LIFETIME, INTERACTIVE BUSINESS GUIDE

A TEN-BOOK SERIES ON TOP BUSINESS FUNCTIONS

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Build a Successful Business Model

KNOW WHAT THE WINNERS DO!

Growth & Business Coach

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WIN AT BIZ®

BUILD A SUCCESSFUL BUSINESS MODEL

A TEN E-BOOK SERIES

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TABLE OF CONTENTS

TABLE OF CONTENTS

BUILD A SUCCESSFUL BUSINESS MODEL

Introduction

Men and women are managing businesses, selling and delivering products and services all over the world every day. We all know how difficult it is to take a step back from our daily routines, and make time to really evaluate the competitiveness of our company's business model. Many of us have a passion for managing people and businesses; many of us believe we can sell a service or product better than the existing competition. Some of us may want to be, or are presently in, our own business, hoping to be more in control of our financial futures. We each have a love for doing something in particular, and enjoy combining our passions with our work and our livelihood. After all, why not make a living doing what we enjoy?

These may all be good reasons for becoming involved in the world of business management or ownership. Nevertheless, the first and most practical step to financial success in a successful business is to keep your enthusiasm from carrying you down a path of blind optimism. Building a successful company takes a lifetime; the start-up phase alone will require an investment of at least three to five years. Yet according to the Small Business Association's Office of Advocacy, more than 50 percent of new businesses with one or more employees do not last even five years. A business owner not only sacrifices great quantities of personal time but also risks capital, often personally guaranteeing company debt. It can be a financially and emotionally painful experience to fail.

Instead, invest time in gathering the information you need to build a business model—one that will offer you a better chance of success. If you are currently operating your own business, starting a new business, or are the manager of a business, this exercise will help you improve your business model and strengthen your company's strategic position, profitability, and continued success.

The best chance for continued success in a competitive business environment is to develop a business model that will provide the highest percentage of success in capturing market share. Most people in business have never walked the path that they have just chosen; they fail to do the necessary homework and planning relative to the company's business model. Most often this is because many business people simply don't know what they should be planning, what questions to ask, what decisions need to be made, or what type of information they should be researching. Businesses owners who do not make educated decisions about their model will not satisfy their customers enough to earn their loyalty.

In reality, every business has a model; however, it is usually just a by-product of how the business operates anyway. Your goal should be to create a successful business model based upon planning and research, and focus on deliberately accomplishing specific objectives. This exercise is just as important for existing businesses as a new start-ups. In fact, every business should analyze how to improve their business model annually. How else can we expect to maintain a competitive advantage in the face of ever-changing customer wants and growing competition?

Consider for a moment why some businesses in the same industry fail while others succeed. For example, in the retail furniture business, most retailers look the same. They may offer different price points and quality of merchandise, but they all tend to market to a local geographical area through newspaper and television ads. They typically present a large selection of merchandise in attractive room-like displays, offer brand-name furniture, provide immediate delivery from a local warehouse, service merchandise defects under the manufacturer's warranty, and extend attractive financing terms.

Yet if a retail furniture store is going to develop a strategic position that will capture a larger market share, its business model must stand out from the competition. Something in that business model must satisfy a customer's wants better than anybody else. For example, consider a furniture retailer who selected a narrower target market and offered only high-end contemporary furniture. The company partners with furniture manufacturers to offer custom options that its customers want, and markets the furniture under its own brand name rather than selling a brand name that the competitions offers. The merchandise is sold nationally, rather than locally, through nice catalogs and a website, allowing the customer a shop-at-home convenience. This is a real, successful business model, and an example of how a business can differentiate itself from the competition by focusing on a better product, a better sales process, and a better delivery system. In other words, the retailer succeeded by completely satisfying the target customer's wants in a smaller segment of the market.

Developing a business model that will stand out from the competition is not easy. First, you must know what questions to ask. For example, what benefits do your customers really want, how will they respond to your advertising, at what price points do they lose interest, what are your customers' purchasing frustrations, is the size of the market large enough to generate the required revenue, and what types of skills will your salespeople need? Obtaining the correct answers to your questions will require accurate research about both your target customer and your competition. It will undoubtedly be easier to get the right answers while you are actively operating a business.

It will also be easier for you to build a successful business model once you understand how the model can make the difference between success and failure in the real business world. The free, separate supplement to this e-book includes interviews with entrepreneurs who have competed in this world, and which will help you understand the challenges you'll face in starting, operating, and maintaining a successful business. In the e-book now in front of you, you will learn how to evaluate witness how they survived by continually adapting their models to an ever changing, competitive market.

Every successful business model must offer a product that answers some demand, as well as develops a strategic position that will separate your company from the competition in the customer's mind. In this e-book we will first review ways to achieve this goal by examining the product, how it is sold, and how it is delivered, as well as evaluating customer touch points and the importance of answering your customer's purchasing frustrations, emotions, and desired benefits. We will also talk about ways to assess the customer's perception of your product's value.

Building a successful business model will also require evaluating the company's revenue growth potential. This e-book will help by showing you how to research price points and market size relative to the competition, as well as possibilities for a renewable revenue stream. Every successful business model must have the potential to out-market its competition and capture a sufficient share of the company's target customers. You'll find many examples of these processes.

We will also examine what makes some business models more marketable to your customers than others. In order for your business to survive and be profitable, it will help to develop a business model that inherently possesses fewer risk factors. We will examine each of the risk factors that decrease the odds of a business's survival.

When you are ready to start formulating the development of a more successful business model, the action steps at the end of the book will show you how to use the information to thrive in the business world.

Win at Biz Scorecard

Every business needs to know how it is going to compete, meet the needs of its customers better than the competition, and generate enough revenue to operate profitably. The development and annual review of a well-thought-out business model is imperative to every business's success.

Perform the 26-point Evaluation Test

How often do you review and update your business model to improve your strategic position, growth potential, and profitability? This section introduces a 26-point evaluation test that will exhaustively, thoughtfully guide you through an objective evaluation of a business plan. For each of the points in the evaluation test, your job is to rate them frankly, assigning each with a *good*, *average*, or *poor* rating. The test will implicitly keep you honest, because giving yourself ratings that are fictitiously too high will only hurt you. Also keep in mind that this is not a pass or fail exercise, but rather a tool to analyze the weaknesses in your business model so you may proceed down a path of survival and success.

If you are completing the evaluation test for a new business, be aware you may not have all of the correct information. When you are not experiencing the business in the real world, it can be especially difficult to obtain accurate data about customer needs and wants, the size of the market, and acceptable price points. You must conduct thorough market research with your target market. Other than mismanagement and under-capitalization, lack of reliable information when you are building your business model is one of the biggest reasons for business failure.

The Test

For each of the business models presented as examples in this e-book, and eventually for your own, we'll follow the test below point-for-point. Once you have all the data you need to answer the questions, the test will be an easy litmus test of your business model's chances of success or failure.

The instructions are simple. Rank each evaluation point *good*, *average*, *poor*, *answer unknown*, or *not applicable*.

Product Risks

1. **Demand:** Is the purchasing priority
2. high; i.e., does the consumer have a real need for product?
   Comments:
   Ranking (*good*, *average*, or *poor*):

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

4. **New product:** Is there a real demand?
   Comments:
   Ranking (*good*, *average*, or *poor*):

Competitiveness of Strategic Position

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

6. **Product uniqueness:** Will customers be able to separate your product from the competition's?
   Comments:
   Ranking (*good*, *average*, or *poor*):

7. **Unique sales process:** Does your sales process stand out from the competition?
   Comments:
   Ranking (*good*, *average*, or *poor*):

8. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments:
   Ranking (*good*, *average*, or *poor*):

9. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments:
   Ranking (*good*, *average*, or *poor*):

Customer Perception of Value

10. **Real benefits:** Does the product or service offer many benefits that respond to customer desires, and separate you from the competition?
    Comments:
    Ranking (*good*, *average*, or *poor*):

11. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments:
    Ranking (*good*, *average*, or *poor*):

12. **Frustration level:** Have you removed possible frustrations that your consumer may face in purchasing and using your product or service?

Comments:
Ranking (*good*, *average*, or *poor*):

Revenue Potential

13. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments:
    Ranking (*good*, *average*, or *poor*):

14. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments:
    Ranking (*good*, *average*, or *poor*):

15. **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:
    Ranking (*good*, *average*, or *poor*):

16. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments:
    Ranking (*good*, *average*, or *poor*):

17. **Cross selling and up-selling opportunities:** Do you offer additional or related products to increase revenue to existing customers?
    Comments:
    Ranking (*good*, *average*, or *poor*):

Marketing Effectiveness

18. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments:
    Ranking (*good*, *average*, or *poor*):

19. **Marketing cost per sale:** Can you reach a prospect and procure a sale cost effectively?
    Comments:
    Ranking (*good*, *average*, or *poor*):

20. **Purchasing convenience:** Is your product or service easy to purchase, and do you offer multiple procurement options?
    Comments:
    Ranking (*good*, *average*, or *poor*):

21. **Marketing message:** Is it possible to state real benefits or a unique market position in a concise marketing statement?
    Comments:
    Ranking (*good*, *average*, or *poor*):

Profitability Risks

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

23. **Sales and operating cost:** Is the cost of selling and providing your product or service to a new customer low?
    Comments:
    Ranking (*good*, *average*, or *poor*):

24. **Cost of continued revenue:** After the initial sale, do the costs associated with continued revenue decline?
    Comments:
    Ranking (*good*, *average*, or *poor*):

25. **Customer support costs:** Do the costs associated with customer service after the sale remain low?
    Comments:
    Ranking (*good*, *average*, or *poor*):

26. **Expense structure:** Have you structured most of your expenses as variable, and kept any unavoidable fixed expenses low?
    Comments:
    Ranking (*good*, *average*, or *poor*):

27. **Capital requirements:** Is your potential dollar revenue high relative to your initial capital investment?
    Comments:
    Ranking (*good*, *average*, or *poor*):

A Case Study: Business-to-Business Product

Before we can talk about how to build a successful business model, it's a good place to show the 26-point evaluation test in action. The following story is based on an interview I conducted with John Peterson of Elliot Corporation, a start-up company, and reflects a true business experience. (The names have been changed for legal reasons.) By seeing how directly the strengths and weaknesses of John's business model affected the ultimate success of the business, you will be able to better grasp the importance of the material in this book—and how the evaluation test can help you invest your time and money wisely. In fact, at the end of Elliot Corporation's business story, you'll see an analysis of John's business model using the 26-point evaluation test.

Elliot Corporation
Business-to-Business Product

John Peterson was one of the leading commercial real estate brokers in the Denver, Colorado area for several decades. In 1991 John began to pursue ideas for other sources of revenue within the industry. John was a leader in the commercial real estate industry because he believed in going out of his way for his clients. He believed in delivering the highest level of professionalism, educating his clients and delivering the best overall value possible in the industry.

In 1991 John developed a software program that raised the level of customer service even more. This software program allowed John to do various valuations and comparisons of commercial real estate much faster than standard manual methods, enhancing the professionalism of the presentation to the client (property owners) and also to property buyers. The software proved successful: it saved time, increased productivity, and delivered better overall professionalism and value to clients.

The new software began to attract considerable attention from other brokers as well as from the owners of the commercial brokerage firms. As a result, John decided that this software product could possibly be the additional business he was looking for. The software product would be a proprietary product, being unique in the services it provided to their target market of commercial brokerage firms. There was literally no competition.

John made several trial presentations regarding the benefits of the software product to the owners of brokerage firms, becoming encouraged with the feedback he received. The owners were enthused about gaining productivity and professionalism, and also about increasing value for their clients. The brokerage firm owners visualized this product as having the capability to give their firms an advantage in the competition for listings, giving them the edge they needed to increase their market share.

With that information, John and his partner did some revenue and expense projections along with some initial capital investment projections, searching for additional private investors. The business model, from a financial risk assessment, was relatively high due to the large fixed operating costs that would begin right away and the large front-end investment required to develop the rest of the proprietary software package. The partners agreed that they would need to develop seven software programs, each with four separate elements in order to cover all the different needs of various brokerage firms in the United States.

They were successful in raising the money from private investors and began to develop the software. The name of the new company was Elliot Corporation. As the partners experimented with the Elliot business model, they were still feeling out the marketplace for an acceptable price point. Since there were no similar products on the market, John could not conduct any price comparisons. There was never a question as to how the product was going to be marketed; they knew direct marketing methods to the owners of the brokerage firms via letter, telephone, and trade shows would give them the best return on their time and marketing dollar. To their advantage, they already had relationships with many brokerage firms around the country.

Early in the game a brokerage firm in Baltimore approached them about the product; however, the firm wanted exclusivity for the Baltimore area. The Baltimore firm believed the product would give them an advantage in the marketplace if they had exclusive use of the software. The merchandising strategy of granting exclusive rights to the use of the software to one broker in each major metropolitan area would considerably reduce the number of potential customers. As a result, merchandising the product with exclusive geographical rights would require a higher price point, somewhere in the neighborhood of $30,000 to $40,000. This merchandising strategy created a new question: How would revenue growth occur in a smaller client base? Originally, the plan was to generate recurring revenue from software updates and training fees.

Within nine months of marketing the product, John discovered there was demand for the product; however, there was too much resistance to the price tag of $30,000 to $40,000. With that feedback, they decided to alter their merchandising strategy and pricing. John decided to sell any one of the 28 software programs individually, which would drive the price of an individual module down to approximately $1,500 each. They would not offer exclusivity, which would expand the potential market to every firm in the United States, improve selection and freedom of choice for the client, while making the product more affordable for everyone. The changes would also improve Elliot Corporation’s opportunity to generate a healthier recurring revenue stream from a larger client base.

The new merchandising and pricing decision proved to be successful in generating revenue. With thousands of brokerage firms to whom to market in the United States, the training and set-up of new clients, and the day-to-day task of managing the business, there were simply not enough hours in a day. John decided that in order to generate enough revenue, they would have to hire sales reps throughout the country to gain the product exposure that was necessary.

Eventually, two serious roadblocks emerged. First, even though the owners of the brokerage firms were enthused about the perceived benefits of the software product, the individual brokers, who were the users of the product, were reluctant to use it. The individual brokers would use the software initially, but would not adjust to it as an everyday business tool. The owners of the brokerage firms were not motivated to buy additional programs or updates when they saw this lack of enthusiasm among their brokers.

The second serious roadblock was the failure of the sales reps around the country to sell the product. John discovered that reps were overwhelmed with the amount of brokerage knowledge needed to be successful at selling the product. John could sell the product himself, but others with less brokerage knowledge failed. Additional training of the sales reps proved futile. John soon realized that the product required someone with extensive broker knowledge to sell it successfully.

Months of managing Elliot Corporation, making merchandising and marketing adjustments in search for a successful business model, turned into five years. The product was being sold, but the revenue was not enough to generate positive returns on time or capital. The initial capital John had raised was just about gone. Due to broker's resistance to the product, the target market audience shrank, and so did revenue projections as a result. John decided to liquidate the assets and close the business.

As you can see, operating a business in the real world often differs from what you first imagine it to be. The real world marketplace quickly uncovers flaws in any scheme. The secret is to find the answers to some important questions before you invest time and money. It is possible to collect viable data if you are patient and invest time in the research—and it helps if you are already working within the industry. Whatever the case, you must start the process by asking the right questions; the 26-point evaluation test will help you with that.

Remember, many times it may be wise to invest less capital and simply start small until you have tested the business model in the real world. The following will give you an example of how we have applied the 26-point evaluation test to Elliot Corporation's business model.

Elliot Corporation
26-Point Evaluation Test

Rank each evaluation point – good, average, poor, answer unknown, or not applicable.

<u>Product Risks</u>

1. **Demand:** Is the purchasing priority is high; i.e., does the consumer have a real need for product?
   Comments: This is a new product.
   Ranking (*good*, *average*, or *poor*): Unknown.

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.
   Ranking (*good*, *average*, or *poor*): Poor

3. **New product:** Is there a real demand?
   Comments: Feedback from the owners of the brokerage firms was positive; however, acceptance of the product from the user (individual broker) was initially unknown. The real marketplace proved demand to be poor by the individual broker.
   Ranking (*good*, *average*, or *poor*): 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: There is not any competition, however, the sales process was excellent since the owner was the primary sales consultant.
   Ranking (*good*, *average*, or *poor*): Good.

7. **Unique delivery process:** Does your delivery process stand out from the competition?
   Comments: There is no competition, however, the delivery process is acceptable.
   Ranking (*good*, *average*, or *poor*): Good.

8. **Unique touch points:** Do your prospect and customer touch points stand out from the competition?
   Comments: There was not any competition, however, the touch points were directly with the owner.

   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 perceived benefits of the actual user were not known initially and proved to offer little benefit to most users in the real marketplace.
   Ranking (*good*, *average*, or *poor*): Unknown.

10. **Emotional benefits:** Will your customer derive emotional benefits and pleasures from purchasing or using your product or service?
    Comments: The emotional benefits to the user were not known initially and proved to create negative emotions in the real marketplace.
    Ranking (*good*, *average*, or *poor*): Unknown.

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 user were unknown initially and proved to create negative frustrations in the real marketplace.
    Ranking (*good*, *average*, or *poor*): Unknown

Revenue Potential

12. **Price point acceptance:** Do you know the price points your target market will accept?
    Comments: Assumptions about initial price points proved to be wrong in the real marketplace. All products were re-merchandised and re-priced at lower price points.
    Ranking (*good*, *average*, or *poor*): Unknown.

13. **Unit sales:** Do you know the number of unit sales required to achieve your target revenue?
    Comments: There were assumptions about the number of unit sales needed, however, since the original price points were lowered, the required number of unit sales had to be adjusted upward in the real marketplace.
    Ranking (*good*, *average*, or *poor*): Unknown

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 commercial real estate broker was a potential prospect and there were not any competitors with like products.
    Ranking (*good*, *average*, or *poor*): Good

15. **Renewable revenue:** Must satisfied customers purchase your product repeatedly?
    Comments: Once the software was sold, there was not any potential to generate equivalent software revenue from the same 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 opportunities to sell existing customers upgrades to their existing software as well as training services. Since the software did not generate renewable revenue, the up-selling would serve to replace lost software revenue from customers rather than grow revenue.
    Ranking (*good*, *average*, or *poor*): Average

Marketing Effectiveness

17. **Ease of identification:** Can you identify and reach a potential prospect?
    Comments: Prospects (every commercial real estate broker) 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 or trade show, however due to the complexity of the software, it proved costly to demo the software face to face around the country. It proved difficult in the real marketplace to justify the cost of the sale relative to the revenue being generated.
    Ranking (*good*, *average*, or *poor*): Average

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, however, the product was not easy to buy relative to the decision making process required.
    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: It was easy to state the known benefits in a marketing statement. However, since most of the marketing was conducted via the telephone, a print marketing message was not an important factor generating revenue.
    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: Initial projections were promising; however as prices were lowered and anticipated demand failed in the real marketplace, the costs relative to revenue increased.
    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: Initial projections were promising; however as prices were lowered and anticipated demand failed in the real marketplace, the costs relative to revenue increased.
    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 does not generate continued revenue, you must continue to invest in marketing to generate new sales to replace lost revenue. There was limited potential to generate revenue at lower costs to existing customers through up-selling the services discussed earlier.
    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 fee-based and generated revenue.
    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 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 the development of the software as well as the financing of front-end sales and operating expenses.
    Ranking (*good*, *average*, or *poor*): Poor

Hindsight in this example offers us the luxury of 20/20 vision. You will not have that luxury in making your own decisions about the structure of your business model. Even though the founders of the Elliot Corporation were working inside the industry, you can see from this example how important it is to take the time to find the right answers in an environment that duplicates the real supply and demand of the marketplace.

More interviews with business owners who have started their own businesses are available in the free supplement to this e-book, *"If I Knew Then…": Case Studies that Could Save Your Business*. They provide great learning experiences without a risk to your time or money, and will better prepare you to make decisions about how to build a successful business model. A thorough understanding of what successful business models have in common is critical—as well as an understanding of why other business models fail. The case studies are intriguing, in that they offer an insider's view of how each of these business owners ultimately found success only after years of adjusting their business model to real world competition and their customers' wants.

The rest of this e-book will break down the categories of criteria you see in the 26-point evaluation test—product risk, competitiveness of your strategic position, customer perception of value, revenue potential, marketing potential, and profitability risks—so that you need not judge the strength of your business model with 20/20 hindsight alone.

Product Risk

Demand Factor

What is the real demand of your product or service? Is it a high-priority item on the list of the many things that a business or consumer purchases? Is the product or service important to your target market? For instance, every business needs insurance, but a bad-debt collection service may be a low priority because many businesses can successfully collect their own receivables. A consumer needs personal care products, however, and would place those items high on their priority list. But a new sofa is one of those purchases that can usually be delayed.

So, the point here is simple. To generate the amount of revenue you will need to stay afloat, you have a better chance of success if you sell a high priority item or service.

Win at Biz Scorecard

Your product or service must be important enough to your target market that it is a high-priority purchase.

Easy to Sell

Confusing or obscure products and services need to convey knowledge to a customer before becoming salable, so beware! Any new products that requires a change of behavior will be the most difficult to sell. I am sure you can think of several purchases that you have delayed simply because educating yourself to make a smart purchase is just too much work.

On the other hand, products and services that are needed, wanted and easily understood will be the easiest to sell and have the best chance for success. Think about the products and services that you need, want and are easily understood, that you and your friends routinely purchase. These include food, shelter, clothing, transportation, communication, music, entertainment, health care, travel, pet care, reading material, educational material, personal care products, and the many services that make your life more pleasant and save you time. You are probably thinking, “If the product or service is something everyone understands, needs and wants, won’t the marketplace be awfully crowded?” Some times the answer is yes and sometimes it is no. For example, what could be more crowded than the women’s retail clothing business? Yet I recently read an article about a woman who positioned her business to satisfy the needs of a niche in women’s clothing that was not being fulfilled in the marketplace. This niche was trendy, custom made, affordable clothing for younger plus size women. Whenever you can differentiate yourself to meet a need of a specific niche in the marketplace, it can be a winner, even in a crowded market.

Win at Biz Scorecard

Are the products or services which you are trying to sell needed by the consumer, and are they easy for the consumer to understand?

New Products

If this is a new product or service, is there a viable market for your product at a specific price point? Have you tested the acceptance of the product or service and the price point in the real world marketplace? It pays to take the time to do a real world market test before you start investing a lot of time, capital and debt into the business plan. Consumer behavior patterns, preferences, purchasing decisions, and emotions are very difficult to forecast. Do not guess; test your product or service in the real world marketplace. It is important to duplicate real supply and demand situations so that your tests are authentic. Because accurate answers can be difficult to obtain, the next best strategy is to start small until you have been successful at uncovering all of the answers to these questions.

The Elliot’s business model in the beginning of this chapter is a great example of both the importance and difficulty of testing a new product. The owners of the Elliot Corporation start-up were already working in the industry, so they had the advantage of inside information. Yet even with the advantage of years of experience and inside contacts from whom to collect reliable feedback about their new product, the initial testing and gathering of information about the acceptance of the product proved to be different in the real world.

Win at Biz Scorecard

Beware of the unknown risks of a new product or service.

Competitiveness of Your Strategic Position

A strategic position creates a meaningful place for you, relative to the competition within your market. For example, consider all the shoe stores in your marketing area. What factors influence you to shop at one shoe store rather than another?

- Begin by asking yourself the following questions about your business:
- What are you really selling?
- Does whatever you are selling compel consumers to do business with you rather than the competition?

Most businesspeople focus on the product or service when they think about what they are selling, but others will argue that you will be more successful if you focus on position. That includes differentiating your product or service from the competition, developing unique sales and delivery systems, emphasizing the total customer experience with exceptional service at every touch point, and creating operational or technological advantages or pursuing a completely new market segment. Combining an operational cost and price advantage with any of these strategies will strengthen your strategic position.

Developing answers to these questions will be a good place to start in developing a successful strategic position for your company.

Maturity of the Marketplace

The point in time at which you enter the industry can make a difference in your success. It is more difficult to be successful when you are entering a mature market than a relatively new market. If you are going to enter a mature market, you will need to be more remarkable than the competition if you are going to capture market share.

In most cases, it is easier if you are early or first. The Guaranteed Turf Care business model explained in the supplement to this e-book is a prime example of the advantages of entering a market early. Guaranteed Turf Care was a start-up chemical lawn care company in the mid 1960s. The owner was 16 years old and made numerous mistakes, but there are two reasons this business model succeeded. First, the business owner out-marketed the competition with long hours and hard work. Second, there was so much demand and so little competition in this new market that the inexperienced founder could make a lot of mistakes and still succeed.

On the other hand, it can be helpful to have some competition; it gives you a bar against which to measure yourself. Honestly evaluate the competition. Learn from them what the customer wants, what works and doesn't work, and what frustrates those customers. Examine how you compare to them and where you will compete with them. What are their popular price points? What are your competitors' financial resources? How do they attract, train, motivate, and compensate employees? Understanding your competition is an effective route to differentiating yourself from them.

To learn more about your competition, invest time in shopping them as a consumer of their product or service. Think like a consumer; shop like a consumer; ask the same questions a consumer would ask. Where does the competition disappoint you? Where does the competition excel? Where can you deliver customer benefits that the competition cannot? How is the customer going to perceive you to be different from the competition?

Win at Biz Scorecard

Is the market you are about to enter young, or mature and teeming with competition? If it is the latter, you must gain an understanding of the competition before you can build a business model that will differentiate yourself from them.

Product Uniqueness

What is going to get people talking about your product? What is going to make your product stand out from the competition? When you focus on the product or service and the brand development of what you are selling, you will probably start with developing a product that people want. The next step, development of brand awareness, comes with time.

To differentiate and attempt to create something that people can talk about, build as much proprietary ownership or exclusivity into the product or service as possible. In reality, nothing is ever truly exclusive in the marketplace; there is always another competitive choice for the buyer. Yet with some planning, one can create a sense of exclusivity of the brand by private labeling the product you are selling or the product you are using in a service.

Brand names can develop a uniqueness of their own by offering personalized private label names that stand out from the crowd. For example, specialty food items, cosmetic products, fabrics, and bedding products can all be privately labeled to become exclusively yours. Products that you use as part of a service can also be privately labeled to give it a sense of exclusivity and valuable difference. For example, a lawn care company can develop brand names for exclusively blended fertilizers used in its service. A company that finishes garage floors can promote exclusive, branded products that will not chip or peel.

When a business has not created any product or brand name uniqueness, the product or service will be reduced to a commodity. When your product gets reduced to the status of a commodity, competition is everywhere and profit margins are squeezed. How many times have you simply shopped by phone or Internet for the best price because you could not differentiate between the benefits of a product? If you offer products that people want along with a sense of something special, you will have an advantage.

Seth Godin, in his book, *The Purple Cow*, talks about how most companies are invisible today because consumers have so many choices and so little time that they are not going to go out of their way to buy anything. Remember that the only way to get the consumer's attention today is for your product or service to be so extraordinary that people will talk about your business in terms of your outstanding product. Think about the businesses your friends are talking about and why they are talking about them—these brands can boast something unique. These companies have been successful at building their brands with word-of-mouth advertising by offering a product or service that is more outstanding than their competition.

Keep in mind that they all started small without any brand-name awareness. The reason they succeeded at building a noteworthy brand is that they figured out what their target customer wanted and how to differentiate their product or service from the competition.

Win at Biz Scorecard

- **What does your product or service look like to the consumer?**
- **Is it a product that people want?**
- **What are you doing to your product or service that would make it remarkable relative to the competition?**
- **Is it remarkable enough that people will talk about it?**

Unique Sales and Delivery Processes

How many times do you purchase a product purely because the sales or delivery methods are so convenient? Michael E. Gerber, in his book *E-Myth*, suggests ways to look at what you are really selling. He suggests that you should not dwell on the product or service, especially if others are already offering it, but instead focus on the business model as what you are really selling.

Your business model can be defined as how your business processes interact with the customer to sell the product or service, and how your business delivers it to the customer. The processes in your business model need to give consumers an improved, alternative method for purchase and delivery relative to the competition. For example, a grocery store may offer online purchasing and home delivery as an innovative way for consumers to do their weekly grocery shopping. This would differentiate the store from its competitors who sell groceries the traditional way, requiring consumers to invest considerable time to physically go to the store to do their routine shopping. Certain consumers would switch their grocery dollars to the online/home-delivery store to save time and reduce shopping frustrations. These consumers are willing to switch because they prefer the business model—even though the products are identical.

How about having the oil in a car changed? Rapid Oil Change entered a well-established market—one with a gas station on every corner that could change your oil by appointment. Yet Rapid Oil Change was successful at entering an oversaturated market by offering drive-in convenience with a quick oil change while you waited. No appointment was necessary; your car did not have to be left at the gas station; and the price was competitive. Rapid Oil Change offered a better business model.

Yet another example is how specialty candles and gourmet foods are being successfully marketed today by the home party business model. In short, there are always opportunities to develop new, innovative processes to sell and deliver a product or service. You will read more about building business processes and effective marketing programs in Books 4 and 2 of the Win at Biz series, respectively.

Win at Biz Scorecard

- **How would your target market like the product or service to be sold and/or delivered?**
- **Does your business model meet the market's needs in these two vital areas?**
- **Does your business model offer more purchasing conveniences than the competition?**
- **Do your business processes beat the competition in both finding customers and delivering the product or service?**

Unique Touch Points

Another way to look at what you are really selling is by examining the total customer experience. We all like to be treated as though we are special and important. Do you remember your last purchasing experience where you were made to feel extra special? Did you talk about your experience to others? *Chocolates on your Pillow Aren't Enough*, by Jonathan M. Tisch, offers several great examples.

To begin with, you will need to examine what your customer wants every time they come into contact with your company. What types of feelings and emotions do they want to experience at every touch point? The total customer experience must be remarkable every time and place a customer touches your company.

If you are going to succeed in getting people talking about the company, you must be successful at getting people talking about the total customer experience, not just the product or sales and delivery systems. This includes every contact from the advertising literature, the website, the initial sales contact, the purchasing process, the delivery of the product or service, the performance of the product, the payment process, and the resolution of a complaint. Your goal as a businessperson must be to create rewarding, feel-good experiences every time a prospect or customer touches your company.

Win at Biz Scorecard

Do every one of your customer touch points create a customer experience so wonderful relative to your competition that people will talk about you?

Customer Perception of Value

Offering Real Benefits

Do you really understand what benefits are perceived to be important to your customers? Your success depends upon satisfying your customers' needs, understanding how they behave, and at what price points they perceive the benefits of your product or service to represent an outstanding value. Remember that if you are selling to a retailer, distributor, or manufacturer you must understand the needs of both your customer and the end user.

The task of identifying your target market and building an accurate demographic profile of your typical customer will require a lot of research. As you research your customers' wants and needs, attempt to develop a narrow—rather than broad—market segment to target. For instance, Company A may decide to specialize in marketing work boots, Company B dress shoes, Company C sports footwear, and Company D all three categories. Of the four companies, Company D will have the most difficult time carving out a place in the market. Don't make the mistake of trying to be everything to everyone.

In order to develop a perceived value that is both meaningful to your target customer and different from your competitors, you will need to thoroughly understand what benefits are important to your customer. The best way to learn everything there is to know about him or her would be to work directly with customers from inside the industry. This may mean working for a competitor or starting your own business very small so you can conduct market research. If the nature of the product or service allows you to target people who would be in the market for what you are selling, you can contact them for valuable information. You may also want to consider talking with industry suppliers to gain valuable insights into your target customer.

The most important thing to remember is to never stop asking your customers what they want and need. What benefits will improve customers' perception of the value of your product? For example, several customers can be shopping for furniture and each shopper has different needs that would trigger a purchase. These could be any of the following: shop-at-home convenience, professional design help, effective transfer of product knowledge, more custom options, immediate availability, brand name recognition, more comfort, superior construction features, or a particular style or status statement. Do not make generalizations about a broad target market; do not make assumptions about what you think the consumer wants. Your most accurate and least expensive method of research will be to simply go out and talk to your potential customers. Find out who your customers really are. Do they have an interest in purchasing what you have to sell at the price for which you need to sell it? What types of benefits do they desire? What types of feelings and emotions are involved in purchasing the product or service? What are their frustrations in purchasing the product now? What do they really want?

Only when you understand the true answers to these questions about your target audience can you begin to develop a perceived value that is superior to your competition.

Win at Biz Scorecard

Value is a perception. The only opinion of the strength of your value offering that matters is the opinion of your target customer. Do you offer benefits that will create a better value in your customer's mind than your competition?

Emotional Benefits

Most types of products or services invoke certain types of feelings and emotions in people during the purchase. You will need to uncover what these feelings and emotions are. Then you will need to develop sales systems and strategies to satisfy them. Typically when positive emotions are related to the purchase of a product, it will be easier to sell. Sales involving pleasant emotions will be less price-sensitive and less subject to a purchasing analysis or lengthy decision-making process.

Think about the last time you purchased a new piece of clothing, something to dress up your home, or a new car or boat. Chances are, you will both recommend that business to others as well as do business with them again if the sales process satisfied your emotional excitement and quelled your apprehensions. Many purchases are filled with a variety of emotions and expectations that must be answered in order to complete the sale. When your customer has been fully satisfied, you will have increased customer value.

Win at Biz Scorecard

- **Have you identified what type of feeling and emotional needs you will need to satisfy?**
- **Do you have training and business processes in place to satisfy these wants better than the competition?**

Frustration Level

Every customer has experienced frustrations when purchasing a product or service. These frustrations may be experienced while making the purchase, during the time between the purchase and delivery, the delivery method itself, obtaining service after taking delivery, the payment method, or in the performance of the product. Michael E. Gerber suggests that you need to uncover what these frustrations are, develop business processes within your business model that will remove the current frustrations, and deliver what the customer wants. Your business model must alleviate these current frustrations better than the competition does.

Think about your last frustrating experience with a company. Perhaps a retail store could not find what you wanted, or the sales clerk lacked knowledge about the product. Maybe the item was out of stock, or it took too long to get the item you wanted out of the back room. Perhaps the line at the check-out counter was too long, or maybe it was too much hassle to return an item. With a service business, it may be the length of time it takes to get an estimate, the length of time you wait for service, the sloppy workmanship, or the length of time you wait for corrective service. How about the last time you tried to phone a bank to get customer service and you had to contend with the automated voice system?

There is no denying that a frustrating experience during the purchasing or performance of the product will quickly deteriorate the product's value in the customer's mind.

Win at Biz Scorecard

- **Do you know what the purchasing frustrations are for your target audience?**
- **Do you have a strategy in place for processes that will beat the competition in alleviating these consumer frustrations and delivering what the customer wants?**

Revenue Potential

Price Point Acceptance

Have you determined your price points? Have you shopped your competition? How does your customer perceive the value you offer relative to the competition? It is important to research the product or service thoroughly to get an accurate sense of what price the market will bear and where the competition is forcing the prices in your marketplace. Even when you have exceptional products or unique sales and delivery systems, there is always an alternative purchasing option for your potential customer. There is also always a level of price point resistance where consumer demand will start to decline, and where revenue cannot be maximized.

The secret of your research is to determine what that price point is. Ask yourself the following questions: Can you be profitable at those price points? Can you operate at the same cost efficiencies as your competition? If you do not have the same cost efficiencies, will you be able to be profitable at lower operating margins? It does not make any difference how much revenue you bring in if it is not profitable revenue.

For example, if you were to consider starting a new rapid, mobile oil change service for personal automobiles that performs the oil change at the customer's home or business, how would you determine if it were financially viable? How much revenue would you need to cover the payroll costs of one service person, the operation of one service vehicle, the costs for administrative support, marketing, and a profit margin? How many unit sales must you make at a specific price point to realize the required revenue? The ability to achieve that desired revenue number will ultimately be determined by a price point multiplied by the number of unit sales (or customers) that one service vehicle can perform in one year.

In order for a mobile oil change service business to be competitive, efficient, and profitable, you will need to successfully develop dense routes that keep drive time between customers to a minimum. In other words, your price point will need to appeal to a large market in order to develop thousands of customers. In the example below, we have determined 2500 oil changes at $53 per customer will generate the required revenue. The question your customer research must accurately answer is, "Will the price point of $53 be acceptable to a large enough audience to reach your target number of unit sales?"

Example 1: Price Points for a Mobile Oil Change Business

Payroll cost for one service vehicle	$35,000
Operation of one service vehicle	$15,000
Materials, supplies, etc.	$12,000
Administrative support	$35,000
Marketing	$25,000
Profit Margin	$10,000
Total revenue needed	132,000
Service stops per ten-hour day with dense routes	10
Service stops per year, based on 250 days	2500
Price needed per stop to achieve desired revenue	$53

Required Unit Sales

To accurately determine the number of unit sales you will need to generate profitable revenue, you must know what price points the market will accept. Whether you have already started a business or you are about to embark on a new business venture, most people fail by not talking to enough prospective customers. Most business people fail because they do not understand what the customer really wants from the product or service, the real benefits that their customers seek, and at what price point those customers lose interest.

Think about all of the factors that affect a purchasing decision other than price. It could be simply the convenience of making the purchase, the status connected to the product or service, the education and confidence created by the salesperson, a feel-good emotion that is triggered from the experience, or an opportunity to save time; or perhaps it creates a sense of safety, reduces frustration in their daily lives, or makes their daily lives more enjoyable. Ask yourself why does one person chooses to buy clothing online while another person chooses to go to a department store or the mall? Why does one buy a custom-order sofa from one salesperson at Store X versus the previous salesperson at Store Y? Why do women purchase massages and pedicures? Why do people spend money to have their heating ducts cleaned or purchase extra insurance? Why would you spend money to have your windows washed, lawn mowed, or house cleaned when you could easily do it yourself? Why does someone patronize a particular restaurant and not another?

There are reasons why one wristwatch will easily sell for $5,000 and another will experience sales resistance at $150. In order to gain an understanding of the relationship of unit sales and price points, you will also need to understand the value of the other benefits that drive purchasing decisions.

Win at Biz Scorecard

- **Do you know how much they will pay before unit sales start to decline?**
- **Have you computed the number of unit sales you will need to generate the required revenue?**

Win at Biz Scorecard

- **Do you really know what benefits your customers are willing to pay for?**
- **Do you know what price they are willing to pay?**

Market Size

Once you've done your research on revenue targets, number of unit sales, and price points, you must guesstimate the size of your market. Your target market must not only be large enough, but also it must be accessible and responsive to your product or service. Many businesses fail because after they have entered the market, they discover that the market is not large enough to produce enough revenue at the desired price. Do your research in this area. This is another good reason to start small. Next, identify the amount of competition that is pursuing your same audience at approximately the same price points; then determine if there is enough room for you to collect the revenue that you will need to stay afloat.

If you are offering real benefits relative to the existing competition and your product is in demand, you will be successful at growing your revenue if the market size is large enough. If the market is already quite crowded, there will need to be something unique about your business model that is going to beat the competition and enable you to capture a larger share of the market. Generally, the larger the market the better your chances are for initial success and continued growth.

The Daltons business model in the supplement to this e-book offers a very good example of a start-up company that continued to adapt the business model to a position where the marketplace offered growth opportunities. During this eight-year process, Daltons's revenue grew and the company developed its niche in the marketplace. Unfortunately, once the company positioned itself, the market size was too small to generate revenue growth.

Win at Biz Scorecard

The size of your target market, relative to the competition, must be large enough to generate adequate business volume; it must also be large enough to allow for revenue growth in future years.

Renewable Revenue

Does your product or service create a renewable revenue stream year after year every time you make a sale? For example, once you make a sale to add a new customer to a garbage route, that sale or customer will keep producing revenue year after year, as long as your systems provide customer satisfaction. Every new sale you make adds to the growth of the company.

In contrast, if your company specializes in remodeling kitchens, you have to develop efficient systems to continually find new customers to generate new revenue. In order to grow, you must find more new customers this year than you did last year. The chances for long-term revenue growth and success are greater if your product is a consumable that is used often and must be replaced (e.g., razor blades) or your service must be repeated often (e.g., garbage route) and the revenue stream continually recurs. In these situations, acquiring new customers adds to revenue growth.

Win at Biz Scorecard

It is much easier to grow revenue when the product or service lends itself to being purchased over and over again and creates a recurring revenue stream.

Cross-selling and Up-selling

Your easiest sale will always be to an existing customer. It is expensive to find a new customer and build a loyal customer relationship; for that reason it is important to be able to build additional revenue through the sale of additional services or products to your existing customer base.

Cross-selling would refer to the sale of another product type. For example, an appliance retailer may also sell televisions and furniture. *Up*-selling would refer to the sale of additional features of the primary product. For example, in a lawn service maintenance business, the sale of soil amending services such as core aeration, lime or gypsum applications, and over-seeding would all be considered an up-sell to the basic seasonal fertilizer and weed control program.

Any business model that offers a solid selection of products or services is able to successfully increase revenue through cross-selling or up-selling will have a better chance of success.

Win at Biz Scorecard

Increase revenue by cross selling and up-selling an attractive selection of additional products and services to your existing customers.

Marketing Effectiveness

You might have the best product in the world, but it isn't worth anything until people know it exists. How are you going to market the product or service? How are you going to inform your target audience that you exist?

Every successful business model needs reliable marketing methods to develop prospects. You must research marketing methods that are suited to your particular type of business. But the work doesn't end there. Once you have completed your research and made a list of your intended marketing methods, how do you know that these marketing methods will work well enough to generate sufficient prospects and revenue for every dollar spent on advertising?

The truth is that you will not know until you test your marketing results in the real world marketplace. If your marketing plan can satisfy the following criteria, the odds of building a successful business model that generates profitable revenue will be greater.

Ease of Identification

Can you identify potential prospects or buyers? If not, you'll have a hard time building a profitable business model. For example, a retail appliance, television, or computer store hoping to sell merchandise may be able to identify 500,000 target homeowners within a geographical marketing area. The dilemma is in determining which of these 500,000 homeowners is in the market for their specific products this month and how to reach them. The end result is a very expensive, blanket advertising campaign.

Compare that business model to a manufacturing business that designs and sells custom silk indoor plant landscapes to office buildings, shopping centers, government centers, and amusement theme parks. This business model can identify its potential prospects and use a much more cost-efficient, targeted advertising approach to generate revenue by simply contacting the owners of commercial properties and new commercial construction projects.

Cost per Sale

You can maximize your return on your advertising dollar if your business model lends itself to direct marketing methods rather than blanket, non-targeted advertising.

Consider the difference in these two business models. One company has a well-defined and identifiable target market of residential driveways in need of seal coating. In this example, the marketing effort can use direct marketing methods, such as going door-to-door and visually identify the driveways in need of seal coating. It's then reasonable to knock on doors, hand out flyers, follow up with telephone calls and meet face-to-face with their prospects in their homes. In little time, you will learn exactly how many doors on which you will need to knock to get a specific number of prospects. You will also be able to calculate how many prospects you will need to obtain a sale and the exact cost to obtain one sale. In this situation, the company is one hundred percent in control of the number of prospects that can be developed on a daily basis, the number of resulting sales, and the cost per sale.

In contrast, another company that is operating a retail tire store is dependent on the shopping convenience of its location and the number of people who know that the company exists. This business model has no way of knowing who is in the market for new tires and will therefore have to rely on expensive, blanket advertising methods to make people aware of their business. The tire store has no control over how many people can be motivated to come to their store each day.

Purchasing Convenience

How many of us have the time to run from store to store shopping for a particular item? A business model will have a better chance for success if your business model makes it easy and convenient for customers to buy what you're selling.

Essentially, the chances for a successful return on your marketing dollar will be higher if your customer does not have to leave his or her home or business. Motivating customers to come to you to make a purchase is difficult, requires a large marketing budget and is time-consuming for the consumer. The easier it is for your customer to make a purchase from you the more successful your business model. For example, can a purchase be made over the telephone, a website, a face-to-face visit at your customer's home or place of business? Is the product easy to understand? Can a purchasing decision be made without seeing anything? Can the product or service be explained via a brochure or website? Can a sample of the product be mailed to them? These considerations should help you find the benefits in your business model, or shape it to be more convenient to the consumer.

Marketing Message

It will be a marketing advantage if the business model has a unique strategic position that can be conveyed in a crisp, memorable marketing message. When your business model has unique benefits that your target customers want and you can tell them about in your marketing message, it gives your advertising program a competitive advantage.

For example, consider a retail store that sells a broad age range of children's clothing without a unique marketing message. How will they cost effectively convey their position in a crowded marketplace? Compare the chances of that business model's marketing success to a specialty infant shop specializing in toys, clothing, furniture, and supplemental care items—everything for infants. The key benefit of a specialty store with a narrow merchandising focus will be much easier to convey in a marketing message. A strong branding message will convert to a real marketing advantage. More information about how to market your business for success is offered in Book 2 of the Win at Biz series, *Develop Successful Marketing Strategies*.

Win at Biz Scorecard

- **Can you identify and reach potential prospects?**
- **Does your business lend itself to marketing methods that allow you to control the number of prospects you can develop?**
- **Can the consumer make a purchase without leaving his or her home or place of business?**
- **Do you have a marketing message that accurately conveys what you stand for in the marketplace? What you stand for must be true benefit to your customers.**

The Profitability Risks to Your Business Model

Margins

Do your price points relative to the cost of your product allow for high gross profit margins? It is important to realize that since most companies only earn a net profit before tax of two to ten percent, the slightest change in the gross profit percentage affects the net profit. It is a fallacy to think that you will make up for lower margins with increased revenue. First of all, revenue is expensive to generate; second, your cost of doing business does not stay constant, but rather increases incrementally with revenue increases. To succeed financially you must buy your products at the lowest possible costs and sell them at the highest possible margins while creating a superior value for your customer.

Win at Biz Scorecard

Your best opportunity for financial success is in developing a value product that warrants a high margin.

Sale Costs

Does your business need highly educated and specialized people to sell the product and service to the customer? In order to grow a business that requires employing professional people such as accountants, interior designers, architects, or anyone requiring specialized knowledge and skills, it will be necessary to be successful at finding enough people with the required talents to keep growing the sales volume. You will not only need to be successful at finding more and more skilled people, but also the business will need to be successful enough to generate the revenue that will be needed to pay the salary levels that skilled people will expect to be paid.

In contrast, compare that employment challenge to a dry cleaning operation able to hire unskilled labor to sell and service the customers and successfully deliver the desired results by placing the employees in an efficient, systems-run business. Typically, your chances for profitability will have less risk if the business can function with unskilled labor that can be placed in efficient training and operating systems.

Win at Biz Scorecard

The higher the cost associated with making a sale and servicing the customer relative to the revenue being generated, the higher the risk to profitability.

Cost of Continued Revenue

There is no question that the marketing costs to develop new customers in any business is expensive. In order to grow a business profitably, it is important that revenue can continue from existing customers at lower incremental costs. It is very difficult to grow a business properly if your only source of revenue is to continually develop new customers.

For example, consider a business that installs swimming pools. We can assume a swimming pool business is not going to get repeat business from a customer to install another pool anytime very soon. This type of business will be forced to invest heavily in advertising to continually develop new customers and revenue; they will not be able to benefit from continued revenue from their customers at lower costs. On the other hand, consider a company that sweeps commercial parking lots. Assuming the customers are satisfied with the work, revenue will continue year after year at lower costs than were invested to initially find and attract the customer.

Win at Biz Scorecard

Your most profitable sales are your repeat sales to your existing customers.

Customer Support Costs

Every company experiences customer service support costs after the sale to some extent. After all, it is imperative to develop happy customers who will talk about you; however, some companies will sell products or services that inherently incur higher after-sale support costs than others.

For example, consider the sale of a piece of artwork, a lamp or home accessory; these types of products are purchased, taken home, and never require any service. On the other hand, consider a very technical piece of equipment sold to deliver a precise function. Unless the equipment is sold with a fee-based service agreement, the support costs could be a drag on company profitability. Be careful that the product or service you are selling does not require ongoing customer service support costs.

Win at Biz Scorecard

Think in terms of variable expenses as being a low risk expense and fixed costs as a high risk to profitability.

Expense Structure

One way to assess the risk to profitability is to look at the structure of the expenses of the business. Is the business model going to require a large monthly fixed overhead every month? Is the business going to require large fixed monthly rent payments, large monthly lease payments for equipment, large marketing costs to develop prospects, and/or large payroll expenditures? Are you going to be able to generate enough revenue to cover the fixed and variable costs and generate a profit?

When fixed costs are high, shortages or fluctuations in revenue translate into loss of profit potential. A business with inherently high fixed costs increases the risk to profitability.

For any business, but especially a new start-up, it is ideal if the majority of the expenses are structured as variable. Variable expenses are expenses that are not realized unless revenue is generated, such as a sales commission, a production-related wage payment, or an outsourced service. What can help reduce risk more than not incurring an expense unless you make a sale? The more expenses you have structured as variable and the fewer expenses structured as fixed costs, the better your odds of profitability.

Capital Intensive

Risk can also be assessed by how capital-intensive the business is. Businesses that require a large investment up front in capital equipment and/or inventories will have more risk. New business ventures that inherently have a high fixed expense structure and a large initial asset investment will have a lower chance of success. Restaurants or retail stores requiring large start-up asset investments and incurring high fixed monthly expenses at the time of opening are examples of high-risk businesses. Service businesses, on the other hand, usually have low fixed monthly costs relative to variable expenses and lower levels of capital investment; they therefore have a much higher chance of success.

Once you analyze the risk, make a detailed cash flow statement and list the dollars you will have to invest in the business to get it started. Remember to also include covering the negative cash flow for expenses, salaries, and advertising costs that you will incur when you open for business and there is very little revenue. You must also remember to add any debt that you have secured that will have to be paid back.

Develop a projected profit and loss statement and determine what a realistic breakeven point will be. How many months do you anticipate it will take you to break even? How much cash will be required to make up the deficit? Make sure you add that deficiency to your initial investment in equipment and inventory. Most people are too optimistic and underestimate the initial investment and the amount of cash they will need to keep the doors open until the business achieves a breakeven point. Once you have completed your financial estimates, you will be prepared to search for sources of capital. In addition to banks and owner capital, also consider small business loans, outside investors, suppliers, and clients. Book 3 of the Win at Biz series, *Initiate Effective Financial Tools*, deals with financial education to help you complete some of the financial questions in the action steps at the end of this book.

Once you have determined the total startup cost, ask yourself if you willing to lose that amount of money. The reality of a new business is always very different from what you planned. Cash flow estimates are subject to risk because it is difficult to forecast future revenue and expenses for a new start-up. Most new business people will overestimate revenue and underestimate expenses. There are also market risks because it can be difficult to know how the marketplace is going to respond to your product or service. Competition is another wild card that creates risk. It is impossible to know if new competitors will enter the market or if existing competitors will re-position products or change marketing strategies to capture larger segments of the market share.

It is difficult to get correct and accurate information to all of the questions stated in this e-book before you open for business. For that reason, it is important to start your new venture out small with as little capital invested as possible. Think of your start-up company as an up and running marketing experiment.

When you do develop the answers to all of the important questions stated in the action steps to build your business model, you can make the decision to expand and invest more capital or exit.

Win at Biz Scorecard

Always set the limit as to how much capital you are willing to invest and lose before you open for business.

Additional Factors Affecting the Success of the Business Model

Working Inside the Industry

Keep in mind that the chances for success in a new business increase when you already have exposure to the industry you want to enter. When you are already working inside an industry and experiencing the business, you have a better chance to get correct and valuable answers to all the important questions you've read about here.

Study the business model in the supplement about Amcom Corporation. Both of the owners of this start-up company had valuable inside knowledge of the industry that gave them the insights necessary to assemble a successful start-up business model right out of the starting gate. There is nothing more valuable then being able to work inside the industry to acquire the experience you need to put together a successful start-up business model.

Win at Biz Scorecard

Working inside the industry before you develop your own start-up business model will reduce the number of expensive surprises and increase your changes for success.

Tab the Knowledge of Others

Do not make the decisions alone. The best resources are business owners who are both in your industry and those who are outside your industry. No matter how small you are, it is important to use an attorney and accountant to set up your initial business structure and financial books. Consultants with specific business skills can fill in the gaps where your knowledge and experience is lacking. You should also talk to your suppliers and industry experts to get a pulse on the current problems within the industry.

Win at Biz Scorecard

You can not put a price on the value of knowledgeable insights from experienced business leaders and specialized consultants.

Build Solid Supplier Relationships

It will be important to develop reliable supplier and distribution channels for the products and materials you will need to operate your business. Your working relationship with your suppliers will be one of the most important to your businesses success.

Your suppliers can give you valuable information about their products, other related products within the industry, become a partner to improve your inventory control, develop terms to improve cash flow, work with your customers needs to develop unique products, and be a valuable source for industry information.

It is also be prudent to have a list of back-up suppliers ready in case of emergency so product flow is never interrupted. Remember to always treat your suppliers with understanding and consideration; your suppliers are valuable partners in your business.

Win at Biz Scorecard

Treat your suppliers as your most valuable business partner.

Soul Search Your Level of Passion and Dedication

Examine the level of your own commitment. Are you really passionate about this venture? Are you willing to sacrifice your time and possibly money to be successful? Is your family supportive of the venture?

The marketplace is very competitive, and starting a new business is difficult. A start-up company needs a leader who is disciplined, extremely determined, and who will work tirelessly for success over a long period of time. I encourage you to read *Success Built to Last*, by Jerry Porras, Stewart Emery, and Mark Thompson. The book makes some excellent points about common characteristics of business-builders.

In order for a builder to survive long-term in the competitive marketplace, he or she will be required to be exceedingly persistent and determined in order to overcome the many failures that may occur in the search for success. In order to sustain yourself for a long period of time during this search, you will need to be pursuing something deeply meaningful to you.

Ask yourself the following questions: When you are following your passion, do you lose track of time; do you obsess over it; do you think of it as fun instead of work; would you rather be doing this than almost anything else? Remember that if achievement comes without a sense of meaning and fulfillment, you will not be likely to continue the mission over a long period of time.

If you do not really love what you are pursuing, you are going to lose to someone who does.

Win at Biz Scorecard

- **Ask yourself, are you really passionate and committed to building a business?**
- **Are the ideas you have and the path you are about to take really important to you?**
- **Do you believe your efforts are going to make a difference?**
- **Do you want to be spending your time doing this more than anything else?**

Common Mistakes When Starting Up

1. Not planning a successful business model
2. Inadequate market research about your target customer
3. Weak financial planning
4. Too little cash
5. Spending too much money on the wrong things
6. No written marketing plan
7. Starting a business for fun or just for the money
8. Not knowing your competition
9. Not building the business around customer wants
10. Selling too cheaply rather than focusing on the creation of value at higher margins
11. Trying to sell everyone and not developing a niche
12. Failing to plan
13. Failing to optimize efficiencies
14. Underestimating the importance of a sale
15. To stop marketing when business gets slow
16. Not having a clear vision or losing focus of the vision
17. Not seeking out mentors
18. Poor inventory and accounts receivable management
19. Poor supplier relationships
20. Hiring the wrong people and being a pal to the employees rather than a leader
21. Setting near-term sights too high
22. Underestimating the time commitment and family needs
23. Not being committed to the long-term and giving up when nothing happens

About the Supplement: An Opportunity to Learn

I encourage you to read the case studies supplemental to this e-book. The supplement contains several interviews with business owners who have all experienced the disappointments and struggles of developing a successful business model before realizing success. You will find it an invaluable learning experience to read their stories.

Win at Biz Checklist

✔ Is your product a high-priority item that is needed by your target market?	☐ Yes	☐ No
✔ Is your product easy to understand and sell?	☐ Yes	☐ No
✔ Do you understand the strengths of the strategic position of your competition?	☐ Yes	☐ No
✔ Have you developed real product benefits that differentiate your strategic position?	☐ Yes	☐ No
✔ Have you developed sales and delivery systems that differentiate your strategic position?	☐ Yes	☐ No
✔ Have you developed unique touch points that differentiate your strategic position?	☐ Yes	☐ No
✔ Do you really know the benefits that your customers desire? Have you asked them?	☐ Yes	☐ No
✔ Do you successfully satisfy your customers' emotional needs?	☐ Yes	☐ No
✔ Do you successfully eliminate frustrations associated with purchasing and using the product?	☐ Yes	☐ No
✔ Do you understand where price point acceptance, maximum revenue generation, and profitability coincide?	☐ Yes	☐ No
✔ Do you understand the number of unit sales that will be required (at market-acceptable price points) to generate the amount of revenue desired?	☐ Yes	☐ No
✔ Do you really know if there is enough room in the market place to achieve the required number of unit sales?	☐ Yes	☐ No
✔ Do your products need to be purchased over and over again, creating a renewable revenue stream?	☐ Yes	☐ No
✔ Do you offer a broad enough product range to generate cross-selling and up-selling?	☐ Yes	☐ No
✔ Can you easily identify and reach a potential prospect who has a need for your product?	☐ Yes	☐ No
✔ Can you cost effectively develop a product and procure a sale relative to your selling price?	☐ Yes	☐ No
✔ Do you offer convenient purchasing options relative to your competition?	☐ Yes	☐ No
✔ Do you convey the key benefit of your strategic position in a concise marketing message?	☐ Yes	☐ No
✔ Have you been effective at structuring as many of your costs as variable expenses (incurred from revenue) rather than as fixed costs?	☐ Yes	☐ No

Win at Biz Checklist

✔ Have you been successful at mitigating risk relative to your capital investments?	☐ Yes	☐ No
✔ Have you worked inside the industry to gain valuable, industry-specific knowledge?	☐ Yes	☐ No
✔ Have you consulted with other business experts to multiply your knowledge?	☐ Yes	☐ No
✔ Have you built solid supplier relationships?	☐ Yes	☐ No
✔ Do you have a strong passion to pursue this endeavor?	☐ Yes	☐ No

About the Author
David Gabbert

Entrepreneur, business mentor and growth coach, David Gabbert helps business professionals, business owners, new startups, and students learn how to win at business. Self employed for forty-seven years, founder and owner of four million-dollar-plus businesses, and author of ten Win at Biz® business books, Dave offers free business articles about a variety of proven business strategies which compose the basic building blocks of starting and operating a successful business.

Free monthly e-zine subscriptions are available: www.davidgabbertbusinesscoach.com

We welcome your comments and questions: david@winatbiznow.com

Win at Biz E-book and Workbook Series

Book 1: Build a Successful Business Model
Book 2: Develop Successful Marketing Strategies
Book 3: Initiate Effective Financial Management Tools
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

Bonus Materials

Free with your Purchase of Book 1

- "If I Knew Then...": Case Studies That Could Save Your Business
  - ✔ Developed from interviews with entrepreneurs who have founded businesses in the real world

Free with any Purchase

- A Calendar of Successful Thoughts
- Plus your Action Step Workbook, included with every e-book!