There are many considerations in starting a business, and far too many fail – an estimated 50% within a year, 80% within 5 years. As an entrepreneur you cannot afford either poor planning or weak execution. This checklist is intended to help you avoid failure and possibly foster success by planning in advance for the challenges inherent in a new business, or resurfacing in an existing business.

Introducing a new business into any existing environment is obviously a high-risk proposition. But even after initial success, no new business can avoid morphing to meet new challenges because no business environment is static. Growth, decline, and new product mix are some of the results, each with its own set of issues. Entrepreneurs must continuously stack and restack the deck for success, always thinking about the following:

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| 1. Start with a clear idea of the revenue potential. Your business has to get cash, and eventually income, from somewhere. | ✔ |
| Who will pay how much for what you offer? |  |
| This is always a good starting point. *It always starts with the customer*. It is important to believe in your entrepreneurial idea, and friends might agree that it is great, to be supportive of you. But find a bona fide and impartial expert in the specific product area and ask: “does this idea have a shot?” Note that this is the starting point not only for the initial startup, but comes up again and again as new products are needed or old ones are redesigned. |  |
| How many people might be interested, and how many can and will buy? |  |
| How many people or organizations have the need for your solution? And they must have money, must know about your offering, and must perceive a need for *your* solution (not your competitor’s). |  |
| How will you identify them? |  |
| You must first understand who your customer is, as a person or an organization, and how your solution helps him, her or it. What is the need you will meet? Who has that need? Is it a serious issue to the customer? These are the questions that help you identify your prospects. |  |
| How will you reach them? |  |
| Once it is clear who your customers are, you must locate and communicate with them. In today’s virtual world, everyone is on the web, but many still feel the need to see and touch the goods. When they are looking for your type of solution you need to be where they look with a message that will resonate quickly. Buyers have too many choices, information overload. |  |
| How will you convince them to buy? |  |
| With *value* – the right quality at the right price. This applies to automobiles, perfume, bananas… virtually everything. And *features* – to do what customers need – or just want – to have done. You must make a great case for your *value proposition*. And quickly, too, in today’s ADHD marketplace. |  |
| How will you seal deals and deliver your offering? |  |
| Make sure contracts are binding and delivery schedules and methods are defined, and that you have the physical or electronic means to meet all of your obligations. |  |
| How many sales will occur each period (day, week, month, year)? |  |
| Do the math. Start with “how many sales are needed to keep from losing money?” In the early days you probably will lose money, because your gross profit on a low sales volume won’t cover your fixed expenses, so you need a closet full of cash to ensure you don’t run out.  Next, look at the number of potential customers you identified (see above). What percent of them will buy each month once you get established? |  |
| When will they start and how will they ramp up? |  |
| Market penetration takes time. Your first customer will probably not arrive the minute you open the door (or go live on your web site), and it will take time for your marketing to attract more, so you need to estimate the ramp-up numbers before you can guess how long you’ll be able to survive with the cash available. |  |
| How much will each item sell for? |  |
| The competition dictates the price. Thoroughly research what other choices customers have and what they pay for them. If your solution is higher priced, it must be of higher perceived value to the customer. No one cares how much it costs you to produce your solution. |  |
| Will you offer credit? |  |
| Not initially unless credit is part of the deal in your industry, in which case you must have very deep pockets. You need the cash. |  |
| If so, how fast can you collect? |  |
| If you have to offer credit to enter the market, don’t go soft. Have a hard-nosed collection plan in place and don’t waiver. Once again, you need the cash. |  |
| 2. Determine who will perform what roles to ensure everything gets done. | |
| Who will be the entrepreneur – the promoter, front person, dreamer? |  |
| This might be you. Do you have a clear picture of where you are going and sufficient grounding in reality to have a hope of achieving your dream? Are you exceptionally tenacious and thick-skinned? Are you good at meeting people and generating enthusiasm about your ideas?  The entrepreneur role can be very demanding in your new or growing company, and few people have the skills and energy to fill this role along with the role(s) of manager and producer. |  |
| Who will manage the business – schedules, staff, finances, etc.? |  |
| This might be you. Do you like and are you talented at organizing resources to accomplish things such as producing quality goods in a definable, repeatable fashion? Can you deal with people who under-perform, machines that break down, or bills when the cash runs low? The manager role can be every bit as challenging as that of the entrepreneur, and as crucial to success. |  |
| Who will produce the products, services, or solutions? |  |
| This might be you. You will have to produce what the customer wants in a reliable and cost-effective way. Do you have a lot of technical skill applicable to your products coupled with the knowledge that ‘quality’ is not the same as ‘perfection’? Again, it is unusual for one person to be a competent producer while opening a market and managing the myriad issues of a new, or struggling, or growing business. |  |
| 3. Do a thorough analysis of how much each unit of production (product or service) will really cost. | |
| How much in labor? |  |
| Accurately measure the time (in minutes or hours) required for every single step of production (including managing the incoming inventory and inventory moving through the production process, and packaging and handling finished product) in minute detail, with contingencies for such cash drains as reworking rejects and slow production due to the employee learning curve. Then accurately estimate how much you will have to pay employees (per minute or hour) including allowances for holidays, sick days, vacation, insurance, and any benefits you will offer.  Compute the theoretical unit cost of a tuned production process (with enough volume and labor force training to be efficient). Note that your initial per-unit labor costs might be much higher than desired because your labor force might be significantly under-utilized as you wait for customer orders to trigger production. |  |
| How much in material? |  |
| Count everything, no matter how minute, that goes into your product, and find out what it will cost 1 at a time and in whatever quantities meet your initial estimates. Explore volume discounts available, but use the highest likely costs in your initial plans. Don’t forget to include transportation, import duties, and any other probable costs, and factor in breakage, lot rejects, expedited shipping, and such the like. Be prepared for the disciplined work of controlling costs. |  |
| Where will your materials come from? |  |
| Who are the best suppliers from a cost, quality, and customer service perspective? Build supplier partner relationships from the start to ensure reliable just in time receipt; have at least 2 suppliers of critical parts or materials. Factor the costs and savings inherent in good partnerships into your cost of materials. Consider whether you will need an experienced purchasing manager, who might really impact the cost of your materials. |  |
| What other costs will be incurred for each unit of production? |  |
| Many factory costs are attributable directly to each unit of production. For examples, stamping machine dies which are often expensive wear out, and some consumable materials such as grease for machines are used, in direct relationship to the number of units produced. Other factory costs such as heat and power might not relate to the production rate, and should be considered fixed. |  |
| 4. Do a thorough analysis of the costs of running a business, including (for example): | |
| Salaries for managers and administrators |  |
| Entrepreneurs often start out with limited or no salary, but it is important when building a company to think through the functions that will be performed and what it will cost to staff the company when it is ‘up and running.’ This exercise helps estimate how viable the business model is, and ensures that the functions are addressed by the entrepreneurial individual or team. |  |
| Costs of selling and marketing |  |
| Products and services must be visible in the marketplace, whether on the web or at the side of the road. Web sites, signage, media campaigns and an internal or external sales force all require investments (salaries, fees, subscriptions, etc.), spiff (paid to others to promote the offering) and commissions. Watch the marketing funds carefully; it is very common to invest heavily in ‘rain makers,’ and especially in foreign countries, with very little to show for it. |  |
| Costs of product research and development |  |
| Many entrepreneurs found their companies based on their particular designs and skill sets, but could benefit greatly from a well-rounded team with complimentary skills, especially in an industry moving rapidly technologically. If this applies to your business, find out how to acquire the talent and how much you will have to pay. |  |
| Costs of interest (if funds will be borrowed) |  |
| Most entrepreneurs start with ‘friends and family’ equity, but banks will lend based on certain types of assets (with intrinsic value, such as real estate). If you do have a bank obligation, factor the interest into your cost of being in business.  When entrepreneurs get into financial trouble, banks often work with them to recover their loan because banks do not want to own struggling companies. The bad news is, they will often negotiate very harsh terms for that help, possibly crippling the company. |  |
| 5. Do a thorough analysis of capital requirements, including: | |
| Real estate |  |
| Almost all start-ups should start in a garage or lease cheap space, with minimal capital required. Exceptions include restaurants and professional offices where part of the customer experience is the ambiance. |  |
| Machinery and equipment to make your products |  |
| If it is possible, lease this, too. |  |
| Office furniture and equipment |  |
| Set a tight budget and buy used furniture and office equipment. |  |
| 6. Review estimates with a neutral, financially-oriented individual |  |
| Running out of cash is a very common cause of entrepreneurial failure, so all cost estimates need to be carefully vetted by someone who knows finance and accounting, such as a CPA. The optimism that gets people excited enough to take the risk and invest can also make it harder to foresee and plan for the downside. The biggest losers are often the entrepreneurs, so swept up in their idea that they bet their homes and resources. Really spend some time on this. |  |
| 7. Develop an appropriate business plan. It should cover (at minimum): | |
| The "Business Model," describing the legal form of the company and outlining how the company will make money |  |
| Many small companies are Limited Liability Corporations (LLCs) because the personal liability of the owners is limited and there are potential benefits in the flexible tax laws. Do your research and hire a lawyer when you have determined how you wish to set up your company. Present this in a clear and simple way. |  |
| Market research describing potential customers in demographic terms, including a strong case for why they will buy |  |
| Develop a well-organized presentation and documentation of the elements in Section 1, above: your target buyer, how many there are, how many will actually buy and how sales will ramp up. Ensure that the market penetration is reasonable, and show contingency plans for survival in case the market develops more slowly than you expect. |  |
| The marketing plan, describing how the company will reach prospects and manage the sales funnel to convert them to customers |  |
| The first job for a new company is to attract buyers, and this can be expensive – or not. Be very careful with initial marketing expenditures, and describe that care and attention in your business plan. |  |
| The organization plan, naming people and describing roles |  |
| Many investors and bankers consider the people leading and managing a new venture to be the most important determinant of success or failure. Make sure that you have described all of the roles required (see Section 2, above) and that the people filling those roles have the knowledge, skills, energy, and experience to perform them well. The business plan should describe the roles and the included resumes should align with the role requirements. |  |
| The production plan, describing how and where products will be made and delivered |  |
| In this part of the Business Plan, describe the production in detail for potential investors and for your management team. Include floor plans and production process schematics along with product assembly drawings so that everyone can visualize the operation and its issues.  Note that this applies to the production of anything: capital goods, consumer products, financial transactions, software development. |  |
| The financial plan, including pro forma financial statements and other analyses as needed (e.g., breakeven analysis, payback curves, and metrics such as ratios) |  |
| The financial plan does not have to be complex. It should include a clear view of the key revenue and cost drivers: how many units will be produced and how many sold, how many people will be employed, and what other resources will be used over a reasonable period (perhaps 3 years) with week-by-week focus on the first year.  Then financial statements must be computed from these drivers. At minimum, pro forma Income Statements, Balance Sheets, and Funds Flow statements must be presented. In addition, Return on Investment indicators (Payback, NPV, and IRR) and appropriate financial ratios and in most startup situations a clear Breakeven Chart should be included. |  |
| The pitch for investors, as appropriate |  |
| Investors generally do not want to operate your business, but they want to watch it grow. They need to know and trust the management team, to believe in the products or services, and to fully understand when funds will be needed, when profits will be generated, how they will participate in the profit distribution, and the exit strategy (usually describing how the company will eventually be sold for a significant capital gain).  You may not have too many opportunities to talk to the most promising investors, so ensure your presentation is well organized, with high-level sizzle coupled with the ability to instantly peel back to a sound foundation of details on every aspect of the business. Also go in with realistic expectations of the stock you will need to offer. It is generally much more than the inexperienced entrepreneur expects.  Experienced investors will value your company based on their knowledge of many similar situations, and will make their investment decision based on their view of the risk-reward ratio. If you offer 10% of a company for $1 million, it means you value your company at $10 million; don’t be surprised if your prospective investors don’t share your enthusiasm. |  |
| ROI-Team’s free Quick Estimator tool can help get a sense of whether a business can be made profitable.  For a more complete investor-ready presentation, the Excel Startup Model tool accepts estimates of product prices, sales, and costs, plus estimates of ongoing business expenses, plus an estimate of capital requirements to generate pro forma income statements, balance sheets, and cash flow statements by month, quarter, and year for five years.  While these tools are easy to use, they are totally dependent on the realism of its underlying estimates, and their use requires at least an appreciation for the fundamentals of finance. If you can balance your checkbook, you can probably use these tools. | |