Start, Run, & Grow Your Business

Tips and advice for entrepreneurs from business planning expert

Tim Berry

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It was less than three years ago, in April of 2007, an unusually sunny day for that time of year in our part of Oregon. I had just asked Sabrina Parsons to take command of Palo Alto Software, as CEO.

"But now you have to start blogging," she said. And so I did.

That was about 1,500 posts ago. I was skeptical at first, but I started reading the better-known business-oriented blogs, and then the writing came naturally. My first career, before the MBA and entrepreneurship, was writing. I've loved it. Since that day I've done almost 900 posts on timberry.bplans.com, more than 600 on upandrunning.entrepreneur.com, plus 100 or so other posts on other blogs.

I was late to the blogging party. But I like the idea of the daily blog post, comments on events of the day, questions I get, issues that come up, and stories.

In this book we have a selection of a few of my favorites about starting a business, running a business, and growing a business. Yes, those three topics are closely related, but no, they are not the same. They involve different skills, different problems, and, often, different people.

Tim Berry

Disclosure:

This ebook is a compilation of articles I've posted on my blog, http://timberry.bplans.com/. I'm employed by Palo Alto Software, but opinions expressed in my blog articles are mine alone. I use stock photos from a variety of sources, such as shutterstock.com and istock.com to illustrate my blog articles, and I include attribution with each outside image regardless of its source.

1. Start Your Business

2. Run Your Business

3. Grow Your Business

Start Your Business

Starting a business is definitely one of my favorite subjects, not just on my blogs, but in my last book (3 Weeks to Startup), for the start-a-business class I've taught for the last 11 Spring terms at the University of Oregon, and for building a life.

Every startup is different. To choose a startup, you look well into a hypothetical mirror, figuring out who you are, what you do well, what you like to do, and what, from that, you can do that people need, want, and will pay for.

Contrary to popular myth, it isn't as simple as just persistence, passion, and perseverance. You also have to give value. You have to offer something people need or want.

Is this for you? Are you one of those who will end up building your own business? Not everybody is. And not every startup survives. When it works, though, when you create a business that lasts, well, it can be a great adventure.

Articles in Start Your Business:

4 Questions to ask Before

Starting a Business

Suppose you've been wanting to start a business; or maybe you've lost a job and you're thinking that starting a new business might be easier than finding a new job (it's not that unrealistic, by the way; it does happen sometimes). Is now a good time? Or is now such a horrible time that you should avoid it at all cost? I'd like to suggest some questions that might help you decide.

I've done these lists before, but these are tough times, so I want to start with the hard reality of it:

flickr user mRk.Cool

1. Do you have a choice?

This very down year is already showing signs of a surge in the so-called "pushed" entrepreneur. You're out of a job like millions of others, you look for a new job, but you don't find one. In frustration, you start your own business. It happens a lot.

And, if that's the case, plan carefully, go slowly, and communicate well with your loved ones.

Starting a Business

“Business isn’t really about doing what you love — unless, that is, people will pay you to do it, so you can meet costs and make a living.”

Don’t risk relationships for business. Spouses, partners, and significant others need to know that what happens next isn’t you chasing dreams. It’s hard reality.

2. Will people buy what I want to sell?

It might seem obvious, but just because you want to do it doesn’t mean anybody else wants to pay you for it. Business isn’t really about doing what you love — unless, that is, people will pay you to do it, so you can meet costs and make a living. People pursue hobbies, sometimes, thinking that because they love it other people will pay for it.

Being original helps, but it’s no guarantee. Sometimes, when you see there’s no competition, what’s really happening is there is no business, because there aren’t enough customers.

Being completely unoriginal doesn’t necessarily hurt. Very few businesses actually start with a great new idea. Take restaurants, graphic artists, car repair shops, or management consulting, just to name a few: there are lots of them around, they already exist, but you can still make it if you do a good job, give your customers value, and keep showing up.

This question leads to a lot of very important business planning issues, like target marketing, and business strategy, and the month-by-month sales forecast. But first, take a step back, and give yourself an honest answer. Will people buy it? Then fill in the details.

3. How much will it cost?

You can’t get around this one, you have to be able to make reasonable estimates on what it’s going to cost

Starting a Business

you to get started, and then, after you're started, what it's going to cost you to stay in business.

The math isn't hard by itself. Your starting costs are essentially two simple lists: a list of expenses and a list of required assets. Expenses are checks you write before starting for tax-deductible items like fixing the place up, establishing the legal entity, designing a website, and so on. Assets are checks you write for things you have to own to do business: chairs, tables, cars, and trucks. And yes, there is a trick question hidden there among the assets — how much money do you have to have stashed away to cover your spending during the early lean period of the business, before sales catches up.

"No business is exactly like yours, and you don't have to search the world to find the right numbers."

So that last question, the one about the cash you'll need, means more simple math and reasonable estimates. Here again, you might not like it (to be honest, I do; but that's just me), but the math is simple. Make a list of 12 months and write out your cash coming in, month by month, and the cash flowing out, month by month. And then add up how much cash you need to cover the difference.

flickr user
Steve Snodgrass

As you do this, working out your numbers, you're going to discover that the only answer that works for you is your own answer. If you're lucky, you'll have a lot of good input from people around you who have had some experience. Guides are nice. But no business is exactly like yours, and you don't have to search the world to find the right numbers. You'll never find them. You have to

estimate for yourself. Your estimate will depend on who you are, what you want your business to be, your strategy, your specific angle, and so on.

Take, for example, the restaurant business. You can be the high-end restaurant that offers gourmet meals to a select few, or the soup cart on the corner by the university. It all depends on you and the choices you make.

"Finding investors is a tough path to take, but lots of good businesses go through it."

4. Do you have a plan?

What happens next depends on your answers to the sales and spending question above. It's about filtering the opportunities from the ideas. Ideas are a dime a dozen, worth nothing, common. Opportunities are when you have an idea that will work, plus the resources to get it going.

If the numbers don't seem to work, that's discouraging. Can you scale down the idea to match your resources, and still have a go at it? Don't kid yourself on one important point: some businesses scale easily to a

flickr user BruceTurner

Starting a Business

reachable level. You focus on a part of it, and watch the spending, and, maybe, take it slowly. Other businesses don't work in parts or pieces.

If the numbers would work, but only on a scale larger than your resources, don't just start the business regardless. Find out how and where to look for investors. Do it right, or not at all. Finding investors is a tough path to take, but lots of good businesses go through it. And the good news is that if you need investors and none are willing, then you've dodged a bullet. That wasn't a business you would have wanted to start.

"Make sure you have a plan, and, as soon as you actually get started, make sure you review that plan every month."

And if the numbers do seem to work, and you think you do have an opportunity, then you're well on the way to having your business plan.

Flesh out your understanding of the market, particularly who is and who isn't in your market, and why they buy from you — what they get out of it, not just what they buy, but the benefits. Just to give you an example, people who buy drills don't want drills; they want holes. Think about how your new business will spread, what people will say about it, and to whom — that's marketing. You can also think of marketing as getting people to know, like, and trust you.

Don't worry about whether the plan exists as a document printed out somewhere. You'll want that if you need outside investment or a bank loan. Keep it on your computer. But do make sure you have a plan and, as soon as you actually get started, make sure you review that plan every month. Your plan will be wrong — they all are — but it will become the first draft of the revised plan that will be better.

Can you Really Start
A Business in 3 Weeks?

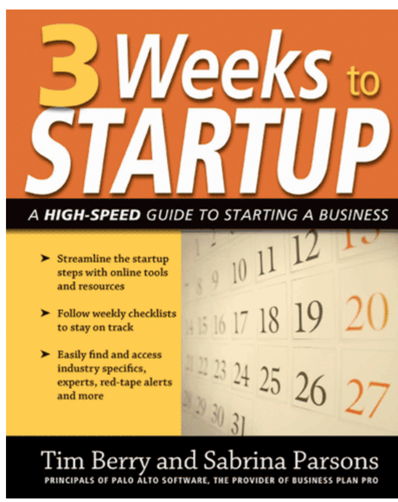
Yes, you can. Maybe not all businesses. Maybe not any business. Some businesses, though, can start in three weeks. My first business started the day a former client called and asked me to do a market study in Venezuela. That changed things from one day to the next.

That's a true story. If you're curious, I posted it on my blog as The First Day of a New Business. It's just one example. There are millions.

There are 21 million companies in the United States without employees. I wonder how many of them started up in three weeks or less.

A 2006 study sponsored by Wells Fargo and conducted by Gallup found that the average startup cost was about $10,000. I wonder how many of those started in three weeks or less.

It would be easier to count the businesses that can't start in three weeks, because there are a lot fewer of them.



A Business in 3 Weeks?

- You can't do it in three weeks if you have to raise significant money to start with. I have indications that angel investors financed about 60,000 new businesses in the United States last year, and venture capital investors are doing about 2,500 deals per year. That's a very fine stratum at the top of the new business picture, a small percentage of the 800,000 or so new businesses started in an average year.

"It would be easier to count the businesses that can't start in three weeks, because there are a lot fewer of them."

- You can't do it if you have to wait longer than three weeks for a bank loan. Some bank loans can take less than three weeks. That's more likely if you're borrowing off an established and solid asset, like your house equity (if it is solid and established, and not a victim of the sub-prime mess).
- You can't do it in three weeks if you have to establish a location, build a team from scratch, manage prototypes, prove your viability.

Even in those cases, however, you can play with the definitions. You can call it starting in three weeks if you get the team together, the basic idea settled, the first legal steps taken, and you start the search for the location and start the search for funding.

Why do I care? My most recent book, written with Sabrina Parsons, is called 3 *Weeks to Startup*.

It was the second book draft I sent to Entrepreneur in a two month period, and the last for a long time. Of course I/we didn't write them that fast, they were both a long time coming. That's what happens, I guess, when you name a new CEO for a company and task its long-time president with blogging, writing, teaching, and speaking.

Don't Underestimate
Beachhead Strategy

I like beachhead strategies. The term comes from military strategy, meaning that as you invade enemy territory, you need to focus your strength and concentrate on winning a small border area (the beachhead) that becomes the stronghold from which you'll advance into the rest of the territory.

That's what the allies did, successfully, in the D-Day invasion of Normandy in 1944. That military success was planned and led by Dwight D. Eisenhower, author of my favorite business planning quote ("The plan is useless, but planning is essential.") It's what you see in the opening scenes of *Saving Private Ryan*. It's also something I learned mostly by playing war strategy games (although not specifically the one shown here; that's just a good illustration).

screenshot from Stronghold Crusader Extreme, by Firefly Studios

And it's good business. In business, particularly startups, the beachhead strategy is about focusing your resources on one key area, usually a smaller market segment

Beachhead Strategy

or product category, and winning that market first, even dominating that market, before moving into larger markets.

Beachhead strategies are often critical for bootstrapping new businesses. And franchisor businesses should think of the beachhead strategy as making sure the initial locations are strong and successful and good models for future locations.

> "The beachhead strategy is about focusing your resources on one key area … and winning that market first"

Sadly, people don't always communicate beachhead strategies well. As an angel investor, and judge of business plan contests, I often see what should be beachhead strategies looking instead like they are focusing too narrowly and missing the larger markets that the beachhead will lead to.

It's ironic. In business pitches, for startups, the beachhead strategies tend to generate criticism from judges, experts, and other assorted experts for being too narrow, too focused. They want the big picture. But, on the other hand, the big picture, do-everything strategies will often be criticized for being unrealistically ambitious, and unrealistic.

The answer to this seeming paradox is: If you are doing a beachhead strategy, make sure that you include the follow-up idea of broadening your approach later on, after establishing yourself in that first core market.

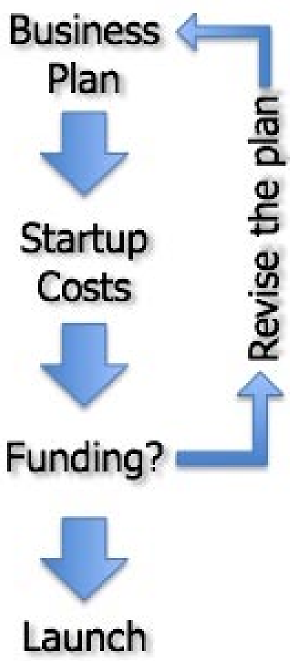
Three Steps to

The Startup Sweet Spot

Every startup has its own natural level of startup costs. It's built into the circumstances, like strategy, location, and resources. Call it the natural startup level; or maybe the sweet spot.

1. The Plan

For example, Mabel's Thai restaurant in San Francisco is going to need about $950,000, while Ralph's new catering business needs only about $50,000. The level is determined by factors like strategy, scope, founders' objectives, location, and so forth. Let's call it its natural level. That natural startup level is built into the nature of the business, something like DNA.



Startup cost estimates have three parts: a list of expenses, a list of assets needed, and an initial cash number calculated to cover the company through the early months when most startups are still too young to generate sufficient revenue to cover their monthly costs.

It's not just a matter of industry type or best practices; strategy, resources, and location make huge differences. The fact that it's

a Vietnamese restaurant or a graphic arts business or a retail shoe store doesn't determine the natural startup level, by itself. A lot depends on where, by whom, with what strategy, and what resources.

While we don't know it for sure ever — because even after we count the actual costs, we can always second-guess our actual spending — I do believe we can understand something like natural levels, somehow related to the nature of the specific startup.

Marketing strategy, just as an example, might make a huge difference. The company planning to buy Web traffic will naturally spend much more in its early months than the company planning to depend on viral word of mouth. It's in the plan.

So too with location, product development strategy, management team and compensation, lots of different factors. They're all in the plan. They result in our natural startup level.

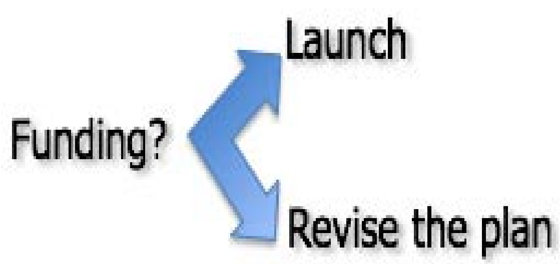
2. Funding or Not Funding

There's an obvious relationship between the amount of money needed and whether or not there's funding, and where and how you seek that funding. It's not random, it's related to the plan itself. Here again is the idea of a natural level, of a fit between the nature of the business startup, and its funding strategy.

It seems that you start with your own resources, and

The Startup Sweet Spot

if that's enough, you stop there too. You look at what you can borrow. And you deal with realities of friends and family (limited for most people), angel investment (for more money, but also limited by realities of investor needs, payoffs, etc.), and venture capital (available for only a few very high-end plans, with good teams, defensible markets, scalability, etc.).



3. Launch or Revise

Somewhere in this process is a sense of scale and reality. If the natural startup cost is $2 million but you don't have a proven team and a strong plan, then you don't just raise less money, and you don't just make do with less. No — and this is important — at that point, you have to revise your plan. You don't just go blindly on spending money (and probably dumping it down the drain) if the money raised, or the money raisable, doesn't match the amount the plan requires.

Revise the plan. Lower your sights. Narrow your market. Slow your projected growth rate.

Bring in a stronger team. New partners? More experienced people? Maybe a different ownership structure will help.

The Startup Sweet Spot

What's really important is you have to jump out of a flawed assumption set and revise the plan. I've seen this too often: you do the plan, set the amounts, fail the funding, and then just keep going, but without the needed funding.

And that's just not likely to work. And, more important, it is likely to cause you to fail, and lose money while you're doing it.

Repetition for emphasis: you revise the plan to give it a different natural need level. You don't just make do with less. You also do less.

True Story:
Business Plan Addict

Recently I posted [my slogging it out theory](), how business is sometimes a matter of doing the work, getting the store open, returning the phone calls. That post reminded me of someone I worked with who did just the opposite.

I haven't seen Ralph (not his real name) for several years now. Rumor has it that he finally did get a company going, sales of a few million a year, and then fought with the programmer whose work got them started, and fell from grace.

Ralph was a serial non-entrepreneur. We worked together off and on for about six years and during that time he was never not working on a business plan. He was going to get financed. "Business Plan" to him wasn't just planning a business, it was a lottery ticket to a carpeted office and big BMW and somebody else answering the phone and making the coffee. He spent years working on one business plan after another, none of which ever got financed. He was a business plan addict, living on the dream of hitting it big, always looking for the big

iStock photo

Business Plan Addict

win, but never actually taking small steps in the right direction. Nothing could happen until he "got financed."

Like the gambler that never leaves Las Vegas, Ralph was always hoping that the next one would be the big one.

That phenomenon is the main reason for this post. My slogging it out post reminded me of Ralph's way of not slogging it out, using the business plan as a reason to not do anything. My wife always said he didn't do anything, he just talked about it, and dreamt about it.

"My wife always said he didn't do anything, he just talked about it, and dreamt about it."

On the other hand, Ralph was 10 years older and had more industry experience, so he did some mentoring. For example, at one point we worked up a business plan for assembling generic business computers in Mexico City (that may sound random, but I had lived there for 10 years and was returning to live there again). He was to be my partner in the Silicon Valley, and I was going to build the business in Mexico. As part of that plan, he taught me, step by step, how to build my own computer. Do you remember the S-100 bus and the CP/M operating system? I built my own.

His best advice for me was extremely valuable: "Sell boxes, not hours." Ralph liked pithy entrepreneur-folk wisdom like that.

Unfortunately, he also taught me a lot of what not to do. From what I heard later, Ralph finally did get something going after I had moved to Oregon, and his business had several million dollars of annual sales back when that was a lot of money. We drifted apart so I don't know for sure, but mutual friends tell me that the propensity for luxury offices and big-company perks hurt a lot, as his business turned into one of those Nova-star

Business Plan Addict

affairs that crashed and burned fairly quickly. There was also a rumor that the crashing had something to do with questionable legal moves that were unfair to a partner who had done the programming to get them started.

This true story is in this blog mainly for several actual business points:

"As your business rises in the world, make sure you bring along the people who got you there."

If you're in the startup mode and working on business planning, don't suspend business life until the plan is done (because it never is) or until you're financed. If it's a good idea, get going. Keep working the plan. If you need to get financed, keep at it, but take small steps in the meantime.

flickr user Joe Gatling

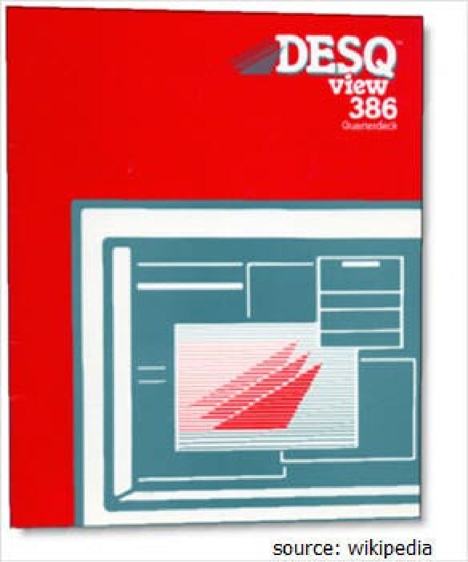
If you're working on a startup, take my advice (not Ralph's) and think about cinder block offices and such in the more economical locations. If your business isn't about receiving clients or customers, wait for the luxuries until after you have more revenue than costs and expenses.

Sorry, this one is so obvious, but as your business rises in the world, make sure you bring along the people who got you there.

Second Mover Advantage

Seth Godin recently posted "The Netflix of...," on the value of being an original instead of an imitator. We have the general assumption of first mover advantage and first to market, and nobody wants to be a copy. However, sometimes it's better to be the second or third to market instead of the first.

Does that sound crazy? Back in my consulting days I had a client from Quarterdeck Office Systems who was very disappointed the week after VisiCorp had introduced VisiOn at COMDEX. Quarterdeck wanted to be first with a graphical user interface working over the operating systems of the day (remember DOS?) but VisiCorp beat them to it.



source: wikipedia

VisiCorp died less than two years later. Quarterdeck Office Systems went public nine years later, valued at $182 million (not so much these days, but in 1991 that was a lot of money). And my point, with

Second Mover Advantage

that entrepreneur back then, is that sometimes second or third is better, because investors understand what you're talking about.

I followed up afterwards with a Palo Alto venture capitalist David Gold, over lunch. "Often it's better to follow somebody into the market," he said, "because it's so much easier to explain what you're doing. We're just like so-and-so except that we do it this way, or that way, obviously some better way." That of course is a much better story than just plain "we're just like Netflix." Seth makes the point that Netflix' model tracks back easily to the nature of the DVD business, where being the "Netflix of purses or watches" doesn't generate immediately obvious images.

Audi 100 hybrid 1994
www.metricmind.com

However, there is something to coming into the inflection point of the markets, when people understand what it is. Amazon.com was not the first website selling books, Google wasn't the first searcher (not even Yahoo). Neither Toyota nor Honda had the first hybrid auto. You've never heard of the first supermarket, but Safeway and Kroger's followed along a little later. McDonald's came along after Automat, White Castle, and many others.

In the world of high tech and venture capital, Microsoft Excel wasn't the first spreadsheet integrated with graphics, nor was Lotus 1-2-3. Does anybody else remember

Second Mover Advantage

Context MBA (there's a blast from the past … do you think the "MBA" in its name hurt it?). The Macintosh wasn't the first graphical interface operating system either (does anybody remember Xerox Parc and the Xerox Star?). The first personal computers were Altair and MIPS, not Apple, Radio Shack, or Commodore.

"Just like so-and-so, but better" is a nice pitch. Search Google for "just like, but better" and you'll come up with 415,000 pages.

So yes, being an original is much more satisfying, and if you can seize that advantage and keep it, it's great business. But being second or third works well too. It's sometimes easier to explain.

The Best Startup Funding
Is Initial Sales

We all forget too easily: the best startup funding is sales. Sure, angel investment, friends and family, SBA loans, all of those options are necessary for most startups. But sales is better.

If you can, find the early customers. Give them a deal, make them important, work with them to optimize their needs; but make a sale.

flickr user 177

Even if you need to go out and find investment — and I speak now as an actual angel investor — there's almost nothing as convincing as actual sales. People are spending money. It makes a new business proposal far more credible.

True, not all businesses can do that. But a lot of them can. And, as we write about business plans and seeking investment and all, we forget the real sweet spot: finance growth by making the sales.

Run Your Business

Are you a good manager? How do you run a business well?

Is it about leadership, maybe, or teaching by example? Is it a matter of building a great team and letting the team go? Do you hire people to fit the job, or hire the people first and rebuild the jobs--and the company--around them?

You have to find your own right answers to these questions. While the world is full of experts offering methods and slogans and a lot of generalizations, in the real world it's still a matter of working things case by case, taking into account your business situation, and your strengths and weaknesses. And doing your best.

I can make one generalization in this area: good management is about good planning processes. It's not just the plan, but the plan as it changes steadily over time. Steering is a matter of constant small corrections. So is running a business.

Articles in Run Your Business:

Business Focus vs.
Peripheral Vision vs. Growth

It's all paradoxical.

Bill Cosby once said:

> *"I don't know the secret to success, but I do know that the secret to failure is trying to please everybody."*

While driving to the office a few minutes ago, I saw an unusual Fed-ex truck, like a stunted-growth moving van, with the signage: "FedEx White Glove Service." I don't know what that is and I don't care particularly but it made me think how Fedex has expanded past its initial vision of "it absolutely positively has to be there overnight."

Do you think it's true that businesses have to stay focused when they're small but develop peripheral vision as the grow?

What I know about FedEx is what I see on television mostly, but it seems like an example of peripheral vision. From that first "absolutely positively" focus on overnight to two-day, then three-day, then bulk, then Kinkos, international somewhere in the mix, now white glove

from Expediters Online

Peripheral Vision vs. Growth

service (whatever that is, it's about moving, I can tell by the truck).

So that seems like the opposite of focus: peripheral vision, perhaps? Moving from where you are into nearby markets. Seems like a good thing when it works, but do we hear about it when it doesn't? When businesses lose focus? When Starbucks tries to offer cheap coffee, or McDonald's offers fancy lattes?

There's a lot to be said for understanding who isn't your customer. And, on the other hand, not arguing with success.

The displacement principle: everything you do rules out something else that you don't do. It seems to belong inside this paradox.

No, 37signals, Planning is
NOT What you Think

Rich irony: 37signals, publisher of Basecamp, the leading web app for project management, ought to know better than anybody that real business planning is a process, not a plan. After all, they do the kind of nuts and bolts management that makes that happen. Instead, however, Matt of 37signals posted the planning fallacy last week:

> *"If you believe 100% in some big upfront advance plan, you're just lying to yourself."*

I object. Who ever said planning was "believing 100% in some big upfront plan?" Good business planning is always a process involving metrics, following up, setting steps, reviewing results, and course correction.

flickr user DHDesign

He goes on:

> *"But it's not just huge organizations and the government that mess up planning. Everyone does. It's the planning fallacy. We think we can plan, but we can't. Studies show it doesn't matter whether you ask people for their realistic best guess or a hoped-for best case scenario. Either way, they give you the best case scenario."*

OK that's a dream, not a plan. Matt seems to confuse the two, but good

Not What You Think

business planners don't. Any decent business planning process considers the worst case, risks, and contingencies; and then tracks results and follows up to make course corrections.

Which leads to this, another quote:

> *"It's true on a big scale and it's true on a small scale too. We just aren't good at being realistic. We envision everything going exactly as planned. We never factor in unexpected illnesses, hard drive failures, or other Murphy's Law-type stuff."*

"Sure, if you define planning as messy and preventing you from getting real, then it would be a waste of time."

No, but you do allow extra time for the unexpected, and then you follow up, carefully (maybe even using 37signals' software) to check for plan versus actual results, changes in schedule, new assumptions, and the constant course correction. Murphy was a planner. He understood planning process and plan review.

Matt concludes:

> *"That messy planning stage that delays things and prevents you from getting real is, in large part, a waste of time. So skip it. If you really want to know how much time/resources a project will take, start doing it."*

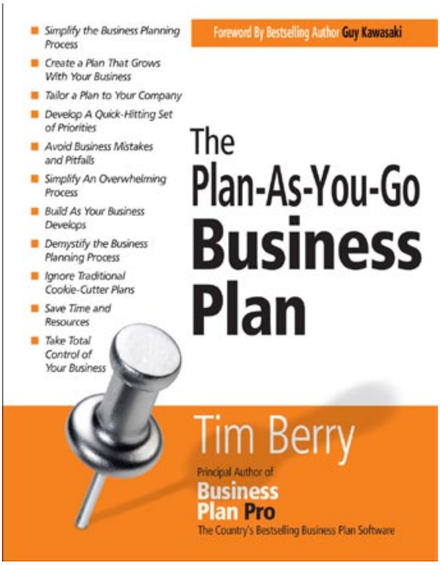
Really bad advice there, based on a bad premise. Sure, if you define planning as messy and preventing you from getting real, then it would be a waste of time. But is that planning?

I wonder if Matt takes his own advice. When he travels, does he book flights and hotels? Or does he skip that, and just start walking?

Plan-as-you-go
Business Planning

As we finish up 2007 and roll into 2008 I am certain it is time to adapt a new kind of business planning, which I want to call "plan-as-you-go" business planning. This is intended to bring the idea of the business plan up to date with the kind of flexibility and power we have in the tools we use in business everywhere, while focusing on the real power of planning, meaning management and tracking and accountability, and easing up on the form to make sure that form follows function. For convenience, let's call it PAYG. The plan-as-you-go business plan is PAYG planning.

And I'm very happy to share, with this column, that I've started on a book called *"The Plan-As-You-Go Business Plan,"* due out later this year, to be published by Entrepreneur Press. That's an early cover design shown here.



What's Different?

How is the PAYG plan different from the standard business plan? Good question. Let's get into some specifics:

PAYG Business Planning

“The PAYG plan is about navigation, not just a static map.”

1. It’s a process, not just a plan.

Every PAYG plan has a review schedule built in, from the beginning. It sets the dates and participants in the future review meetings, taking 60-90 minutes once a month and two to three hours once per quarter. And PAYG planning is about process: not just the plan, but the regular review and management of the plan.

2. Form follows function.

The PAYG plan is not necessarily the same kind of formal business plan document you did in business school or read about all over. It doesn’t necessarily follow a recipe. Every PAYG plan is unique. It might generate a formal document at some point, or over and over again actually at different points in company history, but until you need the formal plan document to show somebody, it lives on your computer. You pull from the plan to make a pitch presentation or elevator speech or summary memo or full detailed business plan document, as required for the business purpose. It’s the source of all of these, the key thinking including strategy and metrics and dates and deadlines, without having a specifically defined form.

3. It assumes and manages change.

The PAYG plan is about navigation, not just a static map. It assumes that assumptions will change. That’s why it builds the

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PAYG Business Planning

review schedule into it, and in keeping with that idea, assumptions must always be visible, on top, where they can be reviewed. Unlike the misunderstood formal business plan, the PAYG plan is a way to keep your view of the long-term goals and directions while also managing the short-term surprises.

Now I recognize that you could read this list and say, "but that's the same as good planning has been for years, it's not so new and different." And I'd say, "that's right, you're getting it." What's most important about PAYG planning is that people in the real world, startups and growing companies alike, can actually use it. It gets people out of the silly talk about how a business plan isn't useful because they misunderstand how a business plan is supposed to be used.

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4. Accountability.

Plan-as-you-go planning develops accountability in the process, as a matter of metrics, and tracking. It is important that accountability be a matter of collaboration, and not the crystal ball and chain.

What's Essential

1. Start with the review schedule.

If you don't have a plan review schedule, you don't have PAYG planning. You might have a plan, but it's not PAYG planning. Set the dates from the very beginning. As you develop the plan, you keep the people

involved aware of the touch points, when and how and who you're going to track.

2. Develop useful metrics.

PAYG planning is about actually managing, not just planning into thin air. The main metrics are money, and the most important is cash flow, but look for metrics that involve the team. Calls, presentations, visitors, inquiries, average time of calls, downloads, whatever. Ideally, everybody on the team deserves metrics.

3. Identify the assumptions.

Effective PAYG planning keeps the assumptions on top, where you can revisit them with every review meeting. We assume things change and the planning is about navigation, not just a static map. This is how you keep your plan alive and active.

4. Every plan has a heart and flesh and bones.

The heart is strategy, market need, differentiation, and focus. This is as true with PAYG planning as with traditional plans. The flesh and bones are just as important, and in PAYG planning that's metrics, milestones, tasks, dates, deadlines, and responsibility assignments, and, most important, cash flow planning.

Important Principles of PAYG Planning

1. Start anywhere. Get going.

The plan is a matter of interlocking blocks, so some people start with a numbers task, like a sales forecast, and others start conceptually, with a vision or a strategy or focus. Just get started. Don't wait until your plan is finished, get going. Start today and start using it tomorrow.

"Just get started. Don't wait until your plan is finished, get going. Start today and start using it tomorrow."

PAYG Business Planning

2. All business plans are wrong – but still vital.

It's a matter of humanity, you are predicting the future, you'll be wrong, but you set down tracks so you can follow up and revise without losing sight of the long-term goals and directions.

3. Good business plans are never done.

"You measure a plan by results. It's as good as the decisions it guides."

My company's business plan started in the late 1980s and it's still a work in progress. If your plan is finished, your company is finished. Instead, you revise as needed, as in steering, navigation, and walking. The core of the plan is the collection of heart and flesh and bones, it's content, thinking, and specifics; from that you spin out a document or presentation or elevator speech as needed, and when needed.

4. Form follows function.

Do only as much as you need to run your company, to manage, to build strategy and follow-up and long-term goals and directions. If you don't need to create a formal plan, don't; keep it on your computer.

5. Keep it alive, always, and spin the output as needed.

Don't ever let your plan go static. Keep it on top of things, active, and alive, not forgotten in a drawer.

6. Planning is worth the implementation it causes.

You measure a plan by results. It's as good as the decisions it guides.

Are you a Good Manager?

How can you Tell?

What makes a good manager? Is it something you're born with, or something you learn? Is there management instinct? I don't know for sure. I've been in business for more than 30 years now, and I still don't know.

A few years ago I was trapped on a plane with nothing to read but *The One-Minute Manager,* by Kenneth Blanchard and Spencer Johnson. It was written in 1982, and still sells very well today, according to Amazon.com ranking, even 26 years later. It's in the top 2,000 books.

It was a short plane trip, and an easy book to read. It seemed about like this:

> *"Make expectations specific. Tell people what's expected. Follow up. Track results. Tell people afterwards how they did."*

Carrots or sticks

Image by color line via Flickr

Image by chefranden via Flickr

Are You a Good Manager?

Several things struck me about that:

1. Completely obvious, but...
2. still very valuable.
3. Some things that seem completely obvious, once said (or written) still needed to be said (or written).
4. Authors deserve special credit for keeping a simple book short. This one was easy to read in a one-hour flight.

“Entrepreneurship and management are different things.”

I’ve never been much of a manager myself. That’s no big deal, of course; lots of people aren’t managers. In my case, though, people expected me to be, because I’ve had a lifetime of successful entrepreneurship. But entrepreneurship and management are different things.

I don’t think I’m alone. I’ve just been browsing the Amazon.com site. Small and simple books like that one sell lots of copies to lots of people. *Who Moved My Cheese?*, another that fits that description, sells phenomenally well. It’s in the top 300 at Amazon.com

What makes a good manager? Is it confidence, relative certainty, good communications skills, comfort with authority? I just read *How to Be a Great Boss* on a blog ironically named “Dumb Little Man.” And it’s a good list, too, but not surprising. Standard stuff: listen, communicate, say “Thank You.” And this one: bring food and arrange treats. What is this, kids’ soccer?

Are You a Good Manager?

Thinking about it, I want to ask the experts some questions back: what makes a good manager?

1. Is it getting things done?
2. Getting other people to get things done?
3. Is it doing the company's bidding?
4. Being well liked?
5. Advancing your own career?
6. Inspiring people, or leading them?
7. Coordinating a team?
8. Is a good manager able to do the work instead?
9. Do you have to know how to code to manage programmers?

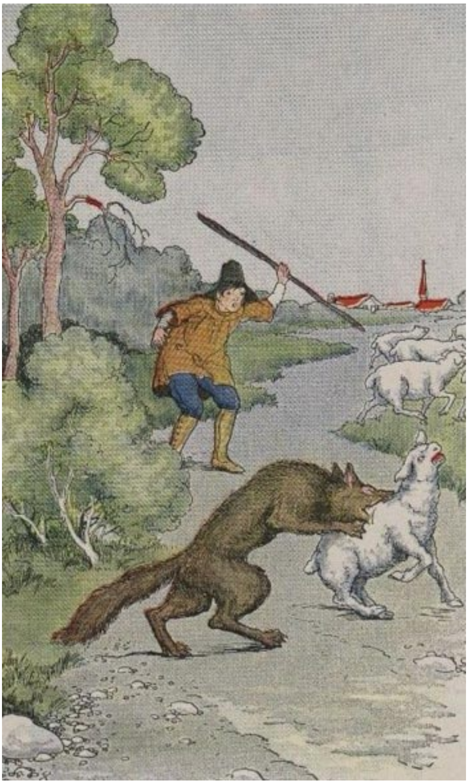
And some really fundamental questions: is a good manager liked, hated, respected, feared, or all or none of these? Is it possible to lead people to higher productivity and the greater good of the business while being disliked? Is it possible to do that while being universally liked? Does a good manager have friends, allies, enemies, bosses, underlings, followers, or minions?

Is it about carrots or sticks, or both?

Proper Care and Feeding of
People who cry Wolf

Remember the kids' story, the boy who cried wolf? He did it two times, no wolf, so the townspeople ignored him the third time, gulp?

Take a look at my previous post, Are You a Good Manager? How Can You Tell? I think I know one element of good management: taking care of the people who cry wolf. In fairy tales, crying wolf is a bad thing. In management, dealing with employees in a company, it's a good thing.



(image credit: wikipedia. An illustration from a 1919 anthology, by Milo Winter)

Crying wolf means sounding false alarms. Saying something isn't working. The messaging is wrong, production is faulty, customers are getting the wrong idea, the

People Who Cry Wolf

> "People who sound alarms are sticking their necks out, risking the comfort of saying nothing, to suggest something's wrong."

parking lot is icy, or whatever. And I've learned, in some 30 years managing people, that you should treasure the employees who care enough to sound the alarms. And in business, not fairy tales, a false alarm isn't such a bad thing because it wakes you up, makes you think, keeps you alert. It takes just an extra touch of reaction to check, find the alarm false, or not. And checking isn't a bad thing. And people who sound alarms are sticking their necks out, risking the comfort of saying nothing, to suggest something's wrong.

Consider this: what's the harm of a false alarm in a business setting? How many false alarms are worth it if just one of them turns out to be real? False alarms are part of a good process in business.

So, do you want to be a good manager? When somebody in your business cries wolf, note it, make sure that person knows you're glad they did, especially when there's no wolf. Because you want them to cry wolf, again, the next time. And if you say nothing, they're going to feel foolish, and not do it again.

And if you want to know you're a bad manager, consider this: are there people in your organization not telling you when they think something is wrong? Why wouldn't they tell you? What happened the last time they did?

Tell Business Truth

Even When it's Painful

No joke: sometimes it's really hard to just tell the truth. I've been there many times before.

For example, you're a professional, whether that's accountant, attorney, or management consultant, and your client wants the wrong thing. Customers might always be right, but clients aren't. And when clients are wrong, you have a tough problem, because it's no fun to contradict a client, but if you don't respect your professional expertise then you're essentially worthless. Few people actually pay for bad advice on purpose.

Or, as another example, you're on a job as a functional expert, and your boss wants to do something related to your area against your better judgment. Do you say so? Yes, you almost have to, because otherwise, like the professional expert, you're long-term useless.

There's no doubt that these can be hard moments. And you know it happens sometimes. Maybe more than we'd like to admit. I had the experience often as a consultant. I

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Tell Business Truth

know the feeling of the lump in your throat, thinking it through, you want the consulting job.

Behind the scenes, it's really an intelligence test for the boss and the client. Do they have the sense to listen to somebody else's expertise? I don't know about you, but the people I've dealt with who knew everything actually just didn't know what they didn't know, and they were worse off for it. And so were their businesses.

So point one: tell the truth. It might be hard on the short term, but it's way better on the long term. Just remind yourself, the truth is better for your client, better for your boss, and better for the organization.

And point two: do it right. Do it respectfully, and privately, and with a mind open for discovering why in fact the client or boss has considered some other angle you haven't thought of. Never say no to a chance to learn something new.

Three Simple but Powerful
Rules for Negotiation

Seems like negotiation week for me. I published one post about Seth Godin's take on business development, and then another on how win-win is the only win in business negotiations. That leaves me thinking about negotiations I've been involved in, things that have worked, and things that haven't worked. And I end up wanting to post the three rules here, because it seems like they always work.

Disclosure: I've never taken a negotiation course; not the ones they advertise in magazines, and not one in business school either. These rules are things I learned the hard way.

1. How does it feel to be them?

Call it empathy. "Walk a mile in their shoes" is a good old-fashioned saying. I know a lady who would say "see it through my eyes." There's no substitute for understanding the other side of the negotiation. What are they thinking? And, by far the most important, what do they want?

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2. Find the win-win

There are no zero-sum games in long-term business deals. You have two winners or two losers,

Rules for Negotiation

never just one winner and one loser. Sure, you might be able to get that kind of a victory (we win, you lose) in a negotiation sometimes, if you make that a goal … but that won't last. Businesses wise up. Relationships that aren't good for both sides don't last.

So look for that in every negotiation. How can they get what they want, and you get what you want? Maybe both sides get slightly less, but both win. That's the goal.

3. Negotiate before the contract, not with the contract

The most common mistake in negotiation is dealing with the legal contract. First, you have to realize that only a tiny minority of legal contracts ever determine anything. You have to sue for breach of contract to make a contract really matter, and if it comes to that, you already have a disaster. The vast majority of disputes are dealt with by discussion, revision, and, for the really hard ones, mediation.

I'm not an attorney, so don't take this as legal advice. In practical experience, though, what I've seen that works is that you get all your terms straight first in simple memos (yes, definitely, written; just not legalese) and then do the contract. The contract is the last step.

Grow Your Business

What makes a business grow? Is it planning, maybe? Or focusing on the critical elements, the most profitable lines of business, and the best customers? Or is it expanding into new areas?

It's hard to generalize. Sometimes the best and healthiest growth is achieved by selling more of the same to the same people, more dollars per customer. Sometimes the best growth comes from lighting out into new areas, new markets, and new business offerings. It all depends on the specifics of your organization, your strategy, and your resources.

There are also a lot of clichés, so much we take for granted, and way too many false myths. You have to do it your way. Every company, every situation, is different.

Articles in Grow Your Business:

Gather Your Team

I received an email this morning from Mike Anderson of Partnerup.com, a relatively new venture from Minnesota that's intending to match up entrepreneurs with potential employees, board members, advisers, and team members. It's a nice-looking site and a good idea. I'd like to see it reach critical mass.

Starting a business isn't necessarily a team sport. Of the 26 million or so businesses in the United States, something like 20 million have no employees. So lots of people are running their one-person bands and home office businesses by themselves. There is potentially a lot of satisfaction in that, no doubt. I speak from experience. My business was a one-person home-office consulting business for almost a decade before it became the software business that it is now (Palo Alto Software).

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Still, the importance of teams is often misunderstood.If starting a business isn't always a team sport, growing a business is. Even the one-person business becomes a team when it grows. I was on the radio recently with Jim Blasingame, who (you probably already know) is a very

Gather Your Team

successful one-person business called the Small Business Advocate. I've been doing radio with Jim for 10 years now and I've watched him grow what was originally a one-man business to a team of three or four employees, and more recently contractors doing Web development, and create an alliance with IBM at askjim.biz. This is one good example which comes to mind. Jim is growing a team.

> "You don't have to sell well if you have somebody on the team who does. You don't have to know the industry inside out if you have somebody on the team who does."

Teams are so often the answer to the entrepreneur's questions. You don't have to know everything and be everything and do everything to own your own business. You have to understand how to gather a team. You don't have to live the numbers if you have somebody on the team who does. You don't have to sell well if you have somebody on the team who does. You don't have to know the industry inside out if you have somebody on the team who does.

I've written often about how a business has to develop its identity, focusing on what it does well. The entrepreneur should to that too. If you can't do everything (and who can?) then you should be building a team.

Understand which are the key elements for your business. Every business is different, but most businesses need somebody to run the numbers, somebody to market, to sell, and to deliver or produce what you're selling. And in the real world of business in the United States today, between the litigious nature of our culture and the intricacies of taxation, you almost always need to have an attorney and an accountant you can trust.

Can you be all of these things? Hats off and congratulations. If not, think about gathering a team.

Kick-start the Planning Process

Last week I met with two smart people looking to kick-start a better planning process for an existing organization. The question at hand was what to do first. My answer was:

First, start by scheduling plan reviews and course corrections. Figure out who's participating, how, and when. Assume this means a 90-minute monthly meeting for the key management team, and a two to three hour thrice yearly meeting for upper management and board of directors. Modify that as needed to accommodate the unique characteristics of your organization. Put the meetings on the calendar.

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Second, develop metrics. The planning needs metrics to drive it, so people can track how they're doing and refer back to

the plan as the performance guideline.

Notice that my two key points are not about the plan: not about its content, its format, its framework, or facilitation, or how long it is or isn't.

These are actually the planning equivalent to the gardening concept of preparing the soil before you plant. Don't waste seeds if they aren't going to grow. And, regardless of what will be the content of the plan, eventually, with these two points you work first to make sure, at least as much as you can, that there will be following up so the plan will make a difference.

It's a reminder to me how much of the success of planning is about the people rather than the plan. People love to work with metrics to show their performance. And people care more about following up on plans when they know that somebody will be reviewing the results.

For Great ROI, Remember
Existing Customers

That — the title to this post — might seem obvious, but we forget so easily, as we struggle to grow the business, and especially as we contemplate an economic downturn (free-fall?). The best ROI is selling more per customer to existing customers.

I think I learned this first back 15-20 years ago when I was working a lot with U.S. computer dealers, before the Internet took off, when many of the smaller home-grown resellers were getting squeezed by the growth of the office superstores.

It turned out, as we studied the situation, that they were leaving lots of money on the table, not taking care of existing customers. For example, one of the best promotions I ever saw was a smaller store getting back to all of its customers and offering them memory upgrades and hard disk upgrades as a special sale. It was an instant bottom line boost.

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Existing Customers

I was reminded of this last week by a post on Seth Godin's blog about the magic of low-hanging fruit. Here's a quote:

> *Simple example: It's way more profitable to encourage each of your existing customers to spend $3 than it is to get a stranger to spend $300. It's also more effective to get the 80% of your customer service people that are average to be a little better than it is to get the amazing ones to be better still.*

Yes. And, particularly in a recession, it's really good business.

The Free Prize and

The Fishbowl

The first time I took our company to exhibit in a trade show we brought along a big plastic fish bowl with a sign that said: "Free Drawing! Drop your business card in the bowl for a free copy of Business Plan Toolkit®."

Three days later we had four fishbowls full of business cards. Business cards, business cards, and not a lead among them. Fortunately we typed in only a few hundred names and sampled the marketing results before we spent the resources to input thousands. The list was useless. None of the people sampled wanted our product.

The following year we took the same product to the same trade show, and brought the same fish bowl too. That second year, however, we put a sign by the bowl that said: "For more information about Business Plan Toolkit, drop your business card here."

After that trade show we ended up with a few hundred good leads. We input the data and followed up and made some sales.

I've used this story often in teaching and seminars and managing my own company because to me it illustrates the importance of target marketing and focus. In this example, quality of leads is much more important than quantity.

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The Fishbowl

Thousands of bad leads are worth nothing, while a few hundred good leads have real value.

This is about selling business plan software. Not everybody wants business planning, and those who don't aren't good prospects. It's hard, or expensive, or both, to sift through a lot of leads to find those who have real interest.

"Do you sell to everybody? Or do you sell to a specialized group? What kind of fishbowl do you want?"

A few years later the fishbowl story helped our marketing team recognize that we didn't want mysterious banner ads or free prize offers that generated lots of clicks and few prospects. We wanted to attract the few interested people, not huge numbers of people who couldn't care less.

What distinguishes the good leads from the bad leads is their interest. People walking the aisles at a trade show will drop their business cards in any fish bowl offering something free. We didn't want a lot of cards. We wanted cards from people interested in our specific product, business planning software, and not cards from anybody. The marketing follow-up was expensive, whether it was inputting data from business cards or mailing information, and the marketing yield was good with well-targeted prospects and bad with generalized prospects.

Some businesses depend more on targeting than others. Think about that for your business. Do you sell to everybody? Or do you sell to a specialized group? What kind of fishbowl do you want?

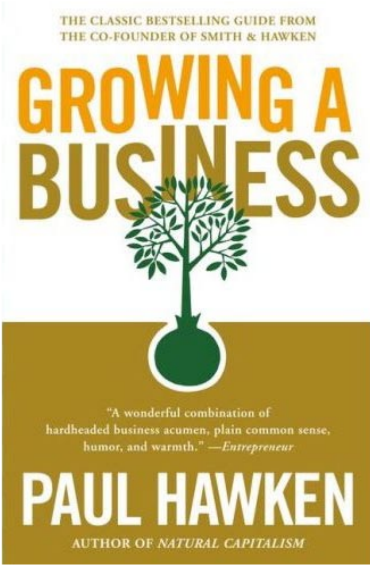
For the record, since I like the idea of true stories, this actually happened in 1988 and 1989 at the MacWorld expos in San Francisco, and the product was Business Plan Toolkit®, ancestor of Business Plan Pro®.

Growing a Business

I realize it's a bit out of date, a 1987 book, but Paul Hawken's *Growing a Business* is still my favorite business book. It's the first one I recommend.

Hawken tells real stories of real businesses wrapped around people doing what they like because they like doing it, they think it should be done, and the doing of it flows simply into the logic of filling needs and offering value. Two guys in Vermont get involved with their ice cream. They start selling it. It ends up being Ben and Jerry's Ice Cream. It's a great story.

They aren't all bearded ex-hippies. The stories include a bank in Palo Alto, Patagonia (outdoor clothes), Apple Computer, etc. What they have in common is a sense of organic, natural growth from the foundations of doing what you want to do, when that's something that other people want to have done.



It helped for me that I was a customer of the bank in Palo Alto, and

of Ben and Jerry's, Patagonia, and Apple, and my wife loved buying at Smith and Hawken. I believe in the underlying idea that businesses depend on value — value to the customer — and values — the people in the business have to believe in it.

The business in this book isn't what you learn in business school. It's what you want to do. It isn't about building a business to make money, but rather building a business because it should be built and you want to do it. With that kind of foundation, it seems — and I've seen for years now, with hundreds of different business — it grows.

P.S. I shared the podium with Paul Hawken in the late 1980s, at Apple, when I was speaking on business planning and he was speaking about the ideas behind this book. He seemed a man whose persona was based on ideas, on the underlying values. I'm not surprised at the way his career has gone since.

The Fresh Look

Back in the 1970s when I was a foreign correspondent living in Mexico City, I dealt frequently with an American diplomat who provided information about Mexico's increasing oil exports, which were a big story back then. We had lunch about once a month. He became a friend.

Then one day he told me he was being transferred to another post because he had been in Mexico too long. "What? but you've only been here for three years," I said. I was disappointed for two reasons. "You've barely learned the good restaurants!" He explained to me that the U.S. foreign service moved people about every three years on purpose. "Otherwise we think we know everything and we stop questioning assumptions," he said, "that's dangerous."

I remember that day still because I've seen the same phenomenon so many times in the years since, in business. We — business owners and operators — are so obviously likely to fall into the same trap. Our business landscape is constantly changing, no matter what business we're in, but we keep forgetting the fresh look. "We tried that and it didn't work" is

flickr user Dante Busquet

The Fresh Look

a terrible answer to a suggestion when a few years have gone by. What didn't work in 2000 might be just what your business needs right now. But you think you don't have to try again what didn't work five years ago.

This is why I advocate the "fresh look" at the market at least once a year. Existing businesses that want to grow too often skip the part of business planning that requires looking well at your market, why people buy, who competes against you, what else you might do, what your customers think about you.

flickr user Mike Baird

Think of the artist squinting to get a better view of the landscape. Step back from the business and take a new look. Use the standard Know Your Market techniques and content, just applying it to your business, not a new opportunity.

Talking to customers — well, listening to customers, actually — is particularly important. Don't ever assume you know what your customers think about your company. Things change. If you don't poll your customers regularly, do it at least once a year as part of the fresh look. As an owner, you should listen to at least a few of your customers at least once a year. It's a good exercise.

The Fresh Look

For creativity's sake, think about revising your market segmentation, creating a new segmentation. If, for example, you've divided by size of business, divide by region or type of business or type of decision process. If you've always used demographics, use psychographics.

Remember to stress benefits. Review what benefits your customers receive when they buy with you, and follow those benefits into a new view of your market.

Question all your assumptions. What has always been true may not be true anymore. That's what I call the fresh look.

iStock photo

The artist takes a fresh look at the scene every time paints it. How many times has this man seen the banks of the Seine? It doesn't matter, because he takes the fresh look every time. The business needs to take a fresh look at its market and its strategic situation at least once a year.

Where to go from here

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About the Author

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You can keep up to date with his latest writings on entrepreneurship and business planning on his blogs:

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