



KEVIN HARRINGTON

THE NAPKIN MILLIONAIRE

TURNING IDEAS INTO MILLION-DOLLAR PRODUCTS

The Business of Success

ROADMAP TO SUCCESS

The Business of Success

TABLE OF CONTENTS

CHAPTER ONE: BUSINESS BASICS	5
CONTROL	5
ORGANIZATION IS KEY	6
PLANNING.....	6
THE ANALYSIS	8
INTERPRETATION OF THE INFORMATION.....	8
NAMING YOUR BUSINESS	10
EXERCISE: CHAPTER ONE, BUSINESS BASICS	11
CHAPTER TWO: THE BUSINESS PLAN	12
WHAT DO WE MEAN BY 'ENVIRONMENT'?.....	13
STRENGTHS	13
OPPORTUNITIES	14
THREATS.....	14
WHAT'S NEXT?	15
MISSIONS AND VISIONS	13
BASIC OUTLINE FOR A BUSINESS PLAN	16
EXERCISE: CHAPTER TWO, BUSINESS PLAN.....	18
CHAPTER THREE: FORECASTING	19
MARKETPLACE ANALYSIS	19
COMPETITIVE ANALYSIS	19
MARKET SHARE	19
BREAK-EVEN ANALYSIS	20
SALES FORECAST	20
LONG-TERM FORECASTING	21
WHY LOOK SO FAR AHEAD?	21
"WHAT IF" STRATEGY	21
EXAMINE HISTORY	22
THE MONEY: FINANCIAL ANALYSIS WITH PROJECTED INCOME STATEMENT SAMPLE	22
BREAK-EVEN	22
EXERCISE: CHAPTER THREE, FORECASTING	22

ROADMAP TO SUCCESS

The Business of Success

TABLE OF CONTENTS, *cont.*

CHAPTER FOUR: BUSINESS ENTITY	23
TAXATION AND YOUR BUSINESS ENTITY.....	23
SOLE PROPRIETORSHIP	23
PARTNERSHIPS	24
S CORPORATIONS	24
LIMITED LIABILITY CORPORATION.....	25
CORPORATIONS	25
STRATEGIC ANALYSIS AND CHOICE	26
CHAPTER FIVE: FINANCE.....	29
FINANCIAL PLANNING: PREPARE A BUDGET.....	29
INCOME AND CASH FLOW STATEMENTS AND BALANCE SHEET.....	29
BE ORGANIZED WHEN ASKING FOR FUNDING	30
MONEY MANAGEMENT TIPS.....	31
EXPECT THE UNEXPECTED: UNVEILING THE CASH FLOW MYSTERY	31
TYPES OF CAPITAL: A REVIEW	32
ROYALTY PAYMENTS	33
EXERCISE: CHAPTER FIVE, FINANCE.....	33
THINK OUTSIDE THE BOX: TRADING SERVICES.....	34
APPENDIX: SAMPLE BUSINESS PLAN.....	42
CHAPTER FIVE: LICENSING.....	34
WHAT IS A PATENT, AND WHY DO I NEED ONE?	34
HOW DO I GET A PATENT?.....	34
INTERNATIONAL BUSINESS.....	35
TREATIES AND FOREIGN PATENTS.....	35
SELLING (ASSIGNING) OR LOANING (LICENSING) A LICENSE FOR AN INVENTION.....	37
WHICH DO I CHOOSE? ASSIGNMENT OR LICENSE?.....	38
UNDERSTAND FRANCHISING.....	39
EXERCISE: CHAPTER SIX, LICENSING.....	41
APPENDIX: SAMPLE BUSINESS PLAN.....	42
PRO FORMA PROFIT AND LOSS.....	48
QUIZ AND ANSWER SHEET	52

Roadmap to Success

In Roadmap to Success, we will discuss how you can create a profitable business based on a product or service. There are many things to consider when you start a business, but the fundamental thing is to begin with the end in mind. In other words, you need to determine WHY you're creating the business and what your exit strategy will be. I generally advocate a strategy of building a profitable business so that you can sell it in 3-5 years. However, you may totally love your business and want to remain actively involved in it for a much longer period. The choice is up to you. However, you need to have your exit strategy planned out from the very beginning, as it will be the foundation of your business-building strategy.

The Business of Success

You have decided to build a business! Superb!

Welcome to the The Business of Success manual. In this manual we will discuss business elements in greater detail. We will review and reference some of the information provided in the Business section of the *Introduction: Turn Your Idea Into Millions* manual.

Primarily, in this manual, we will cover general business, the business plan, funding and forecasting.



CHAPTER ONE:

Business Basics

Management is the process that one or more individuals use to coordinate activities of others to achieve results that they couldn't achieve individually. Collectively, higher quality work happens. Teamwork is born of this. No one person can do all and be all, despite the talents, education, background and skills one possesses. You will find, as an entrepreneur, that you are fallible and require the skills of others.

In the beginning, this may mean soliciting input from others such as family, friends, colleagues, and other interested parties. Everyone has an opinion, and the collection of different ideas is what will improve your skills as an entrepreneur, no matter how many years of management experience you possess. Constant learning makes a person a better entrepreneur and will in turn make your business the best it can be.

As an entrepreneur, we established that your functions are related to and focused upon business. As such you must realize and practice the primary functions of a business owner and the laws and policies that surround your business/market. Do you recall the acronym used in the Introduction: Turn Your Idea Into Millions manual? COPAI.

General business basics are to control, organize, plan, analyze and interpret business functions and data. We will examine each function in more detail in the following paragraphs.

Control

Do we want you to be a control freak? No, we're certainly not recommending it in the actual sense of the word. Overkill may get the job done, but at a cost. Over-controlling is not the object of the game, as it can hurt both you and your customer. Being demanding can hurt you, your business, and your reputation.

An entrepreneur must ensure that the organization's performance matches and is compatible with the planned performance. What are your goals? Are all the parts of the wheel properly greased? Is everything running as it should? Management control is defined by a person's ability to monitor and ensure the wheel is turning, and that it is turning as it was designed to, at the right time and speed, without issues.

When issues arise, and they will, a good entrepreneur understands that this does not mean failure but takes the opportunity instead to learn and correct errors, and constantly improving the product or service.

Controlling involves measuring results of the work activities of others and the processes involved in developing your product or service, and deciding if they are acceptable; as well as undertaking steps to make the actions acceptable if they are not.

Organization is Key

What do we mean by “organization”? It could refer to your business entity as a whole, but for our purposes here, we mean staying on top of things and having good information and records. After establishing objectives, an entrepreneur must design and develop an organization and product process that can help attain goals such as successfully marketing the product. Organizing is defined as turning plans into action with the assistance of leadership and motivation.

Documentation helps keep an entrepreneur on track. Keeping good records is essential for your long-term success. For example, when seeking professional advice from an attorney, it will be easier to receive representation with good records. If requiring accounting services, having good records will save you time and money if the accountant does not have to search around for what he/she needs. If you intend on eventually passing on your business, to a partner or family, make it easy on them by maintaining good organization. This makes it easy for you as well, as it will take you less time for this process, which translates to fewer costs. And if you plan on selling the business, good records will be essential to helping the buyer determine the viability of your company and will have a direct impact on your ability to command the price you want.

Documentation takes the form of agreements with your employees (both in-house or outsourced), your vendors, suppliers and joint venture partners, as well as the day-to-day activities that hopefully you will document in a spreadsheet or business software program. Be sure to keep copies of all agreements and back up your computer information on a regular basis in case of computer crashes. There are many ways to back up files: on a “thumb” external drive, on disks, or via a network program. Some of these are available online as a service. Use them! These days, there’s no excuse for “lost or missing” data.

Don’t forget the IRS! Hopefully, you will never be audited, but it can happen. And, if it does and you have good records, the process will most likely be short and simple. Once an IRS auditor takes a look at all your spreadsheets and receipts, they may consider giving you a break. If the first thing their eyes see is a pile of unruly hand-written notes and receipts, you may as well put the auditor up in your spare bedroom. The auditor might get perturbed or suspect you are in violation. Yes, appearing disorganized is a red flag and makes you appear as though you might be doing something illegal even if you are simply scattered. Many good and professional people are disorganized, and if you are one of them, be honest about it and get a good office manager to help you.

Keep things organized, including not only your records but also your schedules and plans. Organization also refers to logging and keeping your appointments, even if it means a meeting with someone who may appear insignificant, such as a supply salesperson. If you make an appointment, keep it or be sure to reschedule or give a good reason for canceling if you change your mind. Again, it is important to maintain a good reputation. People talk, even the delivery person—and you may discover that it’s the person you’ve overlooked that has either a great idea for you, or a contact or connection that can make you a heap of money.

Planning

The planning function helps an entrepreneur define and meet objectives. With planning, an entrepreneur outlines the organization’s needs and goals in order to attain success. What do you need to do to get your product (or service) to market?

Basically, an entrepreneur must:

- Take financial control
- Build enthusiasm
- Use innovative marketing
- Upgrade operations and training (Build a team)
- Restructure the system and improve or eliminate failings

An entrepreneur’s job is to continually remind him/herself and the team of the company’s goals and how well (or not) these goals are being achieved or how close they are to being met.

The Business Plan

The Business Plan is the overall procedures manual for your business and in particular, the product or service. It also outlines the objectives and goals for your organization. The business plan acts as the overall analysis of the proposed business. It contains a description of the product or service, a thorough market analysis, your strategic objectives, plans for each area of functioning (marketing, production, sales), a profile of the management/ownership, and the company’s projected financial position and financial requirements.

The business plan should answer these questions:

- What is the company producing?
- How will the business be operated?
- How will the business be financed?
 - What are the company’s goals?

The business plan is helpful for these reasons:

- To obtain funding (investment and financing)
- To help the entrepreneur stay on track

There is no such thing as too much planning. It is an ongoing process. Just because you wrote your business plan, proposal and presentation does not mean it ends there; you will have additional plans to maintain. Your business plan must not be static but ever changing. Constant changes to your product will occur, and the details must be documented in the business plan. More on preparing a business plan in Chapter Two.

Remain flexible and understand the world does not revolve around your business alone. Good planning brings good results. But remember that sometimes the best-laid plans turn upside down. Circumstances change, companies change hands, customers change their minds, and the economy takes downturns, as we all have seen in recent years. But, good planning also takes into consideration the possible shifts in environmental (external) factors, something you cannot control but for which you can prepare.

Notes: _____

The Analysis

Analyze and use the information you gather in the process, even after the product hits the market and becomes profitable. Interpret the information you gather. Analyzing data is essential to prevent mistakes and oversights.

Information and data can and should be obtained through research and experience. The successful entrepreneur understands the importance of learning from experience and using the information to gather a pool of precedents to set for the future. Knowing how to deal with a problem today should help with future problems. Perhaps using the same solution is not prudent, but the idea is for the entrepreneur to recall the skills used in solving the problem.

Successful entrepreneurs who create a business to develop and sell a product inevitably discover that the business they currently run may be dramatically different from the one originally planned. As we stated already, change happens and is necessary for the business to grow and progress. Because of growth, the business, over time, no longer is a shop with a single person or a handful of interested helpers and one or two suppliers. It now may be a company with several hundred workers and suppliers, as well as distributors and manufacturers. The business plan may have developed into one containing complex production goals.

Knowing that information must be interpreted according to the company’s meaning and goals is vital.. Knowledge is key, and knowledge includes analysis. Answer this question for all processes and issues: What does this mean to my business?

Financial analysis is of utmost importance. Keeping a regular balance sheet, income statement, and profit and loss sheet helps you see, in a snapshot form, the bottom line. Is the business moving forward, or running the risk of flat lining? The balance sheet, income statement, and profit and loss sheet summarize and classify the effects of transactions in

assets, liabilities, equity, revenue, and expenses, which are the principal parts of the company’s financial make-up.

A detailed analysis of the financial statements enable the entrepreneur to determine the level of the product’s earning power and its ability to meet current and long-term objectives. But merely looking a set of numbers does little good. An entrepreneur must have measures and standards for profitability, liquidity, and solvency. What one company considers solvent may not be what another considers solvent.

More about profitability, liquidity and solvency is covered in Chapter 5, Finance.

Notes: _____

Interpretation of the Information

The information you collect as you pursue your business process is only valuable if it is used. Having data and letting it collect dust is like preparing a huge gourmet dish and allowing the dog to abscond with it. Just like languages can be interpreted, so can data. Sometimes it is in the form of legalese. You may not have a law background, so you have to have your information interpreted. The same goes for accounting figures. What do those little brackets surrounding a number mean? Negative figures. But more important than that is how these numbers affect your business.

You may receive facts through research. Wonderful, but what do they mean to you and how do they affect your product, your market and your particular business? Perhaps you hear that the stock market indicates companies selling home cleaning products experienced a downturn in the last quarter. And your product is a home cleaning product. This may or may not mean your product will suffer. It may see a loss of profits but it may be a less costly cleaner than that sold by major companies, and thus it may make a profit and maintain sales. On the other hand, if your product is more expensive, you may have to come up with a marketing strategy to boost sales. Many computer software programs exist to assist with many business tasks such as information gathering and interpretation. Make use of Microsoft Excel, and Access if you are database savvy, or obtain a consultant to help in preparing spreadsheets or databases. It is a worthwhile investment to take a course in certain software programs that in the long run will prove valuable to you and your business.

Naming Your Business

At some point it will become important for you to name your business, whether you are in a partnership, have a sole proprietorship, or another form of business. Selecting the name might be a daunting

task. There are a few things to bear in mind, such as whether the name is catchy, applicable or attractive, or whether the name is available legally. In his book, *Act Now!*, about his experiences marketing products, Kevin Harrington says:

“To make my start-up company sound prosperous and well-established, I picked the name ‘Tri-State Heating’ ... That name was already registered but hadn’t been used in some years. I tracked down the man who owned the name and offered to buy it from him; he was retired and perhaps lonely, and said, I’ll sell you the name for a dollar if you let me go out on jobs with you sometimes. Fair enough. To every local who recognized the name, it gave the air that we had been in business for twenty-five years.”

Notes: _____
