrieval systems – without the written permission of the Publisher, except in accordance with the provisions of the Copyright Designs and Patents Act 1988.

Whilst the Publisher has taken all reasonable care in the preparation of this book the Publisher makes no representation, express or implied, with regard to the accuracy of the information contained in this book and cannot accept any legal responsibility or liability for any errors or omissions from the book or the consequences thereof.

Products and services that are referred to in this book may be either trademarks and/or registered trademarks of their respective owners. The Publisher/s and Author/s make no claim to these trademarks.

### *British Library Cataloguing-in-Publication Data*

A catalogue record for this book is available from the British Library

---

### **First Edition 1999**

Typeset by Laserscript, Mitcham, Surrey

Printed in the UK by TJ International, Padstow, Cornwall

---

### **ISBN 1-86152-319-X**

International Thomson Business Press

Berkshire House

168–173 High Holborn

London WC1V 7AA

UK

**<http://www.itbp.com>**

# Dedication

This book is dedicated to the three women in my life:

My mother, Marilyn S. Downs

My grandmother, Camille S. Scariano

And my fiancée, Denise S. Starr.

And to the memory of Ewing Marion Kauffman, in recognition for both his entrepreneurial talents and his generous contribution to the worthy cause of entrepreneurial education.

# Preface

The title for *Break the Curve* is based upon the traditional Bell curve, a statistical illustration of test scores and other performance measures for a group. Generally, when individual scores are plotted on a graph, most usually converge to a fairly defined range known as the average, with other scores being scattered both below and above the average. A line drawn through the plotted scores often takes the shape of a bell, since it starts with the lowest score, rises uniformly as the scores approach the average and then drops uniformly to the highest score. This highest score is often referred to as 'setting the curve.' Setting the curve is the goal of many ambitious students. However, in today's competitive marketplace it's not good enough to just set the curve. Instead you want to 'Break the Curve' and attain even higher levels of performance, productivity – and most of all – profits.

This book is written for anyone with the dream of striking out on their own, being their own boss, and creating their own destiny. I truly feel that this is the Age of the Entrepreneur and that the opportunities for self employment have never been better.

The purpose of this book is to provide you with the essential tools of the entrepreneur. This includes a fundamental understanding of the marketing, accounting, legal and financial aspect of your business and how these managerial tools converge in the creation of your business plan. I will also discuss alternative entry strategies to business ownership, such as franchising and buying a business. Also presented will be various self-management techniques, which are the peak performance and high achievement strategies found in the self-development literature, but which seldom appear in business books. However, without adequate self-management skills such as time management, goal setting and emotional resilience, you will have a more difficult time managing the business and confronting its inevitable obstacles.

Entrepreneurship can be a great equalizer. It is available to anyone without reference to age, education, gender or nationality. All it takes is a carefully prepared business plan and a lot of hard work.

In today's rapidly changing economy, the skills of the entrepreneur are particularly valuable. It is these skills that recognize opportunity and make things happen. It is the goal of the book to provide you with the business skills and techniques of the entrepreneur. Once equipped with these skills, you will be in an outstanding position as we head into the 21st century.

# Acknowledgments

Let me first acknowledge the patience, support and understanding of my lovely, and sometimes lonely, fiancée Denise, who put up with me during the writing of yet another book. Denise, your smile keeps me going.

I want to also express my appreciation to Julian Thomas, So-Shan Au and Fiona Freel of the International Thomson Business Press for their help and support on this book. I also appreciated the editing assistance of Anne Simpson.

In addition, I am very appreciative of the following people for allowing me to use their material in this books. Let me thank Brian Tracy, CPAE for allowing me to use material from his fine audio programme 'Psychology of Success' in the book. Thanks to Pamela Wegmann for allowing me to use her competitive matrix profile. Thanks also to Melissa Elliott for giving me great insight into the banking industry and to Jody Horner for reviewing the marketing chapters. And thanks to the Professional Association of Innkeepers International for allowing me to use part of their industry study. I also appreciate the help of Gerry Deloume, my secretary at the law firm of Staines, Eppling & Myers, and the support of my other associates. Thanks also to Sarah Davies, a paralegal at Staines & Eppling, for her outstanding proofing. For the artwork, I am indebted to Iguana Graphics and Communications and Claire Wicker, who also does my PowerPoint presentations. Thanks to R. Mack Davis of the Entrepreneurial Education Foundation, who helped me in the proposal, but could also be thanked for his 'suggestions to the manuscript'. Thanks to Alice Kennedy of the Small Business Development Center at the University of New Orleans for her friendship and support. But most of all, many thanks to all of my small business students and clients, who taught me so much about the world of entrepreneurs. The book is for them and the rest of you entrepreneurs out there.

# Contents

<i>List of figures</i>	ix
<i>List of tables</i>	xi
<i>Preface</i>	xii
<i>Acknowledgements</i>	xiv

## PART I: THE BASICS OF ENTREPRENEURSHIP

### CHAPTER ONE

<b>Introduction – everyone is an entrepreneur</b>	3
---	---

### CHAPTER TWO

<b>Following your passion – choosing your business concept</b>	14
--	----

### CHAPTER THREE

<b>Building your infrastructure – finding the right people</b>	25
--	----

### CHAPTER FOUR

<b>The business plan – the entrepreneur's blueprint</b>	38
---	----

## PART II: PREPARING THE BUSINESS PLAN

### CHAPTER FIVE

<b>Marketing research – investigating your business concept</b>	51
---	----

### CHAPTER SIX

<b>Marketing analysis – defining your target market</b>	65
---	----

### CHAPTER SEVEN

<b>Developing your marketing plan</b>	76
---------------------------------------	----

### CHAPTER EIGHT

<b>Business and tax law basics – choosing your form of organization</b>	92
---	----



## CHAPTER NINE

<b>Advanced business law – avoiding the courthouse, intellectual property and other important legal issues</b>	<b>101</b>
--	------------

## CHAPTER TEN

<b>Introduction to accounting – accounting can be fun</b>	<b>114</b>
---	------------

## CHAPTER ELEVEN

<b>Preparing startup expenses and pro forma financials</b>	<b>127</b>
--	------------

## CHAPTER TWELVE

<b>Advanced accounting – financial analysis</b>	<b>144</b>
---	------------

## CHAPTER THIRTEEN

<b>Fundamentals of financing your business: equity vs. debt</b>	<b>156</b>
---	------------

## CHAPTER FOURTEEN

<b>Advanced finance – your banker and beyond</b>	<b>168</b>
--	------------

## CHAPTER FIFTEEN

<b>Putting it all together – your business plan</b>	<b>180</b>
---	------------

## PART III: BEYOND THE BUSINESS PLAN

## CHAPTER SIXTEEN

<b>Other market entry strategies – franchising and buying a business</b>	<b>187</b>
--	------------

## CHAPTER SEVENTEEN

<b>Self management fundamentals – strategies for personal excellence</b>	<b>199</b>
--	------------

## CHAPTER EIGHTEEN

<b>Technology basics – get powered up NOW!</b>	<b>214</b>
--	------------

## CHAPTER NINETEEN

<b>Looking beyond your business: estate planning and your exit strategy</b>	<b>220</b>
---	------------

<i>Bibliography</i>	<b>223</b>
---------------------	------------

<i>Research references</i>	<b>224</b>
----------------------------	------------

<i>Index</i>	<b>225</b>
--------------	------------

## List of figures

1.1	Reasons why most businesses fail	6
1.2	Four elements of the entrepreneur	8
2.1	Choosing your business: love the product or the process	18
3.1	No entrepreneur is an island	26
3.2	Leverage your advisers	34
4.1	The business plan: an absolute necessity	39
4.2	The elements of a business plan	43
5.1	Overview of general research strategy	55
5.2	Competitive matrix analysis	57
5.3	Chateau Orleans' competitive matrix analysis	63
6.1	Developing your customer profile: know your customer	67
6.2	Market segmentation	68
7.1	Fundamentals of your marketing mix	77
7.2	Marketing plan worksheet	88
7.3	Chateau Orleans' marketing plan worksheet	89
8.1	Factors in choosing a form of organization	93
10.1	Keys to understanding your financial vital signs	115
10.2	Cash flow statement	117
10.3	Chart of accounts	118
10.4	Balance sheet principles	120
10.5	Balance sheet	122
10.6	Relationship between the cash flow statement and the balance sheet	123
10.7	Connie's coffee shop – balance sheet	124
10.8	Connie's coffee shop – revenues and expenses	125
10.9	Connie's coffee shop – cash flow statement	126
11.1	Preparing pro forma financial statements	131
11.2	Fixed vs. variable costs	134
11.3	Break-even analysis	135
11.4	Chateau Orleans' – pro forma balance sheet	142

12.1	Connie's coffee shop – balance sheet	147
12.2	Connie's coffee shop – cash flow statement	149
13.1	Debt vs. equity impact on balance sheet	158
14.1	Dealing with your banker	170

# List of tables

2.1	Choosing your business: myths vs. realities	17
5.1	Bed and breakfast industry analysis	62
8.1	Forms of business organizations	98
11.1	Initial capital requirement	129
11.2	Chateau Orleans' initial capital requirements	138
11.3	Chateau Orleans' pro forma financial statement	139
11.4	Chateau Orleans' monthly pro formas (year one)	140
11.5	Chateau Orleans' pro formas (years two and three)	141

■ PART I ■

# **The basics of entrepreneurship**



## Introduction – everyone is an entrepreneur

The empires of the future are the empires of the mind.

(Winston Churchill)

### The entrepreneurship trend is here to stay

Although you may have never thought of yourself as an entrepreneur, today's turbulent economic climate requires that everyone think and act like an entrepreneur. This applies throughout the business world, ranging from the existing business owner to the young person starting their career to the displaced employee and to those currently employed (possibly for now) in organizations. Despite an expanding world economy, the employment world continues to be turned upside down as corporate layoffs persist in dominating financial headlines. As we move into the 21st century and our economy evolves from the Manufacturing Age into the Information Age, the requirement for entrepreneurial thinking and expertise will only increase.

Many experts, such as Peter Drucker, note that the end of the traditional job is at hand. In his recent book, *Managing In A Time of Great Change*, Drucker predicts that the traditional job will be replaced by work teams, which will be subcontracted out from project to project.

These observations point out that the trend toward self employment is not a temporary phenomenon, like the painful downsizings of the early 1980s, but a fundamental shift in the nature of work. Not only are organizations facing the prospect of fewer employees, but those who remain are being asked to perform a greater variety of tasks. The days of the technical specialist are coming rapidly to an end, as large organizations continue to urge their employees to behave more like entrepreneurs.

## Entrepreneurship is booming – so don't despair

The solution to this possibly unsettling trend is not to wring your hands and hope that it will somehow all go away. While some industries and jobs are naturally more secure than others, there is no real security in today's economy. Companies that tried to maintain their no layoff policy in this new economy, such as International Business Machines, quickly found themselves in financial trouble. And even those employed by one of the most benevolent companies could have problems if their employer is acquired by one of the least benevolent.

A better approach is to become more entrepreneurial. Simply put, this involves taking a hard look at your experience, resources, education, and interests, and then assessing those skills against today's marketplace in search of a fit. The sooner that you can learn to think in those terms, the sooner you can liberate yourself from the inherent risk in depending on *one* organization for your livelihood and well being. This approach is true even for those who are beginning their career. While organizations can provide excellent experience, remember that you need to manage your *own* career as if it were your *own* business.

Although the security of a large organization can be reassuring, it does exact a price, which is lack of autonomy. Employees essentially put their entire career in the hands of their employer in exchange for job security. Sometimes this works out well for employees, but employees can also find undesirable supervisors, positions and transfers foisted upon them.

This is not to say that corporations are inherently bad or that they are facing imminent extinction. I had some of my best memories and work experience with a Fortune 500 company in the United States. There was a time when I was so energized and excited by what I did, that I scarcely thought about anything else. However, there were the predictable disadvantages to corporate life which included a sometimes negative corporate culture and an unwelcome job transfer.

Self employment is no panacea of pleasure either. I remember the endless marketing, the silent phone, and the many months before I had any significant *gross* revenues. However, in the long run, self employment can provide the best of both worlds, the opportunity to do what you enjoy and the financial security from doing it well. In addition, the entrepreneur also knows that their job security is within their control, instead of some corporate bounty hunter.

Today is an excellent time to be in business for yourself. Advances in technology have evened the playing field in many occupations and



industries. Today's consumers are more particular and willing to pay for personal service. This facilitates the creation of niche markets. Many economists predict that as those born after World War II reach their peak spending years, there will be a tremendous boom in the economy, particularly for those in the 'right' consumer niches. In fact, some experts are even proclaiming this era and beyond as the Age of the Entrepreneur and foresee outstanding opportunities ahead for the self employed.

But for many, including myself, the thought of self employment was absolutely horrifying.

But it need not be. Contrary to popular belief, entrepreneurs are not reckless risk takers who eagerly gamble their fortunes away. Successful entrepreneurs take only educated risks. Once you learn and master the tools presented in this book, you will develop skills that will enable you to carefully plan your business and take only educated risks.

## Anyone can be an entrepreneur

I firmly believe that virtually anyone who applies the principles set forth in this book can be a successful entrepreneur. Although I concede that some people are more temperamentally suited for entrepreneurship than others, that does not necessarily rule the others out. I dislike the various questionnaires that appear in many business books purporting to assess someone's likelihood of entrepreneurial success. Such 'tests' could unnecessarily discourage those, who, with some attitude adjustment and training, could very well become outstanding entrepreneurs.

For many, that first huge step towards entrepreneurship might require only a change in *belief*. In fact, changing one's belief is the biggest hurdle for the first time entrepreneur, who might have spent much of their career working for others in some comfortable corporate cocoon. To suddenly be on their own is a strange and frightening prospect. This is certainly a normal reaction for anyone who trades in a steady paycheck for something much less certain. However, the fear is lessened for those who are simply willing to *believe* that they can master self-employment skills and succeed as entrepreneurs. Belief in yourself is also important for those who are just starting their careers.

Sceptics are always quick to point out that there is no guarantee of self employment success. And this pessimism is seemingly borne out by business statistics, which relate that three out of four new businesses fail within the first five years. However, these sobering statistics also point out that nearly *all* business failure can be attributed to the lack of knowledge