



ENTREPRENEUR MAGAZINE'S
GROWTH 2.0
conference
Ideas for Now. Insights for Tomorrow.

Attend For FREE
CLICK HERE TO REGISTER NOW!

Presented by
The UPS Store 

December 9, 2008 • Long Beach, CA

Entrepreneur.com

Deadly Sins

Sloth, greed, gluttony—we don't care what you do on your own time. But when it comes to the mortality of your start-up, you need to play by the rules.

By David M. Anderson | [Entrepreneur Magazine - August 2001](#)

URL: <http://www.entrepreneur.com/startingabusiness/selfassessment/article42554.html>

There is really only one experience to rival that of starting your own business venture, and that's witnessing the birth of your child. Because I've done both, I find comparisons of certain parallels inevitable. For instance, you experience many of the same emotions: exhilaration, anxiety, joy, panic . . . and confusion.

Over the past 20 years, I've advised and counseled many business owners, particularly those in the start-up and high-growth early phases. All that experience has allowed me to recognize some patterns that successful-and unsuccessful-businesses exhibit.

Yes, the paradigms of several business models have changed in the past 10 years as a result of the dramatic influence of the Internet. But now that the Net has demonstrated its power to accelerate failure as well as success, the following seven deadly sins are more relevant than ever.

No business plan.

There is no single omission that bodes worse for a start-up's future than the lack of a comprehensive business plan. Serving as a prerequisite for financing, a schedule for product rollout, and a road map for principals and employees, the business plan is a critical element of any start-up.

A well-crafted business plan addresses all the ingredients of success: your management team and employees, the opportunity you're pursuing, the competition you're facing, and the potential risks and rewards. Failing to think these elements through could be a fatal flaw in your start-up.

When formulating your business plan, follow the KISS (Keep It Simple, Stupid) philosophy while taking care to cover all primary areas: management, capital requirements, market opportunity, competition analysis, exit strategy and execution schedule.

"The best thing about a good business plan, from an entrepreneur's point of view, is it helps in organizing your thought processes," says Virgil Carroll, CEO of iStreamInteractive, an Anoka, Minnesota, custom e-learning developer. "The very nature of an entrepreneur is to constantly evaluate new ideas and business strategies. Without some direction to control these outbursts of creativity, chaos can consume your business. With a good business plan, you can look at your ideas and say, 'Hey, this just doesn't fit right now,' and instead of making a big mistake, you put it in the 'for future consideration' pile."

A consultant can help you write a business plan. For do-it-yourself help, visit our [Business Plan center](#). The bottom line: Don't even bother getting started without one.

No board of advisors.

Although corporate bylaws or investors require some business start-ups to have a full complement of formal directors, most businesses can get by with a leaner, meaner team. Still, in my experience, every company needs a minimum of three advisors to avoid the rocks and shoals of the critical first months and years of its existence. Call it your ABC Team: attorney (business background and experience), business consultant (either finance or management expertise) and CPA (to set the business up and crunch the numbers throughout its progress).

Although you can bring on friends or family members to fill these roles-often working for minimal compensation (or perhaps equity in the firm)-it's crucial not to enlist lap dogs. You need blunt and direct guidance in the early stages of your business, not yes-people.

Sound sounding board

One of the best ways to use members of your advisory board (your CPA or banker, for example) is to have them prequalify your business' spending decisions. Before every prospective purchase or investment, ask them to answer the following:

- a. Is this expenditure necessary right now?
- b. Will this make me money or cost me money?
- c. Is there a cheaper way to accomplish this (outsourcing, leasing, etc.)?

Insufficient capital.

Although determining the amount of capital you need is one of the more difficult issues for a start-up, this task becomes much easier once you have a business plan and a board of advisors. Besides, having enough capital is an absolute necessity if your business is to grow beyond the dream stage.

Capital requirements for the 3-, 6-, 12-, 24- and 60-month benchmarks should be determined well in advance, and you must be reasonably sure of your source of funds, whether it's private or public capital investors, personal funds or loans.

Also be aware of the other side of the same coin: excessive debt and overhead. Debt can destroy your start-up, so stick to your business plan, and don't let appetite exceed budget or planned expenditures. "Too many entrepreneurs bring the infrastructure 'bloat' from their previous corporate careers to their start-up," says Pierce Johnson, founder of Chicago-based Johnson Technologies Inc. (which he sold last year to eSkye Solutions). "Most of the failed companies I know added too many employees too soon."

Basic rule: Stick to the business plan, and if a particular expenditure isn't budgeted there, forget about it.

No exit strategy.

Your business plan should include an exit strategy, which you could consider the ultimate goal of your enterprise. Do you want to take your business public? Are you grooming it to be sold to a competitor? How about establishing it as a family legacy?

Many decisions you make will be influenced by your exit strategy. Evaluate your exit options together with any other owners of the business to determine what makes the most sense.

Without an exit strategy, especially when one or more principals are integral to the company, your venture will be jeopardized by stasis, breakup of the management core or loss of momentum.

All sizzle, no steak.

Remember Milli Vanilli? The '80s duo was a sensation-until it was revealed they were only lip-syncing their songs.

To create a business with staying power, you need a product of substance or a service that provides value. Budget as much for market research as you do for advertising and promotions. I've seen companies fail because the initial hype exceeded the customer demand and sales potential. If you can provide quality and value and get that information to your target market, you're halfway there. Good service and established customer relationships will take you the rest of the way.

Personality conflict.

Entrepreneurs have been described as missionaries in search of a cause. In a way, this fits, because the basic fire in the belly seems to be a common characteristic of most entrepreneurs I've met. Curious, persistent and innovative people possess the requisite resiliency for the speed bumps and occasional setbacks in the life of any business owner.

The entrepreneurial personality also seems invigorated by risk, a quality that, if not checked, could be the entrepreneur's downfall. Clearly, if you can't handle risk, you shouldn't start a business. However, "driving too close to the edge" or investing too much in an untested product or strategy can be the beginning of the end of your business.

All offense, no defense.

In the excitement of launching a product or service, a new entrepreneur can overlook the importance of establishing basic defenses against the perils of doing business. The three primary defense strategies include:

1. establishing a limited liability entity such as a corporation or an LLC;
2. obtaining adequate business insurance; and
3. forming contracts to protect yourself in customer, supplier and vendor relationships.

Although most businesses won't face liability from lawsuits, baseless claims or threats from lawyers, having taken the right precautions can lessen the risk.

Business start-ups face seemingly endless decisions and changing circumstances, any of which can lead to their demise. By avoiding the seven deadly sins, however, you'll gain direction and confidence to pursue your short- and long-term goals, while avoiding the major setbacks of start-up.

David M. Anderson is a Minneapolis attorney specializing in business and Internet law.