LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

WIN @ BIZ®

"IF I KNEW THEN...": CASE STUDIES THAT COULD SAVE YOUR BUSINESS

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Growth & Business Coach

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WIN AT BIZ®

BOOK 1 SUPPLEMENT
"IF I KNEW THEN...": CASE STUDIES THAT COULD SAVE YOUR BUSINESS

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WIN AT BIZ, BOOK 1 SUPPLEMENT

"IF I KNEW THEN…": CASE STUDIES THAT COULD SAVE YOUR BUSINESS

The real business world is often much different than the one you imagined while writing a business plan. The business models in this supplement portray real situations in a competitive business market that various start-up companies encountered when they set out to make a profit. From these examples you can learn what questions to ask before you invest precious time and money into a new business; you can also learn what questions to ask after you have started your business, and have begun developing a successful business model. I hope these stories will show you some of the characteristics that make some successful and others into failures.

You'll see how businesses must adapt to the supply-and-demand forces in the marketplace and change direction, many times completely changing the face of the company in order to survive and succeed. With knowledge, it is possible to ask many of the right questions before you venture into a new start-up. Even so, unfortunately, you often cannot get all the answers without actually doing business in the real world economy. Once you begin to experiment, you can gather firsthand supply-and-demand data to build a more successful business model.

The time at which you enter the marketplace is a critical factor in success. More mature business categories—ones that are well-established and teeming with competition—may offer more challenges. I was once asked, "How can I decide what would be a good business to start?" It was a great question. Hopefully the points in Book 1 and the examples here will help you make well-informed decisions about your business model. When you consider how much time and money you'll have to invest in a business venture, it seems prudent to acquire as much knowledge as possible. It is how you can make educated decisions early in the process—rather than in hindsight, which is always 20/20.

I hope you enjoy reading about the following experiences of other entrepreneurs, and learn from their struggles, disappointments, failures, and successes.

Amcom Corporation: Business-to-Business

Service and Product

Amcom Corporation was in the planning stages in 1982 by Del Johnson and his business partner, Jack Collins. The products to be sold or leased would be used IBM mid-range business computers, peripherals and features; their target market was focused primarily on large retailers, insurance companies, multinational manufacturers and banks that needed distributed data processing and communications in locations away from the home office mainframe. The total used IBM computer product market was estimated to be $20 billion in the early 1980s.

In order to improve operating efficiencies, mid-size businesses were constantly demanding upgrades and more efficient computers, but not necessarily at the non-negotiable price of a new IBM computer. The price spread between the price of a new IBM computer and a reconfigured used computer offered significant savings. When you consider that electronic products are unique because the used system has almost the same life expectancy, reliability, and function as a new system, the price difference became a real selling point. As a result, even though there were a number of competitors in the used marketplace, the demand for reconfigured used computers was substantial.

The used computer products that Amcom offered for sale many times were acquired nationally from the end-user with whom Amcom was doing business. In other words, when an Amcom prospect wanted to upgrade its computer system, Amcom would take the customer's computers in trade as part of the transaction. This strategy allowed Amcom to acquire inventory with very little front-end investment during their start-up years. Amcom would also purchase inventory nationally from end-users who were doing trade-ins, going out of business, or merging with an acquirer that used computers other than IBM. Amcom used a third party to store its inventory and configure the sold systems. Products were shipped via a padded van or courier and a local technician was hired to do the install. All sales were consummated with a formal contract and a down payment; leasing alternatives were also offered.

Two key questions that needed to be addressed in the planning stages for Amcom were: "What is the real demand for the product?" and, "Is the market large enough to achieve sales volume objectives based upon the amount of existing competition?"

The partners had critical inside information to confidently formulate accurate answers to both of these questions, as they had direct exposure to the industry. Del's partner was selling used, reconfigured systems to mid-size businesses for another company, and Del was a financial officer at a bank that created leases and loans for the mid-sized businesses buying the used computer systems. They were both experiencing the supply and demand of the marketplace firsthand; therefore, they were both confident that the market size and demand were large enough to generate the required revenue.

Amcom focused its business model on satisfying three objectives to beat the competition: price, availability, and reliability. Integrity was paramount, as Del and his partner had witnessed firsthand their clients' frustrations with the unprofessional business practices that were so widespread in this new industry. They were confident that excellent customer service would generate the reputation and word-of-mouth advertising that would capture market share. Ultimately, the company's customer list of successful installations proved to be a key factor in the end-users' decision-making process.

Since their product niche was price-driven relative to the price of new computer systems it was important to deliver real savings. Being a new business with a very low fixed overhead allowed Amcom beat the competition on price. Its strategy for maintaining its price advantage was to structure the outsourced companies (mentioned earlier) to provide storage, technical reconfiguration, and installation of the computer systems.

Amcom's target market was easy to identify; the best marketing method to reach its customers was a direct one. Nationwide marketing efforts focused on reaching larger users via direct mail from industry lists and personal telephone contact. Amcom reached smaller users primarily through their independent software vendor/consultants. The initial contact with consultants was through advertisements in trade publications, direct mail, and phone solicitation. Once it developed any lead, Amcom supplied its prospect with written price quotes to help them make informed purchasing decisions. This direct marketing strategy allowed Amcom to control the number of leads generated, be as aggressive as they desired, and out-market their competition.

What was the risk to this business model? There was no large capital investment required for start-up inventory, a physical plant, or funding of a large payroll. Amcom could become a viable competitor by starting small with a low monthly fixed overhead. The average sale in this market niche was $15,000 to $30,000, with payment to Amcom generally in cash. Inventory accumulated from trade-ins at a relatively low cost basis every time a sale was made. From their previous business relationships, both Del and his partner were confident that they already had clients that could be developed into Amcom customers. They concluded that the risk to their business model was very low.

The only apparent negatives of this business model were the lack of a continuous revenue stream and the accounts receivable credit risk from lease financing. All their revenue growth would have to be generated from upgrades to clients' current systems, and also from an aggressive marketing program to find more new customers.

The partners had inside knowledge of the business they were about to enter so there were not a lot of unknowns. They already had relationships with many of their future customers. The financial risk was minimal. The potential revenue generated from an average sale, minus the low overhead, offered excellent odds of immediate profitability. The target market was very large and Amcom could offer real benefits to their clients in both price and customer service. All the intellectual labor that would be needed could be outsourced. Because the product was going to be marketed by direct methods, Amcom could develop as many prospects as it desired. Amcom's customer did not have to leave the convenience of their office to make a purchasing decision. There was no concern about acquiring the necessary parts, because every time Amcom made a sale it generated more parts inventory from trade-ins.

I asked Del what his passions were for starting this business venture. His answer was the desire to become an independent businessperson with the opportunity to control his own financial outcomes.

Advantages

1. Amcom's product would take on a proprietary nature with the customization of every mid-sized computer system.
2. The product was needed and wanted by a variety of businesses. Without upgrading their computer systems for efficiency, these companies would fall behind their competitors.
3. The founders identified two areas where they felt they could beat the competition and deliver real benefits to their customer: service and price.
4. The product and service that Amcom was selling was already proven to be accepted in the marketplace.
5. The founders knew where their price points had to be to capture market share.

6. The marketplace was relatively young and, as a result, was composed of moderate competition that was not well organized or professional.
7. The size of the market was very large nationally; however, it was already attracting moderate competition. The founders were confident they could beat the competition to capture market share.
8. The target market was easy to identify.
9. Direct marketing was an optimal marketing method and would allow complete control over lead generation.
10. The potential customers would never have to leave the convenience of their offices to make a purchasing decision.
11. There was little financial risk, given the way the business model and expenses were structured.
12. Both founders were working inside the industry and could develop a working business model without a lot of guesswork.

Disadvantages

1. The original business model did not develop a continuous revenue stream that would automatically reoccur from a sale.
2. The product could not easily be sold by people without a specific level of knowledge and experience.
3. Their was receivable risk to the equipment leases.

Summary

Amcom got off to a great start; it was profitable the first month, successfully captured market share, and prospered financially. The initial business model performed profitably in this product niche until the late 1980s, when personal computers became more efficient. As the power of personal computers improved, mid-sized corporations had less need for the more expensive mid-sized computer systems. As a result of these technological advances, Amcom's product niche and market niche were gradually disappearing.

During this period of technological change, Amcom entered a new, yet related product niche and also developed a new revenue stream from their existing parts inventory. Many of Amcom's clients were operating point-of-sale computer systems (cash registers) that were being supported by Amcom's mid-sized computer systems in the back room. To develop additional revenue with their existing clients, Amcom applied the same business model to point-of-sale computer systems.

The second product niche Amcom developed was the accumulating inventory of mid-sized computer parts from several years of trade-ins. Even though demand was dwindling in the United States for the mid-sized systems, IBM still had service warranties to honor on mid-sized systems in other countries. As IBM was changing their parts inventory with the advancing technological curve, they stopped manufacturing parts for the older mid-sized computers. In order for IBM to service the warranties of these older computer systems in other countries, they needed to call upon Amcom, which had one of the largest parts inventory in the United States for older mid-sized computers. As Amcom's original product niche was disappearing in the early 1990s, they were fast becoming leaders in updating and reconfiguring point-of-sale systems, as well as becoming a parts supplier for mid-sized computers internationally.

As Amcom's product niche and target market changed, Del also had to change the company's structure to meet the demands of the marketplace. As Amcom continued to address the market's demand for point-of-sale computer systems, it found the company gradually developing very close service relationships with a number of large national and international companies. Its parts inventory and knowledgeable customer service technicians were now the assets driving Amcom's growth. As a result, Amcom could no longer outsource its warehousing, storage, or technical labor functions. It had to perform these in-house in order to deliver the quality of service that its customers expected. This meant absorbing an economic responsibility for a large piece of real estate to warehouse the inventory as well as a large staff of computer technicians. To attract the technical expertise needed in a very competitive labor market, Amcom offered stock ownership incentives via an ESOP as well as other desirable benefits. By 1997 the business had grown to approximately $30 million in sales with 100 employees.

As the Amcom business model adapted to the changing marketplace, there were two client benefits that made the company unique and remarkable in the marketplace. First was Amcom's ability to acquire parts inventory in a unique market niche that positioned the company to be almost an exclusive international source for the repair and upgrade of point-of-sale systems. Second were the close relationships and interdependence that Amcom created with its clients, thanks to the superior performance of its customer service systems. Due to those remarkable customer service systems that Amcom delivered, clients developed a dependence on the company for service, which created the continuous revenue stream that was missing in its initial business model.

Amcom is a good example of a business model that had to adapt to a changing business environment in order to survive. To survive long-term in the ever-changing capitalist economy requires an open-mind, insight and ability to see new opportunities, and the flexibility to accept change.

26-Point Evaluation Test, Applied

<u>Product Risks</u>

1. **Demand:** Is the purchasing priority high; i.e., does the consumer have a real need for product?
   Comments: The owners worked inside the industry and were experiencing the demand firsthand.
   Ranking (*good*, *average*, or *poor*): Good

2. **Easy to sell:** Is the product easy to understand, and require very little consumer education?
   Comments: Product requires education to understand the potential benefits. The owners would initially conduct all sales transactions.
   Ranking (*good*, *average*, or *poor*): Poor.

3. **New product:** Is there a real demand?
   Comments: This was not a new product.
   Ranking (*good*, *average*, or *poor*): Not applicable

<u>Competitiveness of Strategic Position</u>

4. **Maturity of market:** Is there room in your market for you? The lower the level of competitive saturation the better.
   Comments: The owners are aware of a fair amount of existing competition.
   Ranking (*good*, *average*, or *poor*): Average

5. **Product uniqueness:** Will customers be able to separate your product from the competition's?
   Comments: This is a customized product that relies on a high degree of specialized knowledge and customer service support. The level of personalized service the owners intend to deliver will separate Amcom from the competition.
   Ranking (*good*, *average*, or *poor*): Good

6. **Unique sales process:** Does your sales process stand out from the competition?
   Comments: The sales process is not unique to the industry, however, the owners were the sales consultants which would be a positive.
   Ranking (*good*, *average*, or *poor*): Average

7. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments: Their delivery process is not unique within the industry, however, it was effective.
   Ranking (*good*, *average*, or *poor*): Average

8. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments: The owners will provide the primary touch point, which will differentiate Amcom from the competition.
   Ranking (*good*, *average*, or *poor*): Good

Customer Perception of Value

9. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
   Comments: Amcom will be able to deliver a lower priced product with custom features at a higher level of customer service support.
   Ranking (*good*, *average*, or *poor*): Good

10. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments: It was not an emotional purchase.
    Ranking (*good*, *average*, or *poor*): Not applicable

11. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?
    Comments: Having worked inside the industry, the Amcom owners were able to identify the frustrations within the marketplace (not delivering or supporting what was promised) and offer solutions to beat the competition.
    Ranking (*good*, *average*, or *poor*): Good

Revenue Potential

12. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments: Having worked inside the industry, the owners know the price points in the marketplace. Amcom will be enhancing the value by being able to offer pricing under the market due to a lower cost structure.
    Ranking (*good*, *average*, or *poor*): Good

13. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments: The owners are aware of the average unit selling price and will require very few sales to be profitable their first year.
    Ranking (*good*, *average*, or *poor*): Good

14. **Market size:** Relative to the competition, are you confident that the size of your target market is large enough to generate the required revenue?
    Comments: Working inside the industry, the owners of Amcom know the market size is sufficiently large.
    Ranking (*good*, *average*, or *poor*): Good

15. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments: Customers may require upgraded products in the future, however, this is not a product that creates a continuous revenue stream
    Ranking (*good*, *average*, or *poor*): Poor

16. **Cross-selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments: There is not a host of additional products available to generate substantial amounts of revenue.
    Ranking (*good*, *average*, or *poor*): Poor

<u>Marketing Effectiveness</u>

17. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments: Prospects are easy to identify and reach.
    Ranking (*good*, *average*, or *poor*): Good

18. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments: Telephone contact, direct mail, or trade shows proved to be a very cost effective method to develop prospects and procure a sale.
    Ranking (*good*, *average*, or *poor*): Good

19. **Purchasing convenience:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments: The product was convenient for the buyer to purchase at his or her place of business. A full disclosure of pricing and custom specifications were made available to the prospects to build purchasing confidence.
    Ranking (*good*, *average*, or *poor*): Good

20. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments: The unique benefits could be stated concisely.
    Ranking (*good*, *average*, or *poor*): Good

<u>Profitability Risks</u>

21. **Margins:** Do you have a strategic position relative to competition that allows for high margins?
    Comments: Margin potential was excellent due to the low fixed costs structure.
    Ranking (*good*, *average*, or *poor*): Good

22. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?
    Comments: The operating costs were low relative to the revenue generated.
    Ranking (*good*, *average*, or *poor*): Good

23. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
Comments: Since the revenue stream was not continuously recurring, the same costs continued in the pursuit of new revenue.
Ranking (*good*, *average*, or *poor*): Poor

24. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
Comments: Customer service after the sale was minimal and was included in the outsourced installation price. Hence no surprises.
Ranking (*good*, *average*, or *poor*): Good

25. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
Comments: The start-up business model had very few fixed expenses.
Ranking (*good*, *average*, or *poor*): Good

26. **Capital requirements:** Is your potential dollar revenue high relative to your initial capital investment?
Comments: Their start-up investments were marginal while revenue potential was high.
Ranking (*good*, *average*, or *poor*): Good

Plantscape Inc., Business-to-Business

Service and Product

Bryce Peterson founded Plantscape in 1974 with his brother. Bryce obtained his degree in landscape architecture, working as a landscape architect during college. He was eager and passionate about the idea of becoming a financially successful individual right out of college. He wished to be independent and in control of his own financial future, and had an overriding desire to excel and be the best at whatever he was marketing. Like all successful people who have strong passions, Bryce never thought once about the sacrifice of personal time that would be necessary to succeed.

Three factors influenced Bryce's initial direction. First, he wanted to pursue his passion for landscape design. Second, his experience as a landscape designer taught him that he could not reach his financial goals by limiting himself to selling only his time as a landscape architect. Third, he decided he needed to be selling a product or service that could create a recurring revenue stream.

A new fad in the marketplace in the early 1970s was decorating with live, green plants. People were filling their homes with live greenery and there was a sufficient number of retailers to meet the demand. In 1974 Bryce developed his initial business model. His company, Plantscape, would target commercial buildings with an interior landscape design service, including both the product and maintenance. Bryce's education in landscape design would allow him to use his talents to decorate and design commercial interiors with live plants. Plantscape would supply and install the plant material, and then maintain and replace the plants on a regular service schedule.

The initial design work, installation, and continual maintenance service program was structured as a monthly lease payment. The leasing financial structure allowed the buyer to enter into the agreement with very little up-front cash while assuring Plantscape of a continuous revenue stream. In the early 1970s, this was a young marketplace with very little competition. Plantscape felt it could differentiate itself from its two competitors by offering a more professional design service.

The original marketing effort focused on direct mail literature to Plantscape's target market of owners of commercial properties. This initial marketing effort failed; however, Bryce quickly discovered that his best prospects were the owners of new buildings versus existing buildings. From that point forward, marketing efforts targeted new construction by obtaining permit information from the local building departments at various city halls. He pursued these prospects using direct marketing methods, as well as through networking with local commercial interior designers and attending local trade shows that targeted commercial builders. This direct marketing approach allowed Plantscape to develop relationships with as many potential customers in its target market as desired. Lead development was 100 percent within the company's control.

Plantscape offered a unique product and service to its target market because it was an all-purpose vendor. Plantscape could fulfill the client's needs by offering the professional interior plant design work, installation of the project and continued maintenance, all without a large front end investment. The overriding benefit to the developer was an opportunity to substantially improve the look and feel of the interior of the building at a minimal investment.

Unfortunately, in the mid 1970s, the target market of new commercial construction was not that large and Plantscape's revenue stream was minimal. For the first two years, the brothers both held full-time day jobs while they operated Plantscape out of Bryce's brother's basement with one phone line and an answering service. There were no employees, requiring them both to work on Plantscape late afternoons, evenings, and weekends. The structure of the expenses and the financial risk to this start-up was minimal.

In a search for additional revenue, the two brothers decided in 1976 to act on a referral from a friend to lease space from department stores and sell live plants out of boutique retail shops. This would require them both to work full time for Plantscape. The business model would require Plantscape to buy the plant inventory, hire the staff and manage the retail plant shops. The department stores collected the revenue and dispersed the funds to Plantscape after deducting their percentage fee for leased space and operating profit. The responsibility of Plantscape to inventory live plants for the retail shops required them to lease a warehouse for the inventory. In time, they decided to operate a small retail garden center out of this leased space to further enhance revenue.

In 1980 Plantscape expanded its garden center experience. Bryce pursued and successfully negotiated a leased garden center concept with a class-A department store chain in the metropolitan area. He closed the retail boutique plant stores in the other department stores. The new business model was identical to that of the leased plant shops: Plantscape would supply the inventory, hire and train the staff, and manage the retail garden centers. The department store would collect the revenue and disperse funds to Plantscape after deducting a lease and profit margin fee. These were major retail garden centers operating in several locations with large inventories, open 365 days a year from 10 a.m. to 9 p.m. The new garden center business model would create additional financial risk in underwriting the large inventory and increased fixed operating expenses.

By 1985 they realized the decision to enter into the retail garden center business was a mistake. Plantscape was not profitable and needed to change direction in order to survive. The original business model to design, sell, and maintain live plants in commercial building interiors was still in operation but had been neglected in favor of the time-intensive garden centers. The brothers decided to liquidate the retail garden centers and refocus the company.

Plantscape's commercial interior plant business had stagnated. Over its final ten years, new competition had entered the niche market of commercial interior design using live plants. In addition, artificial plants were now replacing live plants in some commercial interiors, taking market share away from Plantscape's live plant business.

Between 1985 and 1993 the company redirected its business model and focused revenue growth in four areas. First, the company expanded its revenue in its original business model of interior, live plant design and maintenance to commercial accounts. Second, Plantscape purchased a small, artificial plant manufacturer as a defensive move to meet the market's demands for cost-saving artificial plants. Artificial plants did not create a recurring revenue stream as live plant maintenance did, but created revenue and customers that Plantscape would otherwise not have gotten. Third, it developed a distributor to market their artificial plants nationally under a private label name. Fourth, Plantscape sold artificial plants directly to newly acquired government accounts.

Over a period of time, Plantscape learned the idiosyncrasies of the artificial plant manufacturing business. Operating inside the interior plant design business for over a decade, Bryce understood that a variety of plant materials were needed to create pleasing commercial interior designs. He took advantage of that knowledge to develop artificial products commercial customers needed while also differentiating the company's product from the competition. During the 1980s, Plantscape still derived the majority of its revenue from live interior plant design, installation, and maintenance to commercial accounts; but by the end of the decade, decorating with live plants in commercial interiors became the expected norm for class-A properties while artificial plants had developed a place in class-B properties.

The residential artificial market was very well-established and competitive at both the manufacturing and retail level, but the competition in artificial plants for use in commercial interiors was not very well-developed. To move as far away from the competition as possible, Plantscape decided to focus on manufacturing custom artificial plant creations to fulfill personalized, commercial interior plant designs. To differentiate itself further in the custom market, the company designed and manufactured large artificial trees to answer an unmet need in the commercial market. Large artificial trees were a practical product in live plant settings as well as in artificial interior gardens.

Prior to 1993, Plantscape was purchasing its components to assemble artificial plants and trees from U.S. manufacturers while the larger residential artificial plant manufacturers—such as dominant Pouliot Designs—were purchasing their components from China. Thanks to Bryce's networking skills, Pouliot Designs extended an offer to introduce Bryce to the Chinese manufacturers. From 1993 to 2008, Plantscape took advantage of its new Chinese suppliers to further differentiate and distance itself from the artificial plant manufacturing competition.

Plantscape differentiated itself from the competition by developing proprietary products in two ways. First, because the market for commercial artificial plants was quite small nationally, it was not profitable to hold finished plant inventory to meet the shorter delivery timelines commercial accounts demanded. With lead times of six months to get component parts from China, Plantscape developed a business model that inventoried the component parts from China and assembled custom plant and tree designs from personalized design plans. The entire process from planning to installation of a custom project could be completed in a reasonable amount of time, due to Plantscape's decision to inventory the component parts from China. The value was unprecedented because of the lower cost of Chinese parts, and also because the custom design and build model eliminated the need to inventory finished product. Building a custom product to the specifications of a professional, personalized design plan added to the uniqueness of the product.

Second, Plantscape developed fire-retardant artificial products to meet states' fire code regulations. The company specified the fire-retardant requirements to their Chinese manufactures, allowing Plantscape to inventory components that met various state fire codes. Few of its competitors could boast the same kind of inventory. Both of these product development decisions enabled Plantscape to develop proprietary products for its niche commercial market and further distance itself from the competition.

Plantscape has positioned itself to meet the needs of the artificial market with one-stop service from personalized design, custom assembly, and installation. The artificial side of the business targets hotels, museums, indoor theme parks, real estate developers, and casinos across the country. While decorating with live plants has now become the norm for most office buildings and malls, the focus of the target market remains local due to the service and maintenance that is required with the live plants.

In 2000, with its proprietary artificial products in place, the company decided to further expand its revenue nationally by selling directly to end users rather than to its one distributor. The company also brought in new talent to drive national revenues through an improved online marketing program. These two changes to Plantscape's business model, in conjunction with developing proprietary artificial plants, has dramatically increased revenue. In 2008 the company is now marketing its custom artificial products all over the world, doing 80 percent of its revenue in artificial plants, the majority of which are made from proprietary fire-retardant materials.

As is true with most successful businesspeople, the journey for Bryce has been a long, hard road. Success does not come easily. The passion Bryce had to succeed was so overwhelming that he never gave a second thought to the personal sacrifices that were necessary. His persistence and determination to stay in the game ultimately delivered success; he never gave up in his search for a business model that would generate profitable revenue. However, like Plantscape, your chances for success are greater if certain characteristics of your business model are favorable.

Advantages

1. The founder had specialized education and skills in landscape design and did not need to hire these specialized skills.
2. The original business model created a renewable revenue stream with its ongoing service to maintain the live plants.
3. The concept of designing, installing, and maintaining live plants in commercial buildings was a relatively young market with little competition.
4. The product and service could be marketed through direct marketing methods, which allowed the owners to go directly to their customers and control the success of lead development.
5. The business model resulted in low start-up costs with minimal overhead or capital investment.
6. The product was not truly a proprietary product; however, the fact that the indoor plant design was a personalized design gave the service a unique quality.
7. There were real benefits to the customer. Plantscape offered an opportunity to improve the eye appeal of an owner's real estate at a nominal cost; there was not a large front end investment required by the buyer due to the leasing structure of the sale; Plantscape offered a convenient one-stop shop providing planning, installation, and continued maintenance.
8. The maintenance service was already being offered in the marketplace so the owner knew that the business model could work.

Disadvantages

- The one disadvantage to the business model was the fact that it was a relatively new business concept and owners of existing buildings were reluctant to invest in indoor plant decoration. Additionally, the size of the new construction market, which was where acceptance proved to be greatest, was too small to generate sufficient revenue for the business model to be viable.

Summary

This business model had many positive characteristics. The one overriding negative was that once the target market was determined, the market size was too small to generate enough income to support two families. As the marketplace developed over the next 30 years in both live and artificial plants, the founders were able to develop proprietary products that appealed to a worldwide market niche. Like many business success stories, it is only because of unrelenting persistence, determination, and sacrifice over many years that the founders made their business fruitful.

26-Point Evaluation Test, Applied

Product Risks

1. **Demand:** Is the purchasing priority high; i.e., does the consumer have a real need for product?
   Comments: Owners of commercial buildings did not necessarily place a high priority on decorating the interiors of their buildings with live plants.
   Ranking (*good*, *average*, or *poor*): Average

2. **Easy to sell:** Is the product easy to understand, and require very little consumer education?
   Comments: The product was easy to understand although the benefits were difficult for some to justify.
   Ranking (*good*, *average*, or *poor*): Good

3. **New product:** Is there a real demand?
   Comments: Although there were a couple of competitors providing similar services, knowledge of real demand was poor.
   Ranking (*good*, *average*, or *poor*): Poor

Competitiveness of Strategic Position

4. **Maturity of market:** Is there room in your market for you? The lower the level of competitive saturation the better.
   Comments: This was a relatively new service; competition was limited.
   Ranking (*good*, *average*, or *poor*): Good

5. **Product uniqueness:** Will customers be able to separate your product from the competition's?
   Comments: Plantscape was successful at offering a business model that differentiated from the competition by offering a complete leasing package. The leasing package did not require a front-end investment, offered an improved design plan, installation and continued monthly maintenance.
   Ranking (*good*, *average*, or *poor*): Good

6. **Unique sales process:** Does your sales process stand out from the competition?
   Comments: The sales process was effective but was not unique relative to the competition.
   Ranking (*good*, *average*, or *poor*): Average

7. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments: The delivery process was effective but not unique relative to the competition.
   Ranking (*good*, *average*, or *poor*): Average

8. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments: The owner, who was a landscape designer possessing excellent sales and personal touch skills would differentiate the business model from the competition.
   Ranking (*good*, *average*, or *poor*): Good

Customer Perception of Value

9. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
   Comments: For property owners interested in interior plant design, the business model offered both superior design and leasing benefits which differentiated them from the competition.
   Ranking (*good*, *average*, or *poor*): Good

10. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments: There were no emotional benefits to the purchase.
    Ranking (*good*, *average*, or *poor*): Not applicable

11. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?
    Comments: The frustrations to the purchaser were eliminated with no up front investment and a complete turn-key, no-hassle program.
    Ranking (*good*, *average*, or *poor*): Good

Revenue Potential

12. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments: Due to existing competition, the acceptable price points were known.
    Ranking (*good*, *average*, or *poor*): Good

13. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments: The overhead was so low there was not a lot of risk if revenue targets were not accomplished.
    Ranking (*good*, *average*, or *poor*): Good

14. **Market size:** Relative to the competition, are you confident that the size of your target market is large enough to generate the required revenue?
    Comments: The owners did not know if the market size was large enough to generate enough revenue to support them.
    Ranking (*good*, *average*, or *poor*): Poor
15. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments: The continued monthly maintenance that supported the monthly lease payments created a continuous revenue stream.
    Ranking (*good*, *average*, or *poor*): Good

16. **Cross-selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments: In the original business model there were no opportunities to sell additional products after the initial sale.
    Ranking (*good*, *average*, or *poor*): Poor

<u>Marketing Effectiveness</u>

17. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments: Prospects (every commercial real estate owner) were easy to identify and reach.
    Ranking (*good*, *average*, or *poor*): Good

18. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments: The direct marketing to reach a prospect via telephone and/or direct mail was cost-effective.
    Ranking (*good*, *average*, or *poor*): Good

19. **Purchasing convenienc**e**:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments: The product was convenient for the buyer to purchase at his or her place of business.
    Ranking (*good*, *average*, or *poor*): Good

20. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments: The unique benefits could be stated concisely.
    Ranking (*good*, *average*, or *poor*): Good

<u>Profitability Risks</u>

21. **Margins:** Do you have a strategic position relative to competition that allows for high margins?
    Comments: Margin potential was satisfactory.
    Ranking (*good*, *average*, or *poor*): Good

22. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?
    Comments: Due to the nature of this heavily weighted service business, overhead was minimal relative to revenue.
    Ranking (*good*, *average*, or *poor*): Good

23. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
    Comments: After the initial sale and installation of the plant material, costs decline to provide monthly maintenance while lease payments continue.
    Ranking (*good*, *average*, or *poor*): Good

24. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
    Comments: Customer service after the sale is an important component of the sale and created the continuous revenue stream.
    Ranking (*good*, *average*, or *poor*): Good

25. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
    Comments: Except for a telephone and direct mail advertising, all of the expenses were variable.
    Ranking (*good*, *average*, or *poor*): Good

26. **Capital requirements:** Is your potential dollar revenue high relative to your initial capital investment?
    Comments: There were not any investments until a sale was made.
    Ranking (*good*, *average*, or *poor*): Good

DecoPac, Business-to-Business

Product

Mike McGlynn obtained a bachelor's degree in business finance and joined the family bakery business upon graduation from college in 1972. The bakery was founded by Mike's grandfather in 1919, having grown to a chain of free-standing retail bakery stores and in-store supermarket bakeries. Starting in the early 1960s, custom, hand-decorated cakes for special occasions were the most popular items. The hand-drawn icing decorations on the top of the cake often depicted Disney characters, holiday themes, or any other Hollywood figures that were popular at the time. Shortly after Mike joined the business in the mid-1970s, the McGlynns received a letter suing the company for copyright infringement of the Snoopy design. It was this single event, which appeared as a negative at the time, that would propel Mike to gradually change the face of the entire company.

To replace the hand-decorated icing drawings of the characters, the McGlynns began purchasing and stocking plastic, static toy decorations from U.S. manufacturers that were licensed by Disney and others to manufacture and resell popular children's entertainment items. The McGlynns also started purchasing and stocking generic plastic cake decorations from Asia. In the early 1980s, local bakeries inquired if they could start purchasing the plastic toy decorations from the McGlynns' local inventory. Mike had developed a passion for the family's bakery business growing up, but he was now starting to develop a passion to move the company in a new direction.

Mike's goal was to develop products that had a longer shelf life than 24-hour bakery goods. He was enthralled with the synergy of capturing the popularity of entertainment and sports properties and riding the wave of the Hollywood marketing machine. Mike's first experience with the power of riding a popular, established consumer brand began with a cookie. The bakery was experimenting with putting candy in a cookie. Hershey's polka-dot candies were purchased by the pound, put into the cookie, and given a marketing name. M&Ms cost considerably more than the Hershey candies, however, once the bakery started marketing cookies under the name "cookies made with M&Ms," the sales tripled. This initial branding experience is one Mike would never forget.

In 1982 he started a new business division separate from the bakery. Mike named the business DecoPac, which moved into a separate facility with the toy plastic cake decoration inventory. There was minimal financial risk to the new venture. DecoPac already owned the inventory and was currently selling toy decorations to McGlynns' bakery locations. Because the company was in the retail bakery business, it understood the needs and wants of its target market better than anyone, and knew the challenges of selling custom-decorated party cakes. The McGlynns' retail bakery division model was DecoPac's target market.

The target market for static, plastic cake decorations was easily identifiable and was literally every retail bakery store in the United States. The target market was not only a large, national market, but the competition in selling static, plastic cake decorations in the United States was also very limited. There were several East Coast importers distributing product nationally, but they were not well-organized in merchandising the product to the retail bakers' needs. There was one California company selling the plastic cake decorative products to the bakeries in kits. A kit refers to a small plastic bag containing only the plastic decorative items to decorate one cake to a specified custom design or order. DecoPac picked up on the idea, not only selling in kits but also developing point-of-sale aids for the retail baker.

The point-of-sale aids included a catalog of cake ideas to inform the consumer of what was available. DecoPac trademarked the catalog as "The Magic of Cakes."

Customers could now more easily select their favorite cake designs from the colored idea catalog right at their local bakery. DecoPac stocked for immediate delivery the decorative kits that matched up with the cake designs in the catalogs. Working inside the industry and having two decades of experience in marketing custom party cakes at the retail level was a huge advantage.

DecoPac's initial marketing efforts in the early 1980s targeted individual retail bakeries and supermarket bakeries throughout the United States. The marketing methods consisted of direct mail, advertising in trade magazines, attending trade shows, and phoning for face-to-face appointments with the larger supermarket chain buyers. The product and the target market matched up well with direct marketing methods and enabled DecoPac to focus its advertising expenditures. The products were easy for the baker and retail customer to understand and they were relatively easy for a new DecoPac salesperson to understand, as well. It did not take a person with specialized education, experience, or knowledge to sell DecoPac products.

By the late 1980s, DecoPac employed approximately 20 people, successfully establishing themselves in this relatively new market. Its advantage in the marketplace at this time was the inside knowledge of the baking industry, which enabled DecoPac to merchandise the decorative cake products more effectively than the competition. The company was also developing efficient systems to deliver a higher level of customer satisfaction than the competition. DecoPac was still purchasing generic decorative products from Asia and licensed products from the same U.S. manufacturers with whom it started in the early 1980s. The glaring problem for this developing company was simply that it had no proprietary product or protection. Literally anyone could purchase the same products DecoPac was purchasing and start the identical business model.

The Baskin-Robbins ice cream chain was starting to merchandise custom-decorated ice cream cakes and was, therefore, a potential DecoPac customer. Upon approaching Baskin-Robbins for their business, DecoPac was told that it would not be considered to be a vendor until the company had the licensing rights to sell the plastic toy Disney characters as well as other popular licensed products. The rejection by Baskin-Robbins jump-started Mike's desire to reevaluate the business model from a new perspective. DecoPac could not really protect its leadership role in this industry without obtaining the proprietary licensing agreements to market these intellectual properties.

DecoPac approached Disney with the following financial reasoning. DecoPac was currently purchasing a licensed toy product from manufacturer A for, say, $1. Manufacturer A possessed the licensing rights to manufacture and sell the Disney characters for which it paid, hypothetically, a 10 percent royalty to Disney on sales. DecoPac's financial reasoning to Disney was to maintain the licensing agreement with manufacturer A but to also license DecoPac and move the 10 percent royalty to DecoPac's selling price of, say, $2. This would double Disney's royalty income. After a few years of negotiation, Disney agreed to grant DecoPac licensing rights in 1991. This formula allowed everyone to be a winner. Manufacturer A maintained its exclusive manufacturing rights and income, Disney doubled its royalty income, and DecoPac obtained the proprietary rights to distribute the Disney characters. DecoPac's competition was locked out.

Once DecoPac had successfully secured the licensing rights to the Disney characters, the race was on to secure all the other exclusive licensing rights that were available. Having the Disney licensing rights gave DecoPac instant credibility in its pursuit of the additional licensing agreements and, as a result, the company was successful in obtaining the exclusive rights to distribute most of the popular Hollywood characters and all the major sports leagues.

By 1995 DecoPac had about 50 employees, but armed with exclusive licensing rights to half of the product line, Mike started to focus on further product development: retail point-of-sale merchandising, business-to-business merchandising, and systems development to grow the company's revenues and establish DecoPac as the number one provider of cake decoration products in the United States and Canada.

Under Mike's leadership, DecoPac's employees have continually advanced the play appeal of the product line from the original plastic, static toy figures to figures and scenes that tell a story. The product evolution then introduced "Photo Cake" which depicts actual art from the party's theme on the cake incorporated with an edible photo of the birthday celebrant. Today the product has evolved to popular Hollywood themes that incorporate sound and action to enhance the play appeal. The company is constantly improving the play appeal of its product line to maintain a leadership position over the competition.

DecoPac continues to advance the point-of-sale merchandising aids for the retail baker as well. The "Magic of Cakes" idea catalog has been vastly improved over the years to expose retail customers at point-of-sale to the multitude of custom decorative cake options available. DecoPac also develops artificial cakes with its most popular decorations for point-of-sale displays in retail bakery shops. In-store signage is supplied by DecoPac to kick off new movie introductions and newly licensed products. DecoPac's decorative cake products are cross-merchandised with American Greetings's and Hallmark's party supplies for the convenience of the retail customer. A consumer-friendly website is available for the retail customer to search the entire DecoPac product line. Every opportunity to help the retail baker sell more product and reduce consumer frustrations only improves DecoPac's edge over the competition as well as its sales volume.

DecoPac also strives to beat the competition with continued enhancements of ways to satisfy the retail baker's every need and want. DecoPac's business-to-business 315 page catalog and professional website are the best in the industry. The website offers every tool possible to make the retail baker's life easier, including online training, cross- merchandising suggestions and online ordering with instant inventory availability. Operating systems have been developed to satisfy the individual customers' wants and needs. For example, many retail chains have selected a limited authorized product list that demands special catalogs and special inventory control systems to fulfill their needs. Various customers have different demands for how they want their packing lists and invoices processed, which require efficient DecoPac systems to fulfill these requests. Merchandising and packaging systems have also been developed to meet the needs of the retail baker and its customer. A "custom cake design" packaging kit contains pre-determined pieces to decorate a cake. A "custom product design" packaging kit contains custom decorative products.

Systems have been developed to fulfill up to 3,000 orders per day, each with personalized packaged kits, shipping instructions, and personalized invoicing. The goal is to ship 100 percent of the orders the same day as received. Today DecoPac ships over 90 percent of orders the same day and 100 percent within 24 hours. If there is a mistake or problem, systems have been developed to rectify the problem quickly to the customer's satisfaction. This management example illustrates the benefits of listening to what your customers really want and then developing custom systems to satisfy those wants. Customer wants will always take you down the most difficult path, but every time you develop systems to meet those needs you will successfully be establishing yourself as a leader and distance yourself from the competition.

Today DecoPac has 375 employees and enjoys sales in excess of $100 million. DecoPac has recently established a subsidiary in the U.K., which gives the company international distribution capability. The company has never recorded a losing year. Over a period of 30 years, Mike McGlynn has successfully transformed this family business from a local bakery operation into an international cake decoration supplier. This is a great example of leadership that willingly and openly accepts change as well as displaying an outstanding ability to motivate his followers to share in his passions to be the absolute best.

Advantages

1. The owners were already in the business, purchasing and stocking plastic toy decorations and selling custom party cakes at the retail level.
2. The owners had inside information as to the needs and frustrations of their customer, the retail baker.
3. The product was already proven to be needed and wanted in the marketplace.
4. The price points of the cake decoration products were very affordable relative to the selling price of the end product. There was already proven price point acceptance.
5. The product was easy to understand.
6. It was not a mature market. The competition was minimal as well as fragmented and disorganized.
7. The owners had ideas as to how to beat the competition and fill the needs of the retail baker by improving upon the distribution of the decorative toy products as well as offering innovative ideas for point-of-sale aids at the retail level.
8. There was very little financial risk since the owners were already in the business marketing to themselves.
9. The market size was large enough to support the projected revenue targets.
10. The target market was easy to identify.
11. The product could be effectively marketed through direct marketing methods.
12. The product was easy for the customer to purchase without leaving his or her place of business.
13. The product could be sold by people without specialized education.
14. The product created a renewable revenue stream that continued every time a baker makes a party cake.

15. It had the potential to be a systems-run business.

Disadvantages

- During the early years the products DecoPac was developing were not proprietary.

26-Point Evaluation Test, Applied

<u>Product Risks</u>

1. **Demand:** Is the purchasing priority high; i.e., does the consumer have a real need for product?
   Comments: Plastic toy cake decorations were in high demand by retail bakery stores.
   Ranking (*good*, *average*, or *poor*): Good

2. **Easy to sell:** Is the product easy to understand, and require very little consumer education?
   Comments: Product is easy to understand by both the retail bakery owner and the end buyer.
   Ranking (*good*, *average*, or *poor*): Good

3. **New product:** Is there a real demand?
   Comments: The product was not new and knowledge of demand was known.
   Ranking (*good*, *average*, or *poor*): Good

<u>Competitiveness of Strategic Position</u>

4. **Maturity of market:** Is there room in your market for you? The lower the level of competitive saturation the better.
   Comments: The competition offering plastic toy cake decorations were weak and unorganized.
   Ranking (*good*, *average*, or *poor*): Good

5. **Product uniqueness:** Will customers be able to separate your product from the competition's?
   Comments: DecoPac was able to differentiate their product from the competition with customized kits (containing decorations for one cake) which complemented a point-of-sale "cake decoration" idea catalog.
   Ranking (*good*, *average*, or *poor*): Good

6. **Unique sales process:** Does your sales process stand out from the competition?
   Comments: DecoPac was able to differentiate their sales process from the competition with their unique point-of-sale idea catalog for the end user as well as a cutting edge online ordering system for the bakery stores.
   Ranking (*good*, *average*, or *poor*): Good

7. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments: DecoPac was able to differentiate their delivery process from the competition by offering automated, efficient, 24-hour delivery.
   Ranking (*good*, *average*, or *poor*): Good

8. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments: DecoPac's unique sales and delivery touch points separated them from the competition.
   Ranking (*good*, *average*, or *poor*): Good

<u>Customer Perception of Value</u>

9. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
   Comments: All of the unique sales and delivery processes were benefits the customer desired.
   Ranking (*good*, *average*, or *poor*): Good

10. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments: The unique toy plastic products and point-of-sale idea catalog enhanced the emotional purchasing experience of both the parents and the children.
    Ranking (*good*, *average*, or *poor*): Good

11. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?
    Comments: All of the purchasing frustrations of the end buyer and the bakery store owner have been removed.
    Ranking (*good*, *average*, or *poor*): Good

Revenue Potential

12. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments: The owners of DecoPac worked inside the retail bakery business and understood the acceptance level of the price points firsthand.
    Ranking (*good*, *average*, or *poor*): Good

13. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments: Because the DecoPac owners were already in both ends of the business, they possessed a good understanding of the numbers.
    Ranking (*good*, *average*, or *poor*): Good

14. **Market size:** Relative to the competition, are you confident that the size of your target market is large enough to generate the required revenue?
    Comments: The market size was extremely large.
    Ranking (*good*, *average*, or *poor*): Good

15. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments: Retail bakery stores are in the business of selling several birthday cakes every day. The revenue stream from an existing customer never stops.
    Ranking (*good*, *average*, or *poor*): Good

16. **Cross-selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments: There were opportunities to sell additional bakery products to every customer.
    Ranking (*good*, *average*, or *poor*): Good

Marketing Effectiveness

17. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments: All of the retail bakery outlets in the United States were easy to identify and reach.
    Ranking (*good*, *average*, or *poor*): Good

18. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments: It was cost effective to reach a prospect via telephone, trade show, direct mail, or trade magazines.
    Ranking (*good*, *average*, or *poor*): Good

19. **Purchasing convenience:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments: The product was easy to purchase by both the end buyer and the retail bakery store.
    Ranking (*good*, *average*, or *poor*): Good

20. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments: The unique benefits were easy to communicate to the retail bakery stores.
    Ranking (*good*, *average*, or *poor*): Good

<u>Profitability Risks</u>

21. **Margins:** Do you have a strategic position relative to competition that allows for high margins?
    Comments: Margin potential was excellent.
    Ranking (*good*, *average*, or *poor*): Good

22. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?
    Comments: Inventory, sales and delivery costs were substantial.
    Ranking (*good*, *average*, or *poor*): Average

23. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
    Comments: Since the product created a continuous revenue stream, the costs of continued revenue after the initial sale were good.
    Ranking (*good*, *average*, or *poor*): Good

24. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
    Comments: Customer service after the sale was minimal due to the simple nature of the product.
    Ranking (*good*, *average*, or *poor*): Good

25. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
    Comments: In order to offer the unique benefits their customer wanted, fixed expenses were relatively high.
    Ranking (*good*, *average*, or *poor*): Poor

26. Capital requirements: Is your potential dollar revenue high relative to your initial capital investment?
Comments: There were large capital investments, however, the revenue potential was also large.
Ranking (*good*, *average*, or *poor*): Good

Hosanna Church, Non-Profit

Service

Hosanna is a great example of a successful non-profit organization. Bill Bohline graduated from seminary in 1976. Upon completing one year of graduate work, Bill was offered a pastor position. Bill remained in that position until 1979, when at the age of 31, he was offered an opportunity to develop a congregation in a suburban location with great growth potential.

Bill had multiple passions at the time of this opportunity. He was honored to be asked, and viewed the opportunity as a personal challenge to accept this new responsibility of leadership. Bill also did not want to disappoint the denomination, which was going to fund the start-up, having given a vote of confidence to Bill's leadership abilities. And as Bill considered how he was going to attract and build a congregation within a geographical area that already had churches meeting the needs of its population, it became apparent that his real passions would take shape very early in his quest to build a congregation.

In January of 1980, Bill started his mission by going door-to-door to solicit his founding congregation. Over a period of time, he estimated that he would ultimately knock on 4,000 to 5,000 doors. If the homeowners were home, Bill would encourage them to join Hosanna's mailing list, which would result in receiving Bill's weekly newsletter and message. If the homeowners were not at home, Bill would leave a brochure to create awareness of Hosanna. The first church service was conducted in March of that same year, and by November Bill had assembled a congregation of 180 people to sign the church's charter.

The look of Hosanna in its first year was very much the same as any other traditional Lutheran church except for Bill's vision and purpose. Bill was questioning the effectiveness of the traditional Lutheran church. The size of the average Lutheran church was about 150–250 members and historically only about 20 percent of the congregation would attend worship on any given Sunday. Bill felt the numbers spoke quite clearly that the typical church was not inspiring people to become involved in what the church had to offer. Once Hosanna started Sunday worship services, Bill would follow up with a meeting in the home of any new family that would attend Sunday worship services. A meeting in their home was the perfect environment to build a relationship and talk to them about Hosanna's mission for their family and the community. Bill was developing a passion to change the church in a way that would stimulate people to become committed and engaged.

In the first year of Hosanna, Bill developed a written charter that each member would have to sign if they wanted to become a part of Hosanna's mission. The signing of that mission statement made people feel a part of something larger than themselves. In the early years the members took on an active role as the builders of the church, working within the inner circle of its leaders. Bill, a dynamic personal speaker, developed weekly messages that spoke directly to each individual's needs. Bill's goal was not only to connect with the people on an individual level, but also to carry that message into their daily lives with pastor chats in weekday newsletters.

Bill's target market was identical to his own family: couples in their thirties, with two children, living in the suburbs, and upwardly mobile. In order for people to become engaged, Bill knew this young group had to play together and have fun together if they were going to become a cohesive group and attract more members. Bill wisely placed his gregarious wife in charge of the fun and fellowship committee. Hosanna's membership grew because these young families felt that Bill, as their leader, was open to accept change—and that was exciting to them.

The mission Bill was defining for Hosanna gave its members a feeling that they were contributing to something that was bigger than themselves and would make a difference in both their own lives and the community in which they lived. Bill was already on a course to differentiate Hosanna from the other congregations by offering real benefits that the competition was not delivering to the families in the community.

From 1980 to 1983, Hosanna moved around to many temporary facilities; in 1984 Hosanna opened its own doors to its newly constructed church. Hosanna was located in a fast-growing suburb in a highly visible location, seating 180 people in its new 6,000-square-foot church. The church was branded as Lutheran, but also as new, young, fun, and different from the status quo. Bill started to shed the trappings of the traditional Lutheran Church. For example, the clergy's traditional robe was abandoned for a suit; the organ was exchanged for guitars and flutes; traditional hymns were replaced by praise music.

Bill initiated what he called "high-value preaching." These sermons consisted of a series of weekly chats that revolved around topics relevant to the daily trials and tribulations that the people in the pews were experiencing in everyday life. The topics were relevant to their daily lives; they were personal; and Bill spoke directly to them versus delivering the traditional lectures on the weekly scripture.

Every new program Hosanna introduced was branded with a catchy name. For example, confirmation was branded "Power Life" and the parents were engaged in confirmation with their children by leading a "Power Pak" of six students. The parents were responsible to lead a discussion with the children about what they learned from the lesson. As in every program, fun was always incorporated. The Power Life program included entertaining the confirmation-age children with live bands playing age-specific music.

One of Hosanna's first community efforts, which also doubled as a marketing effort, was a program they branded "H.A.L.O." H.A.L.O. was a Sunday school for the children of working parents. This was a perfect marketing tool aimed at Hosanna's target market of young families; it was also a great way to gain exposure in the community. Attracting adult members through the children proved to be a great marketing tool as well as a much-needed community service.

Bill's strategy to accept change was well received by the community. People were enthusiastic about becoming part of a movement, affecting the community, growing their personal lives, and improving the environment in which to raise their children. People were drawn to Bill's personal messages that were directed to their daily struggles, not only on Sunday mornings but also in his weekly newsletter chats. New families were also attracted to Hosanna as a vehicle to get acquainted in the community and join in the social activities.

Hosanna demanded a life commitment, not just attending church on Sunday morning, and people responded by signing the covenant agreement. By 1987 the church had to expand to seat 500 people and in 1990 had to make another expansion decision as Hosanna had outgrown its present site. Change from the traditional status quo, offering real benefits people wanted, creating remarkable experiences, and differentiating itself from the competition were creating favorable word-of-mouth advertising for this young church.

In 1990, Bill, along with all of the members, made the decision to purchase a larger site so Hosanna could continue expanding its mission to more people. During the discussions with the members, Bill kept them focused on how a larger facility could affect more people's lives and benefit the community versus focusing on benefits for the congregation. In Bill's words, they needed to determine "God's expectations for Hosanna." Bill's passions as the leader would keep the church's mission from stagnating. Bill's continued to emphasize a personal commitment from its members, with growth in programs that would create life-changing experiences for its members and the community at large.

The new church opened in 1996 on a 22-acre site with a seating capacity of 750 people. In 2003 a new worship area was added to seat 1500 people, expanding in 2005 to seat 2500 people. Hosanna today boasts 6500 members (2500 families) who have signed the covenant agreement. They instruct over 2,000 children in Sunday school and have 750 teenagers in confirmation programs. Another 4,000 people attend the church weekly. Hosanna employs 115 full-time and part-time paid employees with a six-million-dollar operating budget.

What benefits did Hosanna offer to create this extraordinary growth from 1990 to the present? First, Hosanna decided, before opening in their new location, they would not pigeonhole themselves by labeling Hosanna as a Lutheran church. They were concerned that a Lutheran connotation might cast Hosanna as too traditional. In fact, Bill says the spiritual direction of the church has become more of an evangelical, born-again experience, open to the work of the Holy Spirit, allowing people to express themselves however the spirit moves them. The spiritual goal of Hosanna is the transformation of the person, to make a difference in their lives so they can go out and make a difference in the community. Developing a personal relationship with Christ is the ultimate goal.

The emphasis of Hosanna in Bill's words is "kingdom-minded, not Hosanna-minded." In other words, the focus is not on growing the numbers of a larger membership but is instead on how Hosanna's members can affect the community. Their ministries' slogan is now, "A church without walls or borders," focusing on a global impact by raising money for programs to improve the lives of disadvantaged families all over the world.

Hosanna has developed a program branded "marketplace ministry" that focuses on how members can use the positive values and life lessons they have learned and in turn teach them to others in a welcoming spirit. Hosanna has branded another program "Alpha," which is Bible101 class for teaching the biblically illiterate. Over 8,000 people from the community have completed the class.

Yet another new community-minded program is branded "new friends community night." These programs feed, clothe, supply furniture, and tutor English to foreign-born and disadvantaged families. Hosanna offers an array of marriage courses open to the community for engaged couples, divorcees, and troubled marriages. Hosanna has now also become a teaching church to other ministries in an effort to spread the success of their non-profit business model to other pastors and churches.

Hosanna, unlike many traditional churches, has endorsed the high-tech world to expand Hosanna into an easier access ministry. The church website gives access to all kinds of information, tools for personal growth as well as a place to connect socially. The worship services use high-tech visuals and audio to stimulate all the senses of the congregation. The main sanctuary is surrounded by a mall-type atmosphere with an abundance of daylight, tall trees, fountains, and numerous places to sit, sip coffee and chat. One can visit the bookstore for all types of literature or buy a CD of one of Bill's sermon series.

Bill's leadership never focused on growing the size of the congregation; rather, Hosanna focused on the real benefits that could affect both the everyday lives of the people and their community. Bill focused on determining what his customers wanted and needed, and then figured out how to give it to them. This is an example of leadership in the purest form. People will follow your passions and mission if you focus on giving them what they want and show them how to obtain it. This is a great example of providing people with an opportunity to find something that is important to them as individuals where they can make a difference.

Advantages

1. The services that Hosanna developed were personalized, giving a positive experience at every touch point. As mission statements, objectives, and programs were developed, the Hosanna brand took on a proprietary nature. Eventually Hosanna became an experience so remarkable relative to other congregations that people talked and awareness of the brand grew.
2. Hosanna was successful at determining the frustrations, emotions, needs, and wants of its target market and delivered real benefits to its market relative to the competition.
3. Many of the products and services that differentiated Hosanna from the traditional Lutheran church were successfully tested and proven in other parts of the country by other ministries.
4. The size of the market was huge. Even though there was competition, the population was exploding in this high-growth suburban location.
5. Marketing Hosanna in the founding years was successful through direct, door-to-door methods.

6. The business model developed a renewable revenue stream from its existing customers.
7. There is no personal financial risk, as the denomination financially supported the new venture.
8. The founder had been working inside the industry and had obtained valuable experiences, information, and opinions about the success and failures of the traditional Lutheran church.
9. The founder's family demographics were identical to Hosanna's target market. As a result, the founder clearly understood the needs and wants of his market.
10. As is true with all successful business people, the founder was willing to make personal sacrifices to achieve success.

Disadvantages

1. The customer has to be motivated to come to you, not just once, but multiple times.
2. The service that is being sold is not needed or wanted by everyone, and is not a tangible thing that is easily understood.
3. The business needs to be successful at finding key employees with specific skills and education to grow.

Summary

Hosanna was one of the fastest-growing churches in the United States for several years for good reasons. The reason for its success can be found in effective leadership. Bill understood the needs and wants of his niche market as well as the weaknesses of the competing churches. Individuals simply want to feel they belong to a cause larger than themselves; Bill was successful at rallying his followers to his mission by engaging them in the growth process, while fulfilling the church's basic mission of enlarging both their spiritual and personal growth. Bill's congregation knew he deeply cared about their human value, and because he was an effective leader, he found a way to successfully connect their personal goals to common goals.

26-Point Evaluation Test, Applied

<u>Product Risks</u>

1. **Demand:** Is the purchasing priority high; i.e., does the consumer have a real need for product?
   Comments: Fulfilling human spiritual needs are in high demand and are a high priority for many people.
   Ranking (*good*, *average*, or *poor*): Good

2. **Easy to sell:** Is the product easy to understand, and require very little consumer education?
Comments: The human need for spirituality is well understood and accepted.
Ranking (*good*, *average*, or *poor*): Good

3. **New product:** Is there a real demand?
Comments: The need and demand for spirituality is well known.
Ranking (*good*, *average*, or *poor*): Good

Competitiveness of Strategic Position

4. **Maturity of market:** Is there room in your market for you? The lower the level of competitive saturation the better.
Comments: The existing market had an adequate supply of churches, however, the geographical location was going to experience exploding growth opportunities in the future.
Ranking (*good*, *average*, or *poor*): Average

5. **Product uniqueness:** Will customers be able to separate your product from the competition's?
Comments: The start-up business model offered benefits to the congregation that were in demand, and helped to differentiate itself from traditional churches.
Ranking (*good*, *average*, or *poor*): Good

6. **Unique sales process:** Does your sales process stand out from the competition?
Comments: The business model offered unique benefits to both the congregation and the community which enhanced favorable word-of-mouth sales communications.
Ranking (*good*, *average*, or *poor*): Good

7. **Unique delivery process:** Does your delivery process stand out from the competition?
Comments: The delivery of the actual church service offered unique benefits separating the business model from traditional churches.
Ranking (*good*, *average*, or *poor*): Good

8. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
Comments: The business model offered several unique touch points, such as the midweek pastor chat newsletter, which helped separate the business model from the competition.
Ranking (*good*, *average*, or *poor*): Good

Customer Perception of Value

9. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
   Comments: The business model offered several new high-level benefits which people were searching for in their lives, primarily to feel a belonging to something larger than themselves.
   Ranking (*good*, *average*, or *poor*): Good

10. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments: The emotional benefits desired were well identified and fulfilled.
    Ranking (*good*, *average*, or *poor*): Good

11. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?
    Comments: The frustrations of the traditional church were well identified and alleviated.
    Ranking (*good*, *average*, or *poor*): Good

Revenue Potential

12. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments: Charitable contributions were based on willingness to pay.
    Ranking (*good*, *average*, or *poor*): Not applicable

13. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments: The denomination supported the financial liabilities of the church until it was cash-flow-efficient.
    Ranking (*good*, *average*, or *poor*): Not applicable

14. **Market size:** Relative to the competition, are you confident that the size of your target market is large enough to generate the required revenue?
    Comments: The market size was sufficiently large and growing.
    Ranking (*good*, *average*, or *poor*): Good

15. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments: The members were required to sign a charter agreement which assured a personal commitment and a continuous revenue stream.
    Ranking (*good*, *average*, or *poor*): Good

16. **Cross-selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments: Revenue is based on charitable contributions.
    Ranking (*good*, *average*, or *poor*): Not applicable

Marketing Effectiveness

17. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments: Prospects were identified by geographical area and religious beliefs. Marketing efforts relied heavily on word-of-mouth advertising after the initial door-to-door campaign.
    Ranking (*good*, *average*, or *poor*): Average

18. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments: The business model relied heavily on word-of-mouth advertising after the initial door-to-door campaign.
    Ranking (*good*, *average*, or *poor*): Poor

19. **Purchasing convenience:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments: The individual was required to leave his or her home to find a place of worship that fulfilled their needs.
    Ranking (*good*, *average*, or *poor*): Poor

20. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments: Since the benefits were expressed mostly by word-of-mouth advertising a concise marketing message was difficult to employ.
    Ranking (*good*, *average*, or *poor*): Poor

Profitability Risks

21. **Margins:** Do you have a strategic position relative to competition that allows for high margins?
    Comments: Charitable contributions were based on an ability to pay.
    Ranking (*good*, *average*, or *poor*): Not applicable

22. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?
    Comments: Costs to provide service for this charitable business model were ongoing; however, the denomination financially supported any shortage in cash flow.
    Ranking (*good*, *average*, or *poor*): Average

23. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
Comments: Due to the continuous revenue stream, as the membership grew, costs per member declined.
Ranking (*good*, *average*, or *poor*): Good
24. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
Comments: The purpose is to provide continuous service to the member after joining the church.
Ranking (*good*, *average*, or *poor*): Not applicable

25. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
Comments: Almost all of the expenses were relatively high fixed costs and began to accrue right away.
Ranking (*good*, *average*, or *poor*): Poor

26. **Capital requirements:** Is your potential dollar revenue high relative to your initial capital investment?
Comments: There were large capital investments in building a church, but it was financed by the denomination and the revenue potential was good relative to the investment.
Ranking (*good*, *average*, or *poor*): Good

Guaranteed Turf Care, Business-to-Consumer

Service

In 1964, I started a chemical lawn maintenance business that offered liquid fertilizer and weed control treatments to residential homeowners. I personally had no experience in chemical lawn maintenance or operating a service business. At that time the professional chemical lawn care business was a service in its infancy, and as a result, competition was almost nonexistent. Since this service was a new introduction to the marketplace, it was perceived to be innovative and remarkable.

The price of the service was nominal and very affordable by the average homeowner. Weed control and fertilizing treatments was a service that almost every homeowner needed and wanted, but more importantly, a large majority did not want to do the applications themselves. The service offered a real benefit: a healthier, weed-free lawn that consumers desired. It also alleviated several consumer frustrations when attempting to deal with their own lawn care. The time, the mess, the lack of knowledge, lack of results and the reluctance to handle messy herbicides were all reasons why the homeowners were more than happy to opt out of this weekend chore. To alleviate any apprehension at the time of the purchase, Guaranteed Turf Care offered a 100 percent guarantee to eradicate the weeds present in the lawn at the time of the treatment.

The target market was huge in our metropolitan area. The revenue would recur from existing customers month after month and year after year as new weeds continued to emerge, assuming the company delivered satisfactory results and caring customer service.

There was very little marketing being done in 1964 to sell professional lawn care to residential homeowners. Direct marketing methods seemed to be the best way to promote our service business. Direct mail advertising and door-to-door solicitation with phone follow-up gave unbelievable returns on marketing expenditures relative to what could be expected in a more mature market. The results of the direct marketing methods could easily be measured and, as a result, growth could be strategically calculated by increasing these proven marketing methods. The purchase was trouble-free for the consumer—he or she could make it from the convenience of the home. The homeowner could purchase from a salesperson right at his or her door, over the telephone, or from direct mail advertising. Due to the nature of the business model, which provided a continuous revenue stream from existing customers coupled with the ease of attracting new customers, it was relatively easy to achieve revenue growth year after year.

The risk of the business model was minimal. We started the venture very small the first year with one spray unit and one employee who did the spray applications. We initially operated the business out of our home. The spray applicator was paid a percentage of the sales price of each job. The cost of materials (herbicides and fertilizer) was also a direct percentage of sales. As a result, the two largest expenses were variable costs tied directly to revenue. The start-up marketing costs the first year consisted of targeted direct mail advertising, pre-season door-to-door solicitation, evening phone sales, and additional door-to-door solicitation while the applications were being performed.

The gross profit margins were very generous, averaging close to 85 percent after labor and material costs. Due to the extremely high demand for the service, the large percentage of gross profit, reliable returns on advertising expenditures and variable labor and material costs tied directly to revenue, it was a very low-risk financial business model.

The business model produced a net profit the first year, plus generated enough excess cash to pay off all the short-term debt used to purchase the single spray unit and the direct mail advertising. By the time I was a freshman in college I had to leave school during the spring quarter to manage the business full-time. Guaranteed Turf Care had grown to ten full-time seasonal employees. In the founding years of the business, I would knock on thousands of homeowners' doors during the day and work the phones relentlessly every weekday evening, all day on Saturday and all afternoon on Sundays. The sprayers started at 6:30 a.m. and we worked seven days a week. For three months during the peak season it was a grueling schedule, but my passion to succeed was very strong and I would make any personal sacrifice that was necessary.

In the mid-1970s, national competitor ChemLawn entered our marketplace. It was easy to see why ChemLawn was sweeping the country as the leader in chemical lawn care. The professionalism that ChemLawn brought to the marketplace was unparalleled. Everyone else in the business was forced to exit or step up the level of marketing, customer service, and image if they wanted to survive. As the ChemLawn marketing saturated the marketplace, the service gradually became accepted as "the thing to do." As homeowners accepted a chemical lawn care service as something as routine as garbage collection, it actually made it easier to continue to grow the revenue if you were successful at adapting to the changing competitive environment. Guaranteed Turf Care continued to grow its revenue and bottom line, reaching 5700 customers receiving annual service by the mid-1980s. The company was able to compete with the national and regional companies because we implemented aggressive marketing programs and operated at superior cost efficiencies, allowing us to deliver a superior value to our target market.

In the mid-1980s, chemical and environmental concerns started to sweep across the country. As a result, federal and state regulations were imposed on chemical lawn care companies. Negative press was also affecting the image of chemical lawn care companies; homeowners were shying away from doing business with them. The increased regulations discouraged new start-up companies from entering the marketplace and many of the smaller companies exited. The direct result was a renewed awareness of professionalism. As revenues unwound, you survived by successfully adapting to the changing marketplace, or else you went under. The companies that were left had to raise the bar in every area of their operation to attract customers and continue to grow. To be successful required developing systems that would outperform the competition in every area, but especially in the areas of consumer knowledge and awareness, marketing, image, training, and the delivery of customer satisfaction.

The 1990s witnessed the maturing of the industry as competition renewed its entry into the marketplace. The increased competition affected the larger companies by forcing them to raise the performance bar even higher. Growing the revenue and bottom line required a greater degree of excellence in every facet of the business. As one of the top five local lawn maintenance companies, Guaranteed Turf Care was no exception in the battle for growth against a rising army of competition. We added additional related services to increase our revenue and branded our products with private label names to create a sense of proprietary products. We established goals to become the best in every area that touched a customer. That meant having the most interactive website that was efficient at procuring orders or leads, designing the most professional and effective print marketing materials, producing the most knowledgeable salespeople and lawn technicians, presenting uniformed employees and vehicles that built a positive image, providing our customers with the best service and educational information, developing the most efficient training systems that produce desired actions, providing the best quality control systems, developing the most productive managers, providing rewarding incentives and a positive work environment that engaged the employees, and implementing marketing strategies that beat the competition to capture a larger market share. In other words, we needed to do whatever the company could do to exceed the customer's expectations at every touch point and beat the competition wherever it could.

In an industry that is as mature as the lawn maintenance industry, there is very little chance to grow if you are not the very best. This business model has been profitable in 41 of its 44 years. The business model succeeded in the start-up years because it was a service that the majority of homeowners wanted and needed, the price point was affordable, direct marketing strategies matched up well with the business (allowing the company to implement an aggressive marketing program) and, most important, we were one of the first to offer the service.

Advantages

1. It is a service that homeowners need and want. Homeowners take pride in the appearance of their lawns and do not like unsightly weeds. There is an emotional need to keep up with the neighbor's lawns, so demand for the service was strong.
2. The service alleviated a lot of homeowner frustrations concerning the maintenance of their lawn and freed up the customer's time for leisure activities. The service offered real benefits that were easy to identify.
3. It was a very affordable service for the average homeowner.
4. There was a guarantee of results to alleviate any doubts at the time of purchase.
5. It was convenient; the customer did not need to be home to receive delivery of the service.
6. In the start-up years, the market was in its infancy with very little competition.
7. The size of the market was very large.
8. The service needed to be performed over and over again, creating a recurring revenue stream.
9. The marketing methods suited to the business were direct marketing, which allowed complete control over the number of leads developed, the number of closes, and the growth rate.
10. The target market was easy to identify.
11. The consumer could purchase the service from the convenience of his or her home.
12. The service and its benefits were easy for the consumer to understand, and therefore easy to sell.
13. Common, unskilled labor could be used to perform the service; with efficient training systems, a consistent level of service could be delivered to the customer.
14. There was very little financial risk in the start-up model.
15. The gross profit margins were large; the major expenses of labor and materials were all structured as variable costs tied directly to revenue.
16. The competition could be beaten by developing systems that were more efficient in marketing, training, and customer service.

Disadvantages

1. Due to the seasonal nature of the business, it is not economically feasible to carry all of the employees through the winter. As a result, it is difficult to build a large staff of knowledgeable, experienced employees.

2. The quality of the service you deliver is not 100 percent within your control as it can be negatively affected by natural events. For example, lack of rainfall, extreme heat, lawn diseases, and insects can all create customer dissatisfaction and expensive customer turnover.
3. The founder had no inside experience or education within the chemical lawn care business.

Summary

Needless to say, to start a chemical lawn maintenance business today would require a completely different marketing analysis since it is now a mature and sophisticated business environment with an enormous amount of competition. However, the economy and the marketplace is continually creating new service opportunities for business models that would be as equally attractive as the chemical lawn care business model was in 1964.

26-Point Evaluation Test, Applied

<u>Product Risks</u>

1. **Demand:** Is the purchasing priority high; i.e., does the consumer have a real need for product?
   Comments: The service was relatively new, but the demand and need for the service were strong.
   Ranking (*good*, *average*, or *poor*): Good

2. **Easy to sell:** Is the product easy to understand, and require very little consumer education?
   Comments: The service was easy to understand as most homeowners had attempted to perform the same service to their lawns themselves.
   Ranking (*good*, *average*, or *poor*): Good

3. **New product:** Is there a real demand?
   Comments: In reality, the owner did not know the true acceptance level of this relatively new service until the marketing program was initiated.
   Ranking (*good*, *average*, or *poor*): Answer unknown

<u>Competitiveness of Strategic Position</u>

4. **Maturity of market:** Is there room in your market for you? The lower the level of competitive saturation the better.
   Comments: There was very little existing competition.
   Ranking (*good*, *average*, or *poor*): Good

5. **Product uniqueness:** Will customers be able to separate your product from the competition's?
   Comments: There were opportunities to differentiate, but the initial business model did not offer anything unique.
   Ranking (*good*, *average*, or *poor*): Poor

6. **Unique sales process:** Does your sales process stand out from the competition?
   Comments: The original business model offered door-to-door and direct mail advertising, which was unique to this new industry in 1964.
   Ranking (*good*, *average*, or *poor*): Good

7. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments: There were opportunities to differentiate, but the initial business model did not offer anything unique.
   Ranking (*good*, *average*, or *poor*): Poor

8. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments: There were opportunities to differentiate, but the initial business model did not offer anything unique.
   Ranking (*good*, *average*, or *poor*): Poor

<u>**Customer Perception of Value**</u>

9. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
   Comments: The consumer perceived the benefits and value of the service positively.
   Ranking (*good*, *average*, or *poor*): Good

10. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments: Emotional benefits were received from the completion of the service.
    Ranking (*good*, *average*, or *poor*): Good

11. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?
    Comments: The service successfully solved several frustrations experienced by homeowners doing their own lawn care.
    Ranking (*good*, *average*, or *poor*): Good

Revenue Potential

12. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments: The price was nominal and easily affordable to the average suburban homeowner.
    Ranking (*good*, *average*, or *poor*): Good

13. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments: There was a clear understanding of the relationship of unit sales, revenue, variable, and fixed expenses.
    Ranking (*good*, *average*, or *poor*): Good

14. **Market size:** Relative to the competition, are you confident that the size of your target market is large enough to generate the required revenue?
    Comments: The market size was sufficiently large. Every suburban homeowner was a potential prospect.
    Ranking (*good*, *average*, or *poor*): Good

15. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments: The service must be performed continually throughout the growing season, and year after year to deliver desired results.
    Ranking (*good*, *average*, or *poor*): Good

16. **Cross-selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments: There were opportunities to sell existing customers additional lawn services.
    Ranking (*good*, *average*, or *poor*): Good

Marketing Effectiveness

17. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments: Prospects (every mid- to upper-bracket suburban home) were easy to identify and reach.
    Ranking (*good*, *average*, or *poor*): Good

18. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments: It was cost effective to reach a prospect and procure a sale via direct mail, door-to-door, and telephone sales.
    Ranking (*good*, *average*, or *poor*): Good

19. **Purchasing convenience:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments: The service was convenient for the buyer to purchase without leaving their home.
    Ranking (*good*, *average*, or *poor*): Good

20. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments: The benefits were known and easy to state in a concise marketing message.
    Ranking (*good*, *average*, or *poor*): Good

Profitability Risks

21. **Margins:** Do you have a strategic position relative to competition that allows for high margins?
    Comments: The margins were extremely high.
    Ranking (*good*, *average*, or *poor*): Good

22. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?
    Comments: Due to high demand and minimal competition, the advertising costs to secure a new customer were low. Operating costs to provide service were also low.
    Ranking (*good*, *average*, or *poor*): Good

23. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
    Comments: Since the revenue continues to renew from existing customers, costs drop relative to revenue for existing customers.
    Ranking (*good*, *average*, or *poor*): Good

24. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
    Comments: Customer service after the sale was minimal and factored into the price of the service.
    Ranking (*good*, *average*, or *poor*): Good

25. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
    Comments: The major operating expenses were variable and tied directly to revenue. Fixed expenses were minimal.
    Ranking (*good*, *average*, or *poor*): Good

26. **Capital requirements:** Is your potential dollar revenue high relative to your initial capital investment?
    Comments: The capital investments were small relative to revenue potential.
    Ranking (*good*, *average*, or *poor*): Good

Gabbert Land Development, Real Estate Business

Service

We started Gabbert Land Development in 1974 with a rural residential project. The project was a forty-acre site that we subdivided down to approximately twenty-four, one-acre-plus residential building sites. We had absolutely no experience in commercial or residential land development so this was an appropriate project for getting our feet wet. Being a rural development, it did not require any improvements other than the development of the building sites and a street built to city specifications. The streets were gravel with no public sewer or water required. The building sites were moderately priced and were sold directly to the end buyer (homeowners). Easy financing terms were offered on a contract for deed to facilitate the sale. The building sites sold well in a challenging recession economy.

In 1975 we quickly moved on to a residential project in a potentially high-growth suburb of the near future. The project was named ChesMar. ChesMar was launched in 1975 in the middle of a serious recession. Stock market averages were down 48 percent, mortgage rates were 12 percent, business loans were fetching 18 percent, and there was a severe shortage of oil. Gasoline was being rationed at the pump; there was a moratorium on the installation of natural gas lines in new developments. There was an 8 percent usury law in Minnesota, so with mortgages at 12 percent there was no conventional mortgage money available; nor was there natural gas to heat the homes. Needless to say, the residential real estate market was in a severe depression. Homeowners adjacent to our new residential development fought the approval of the project for nine months in some very heated city council meetings. Regardless of the apparent risks, at twenty-eight years old, I was fearless and determined to move forward. I had confidence that the business model I had developed would reduce risk and be profitable in any economic environment.

ChesMar was a higher-investment project as the site was heavily forested and contained some very steep grades that would require extensive grading. The zoning required storm and sanitary sewers, city water, and blacktop streets with concrete curbs. In order for my father and I to raise our equal shares of necessary investment capital, we would each need to liquidate most of our easily accessible investments. In addition, we would both have to pledge to the bank second mortgages on our homes to secure performance bonds that would satisfy city requirements for the construction of the sewers and city water. This was a risky venture, but the saying, “It is better to be lucky than smart,” certainly applies here. Within six months after we broke ground with the construction of the roads, the Minnesota usury law was abolished, conventional mortgage money was expensive but available, the gas shortage disappeared, natural gas was available to our development and builders and home buyers were starting to come back into the market. We were sitting on the only developed lots in our marketing area. Our timing proved to be incredibly lucky, so Gabbert Development was off to a good financial start.

Keep in mind that the real estate development business is not typical to the average business model. First, the product and target market are continually changing based upon the nature of each new real estate project. When a real estate development project is completed and sold, a new project must be started to generate continuous revenue. With each new real estate project, there is a new and unique set of risks. The risks are unique to each project because the real estate itself is different, the location is different, the costs are different, the selling price is different, and the target market may also be different. To be successful long-term requires a business model that offers consistent results and an ability to adapt each new project to a changing economic environment.

Let's take a look at what the initial business model looked like for this residential land development company. As is true with all real estate, it is a one-of-a-kind product and cannot be duplicated. If the real estate is in a desirable location, priced right, and offers unique benefits, it will generate demand and sell. When a buyer wants a particular piece of real estate that's for sale, there is no competition. In that instance, it's an exclusive product. Gabbert Development's product model had to meet specific criteria to ensure that the finished product (residential custom home sites) would create demand and sell profitably. To sell profitably was synonymous with selling quickly due to the large carrying costs that are typical in the real estate development business. To generate demand meant your project had to offer more amenities and value than the competing real estate developments in you trading area.

The following were some of the guidelines in Gabbert Development's business model for selecting the right raw acreage to develop into residential building sites. First, the company specialized in the development of raw land into residential building sites for custom homes. The company did not do any homebuilding, as Gabbert Development sold the building sites to builders or custom homebuyers. The company did not stray to development projects that were foreign to our experience, such as office buildings or office warehouse projects.

Second, the company always looked for land that could be developed immediately with city water and sanitary and storm sewers. Sitting on land is a negative cash flow experience. The company's business model was focused on developing desirable product with real benefits, creating value, and turning the investment into cash as quickly as possible. Third, when the company found a community that was in a growth trend, we stayed in that same geographical area rather than moving the next project to a new suburb. Familiarity with a community developed a level of experience that reduced site selection mistakes.

Fourth, the company always looked for raw land that could be purchased at an underlying cost that lent itself to be developed at a retail price point that was affordable by a middle-America income. Fifth, the business model required that the property possess special natural amenities such as ponding areas, forested areas, a rolling topography, or adjoining nature park. Sixth, it was critical to buy the raw acreage at the right price. Buying at the right price meant we could add all development costs and profit margin to the cost of the raw land and still meet our target retail selling price.

Seventh, it was critical to establish favorable financial terms on the purchase of the raw land to ensure the profitability of the project and mitigate risk. If all the criteria in the selection of the product model were met, we could assure ourselves of generating demand, marketing the product at the right price point, and selling at profitable margins. As a result, if we were disciplined with sticking to the guidelines of a successful product model when we selected the raw acreage for each new project, we could realize the advantages of maintaining a certain degree of control over the success and profitability of the new products that we were continually bringing to market.

In the right location and at the right price points for a given economic environment, the size of the target market for building sites for a residential home is quite large. In order to maintain demand in a variety of economic environments, we frequently adapted our density and price points to various economic conditions. If the company was successful at bringing the right product to market, the competition from other developers was present but not abundant at a specific price point or geographical location to have an effect on our sales. Even though there are always options for the end buyer, if the product has unique characteristics at the price points and with the real benefits that buyers want, demand can be generated.

The company's target market was initially both the builder and the individual. The individual who is purchasing a building site is involved in a very emotional purchase and, as a result, is a relatively easy sale to close when the buyer wants what only you have. In contrast, the builder's wants are different from an individual buyer's. The builder needs a selection of building lots in his inventory so he has the building sites to attract a custom homebuyer. When the buyer wants the building site the builder owns, he or she has no other choice than to use the builder who controls the lot. When the builder controls the building site, he not only is guaranteed of being the builder of the home, but his margins will be higher because he will not be in a situation of bidding against other builders to secure a contract to build the custom home. The secret to success for the company in converting prospects (both individuals and builders) into buyers was the company's ability to structure custom financing to meet the personalized needs of each buyer. The product's benefits and the price point were equally important, but it was the customized terms of the financing that closed sales.

The marketing methods are fairly well defined by either marketing directly to builders or directly to individuals shopping for residential building sites. To market to builders, site location signs and direct marketing methods involving telephone solicitation, follow-up brochures, and face-to-face meetings on the site produced the best results. Low-cost advertisements in the classifieds section were the best marketing method to reach individuals. The direct marketing methods allowed the company to control our contact with our target market of builders and custom homebuyers.

Unfortunately, the development of real estate projects does not generate a renewable revenue stream from existing customers year after year. As we discussed earlier, once the project is sold, one has to develop a new property, and find new buyers to generate continued revenue.

The land development business can expose one to a high degree of financial risk. Land development projects require a front-end investment of cash to secure the asset (raw acreage) and develop the site. There is also a large assumption of debt, both with the underlying asset of raw land as well as the street and utility improvements. Banks require a personal assignment of assets to secure letters of credit or bonds to guarantee payment of the improvements for utilities and streets. Periods of high interest rates can stagnate sales, slow the pace of debt reduction and ultimately increase carrying costs and reduce profitability.

The risk, however, was mitigated in our business model by structuring financial safeguards into both the liability side of the debt and into the contract for deed financing to the buyer. Risk was further reduced and profitability maximized by never developing more product than could be sold in a one-year period. This discipline allowed the company to remain flexible, continually adapting our new product to economic conditions. Many times the company was successful because we were the only developer that had building sites to meet the current demand.

One factor that increased profitability was the speed with which one can turn over the developed product. In the land development business, the passage of time erodes profit, as carrying costs cannot be passed on through price increases. As a result, the faster the building sites are sold the higher the profitability. The three factors that increased the rate of inventory turnover were the benefits of the product, the price points relative to the current economic conditions, and customized financial terms for the buyer. The financing to the buyer was structured to reduce the company's financial risk by negating its annual carrying costs and assuring future profitability. If we were right about the product's benefits and pricing, the custom financing made the product easy for our customer to purchase.

Risk was further reduced and profitability increased by outsourcing all of the construction for the development and improvements to the project. Small, office-related projects and closings were also outsourced. Gabbert Development employed zero people. The company's only operating expenses were a small office and a telephone. Remember Gabbert Development's role in developing the building sites was that of providing a piece of the final product. It was the homebuilder that carried the biggest burden; the builder is the one who had to finance a model home and the marketing program. Each builder incurred all the carrying costs as well as the operating expenses of a home construction business. The builder is the one who had to work out all of the selection details with the homebuyer and build the product to the customer's satisfaction. Similar to a parts manufacturing business, many times it can be more profitable to supply a piece of the product rather than the final product.

For the nearly twenty years that development projects were brought to market, this business model returned a profit every year from a variety of residential land development projects and during a variety of economic conditions, including several severe recessions. The business generated consistent long-term profitability because the company developed product that offered the benefits, price points, and financing that the consumer wanted. The company repeated the successful parameters of the business model over and over again, never straying from the successful business model. Repeating successful patterns can many times pay big dividends.

Whenever the company needed to purchase raw land for a new project we would ask the following questions.

- What is the current economic climate?
- What price points for housing are popular for our target market?
- Do the land and the location offer amenities that our target market desires?
- What retail price will be accepted for the building sites by our target market?
- What will the total development costs be?
- What price can the company pay per acre for the raw land to achieve our
- target retail price?
- Can the debt be structured properly to reduce risk and maximize the
- company's opportunity for profit?

Advantages

1. The residential building site or "product" is proprietary, i.e., one of a kind.
2. You can create demand for your product and beat the competition by developing a product that offers real benefits that the buyer wants.
3. The product is needed and wanted by a large percentage of the adult population. Owning your own home is the ultimate American dream.
4. The size of the market is relatively large in the mid-price points that the company targeted.
5. The company could control the target selling price and profit margins by purchasing the underlying asset (land) at the right price and establishing financial terms to maximize profitability.
6. Direct marketing methods allowed complete control over developing leads and awareness about the product.
7. The product is easily understood by the consumer and requires no special skills or education to sell the product.
8. You can control risk by negotiating the structure of the debt and the financing to the end buyer to your advantage.
9. The operating overhead is minimal; this further reduces risk and maximizes profitability.

Disadvantages

1. The product does not create a recurring or continuous revenue stream.
2. The company must continually purchase and develop new product, which must be the right product, in the right location, at the right price.
3. Economic periods of high interest rates will reduce the size of the market, slow the speed of revenue, increase carrying costs, and erode profit margins.
4. The projects are highly leveraged and expose one to certain unknown financial risk.
5. The founders had no education or inside experience in the land development business.

26-Point Evaluation Test, Applied

Product Risks

1. **Demand:** Is the purchasing priority high; i.e., does the consumer have a real need for product?
   Comments: Demand can vary due to economic conditions, but building sites for residential homes are a high-priority purchase for families. Most families dream of owning a single-family home in the suburbs.
   Ranking (*good*, *average*, or *poor*): Good

2. **Easy to sell:** Is the product easy to understand, and require very little consumer education?
   Comments: The product is very easy to understand.
   Ranking (*good*, *average*, or *poor*): Good

3. **New product:** Is there a real demand?
   Comments: There was knowledge of general demand for suburban homes, but the demand during a specific economic period was unpredictable.
   Ranking (*good*, *average*, or *poor*): Average

Competitiveness of Strategic Position

4. **Maturity of market:** Is there room in your market for you? The lower the level of competitive saturation the better.
   Comments: Due to the current economic downturn, the competition of available building sites for single-family homes was minimal.
   Ranking (*good*, *average*, or *poor*): Good

5. **Product uniqueness:** Will customers be able to separate your product from the competition's?
   Comments: A building site is a "one of a kind" and can stand out based upon site selection and natural amenities.
   Ranking (*good*, *average*, or *poor*): Good

6. **Unique sales process:** Does your sales process stand out from the competition?
   Comments: It is difficult to differentiate the sales process, but the business model did have an advantage over the competition due to the owners selling everything themselves face-to-face, rather than through second-party real estate brokers.
   Ranking (*good*, *average*, or *poor*): Average

7. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments: The delivery process is simply the changing of ownership at closing.
   Ranking (*good*, *average*, or *poor*): Not applicable

8. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments: The primary touch point is at time of sale. The owners conducted this.
   Ranking (*good*, *average*, or *poor*): Good

<u>Customer Perception of Value</u>

9. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
   Comments: The owners were in control of the benefits of each project with knowledgeable site selection. Location, natural amenities such as a forest, privacy from adjacent park land or ponds, and quality schools were all priorities.
   Ranking (*good*, *average*, or *poor*): Good

10. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments: There are many strong emotions attached to this once-in-a-lifetime purchase, which were identified and satisfied.
    Ranking (*good*, *average*, or *poor*): Good

11. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?
    Comments: The owners identified and removed frustrations to making this once-in-a-lifetime purchase, because they were in control of the primary touch point.
    Ranking (*good*, *average*, or *poor*): Good

<u>Revenue Potential</u>

12. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments: There was a clear understanding of the price point that a mass suburban homebuyer would accept.
    Ranking (*good*, *average*, or *poor*): Good

13. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments: The numbers spoke clearly. The unit sale prices were known. As a result, the number of units needed to be sold in a twelve-month time frame to break even were easily computed.
    Ranking (*good*, *average*, or *poor*): Good

14. **Market size:** Relative to the competition, are you confident that the size of your target market is large enough to generate the required revenue?
    Comments: The market size was sufficiently large. The current economic environment was the wildcard.
    Ranking (*good*, *average*, or *poor*): Good

15. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments: There was no opportunity for renewable revenue from an existing customer.
    Ranking (*good*, *average*, or *poor*): Poor

16. **Cross-selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments: There were no opportunities for cross-selling or up-selling.
    Ranking (*good*, *average*, or *poor*): Poor

Marketing Effectiveness

17. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments: Prospects (every residential home builder) were easy to identify and reach.
    Ranking (*good*, *average*, or *poor*): Good

18. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments: It was cost effective to reach a prospect via telephone and/or direct mail.
    Ranking (*good*, *average*, or *poor*): Good

19. **Purchasing convenience:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments: The product was a major purchasing decision by either the builder or the end buyer. As a result, it required an investment of shopping time away from home.
    Ranking (*good*, *average*, or *poor*): Average

20. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments: The marketing strategy was not dependent on a concise marketing statement to be effective.
    Ranking (*good*, *average*, or *poor*): Not applicable

Profitability Risks

21. **Margins:** Do you have a strategic position relative to competition that allows for high margins?
    Comments: The margins were extremely high.
    Ranking (*good*, *average*, or *poor*): Good

22. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?
    Comments: Costs associated with generating a sale and operating the business were extremely low.
    Ranking (*good*, *average*, or *poor*): Good

23. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
    Comments: Operating costs were so low they were not a factor.
    Ranking (*good*, *average*, or *poor*): Good

24. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
    Comments: Service after the sale was not required due to the nature of the product.
    Ranking (*good*, *average*, or *poor*): Good

25. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
    Comments: There were basically no operating expenses The only cash flow risk was interest expense on carrying costs of the real estate. In the case of slow sales, this risk was somewhat mitigated by minimum annual principal obligations of the underlying debt.
    Ranking (*good*, *average*, or *poor*): Good

26. **Capital requirements:** Is your potential dollar revenue high relative to your initial capital investment?
    Comments: The capital investments were large, however, the revenue and profit rewards were also very large.
    Ranking (*good*, *average*, or *poor*): Good

R.N.D. Marketing, Design, Print; Business-to-Business

Product

In 1986, a good friend and I began developing an idea for a new business. Because of my business involvement in the lawn maintenance industry, I became aware of new state legislation that would require the posting of a sign in the customer's lawn at the time of every fertilizer and weed control application by a commercial lawn care company. With this knowledge, Rick and I started to develop a basic business model that would satisfy the needs of the chemical lawn care industry relative to state posting regulations. We both brought different experiences to the business, which proved valuable to the partnership. Rick brought experiences in injection plastic molding and printing, while I brought insights into the wants and needs of our target market along with direct marketing expertise. The R.N.D. start-up is great example of the advantages of building a business model from working on the inside of an industry. The chemical lawn care company that I operated, Guaranteed Turf Care, was R.N.D.'s initial target market.

The product that R.N.D. initially developed would consist of a molded injection plastic stake that would hold a sign printed to satisfy state legislation. The stake and sign was a new and innovative product that had never been marketed. There had also never been a need for the product prior to the new state legislation. In fact, in 1986 the need for the product only existed in the state of Massachusetts, the only state that had passed similar legislation. Because the product and the market were brand new, there were no benchmarks for price point tolerance.

Nor were there benchmarks for what the business owners really wanted from a posting sign product. Our initial thought was that the sign could provide two benefits. First, the sign could satisfy posting legislation passed by the individual states. Second, the sign could serve as a marketing tool to neighbors by advertising the company's name, phone number, and services. We identified the product's three benefits as (1) satisfying state legislation, (2) consumer awareness, and (3) marketing for revenue growth. We hoped that if the benefits satisfied the needs of our target market in legislated states, then the product should create demand from business owners in states that did not have any legislation that required notification signs. We expected that more states would pass similar laws, and that the legislation would create real versus discretionary demand.

Our target market was every lawn maintenance business in the United States. It was a large market that was easy to identify. Our core market would be states that had passed notification laws. A direct marketing plan suited this business model perfectly. We could easily identify our target customer as any chemical lawn care company; our marketing plan was to develop contact with our target market by telephone. From that communication we would educate our prospect about the need and benefits of the product, and deliver samples by mail. We would follow up by telephone until a sale was consummated. The sales method was convenient for the customer, as they never had to leave their office; samples of the product were easily mailed; and the product was very easy to understand. We gradually pursued developing personal relationships through our direct telemarketing model with all 20,000-plus chemical lawn care companies in the United States.

Because the product and the market for the product were brand new, there was no identifiable competition. R.N.D. was the first company to enter this new marketplace. If the product, price points, and benefits were accepted in the marketplace and the product was successful at generating demand and revenue, it would be a recurring revenue stream. One of the great advantages of the business model was the fact that the product was a disposable; it would have to be replaced over and over again. Another advantage to the business model was the fact that legislation would require the purchase of the product, creating a real need among chemical lawn care companies.

Another advantage was that the financial risk of the business model was negligible. We outsourced the manufacturing of the injection plastic mold, the production of the plastic stakes, and the printing of the signs. Rick and I both owned other businesses where we could use existing locations and labor as needed. We were also not dependent on the new business for personal income. We divided up the job responsibilities relative to our talents and preferences. Initially I handled the direct marketing, payables, and accounting while Rick handled the distribution of the product, invoicing, and receivables. Our initial investment was zero; any expenses we incurred were all structured as variable costs. We had no fixed overhead so there was literally no financial risk.

What are some of the important questions we should have been asking about this new untested product?

- Would the design of R.N.D.'s new product satisfy the wants of our target market?
- At what price point would there be resistance to purchase the product?
- Would our target market use the sign as a marketing tool?
- Would there be demand for the product in states that did not have notification laws?
- What was the likelihood that similar laws would be adopted by other states, expanding the size of our market?
- Would new competitors enter the market? Would they develop better products that would make our design obsolete?
- Since we were outsourcing all the manufacturing and production, could a direct manufacturer produce the product at a lower cost and put us out of business?
- With all of the unknowns about the acceptance of the new product, the wants of our target market, actual market demand, market size, and future competition, how much revenue could we expect to generate?

We were starting out very small with zero capital investment and no additional monthly expenses. Since the business model had no financial risk, we decided to get the answers to all the above questions in the real world market versus pre-testing the product. R.N.D. experienced success whenever the company marketed the product in states with notification laws. The design and function of the product was received well by our target market; the price point was also accepted as a good value. The direct marketing methods were effective. A limited amount of competition started to enter the marketplace at lower prices; however, the products were inferior in both quality and function, offering no marketing capabilities to neighbors. Additional states would pass notification laws every year, expanding the size of our market; within four years there were close to twenty states with notification laws.

To launch the direct telemarketing campaign, I personally developed relationships by phone with every chemical lawn care company in every legislated state. By the fourth year, we had successfully sold to most of the independent chemical lawn care as well as the five to six largest regional companies in the United States. The only major lawn care company that was not a customer was national leader ChemLawn.

Initially the posting sign was not received well as an advertising tool to neighbors, which made the product difficult to sell in non-legislated states. However, as small to mid-sized companies in non-legislated states witnessed the voluntary posting of a sign by the regional companies, the posting of signs eventually became an accepted practice whether it was mandated by state law or not. As a result, by 1992 we were selling to the majority of the independent lawn care companies throughout the United States plus to national leader TruGreen ChemLawn.

It took several more years before the signs were accepted as a proven marketing tool; however, once companies started taking advantage of the signs as marketing tools to promote their company and services to neighbors, the idea spread from company to company. Gradually the promotional benefits of the signs we had been endorsing for over ten years had become widely accepted in the industry. Companies started demanding the signs not only to promote their name but also as point-of-sale signs in the lawn to sell additional services, as well as mass marketing tools to replace door hangers and flyers. Because the signs were used for promotion, companies started requesting the signs in four-process color versus a single color. As the demands of our customers changed, the face of R.N.D. had to change as well. The initial direct-marketing sign company was now evolving into a marketing company with in-house graphic arts and full process color printing capabilities.

From 2000 to 2010, R.N.D. expanded the product line to include a wide array of promotional print products. All the promotional print products were developed as proprietary products for our niche target markets. We developed an assortment of promotional print layout ideas in conjunction with a large selection of exclusive photographic images for the green industry on our website. From anywhere in the United States, clients could mix and match our exclusive layouts and images to custom design their finished products. The professionalism and final print image we created for our clients differentiated us from our competition, and could not be duplicated by local printers. As our promotional print product line expanded, we expanded R.N.D.'s market to include landscape and pest control companies as well. The benefits and value we created in the marketplace for our niche market was unprecedented.

As we move our attention to the present and look to the future, R.N.D is continuing to analyze the wants and needs of our customers, improving every facet of our business to meet those needs and maintain our leadership position within the industry. In order to continue to project R.N.D. as the authentic leader within our niche market, we must be the best at everything we do. That means improving our website and online ordering systems to be the best in the industry. R.N.D. must distribute company catalogs that project our leadership position and create the best marketing ideas for our customers to grow their business. R.N.D. must be the best at building relationships with our clients. These relationships must be built on sharing marketing education and helping our clients build more effective marketing plans. R.N.D. must be effective at developing the best products to help our clients improve their advertising returns as well as the most competitive pricing to meet our customers' financial needs. R.N.D must continue to be effective at out-marketing the competition if the company is going to continue to capture the majority of the market share. In summary, R.N.D must offer to our customers the best marketing solutions, the best value, and the best customer service in the United States.

R.N.D is also currently in the process of developing additional websites that will have the capability to expand the size of our market to include all small business categories in the United States. As we move forward, we hope to build proprietary promotional print products for these markets as well. The battle capture an ever-larger share of the market and grow revenue is a never-ending challenge if we hope to maintain a leadership position, grow our bottom line, and create opportunities for our employees.

This business model has experienced over twenty years of continued growth. The company has evolved from a business with a very limited target market along with an untested new product to a total marketing, design, and print company with proprietary products and a target market that continues to grow. The success of the business model in the start-up years is due to the fact that R.N.D. was the first entry into a brand new market with a proprietary product. The product satisfied the needs and wants of our target market; R.N.D. engaged in an aggressive marketing program that saturated the United States.

Advantages

1. The products are mostly proprietary, being needed and wanted by the target market.
2. The products offer real benefits to the customer in terms of improved company image, improved advertising returns, value pricing and ease of creating professional advertising materials.
3. Customer frustrations experienced in designing their promotional print material was alleviated.
4. The price points are very affordable, creating an unprecedented value in the marketplace.
5. As R.N.D. became a direct manufacturer of the products, competition based on price was eliminated.
6. The size of the market for promotional posting signs is a large national market. As new products and niche markets were added, the size of the potential market became enormous.
7. There is very limited competition nationally in posting sign products or other proprietary marketing products in the niche market of the green industry.
8. The products generate a recurring revenue stream. With every lawn treatment, a new posting sign is needed and the consumption of print marketing literature is continuous.
9. The R.N.D. product line and target customer is best promoted with direct marketing methods, which offer complete control over the number of leads the company can develop.

10. The target market is very identifiable.
11. The product is easy for the customer to understand.
12. The products are convenient for the customer to purchase directly from their place of business via telephone or website.
13. The company does not need sales people with specialized skills or education to be successful at selling the products.
14. There was no financial risk to the start-up business model.
15. Both partners brought combined inside experience in all facets of the business.
16. The initial business to market posting signs to chemical lawn care companies was a brand-new market with no competition.

Disadvantage

- The single disadvantage was the number of unknown answers to all of the questions surrounding the new posting sign product. The numerous unanswered questions did not pose a financial risk in this instance because of the negligible financial exposure in the start-up model.

Summary

For twenty-four years this company has delivered profitability and growth because the business model possessed several positive characteristics. When a company is the first into a marketplace with a proprietary product that customers need and want, initial sales success is less of a challenge. When a product is easily understood, simple to sell via telephone and samples (or the Internet), and is a replaceable product that generates a continuous revenue stream, it is less challenging to create revenue growth. When your target market is not only large but prospects are easy to identify and contact, growing the business and generating profits is much easier. This start-up business is a great example of how the chances of success can be increased when the business model is positive.

26-Point Evaluation Test, Applied

<u>Product Risks</u>

1. **Demand:** Is the purchasing priority high; i.e., does the consumer have a real need for product?
   Comments: Due to legislation, a posting sign product had to be purchased to satisfy state laws. Demand was initially unknown in the non-legislated states.
   Ranking (*good*, *average*, or *poor*): Good

2. **Easy to sell:** Is the product easy to understand, and require very little consumer education?
   Comments: The product is very easy to understand.
   Ranking (*good*, *average*, or *poor*): Good

3. **New product:** Is there a real demand?
   Comments: Because this was a new product and most states had not passed legislation to require posting a notification sign, real demand was unknown.
   Ranking (*good*, *average*, or *poor*): Answer unknown

<u>**Competitiveness of Strategic Position**</u>

4. **Maturity of market:** Is there room in your market for you? The lower the level of competitive saturation the better.
   Comments: This is a new product and no competition exists that offers like benefits.
   Ranking (*good*, *average*, or *poor*): Good

5. **Product uniqueness:** Will customers be able to separate your product from the competition's?
   Comments: There is no product on the market that offers like benefits.
   Ranking (*good*, *average*, or *poor*): Good

6. **Unique sales process:** Does your sales process stand out from the competition?
   Comments: Since there is no competition, the sales process did not stand out, but were effective.
   Ranking (*good*, *average*, or *poor*): Good

7. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments: Since there was no competition, the delivery process did not stand out but was effective.
   Ranking (*good*, *average*, or *poor*): Good

8. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments: Since there was no competition, the touch points did not stand out but were effective.
   Ranking (*good*, *average*, or *poor*): Good

Customer Perception of Value

9. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
   Comments: The product offered the needed benefits to the user in legislated states. The customer did not yet accept the perceived benefits in the non-legislated states.
   Ranking (*good*, *average*, or *poor*): Good

10. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments: There were no emotional benefits to the user for this product.
    Ranking (*good*, *average*, or *poor*): Not applicable

11. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?
    Comments: The frustrations to satisfy state legislation were resolved with this new product.
    Ranking (*good*, *average*, or *poor*): Good

Revenue Potential

12. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments: The price point of this new product was very low (five to twenty cents each) and competition was nonexistent. As a result, the price point was of no concern.
    Ranking (*good*, *average*, or *poor*): Good

13. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments: Because the initial operating expenses were near zero, there was no pressure to achieve a specific number of unit sales to break even.
    Ranking (*good*, *average*, or *poor*): Good

14. **Market size:** Relative to the competition, are you confident that the size of your target market is large enough to generate the required revenue?
    Comments: The market size was sufficiently large, however, the market size in states required to buy the product due to legislation was very small. There was no knowledge relative to the acceptance of the product in non-legislated states or future legislation in additional states.
    Ranking (*good*, *average*, or *poor*): Good

15. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments: The product is a disposable item and must be purchased and used repeatedly.
    Ranking (*good*, *average*, or *poor*): Good

16. **Cross-selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments: The initial business model did not include any additional or related products for up-selling opportunities.
    Ranking (*good*, *average*, or *poor*): Poor

<u>Marketing Effectiveness</u>

17. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments: Prospects (every lawn care maintenance company in the United States) were easy to identify and reach.
    Ranking (*good*, *average*, or *poor*): Good

18. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments: It was cost effective to reach a prospect via telephone and procure a sale.
    Ranking (*good*, *average*, or *poor*): Good

19. **Purchasing convenienc**e**:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments: The product was convenient for the buyer to purchase at his or her place of business. The product was small enough where samples could be mailed to prospects.
    Ranking (*good*, *average*, or *poor*): Good

20. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments: The benefits of the product are easy to convey in a few words.
    Ranking (*good*, *average*, or *poor*): Good

<u>Profitability Risks</u>

21. **Margins:** Do you have a strategic position relative to competition that allows for high margins?
    Comments: The margins were extremely high.
    Ranking (*good*, *average*, or *poor*): Good

22. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?
    Comments: The costs associated with selling product and servicing the customer were negligible in the start-up business model.
    Ranking (*good*, *average*, or *poor*): Good

23. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
    Comments: Because the revenue continues to occur from existing customers, costs associated with continued revenue decline.
    Ranking (*good*, *average*, or *poor*): Good

24. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
    Comments: Customer service after the sale was minimal due to the nature of the product.
    Ranking (*good*, *average*, or *poor*): Good

25. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
    Comments: Almost all of the start-up expenses were variable.
    Ranking (*good*, *average*, or *poor*): Good

26. **Capital requirements:** Is your potential dollar revenue high relative to your initial capital investment?
    Comments: There were no initial capital investments. Initially all manufacturing obligations were outsourced.
    Ranking (*good*, *average*, or *poor*): Good

Daltons Furniture, Business-to-Consumer

Product

In 1993 we developed the idea to start a custom-order sofa and chair retail store. In the late 1960s and early 1970s I gained experience in the furniture retail business with my father. I have always had a passion for well-designed furniture, and learned the advantages and disadvantages of the furniture retail business at a young age. Special order sofas, chairs, and sectionals in the customer's choice of fabrics or leathers create the largest sales volume per square foot and the highest gross margins in a retail furniture store. Custom-order upholstery and leather products are designed and manufactured to the customer's wants and specifications. Fabrics can be made under a private labeled to create proprietary products that cannot be traced to a competitor, which eliminates price comparison shopping.

The competition in our metropolitan area was very strong and well developed. There were several big box retail stores at low, medium, and high price points. Our market consisted of strong brand name department stores as well as all the national and regional specialty stores including Pottery Barn, Restoration Hardware, Ethan Allen, and Room & Board. There were numerous well-established independent retailers at all price points and hundreds of designers working out of their homes. Furniture retailers also had to compete with national retailers who sold at very competitive margins through 800 telephone numbers. Not all of these competitors marketed "custom-order" sofas and chairs, but they all stocked and sold sofas and chairs at a variety of price points and styles.

Due to the fact that the market was so well developed, we established the original business model to offer more benefits than the competition. We envisioned creating a specialty store that focused on the financial sweet spot of the furniture industry, which was custom-order sofas, chairs, and sectionals in your choice of fabrics and leathers. A starting price point for a custom-order sofa was about $1,000 and $500 for a chair, which were modest price points for custom-order products.

We decided to focus on four criteria to differentiate us from other retailers who were in the custom-order upholstery business. First was simplicity. Special ordering custom upholstery and leather can be a confusing and frustrating experience for the consumer. Daltons's business model would make the shopping and selection process as simple and enjoyable as possible with the implementation of consumer friendly self-serve point-of-sale aids. Second was selection. Daltons would present the largest selection of custom-order sofas and chairs in our price niche in the trading area. Third was savings and value. Daltons would create the largest discount and overall best value with the ability to compete with the national 800 telephone retailers. Fourth was fashion. Daltons would sell a tasteful, upscale selection of merchandise.

In order to generate unprecedented savings, be the low cost provider, yet be profitable at lower gross margins than the traditional furniture store, Daltons needed to develop a business model that could operate at lower costs. There were four criteria established to lower the company's operating costs. First, because furniture is a destination purchase like an automobile, we decided to locate the company in a lower warehouse rent location versus a higher retail location. Second, we felt that if the overall shopping experience and value was remarkable enough to develop favorable word-of-mouth advertising, we would be able to operate at less than the traditional 5 to 8 percent advertising costs to revenue.

Third, efficient sales systems and point-of-sales aids were established in the showroom to enable a salesperson to efficiently service and sell three times as many customers than the traditional furniture store salesperson. This would allow Daltons to operate at lower sales costs. Fourth, because the business was structured to special order a wide selection of product from relatively few representative samples in the showroom, the business would literally become a low-cost, special-order paper business versus the traditional furniture store that handles and stocks a tremendous amount of inventory involving higher labor costs. Daltons's business model was going to eliminate all the traditional operating costs associated with the storage and handling of the product. Our concept was to operate an efficient, systems-run special order paper business that created an unprecedented value in our product niche.

Our initial marketing plan was to use direct marketing methods. I personally had experienced success with direct telemarketing in other businesses; in the early to mid-1990s, this was a successful marketing method. Once a lead was developed, Daltons would mail videos as a visual sales tool as well as very professional color brochures to tell the Daltons story. Remember that in 1994, online marketing was still in the future. Newspaper and television were the media of choice by furniture retailers, but we dismissed them due to their higher cost and lackluster performance. Our ultimate marketing plan was to generate enthusiastic word-of-mouth advertising due to our remarkable value, selection, and ease of shopping. Eventually the business could sustain itself from referral business without the high cost of marketing.

As we proceeded with our business plan, we were very concerned about four negatives inherent to the furniture retail business. First, when a sale is made and a customer is developed, additional revenue does not automatically recur every month or every year from that customer. However, because furniture is a product that people do buy throughout their lifetime, it is possible to build a customer base that will generate some repeat revenue. Within the furniture industry, upholstered sofas and chairs are one of the few furniture items that do wear out and need to periodically be replaced. Bottom line, even though there was an opportunity for repeat business, to be profitable would require being successful at generating a continuous stream of new customers.

Second, we were concerned about the difficulty of motivating customers to leave their home to come to a showroom in order to make a sale. Third, there was financial risk with a fairly large front-end investment in inventory and display fixtures. Plus there was a fixed monthly overhead that would start on day one. Fourth, we did not know if we could secure distribution from furniture manufactures that would give us the quality, fashion and price points that our business model required. A successful preliminary trip to High Point, North Carolina to secure distribution rights removed this concern before we proceeded with the business plan.

The preliminary profit and loss projections were based on operating at lower gross margins than the industry average. We anticipated higher sales per salesperson due to the simplified self-help point-of-sale aids, and therefore, lower sales costs as a percentage to revenue. We forecast lower marketing costs due to our direct telemarketing methods and ultimate word-of-mouth referral strengths. We also factored in considerably lower operating costs for the paper handling systems-run business model versus the higher operating costs associated with a traditional retailer who stocks inventory.

We built this information into our preliminary revenue forecast of $1 million in 10,000 square feet of showroom. Even though $1 million was a very conservative sales forecast at $100 per square foot, the profit and loss model was still comfortably profitable. Due to the vast assortment of products that Daltons could custom-order off a single sample that used about twenty square feet of showroom square footage, the potential to generate $200 to $400 in sales per square foot in this business model was considered reasonable.

As we experienced the business model in the real world, we gradually learned three things. First, Daltons could not generate enough volume per square foot specializing in custom-order sofas and chairs in upholstery and leather. We determined Daltons was losing opportunities to generate revenue because the product niche was too narrow. As a result, we decided to expand the variety of the product line rather than reducing the size of the showroom and remaining a specialty sofa and chair store. As we searched for new manufacturers, they would have to lend themselves to Daltons model of being able to develop a wide selection of custom-order options and sales from a limited amount of samples and floor space. As Daltons developed new manufacturers to represent, the company began to offer other product categories such as dining, entertainment, unique accent furniture, area rugs and window treatments. This expansion of product required an additional capital investment. As Daltons strengthened the variety of product availability, the volume per square foot increased.

Second, Daltons discovered that the telemarketing methods could not reach enough people fast enough to generate the amount of traffic we needed on a daily basis. Remember, Daltons had a monthly fixed overhead to pay; consequently we developed a long-term newspaper marketing program. The change in marketing methods was successful at increasing traffic and sales; however, it came at higher costs as a percentage to revenue than projected.

Third, Daltons discovered that the custom-order nature of the product required a significant amount of hand-holding during the sales process. The more time a salesperson spent with a customer and the stronger the relationship built, the higher the percentage of closes. Customers appreciated and used Daltons simplified self-serve sales aids, but it did not produce the lower selling costs that were built into our original business model. Daltons gradually built a sales staff that possessed the design talent to go into customers' homes and build design relationships. As Daltons successfully developed a staff of talented designers who were professionals at developing relationships, the size of our average sale and the percentage of sales closed increased.

Due to the three adjustments in the business model, Daltons revenue continued to grow; however, at the company's targeted lower gross margins combined with the larger advertising and sales costs, it was not profitable revenue. After seven years of adjusting the business model to the marketplace the revenue finally reached $1 million. To an outsider, Daltons probably looked successful. The company had a great selection of fashionable, unique home furnishings with thousands of custom-order options presented in a fun shopping environment. The company had three thousand happy customers who were talking about the Daltons brand including exceptional product, great values and helpful sales service. Daltons had one of the most knowledgeable, helpful and friendly sales staffs in the marketplace. The concept of becoming a systems-run custom-order business that moved paper (versus furniture) at a lower operating cost proved effective. Over the seven-year period we adjusted our business model to grow revenue and give the consumer in our market niche what they wanted. Nevertheless, at one million in revenues we were not generating the bottom line profits we needed to justify our investment in dollars or time.

The company experimented with increasing the gross margins to offset the increased marketing and sales costs, but did not experience success. In 2003 we outlined five roadblocks to continued revenue growth and bottom line success. First, the word-of-mouth advertising was never strong enough to sustain the company's revenue growth while the advertising costs to generate the sales growth the company would need proved to cost 10 to15 percent to sales. Second, the time involved in conducting the relationship-building sales methods in the showroom or the customer's home was effective but more expensive as a percentage to sales than projected.

Third, due to lack of vibrant sales growth, the company could not retain qualified design educated salespeople that our business model was now dependent upon. How could the company continue to grow if it could not retain the qualified sales help? Fourth, Daltons could not find a way to use either people or marketing tools to differentiate the company to capture a larger share of the market and leverage the sales growth. Fifth, there was simply too much competition chasing too few customers in this product and price niche; Daltons target market was too small based on the amount of competition. In addition, the consumer's shopping preferences nationally was shifting away from Daltons product and price niche. The target market was suddenly getting even smaller.

We researched a variety of optional business models and decided the opportunities for us to accomplish our goals were limited, especially with our other business management responsibilities. We ultimately decided to liquidate the inventory and close the business. This story presents an interesting case study because the original business plan was well-thought-out; however, because a few of our concepts did not work in the real business world, the profit and loss forecasts proved to be erroneous. As the business model was adjusted to adapt to the wants and needs of the consumer, the revenue grew; however, the ultimate business model could not generate continued revenue growth due to the limited market size relative to the competition and the shift by the consumer away from higher priced custom-order merchandise.

Advantages

1. Custom-order furnishings are one-of-a-kind products, which reduce competitive options.
2. Custom-order furniture offers the potential to generate high sales-per-square-foot without incurring the cost to carry inventory for on-demand sales.
3. The purchase of customer-order furniture carries a high emotional attachment with the consumer.
4. The lower cost structure of the catalog/showroom concept creates an exceptional value in the market place.
5. The catalog/showroom concept exposed shoppers to thousands of additional purchasing ideas via easy to access catalogs on display. This facilitated effective cross-selling.
6. The higher average unit sales price of $1,500 per purchase was favorable for profit.
7. A continuous flow of product was readily available from quality factories.

Disadvantages

1. Custom-order furniture is not a product people need to purchase.
2. There is an unlimited selection of furniture available in the marketplace at every price point, every style, to serve every function and every taste. The average consumer's shopping preference is to continue shopping until they discover the perfect item at the right price rather than custom-ordering.
3. The marketplace is very mature with an abundance of competition at every price level.
4. There are so many choices for the consumer in the marketplace that the benefits Daltons offered did not differentiate the company enough from the competition to make an impact.
5. The price point for custom-order furniture is above the price point of what the mass market can afford.
6. The market size of Daltons's product and price niche, relative to the amount of competition, was not large enough to generate the necessary revenue growth.
7. The nature of the product does not create a recurring revenue stream.
8. The marketing costs to motivate prospects to visit a showroom are very high.
9. You cannot effectively target your advertising. The target market of potential customers in the market for furniture in the company's product and price niche at any given time is difficult to determine.
10. Custom-order furniture did not lend itself to the newest innovation of online marketing.
11. Custom-order furniture involves color, design elements and visualization that make it a difficult product for the customer to understand and purchase.
12. The custom-order, design-oriented product cannot be sold by someone without special education and knowledge.
13. The sales costs associated with selling custom-order furniture was more expensive than projected.
14. In order to grow the business, it required the ability to generate enough revenue to attract, compensate, and retain professional designers.
15. There is a high amount of financial risk with a large capital investment in inventory and relatively large monthly fixed expenses.
16. The founder had not been working inside the industry for eighteen years.

Summary

This business model is a great example of how a well-thought-out business plan can be subject to many surprises in the real business world. The lesson to be learned here is when you consider all of the time, energy, and money an individual will invest in a new start-up, it only makes sense to invest a significant amount of time into finding out the answers to the questions posed in the 26-point evaluation test.

No matter how diligent you are in developing a business plan, you will encounter surprises. For this reason it is always better to start out small to test and adjust your business model in the competitive, real business world.

26-Point Evaluation Test, Applied

<u>Product Risks</u>

1. **Demand:** Is the purchasing priority high; i.e., does the consumer have a real need for product?
   Comments: Custom-order furniture is not a high-priority consumer product.
   Ranking (*good*, *average*, or *poor*): Poor

2. **Easy to sell:** Is the product easy to understand, and require very little consumer education?
   Comments: Custom-order furniture is difficult for the average consumer to visualize. The product requires a fair amount of education and hand-holding.
   Ranking (*good*, *average*, or *poor*): Poor

3. **New product:** Is there a real demand?
   Comments: There was very little accurate knowledge of real demand of custom-order upholstery and leather relative too the competition.
   Ranking (*good*, *average*, or *poor*): Poor

<u>Competitiveness of Strategic Position</u>

4. **Maturity of market:** Is there room in your market for you? The lower the level of competitive saturation the better.
   Comments: The market was saturated with competition.
   Ranking (*good*, *average*, or *poor*): Poor

5. **Product uniqueness:** Will customers be able to separate your product from the competition's?
   Comments: The simplified sales process would separate the business model from the competition.
   Ranking (*good*, *average*, or *poor*): Good

6. **Unique sales process:** Does your sales process stand out from the competition?
   Comments: The simplified sales process would separate the business model from the competition.
   Ranking (*good*, *average*, or *poor*): Good

7. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments: There was nothing in the business model that differentiated the delivery process.
   Ranking (*good*, *average*, or *poor*): Average

8. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments: The unique sales process touch points would separate the business model from the competition.
   Ranking (*good*, *average*, or *poor*): Good

<u>Customer Perception of Value</u>

9. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
   Comments: The value the business model offered was perceived to be superior to the competition.
   Ranking (*good*, *average*, or *poor*): Good

10. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments: There were emotional benefits to the user that were known and satisfied.
    Ranking (*good*, *average*, or *poor*): Good

11. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?
    Comments: Consumer purchasing and product performance frustrations were successfully identified.
    Ranking (*good*, *average*, or *poor*): Good

<u>Revenue Potential</u>

12. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments: The price points were well established and understood.
    Ranking (*good*, *average*, or *poor*): Good

13. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments: There was a good understanding of the number of unit sales required to generate the necessary revenue to break even.
    Ranking (*good*, *average*, or *poor*): Good

14. **Market size:** Relative to the competition, are you confident that the size of your target market is large enough to generate the required revenue?
    Comments: There was poor knowledge about the size of the market relative to the amount of competition.
    Ranking (*good*, *average*, or *poor*): Poor

15. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments: Custom-order furniture was purchased infrequently. The business model would have to be successful at generating favorable word-of-mouth advertising to provide a continuous flow of new prospects.
    Ranking (*good*, *average*, or *poor*): Poor

16. **Cross-selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments: There were thousands of additional complementary items to sell.
    Ranking (*good*, *average*, or *poor*): Good

Marketing Effectiveness

17. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments: It is difficult to identify who is a custom-order furniture prospect or, for that matter, anyone who is in the market for furniture at any given point in time. As a result, you cannot target your advertising.
    Ranking (*good*, *average*, or *poor*): Poor

18. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments: Since you cannot identify a prospect or target your advertising, it is very expensive to reach a prospect and procure a sale.
    Ranking (*good*, *average*, or *poor*): Poor

19. **Purchasing convenienc**e**:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments: A custom-order furniture product is not an easy purchase for a consumer. It requires an investment of time away from their work and home.
    Ranking (*good*, *average*, or *poor*): Good

20. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments: The benefits were known and could be stated in a concise statement.
    Ranking (*good*, *average*, or *poor*): Good

Profitability Risks

21. **Margins:** Do you have a strategic position relative to competition that allows for high margins?
    Comments: A primary part of the strategic position was lower margins.
    Ranking (*good*, *average*, or *poor*): Poor

22. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?

Comments: The initial business model was premised on lower sales and operating costs but this proved to be false in the real world.
Ranking (*good*, *average*, or *poor*): Poor

23. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
    Comments: Since the product does not generate continued revenue, costs to generate revenue do not decline.
    Ranking (*good*, *average*, or *poor*): Poor

24. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
    Comments: Customer service after the sale was moderately expensive due to the nature of servicing difficulties with custom-order products.
    Ranking (*good*, *average*, or *poor*): Poor

25. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
    Comments: Almost all of the expenses were relatively high fixed costs.
    Ranking (*good*, *average*, or *poor*): Poor

26. **Capital requirements:** Is your potential dollar revenue high relative to your initial capital investment?
    Comments: There were large capital investments in inventory and display fixtures. Revenue potential was unknown.
    Ranking (*good*, *average*, or *poor*): Poor

Book 1 Supplement Summary: Common Characteristics

- All the business owners featured here have a real passion for what they are pursuing.
- They are all willing to make personal sacrifices to be successful.
- They all strive to be the best.
- They all have persistent and determined personalities.
- They all know how to learn from failures and continue the search for a successful business model.
- They all are successful at differentiating their companies from the competition.
- They all put their customer’s and their employee’s interests before themselves.

About the Author

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Book 4: Develop Efficient Business Processes
Book 5: Hire the Right People
Book 6: Train for Productivity
Book 7: Motivate Your Employees
Book 8: Build a Successful Sales Organization
Book 9: Develop Effective Speaking and Listening Skills
Book 10: Develop Successful Leadership Skills

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- A Calendar of Successful Thoughts
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