WHERE THERE ARE NO JOBS™

The MicroEnterprise Handbook

25 RULES OF THUMB FOR MICROENTERPRISE SUCCESS

By Stephen W. Gibson
and Tina J. Huntsman

VOL. 1

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ACKNOWLEDGEMENTS

As an entrepreneur, I am usually very comfortable tackling big projects on my own. I like to take charge of situations and work independently to produce results. However, the creative process that gave life to this book—and to the other three volumes of Where There Are No Jobs: The MicroEnterprise Handbook—represents a major shift in my approach to getting work done. I have now completely adopted the process of building teams to accomplish a greater work than I could ever do alone. This compilation of 25 rules of thumb has definitely been improved by the efforts of many talented people whose diverse talents have brought life and depth to this booklet.

My best friend and greatest supporter through this creative process has been my wife, Bette, who helped launch the Academy for Creating Enterprise in November 1999—the school at which these 25 rules of thumb were developed. She is a master teacher, and I learned so much from her as we worked side by side to lead discussions and mentor hundreds of students. As we taught them, they also taught us; our enthusiastic students conceptualized and helped define each rule of thumb through their participation in the case studies found in Volume 3 of Where There Are No Jobs: The MicroEnterprise Handbook.

Our Academy's Filipino staff, including Arlene B. Amancio, Tony San Gabriel, and Glenn Gonzaga, worked hard to infuse these rules of thumb with real-life stories that demonstrate the immediate applicability of each rule of thumb. Troy Holmberg, the executive director of Yehu Bank in Kenya, helped me put flesh on the rules by writing short descriptions of each one.

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Lastly, thanks to each of you who read this book. I hope that as you read these rules of thumb, you will use them in either building your own business or teaching these sound business principles to those you serve throughout the world. As these universal business principles are applied one by one, businesses will be started and improved, and thousands of lives will be transformed.

Stephen W. Gibson

INTRODUCTION

With the completion of this volume, Where There Are No Jobs: The MicroEnterprise Handbook is a comprehensive educational resource designed to guide dedicated teachers in their efforts to teach individuals in developing countries how to successfully start and run microenterprises. The ultimate goal of this training is to create self-reliant individuals and families.

This particular handbook—Volume 1—explains some of the most essential business principles that, when implemented, will help business owners establish a solid foundation for their businesses and help business teachers establish a solid foundation for their classes. Twenty-five rules of thumb are discussed in detail so that microentrepreneurs can gain an appreciation for the importance of implementing correct practices in their businesses and see how these correct practices translate into continued success.

Volume 2 and Volume 2 Supplement contain lesson plans designed to explore in more depth some of the rules of thumb. The lesson plan topics range from record-keeping to increasing sales, and from basic marketing to opportunity identification. From these lessons, business owners can learn how they can start and grow their small businesses by applying each rule of thumb.

Volume 3 is a collection of 18 microenterprise case studies. It is designed for the facilitator, mentor, coach, teacher, and discussion leader to use in teaching analytical skills to microenterprise students and owners.

Lastly, Volume 4 is a collection of case studies that describe the microfranchising efforts of 39 businesses that operate in different parts of the world. Each case study describes what the microfranchise does, how it operates, and what makes it successful. We believe that microfranchising represents a logical step in hastening people's move from the ranks of poverty, through microenterprise, and into capital accumulation and asset building.

Together, these four volumes provide much-needed help in teaching and learning basic business principles so microentrepreneurs can increase their take-home income and thereby take better care of their families in the short run and develop ownership of assets that can lead to multi-generational success.

Rules of Thumb: The Development Process

The 25 rules of thumb that are explained in this handbook are simple, but they are the result of a process that began in 1999, when Bette and I founded the Academy for Creating Enterprise in the Philippines. As we discussed case studies (see Volume 3) with each group of students, we discovered that these 25 principles repeatedly entered our classroom discussions and defined themselves as guiding principles for every business and every business operator.

Bette and I—with the help of other talented business people and writers—carefully crafted these recurring concepts into short statements that capture the essence of the principle and are easy to remember. Once a microenterprise student or business owner memorizes the rule and looks for ways to implement it in business, the repetition of the rule brings to mind the more in-depth principles and applications that are explained in this booklet.

While the Academy's dedicated staff continues to lead new groups of students in the discovery process of these rules of thumb, the principles are also being taught, learned, and applied throughout the world. They are formally taught by non-governmental organizations in Brazil, Ghana, Kenya, Mexico, Mongolia, Russia, and other areas of Asia and the Americas. They are also included in self-employment workshops taught by The Church of Jesus Christ of Latter-day Saints in 54 countries worldwide. Additionally, a compilation of 12 of these principles is available in English, Portuguese, Spanish, Mongolian, and Russian. Students and faculty members at Brigham Young University-Hawaii are currently working on translating these rules into a total of 25 languages—a project that will help bring this curriculum to prospective business owners worldwide.

We also have plans to supplement this volume with simplified lessons for the less educated and picture illustrations for those who cannot read. These efforts will make this vital business information more accessible to people throughout the world who have great business ideas but struggle to implement them. We are motivated in these efforts by the knowledge that these 25 rules of thumb are applicable regardless of a person's formal education, the sophistication of their business plan, or their personal circumstances.

How to Use This Handbook

Entrepreneurship seems to be the income-generating wave of both the present and the future. Worldwide, the proportion of small businesses to large business is surprising, in the least. In many developing nations, well-paying jobs are extremely scarce, so thousands of "necessity entrepreneurs" provide for their families by establishing and running microenterprises. In slightly more developed countries, the great majority of businesses are still quite small—usually with just one or two employees. And even in the United States, roughly 64 percent of all businesses have nine or fewer employees.

The complexity, size, and mission of each business are very unique, but all businesses can be improved by the application of these rules of thumb. They are tailored to the needs of the smallest business, but they can certainly improve the performance of larger, well-established businesses as well. The universal nature of these principles is what makes them work.

We wish you luck as you—with these principles in mind—embark on either creating or improving your business. Learn these rules of thumb. Incorporate them into everything that you do in your business. And enjoy the economic self-reliance that comes by understanding and applying these proven principles.

1 – Sell What the Market Will Buy

Ever since his childhood, Andy has enjoyed making empanadas (sweet pastries). In fact, he loves preparing and eating empanadas so much that, as a young man, he decided to make empanadas in bulk and sell them to students at a nearby school. Andy was certain that the students would love the snacks and purchase them regularly. He made 50 empanadas on the first day; he was shocked when, at the end of the day, he had sold only ten pastries. The next day, he sold only eight. And on day three, he sold only four.

Frustrated, he went walking through the neighborhood, observing the actions of the people on the streets. He noticed that a nearby vendor was selling fish and squid snacks and was attracting dozens of students. He saw another vendor selling dozens of fruit drinks and pre-packaged candy. And he saw a third vendor doing quite well with bottled water and fresh sandwiches.

Andy decided that he was selling the wrong product—that he was trying to force his own preferences on the people he wanted to be his customers. He imitated the seafood products, added a tapioca drink to his offerings, and situated his cart near the exit gate of the school. With the great location and the better product-customer match, Andy's business has been successful ever since.

The Principle—Sell What the Market Will Buy

Andy's mistake is one that many excited prospective business owners make—they produce and try to sell a product they are excited about, but they don't bother finding out if other people are excited about the same product. The result of this approach is usually a short-lived business and a lot of frustration on the part of the business owner. The remedy is quite simple: sell what the market will buy—or, more specifically, what the people in your target market will buy.

Before you can start selling what the market will buy, you first need to find out what your potential customers are looking for. You find out the preferences, wants, and needs of your market by doing research. One type of research involves talking with people about their purchasing habits and their impressions of a certain product. If you have a specific product that you think will be successful, show it to people and ask them if they would buy it on a regular basis. If you don't yet have an idea of what you want to sell, talk with people to see what kinds of products they want to buy but don't yet buy because they can't find them at a convenient location, or find out what they already buy on a regular basis.

Another type of important research involves observing a market and studying the purchasing trends of the people in the market. Careful study of a market over a period of time will indicate what products or services have generally been successful in the market, what the overall demand is for such products or services, what trends have been and are currently popular among customers in the market, and which trends are cyclical in nature and might soon return to popularity.

Trends (or fads) present a unique opportunity for business owners. The success of the business in catering to trends depends on when the business enters the market. Thus, if you want to get involved in a business that is focused on fads or trends, realize that those fads won't last forever. Be sensitive to the importance of knowing when to get in and when to get out of the fad market. If you can get into the fad early, you can be a leader in the fad and reap a great harvest by either making a lot of profit before the fad expires or selling the business before the trend fades away.

In addition to watching for upcoming trends and fads, you should pay attention to general social and economic patterns in your town. Cultures are constantly evolving; they change as new forces and influences are introduced into the social systems. Because almost every member of a society is affected as the culture changes, you must be aware of how the cultural changes might introduce new business opportunities.

One cultural shift that is sweeping the world—including third-world countries—is the increased number of women who are now working and earning money outside the home. The influx of women into the workforce and the resulting two-income families have led to dramatic changes in the products and services businesses are offering. The markets are calling for more services and products for women (such as beauty services and professional clothing pieces) and for busy families (such as ready-to-eat dinners or babysitters for young children).

Obstacles to Overcome

Time is usually an obstacle that stands between prospective business owners and their ability to enter new markets or bring new products to market. Business owners need time to research markets and products. They need time to develop new products or open a new store. They need time to find suppliers. And they need time to properly educate customers as to why they should need or want a new product (especially if the business owner is on the leading edge of offering a new product).

The obstacle of time can usually be overcome if you will learn to work very hard at your business and be patient with the rigors and time-consuming aspects of business.

Benefits of Applying the Principle

Ultimately, a business that fails to sell what the market will buy cannot make a profit on a regular basis and will not be open for long. The opposite is true for businesses that correctly identify what the market wants and deliver those items or services in an efficient way.

The degree of success your market-centered business will achieve depends on how well you follow the other principles of business success. But you can make the first step on the journey toward success by committing yourself to discovering and providing what the market wants and then selling it at a price that is both affordable for the customer and profitable for your business.

2 – PRACTICE SEPARATE ENTITIES

Alvin worked hard at his fish-selling business. Every day, he used his 80 pesos of working capital to purchase 50 kilos of fish at the market. He then spent the day selling the fish to families in his neighborhood. The average daily profit (the difference between what he spent on the fish and what he earned by selling it) of 75 pesos was enough to buy food for his family of five. On really good sales days, when the profit was more than expected, Alvin would take the extra money home for his personal use.

One day, the unexpected happened—Alvin's wife got sick. The doctor said her condition could be treated only with fairly costly pills. Alvin used all of the business' working capital (money needed to start a business and buy inventory for the business to sell) to pay for the doctor's visit and his wife's much-needed medicine. With no money left to buy inventory, Alvin could no longer buy fish to sell. He was out of business.

Alvin's choice was clearly an easy one to make. Few people would fault him for choosing to care for his wife rather than save his business. But the lesson to be learned from Alvin's experience is that this kind of problem can be avoided. If Alvin had followed the counsel to practice separate entities—to keep business money separate from personal money—he could have started saving long ago in order to be financially prepared for ongoing business expenses as well as for emergency personal needs.

The Principle—Practice Separate Entities

When people decide to start a business, many struggle with knowing how to take care of the money generated by their businesses transactions. Most view both their personal money and the business' money as being in the same pot. The ability to separate business money from personal money is necessary for the growth of the business. Business money and personal money need to be treated differently not only in the physical location of the money, but also in the mind of the microenterprise owner. The more separation exists between the two kinds of money, the better off the business will be.

After your business is initially funded (whether through a loan or through the investment of personal funds), you must consider the business as a fully independent organization—an organization that is financially unrelated to your personal money. As a microentrepreneur, you must communicate clearly with your family members and friends to ensure that they understand the separate nature of your business and personal assets. Business money should be used strictly for business-related purposes and must not be used for personal reasons.

Once this relationship is understood and established, treat yourself as an employee of the business. In other words, calculate how much money you need daily to meet your personal needs, and withdraw that amount from the business as a daily salary. Reinvest the remaining profit into the business. Doing so will allow the business' operational capital to increase, enabling you to purchase more products to sell. Learn to live on the determined salary and let the working capital compound (i.e., accumulate or grow interest) for the business. As more products are sold, more profit will be generated, and your salary can slowly be increased.

Obstacles to Overcome

Two obstacles that prevent business owners from following this principle are (1) temptations caused by the limited amount of funds available to many microentrepreneurs and (2) desires for instant gratification.

Temptations Caused by Limited Funds

The practice of separate entities is almost nonexistent in microenterprises worldwide. This situation is largely due to the fact that many microenterprise owners have very little money to begin with, so the thought of not using all of their available money to meet their immediate needs seems foolish. Because they were responsible for initially funding the business, they think of the business' assets as their own—indistinguishable from their personal assets. Inventory items are used by family members and friends as if the items were the property of the family, not of the business. Money is sometimes taken straight from the till or cash box for personal expenses. And generally, no record is made of the "transaction," so the business owner has no way to track the movement of the money or goods that are taken out of the business by family members.

Avoid this obstacle by deciding to practice this rule of thumb before even opening your doors for business. Commit yourself to seeing the business as something that is separate from you and your family, even though your money will be used to fund it initially. By sticking to this commitment, you help yourself resist temptation to "borrow" from the business or "use" business funds for personal needs. And in the end, your initial investment—if left untouched in the business—will yield large financial dividends for you.

Desires For Instant Gratification

Another obstacle that business owners encounter in managing their separate financial accounts involves the tradeoff between savings and spending. They struggle to understand how investing money in the business in hope of increased future returns can benefit them more than spending, the money now on things they need. They do not understand the relationship between delayed gratification and increased growth.

But in order to be successful, you must be disciplined in setting your salary and then not taking additional money from the business. This discipline will enable you to invest in the business—a practice that will lead to higher profits in the future and to a bigger salary.

Benefits of Applying the Principle

Practicing separate entities has many benefits for both the business and the owner. First, when you keep business funds and personal funds separate and when you consistently withdraw a reasonable salary from the business account, the business can grow. The working capital can then compound (i.e., accumulate or grow interest) for the business. Discipline in practicing separate entities now will lead to increased profits in the future.

Second, living off of a fixed salary serves as a powerful motivator to work hard and improve the profitability of the business. You need to commit yourself to provide sufficient money on a daily basis to support the personal needs of your family, and then work to make sure that you can do that without relying on the business' funds. If you know that taking money from the business to meet unexpected personal needs will not be an option, you will work harder to ensure that you generate enough income to provide for all of your needs—even the emergency ones that are so unpredictable. When this commitment to practicing separate entities is clear, you will work hard to meet your financial goals.

If practiced consistently, the separate entities rule of thumb will set you on the path toward self-reliance and lifting yourself out of poverty's grasp.

3 – Start Small; Think Big

Computer-savvy Juan had always wanted to open a technology-related business. But he had never had enough money to start a small business. He saw an opportunity to earn money by selling real estate properties when his uncle, who owned a lot of land, asked Juan to help sell one of his properties.

Juan thought of using the Internet as a medium for selling the lot, so he talked with all of his friends and family members to see if anyone had a web site and would be willing to post Juan's advertisement on a commission basis. The advertisement was successful—it attracted a lot of attention, and Juan sold the land within a few weeks. Juan earned 50,000 pesos for his work, and he used the money to buy some smaller pieces of land and create his own web site.

By starting with that small piece of land, reinvesting his revenues into the business, and growing his business one sale at a time, Juan's once-small business is now a multi-million-peso Internet company that buys and sells properties all over the world.

The Principle—Start Small; Think Big

When people start businesses, they usually do so with dreams about the income the business will provide—hopes of owning their own home, working on their own schedule, and being able to provide for all of their family's needs (and many of their wants). Many new business owners see established businesses that have operated for years, and they think that the success is due to the businesses' size. Wanting to follow in the steps of the large corporations, these owners are tempted to open up large-scale, expensive businesses.

While impulsive business owners often give way to their desire to start big, wise business owners overcome that temptation and wisely decide to start small and grow big later. They have developed a healthy sense of patience that enables them to start out on a very small scale but never lose sight of their plan to someday be big. With this proper perspective, they experiment with their small businesses when the stakes are low and the cost of failure is relatively small. They do the little things that lead to small-scale successes because they know that by doing the little things now, they will be able to grow the business so that it will someday experience large-scale success.

As you begin your small business and eventually begin trying to increase its size and profitability, part of your experimentation process might include asking questions about your product, service, and business. Will customers like the product? Is the location of the business the right one? Or might I be able to sell more products somewhere else? Do I have the right mix of products? Do the products or services complement each other?

If you will choose to start small but dream big, you will likely be able to sense exactly when to start making the transition from small to big. If you have a good business plan and model, are willing to work hard, and apply each of the rules of thumb, you will eventually reach a point where you have too much work to do on your own—too many customers, too many clients, too small of a store. At that point, you will know that you are on the verge of being big, and you can take the next step: hiring employees and delegating responsibilities, moving into a bigger space, expanding to multiple stores, and so forth. But until you reach the point where you can't handle all of the business, the company should avoid incurring large, unnecessary expenses. The growth in business should drive the growth in size—not the other way around. You will be disappointed if you overoptimistically think that looking big will make you big.

Many business owners, growing impatient with being small, have tried to grow faster than their resources will permit them to do. And by doing so, they have embarked on a scary (and often fatal) journey. They have had to work almost nonstop, borrow more and more money to stay afloat, and sometimes even borrow against their accounts receivable (in other words, use money that they don't yet have as collateral for a loan that they really need). The cost of staying in business skyrockets as the business owners move farther and farther along the road toward debt-laden size.

Charles was one such business owner. He had a great business model but didn't like being small. He wanted the glory of looking big, acting big, and being big. But he wasn't ready to actually be big. After a few months of operating, he announced that he was moving his business from his basement (where he paid no rent) to a leased office space that was very nice and prestigious but also very expensive. Now he needed to hire employees, purchase office equipment—and enough business to pay for it all.

He was thinking big, but he was soon back in his basement—small again. He learned an important—though expensive—lesson from that experience. The lesson is best illustrated through the words of a wise business teacher: "Better to launch a Wright Brothers plane and get it in the air than try to get a wide-bodied 747 jet in the air and have it crash." Neither is a fun experience, but the failure costs less with the smaller plane.

Obstacles to Overcome

Although we aren't all born with competitive characteristics, we soon develop the desire to compete, to be better (or at least feel better) than others. This desire to seek out contests and to see ourselves as being in competition with everyone else is no less true in business than in other aspects of life. We usually enter into a business to reach an internally motivated goal—to accomplish something that will add meaning to our lives and to the lives of our loved ones. But often times, we lose sight of our goals when we see the success that others are having.

We suddenly start seeing other business owners as competitors, and we think that we must have more than they have or be more than they are. We want others to think of us as successful, so we begin to want the things that we think will make us look successful: a bigger store, a fancier storefront, a larger-than-necessary inventory, more colorful uniforms, and so forth. Before we know it, we have grown faster than we should have and have put our financial stability in jeopardy. And we've done it all just so that we could appear to be more successful than the business owner down the street.

To combat this impulse to grow too quickly, you should remember that success is measured not against what others accomplish, but against your previous circumstances. You need to be content with slow, steady, long-term growth; only with this kind of growth can you truly become successful and avoid the perils that come to those who try to grow too big too fast.

Benefits of Applying the Principle

Mistakes are an inevitable part of business. No business owner—no matter how motivated or experienced—is exempt from making a lot of mistakes during the early stages of a new business. By starting small, you can ensure that your mistakes will be learning experiences from which you can recover—not fatal flaws that could doom your business forever.

As you plan for the growth of your business, remember that if your business never grows, it will stagnate and die; however, too much growth too quickly is also fatal. The best path for you to follow as you establish a new business is to start small, think big, and grow gradually. By following this simple but effective plan, you will be able to achieve the success you dreamed of when you planned to open your business in the first place.

4 – Be Nice Later

Raquel, a first-time business owner, ventured into a ready-to-wear garment business and planned to start small by selling clothing to her friends, relatives, and officemates. She took her savings of 1,000 pesos and bought an initial inventory of shirts, shorts, pants, and socks. Raquel was excited to see how well the items were received by her friends and family members. They liked the items very much and were eager to talk about Raquel's products with their friends and neighbors. The word-of-mouth advertising paid off quickly. Soon, the store began filling up with townspeople who walked by the shop and even people from nearby neighborhoods who had heard about her products. Raquel was feeling very good about the way in which the business was progressing.

However, Raquel's excitement soon turned to confusion and frustration as she observed that not everything in her business was going perfectly. Her friends began asking for special favors. They wanted to get special discounts on their purchases, to borrow money from her cash box, and even to take free merchandise from the store.

Raquel, wanting to please her friends and share her success with them, gave in to their requests. She'd give them the discounts, loans, and free clothing items that they requested—without any expectation that she would someday be repaid for her favors. Although she felt uncomfortable about sharing the assets of the business, she wasn't really worried until one Monday morning when she went to buy the products she anticipated selling that week. When she went to pay for her usual order, she discovered that she had given away so much inventory and capital that she didn't have enough money to buy the products she needed to sell that week. Her business was in danger of failure.

At that point, Raquel realized that her generosity and kindness was the cause of her business problems. She would either have to take out a loan or stop giving away business resources to her friends. She decided immediately to collect on the money she had given to her friends and to make a new policy regarding purchases from the store. In just a few days, Raquel collected about 2,800 pesos and was able to buy enough inventory to make a profit during the next week.

By deciding to "be nice later," Raquel was able to turn her business around. She earns a profit almost every day and reinvests that profit into the business. With the capital, she is able to reinvest in the business, buy more inventory to sell, and save up for a future expansion. She recognizes that by investing in her business now and being nice later, she can eventually give more than just cash and products to her friends—she can give them jobs that can help meet their long-term needs.

The Principle—Be Nice Later

Because we all value relationships and people, we generally like the idea of being nice to others. We like saying "yes" to requests, doing favors for people, and lending a helping hand. But in business, we need to learn to be nice without being taken advantage of. Being too nice—and especially being too nice in the beginning stages of business development—can put a business in real jeopardy.

Many cultures develop standards and norms that suggest that saying “no” is inappropriate when someone needs something that another person has. In third-world countries, this standard is very prevalent. For example, if someone sees something he likes in another person’s house, that person might compliment the home owner on the item. The compliment usually makes the home owner feel obligated to offer the item to the other person. The same pattern is often found in business: business owners feel pressure to be “kind,” and they end up giving away needed business resources. Again, being kind is good; but it is not a profitable business strategy during the opening stages of business.

Jesus’ parable of the good Samaritan teaches that although we should be generous with what we have, our greatest responsibility is to take care of our own families first. The good Samaritan was clearly a nice person—he offered significant assistance to a man whom he did not know and from whom he expected no repayment or thanks. The Samaritan took the wounded man out of a dangerous situation, paid for his medical treatment, and arranged for his temporary housing and food. We all know that part of the story. But we often fail to see the message behind the message: the Samaritan was in a position to give away his money because he had already acquired sufficient material goods and wealth. In other words, the fact that the Samaritan had a donkey, the trust of the innkeeper (suggesting that he had good credit with the innkeeper), and money enough to pay for some expenses up front indicates that the Samaritan had previously built up a supply of goods and money. He had previously had to say “no” so that he could now say “yes.”

You can learn an important lesson from the parable of the good Samaritan: businesses need capital in order to grow and become more profitable. If you, in an attempt to be nice, give away that capital or merchandise instead of investing it in the business, you will be unable to fund the growth of your business, and you will eventually be left with nothing. Trying to build a business while also giving away money, merchandise, or jobs that don’t really need to be done is foolish and helps no one in the end.

If, instead, you can learn to tell friends and family members “no” in the beginning, you can eventually use your business’ increased capital to produce more wealth and more opportunities to help others. For example, if you choose to be nice later, you will have sufficient money to give discounts later on, to donate merchandise to family members in need, and to hire family friends as employees—thus helping those people help their own families.

Obstacles to Overcome

Most business owners have a hard time saying “no.” They overcome that obstacle by gaining a proper perspective on the good consequences that comes to those who know how to deny themselves now so they can enjoy more later. This perspective is a result of understanding that when business owners say “yes” to friends and family members who ask for money or free products, they are actually saying “no” to themselves and to their potential independence.

One young business owner developed a creative plan that helps her teach her family members about why “being nice later” is so important. This plan has really helped her overcome her hesitancy to say “no.” She says, “I always seem to need a lot of help with small jobs in my business, so I have started making my family members work in my business for the merchandise they want. They seem to come around a lot less when I ask them to work a few hours for everything I give them. This way, I feel like I'm telling them 'yes,' but I'm making them work for the things they get from my store. And if they don't want to work, they are the ones telling me 'no,' rather than me saying no to them."

Saying "no" doesn't become easier overnight. But with a healthy perspective on what it means to be nice later, you can be more prepared to say no and can help your friends and family members realize that, in the long run, all of you can be better off if everyone learns to either say or accept "no" as the right answer for right now.

Benefits of Applying the Principle

By postponing the desire to help others with the profits from your business, you can realize your desires to do a lot of good for a lot of people—far more good than you would be able to do if you start off granting favors as soon as you open your doors for business. By taking a few years (or longer, if necessary) to turn your small business into a bigger business, you can really help a larger number of people in a much more significant way.

Gwen, a business owner who sells homemade sausage, explains the benefits of applying this principle very clearly. She says, "If I can just build up my capital by putting every peso except for my small salary back into the business, the business will soon be big enough that I can hire my family to help me make the sausage. Then I will be supporting them in a big way rather than just giving them food to eat one day at a time."

In other words, by learning to say "no" to small requests now, you can say "yes" to bigger requests later. The good you can do with your large resources in the long run will be much more significant than the good you can do with your small resources in the present.

5 – KEEP GOOD RECORDS

When Herbert opened up his first DreamBurger store, he had high hopes for what he could accomplish. His goal was to fill his menu with so many different types of burgers that every customer would be able to find the perfect burger to satisfy his or her hunger. Opening his first hamburger stand near a hospital with high foot traffic, Herbert was able to sell all of his burger patties and buns on the first day. He was overjoyed.

But at the end of his first day of operations, Herbert was so tired that he forgot to record any important information: he made no record of his beginning inventory (the number of buns or meat patties he started with) or his initial capital (the cash he put into the business). He didn't even record the total sales for the day. He forgot to keep records on the second day . . . on the third day . . . throughout the whole first week. He quickly got into the habit of not keeping records—a habit that spelled trouble for his business. After a full month in business, Herbert realized that he had purchased and sold a lot of buns and meat patties, but he didn't know where his money and earnings had gone. He couldn't tell if his operations for the month had yielded any profits; he didn't know how many supplies he needed each week; and he had no idea how much inventory he should keep on a daily basis.

Herbert finally committed himself to keep good records of all of his business transactions. He started by counting the products that he had on hand. Next, he started tracking how many burgers he sold each day, and he cross-checked his records with the cash he had in the cash register. He now knows exactly how much inventory he should keep on hand, how much revenue he can generate each day, and how much he spends each week. Herbert's record-keeping habits have transformed his business. DreamBurger has grown steadily. Herbert now has five DreamBurger stands operating in three parts of the city.

The Principle—Keep Good Records

Although many people do not enjoy keeping records, those who apply this principle in their daily lives and in their businesses quickly discover that keeping records can be a very rewarding and helpful activity. This is true because record keeping is not an end in itself; it is a means to an end. And that "end" is improving the operation and profitability of a business.

Good records can help you understand what is happening in your business—not just today or this week, but over a few weeks or even years. Records provide answers to questions that every business operator—including you—needs to know:

- Which of my products are most popular? Which ones are not selling very well?
- What expenses are associated with the goods I sell?
- What times of the day are busiest?
- Have I earned more money this month than I did last month? Is this revenue increase a one-time phenomenon or an indication of a seasonal trend?

If you want your business to grow and flourish, you must keep records, even if those records are very simple at first. A microenterprise's first records might track the following items:

- How much was paid for each product purchased from the supplier
- How much of each item was sold each day

- What revenue was generated from those sales
- Every inflow and outflow of money
- The cost of adding value to (or enhancing) the raw materials

To start out small, record these items daily for two weeks. At the end of each day, analyze your records. Find out what items sold the most that day, where the profit came from, and what items are sold together. If you keep careful records and analyze them daily, by the end of two weeks you will have enough detailed information to make great business decisions that will increase profits and help you run a better business. And running a better business will soon result in more money you can take out in the form of a salary.

Obstacles to Overcome

Microentrepreneurs generally give two main reasons for not keeping records:

1. "My business is so small that I know exactly what happens on a daily basis."
2. "I am simply too busy to keep records."

I Know What is Happening in the Business

When your business is small, you might think you know everything that happens in it. This assumption is generally false; even if it were true, the fact that you know what is happening within the business doesn't mean that you shouldn't keep records. Human beings are naturally and hopelessly forgetful. For example, even though you might be able to remember what you ate for lunch today, you probably can't remember what you ate for lunch last Tuesday. And the probability that you can remember what you ate for lunch every day last month is even smaller. The same principle holds true in business operations and record keeping. The degree to which you keep good records and analyze them frequently reveals your dedication to growing a real business that can provide increased money for your family.

Hidden in this response about knowing everything in the business is a false assumption that can plague microentrepreneurs: the assumption that because the business is small now, it will always be small. This is not the vision you should have for your business. You should want your business to grow. And you should take the proper steps to enable it to do so. One of those steps involves keeping records. By making this small change, you will embark on a path of making changes and doing things differently, thus enabling growth.

A popular—and very true—saying states, "If you always do what you've always done, you'll always get what you've always gotten." So, if you continue "not keeping records," you'll probably continue "being small." To get different results from your business, you first have to start doing things differently.

I'm Too Busy to Keep Records

Starting a new business and being a new business owner is hard. The schedule is very demanding, the pressure to succeed is great, and the new experiences can be taxing emotionally and physically. The word "busy" is a perfect descriptor of a new microenterprise operator. But one of the fundamental realities of life is that we take time to do the things that are most important. And if your business—the source of income and livelihood for your family—is important to you, you should do those things that will help it succeed and grow. Keeping records is one of those things.

If you still think you are too busy to keep good records, keep in mind that record keeping doesn't have to be time consuming. In fact, the more consistently you keep records and the better your record-keeping system is, the less time the process of recording vital information will take. Practice makes perfect—even in tasks like record keeping. If your record-keeping system is simple, and if you are used to working with that system, updating the records after each transaction will take only a few seconds at a time. The self-discipline of continually taking those few seconds will pay off over time.

Benefits of Applying the Principle

Perhaps the most important reason to keep accurate records is that records enable you to analyze past business performance and make necessary changes to improve your performance. In a popular book entitled The Game of Work, Chuck Coonradt, wrote, "If you can't measure it, you can't manage it." That advice applies so well to the act of keeping records. First, if you don't keep accurate records, you can't measure your business' progress. Second, if you are unable to measure the progress, you can't manage it. And third, if you can't manage your business properly, it will never be able to support more than your family's most basic needs.

Record keeping also helps as you hire employees. When you involve other people in the management of your business, you must have systems in place to keep the people honest. For example, you'll need a system of checking the inventory and balancing the inventory count against the reported sales. Some employees are tempted to eat the inventory or steal money. Having good records is one of the best ways to prevent this common dishonest practice.

Good record keeping will enable you to notice the important but subtle things that can have a dramatic effect on your business over time. When you start keeping records, you will notice trends in your customers' buying habits. You'll find out what they like and what they need. With that valuable knowledge, you can begin making small changes in your business that will produce more sales and higher profits.

6 – Pay Yourself a Livable Salary

About a year ago, Antonio opened a small pharmacy in his hometown and hired two employees to help him operate the pharmacy. Antonio knew he would need to pay his employees on a regular basis, but he wanted to cut operating expenses, so he decided not to pay himself a salary.

His plan worked for about a week, but he soon found that he didn’t have enough money to pay for all of his family’s daily needs (such as food, clothing, and school expenses). So he periodically borrowed small amounts from the business’ cash register to cover those bills. When his youngest child suddenly acquired measles and was hospitalized for several days, Antonio had neither cash nor savings to draw upon, so he ended up using the pharmacy’s daily cash sales for five days until his child got released from the hospital.

At the end of that week, when one of Antonio’s employees went to make her usual purchase of medicines and other pharmaceutical supplies, she found no money in the cash register. Antonio had depleted all of the business’ capital, and he had no way to get any more money. As a result, he wasn’t able to stock his shelves with the various medicines that his regular customers needed. Those customers were forced to start buying their products from another nearby pharmacy. Antonio’s failure to pay himself a regular salary and discipline himself to keep the rest of the capital in the business resulted in lost sales and lost customers.

The Principle—Pay Yourself a Livable Salary

Most microentrepreneurs start their businesses when they are in transition—often when they have lost a job and are looking for another. They usually plan to operate the business only until they find a regular job with an established employer. With this short-sighted mentality, they fail to approach their business like a real business that needs to be profitable in the long run. For example, the business owner might start out with 500 pesos, make 200 pesos in a single day, and take all 200 pesos home that night. The next day might be really slow. The owner might make only 50 pesos and take that money home. Taking all of the profits home each night prevents the owner from ever building any substantial foundation for the business and guarantees that the business will forever be small. Taking a fixed amount as a weekly salary would be much better. By establishing and adhering to a reasonable weekly salary, business owners can ensure that an excess amount of capital remains in the business as a security fund.

Instead of adopting a short-sighted philosophy about business, you must recognize that if your business is to succeed, it must be able to grow. In order to grow, a business must have an ongoing source of capital—capital that should come from reinvested business profits.

In order to apply the principle of paying yourself a livable salary, you need to talk with your spouse or family and decide how much money you really need each week. Then you must discipline yourself to generate more than that amount in weekly profit and to take out a salary of no more than that exact sum each week. You can’t build a business unless you put a sufficient amount of profit back into the business each week. Reinvesting your capital enables you to do things like buying in bulk, establishing good credit, and developing new product lines to boost sales.

Obstacles to Overcome

Paying yourself a livable salary might seem like an easy thing to do when business is stable—when the business is generating a lot of money each week. But very few businesses experience stable revenues forever. You will probably find that your business cycle is full of peaks and valleys. During revenue peaks, you might be tempted to pay yourself more than your set salary. At those times, you'll have to be firm with yourself and remind yourself that you are reinvesting in the business now so that you can enjoy even greater benefits in the future.

During slow times, when you don't have successful days, you might not have any money with which to pay yourself. At those times, your family might have to forego some of your normal activities and make do with a little less. And you might have to recommit yourself to work hard and follow the other rules of thumb. For example, you might have to set better goals and motivate yourself to achieve them faster. Or you might have to work longer during a bad day so that you don't go home until you've earned what you need. Do whatever you really need to do to meet your family's financial needs without having to take extra money from the business.

Benefits of Applying the Principle

If you will pay yourself a regular and livable salary, you will generally have a better perspective about your business than will owners who take varying amounts of money from the business whenever their families need more money. Combining the principles of paying yourself a salary and keeping good records will really help you understand and grow your business. As a salary-paying owner, you will be more likely to see your business as a long-term endeavor that will yield legitimate sources of income; you will be more likely to follow the other essential principles explained in this book; and you will be more likely to build your business into a profitable, stable entity in a short amount of time.

7 – Buy Low; Sell High

Benny was raised in Manila, but his parents are originally from Zambales, a small farming town where sweet mangos grow in abundance. When Benny decided to start a business selling mangoes, he went back to Zambales to look for a mango supplier. The travel from Manila to Zambales is quite long, and Benny was exhausted when he reached the town. Without comparing prices from different suppliers, he immediately ordered 1,000 mangos to be shipped to Manila.

When the shipment of fruit arrived at his shop, Benny marked up the price and began trying to sell the mangos. But he wasn't having much success. Benny visited nearby competitors to see if they were able to sell their mangos. The first thing he noticed when he walked by the fruit stands is that their prices were much lower than his. Many vendors were selling their mangos for even less than Benny had paid for his. He could not afford to drop his price and still achieve even the smallest margin. Because he had failed to buy low, he could not sell high.

The Principle—Buy Low; Sell High

Two transactions are involved in every business sale: (1) the purchasing of the product by the business owner and (2) the selling of the product to the customer. "Buy low; sell high" addresses both sides of the sales cycle. When you purchase raw materials for good rates and then price the products well, the resulting cost savings and additional income can be maintained through the sales cycle, flowing directly to the bottom line.

When trying to buy low, you must not sacrifice quality in the pursuit of the lowest-priced goods. Remember two other rules of thumb that suggest the importance of buying on credit (when possible) and purchasing in bulk (when appropriate). Using these principles in buying can help you build profits by acquiring goods at a low price.

The admonition to "sell high" doesn't mean you should try to sell products at outrageous prices. It means being flexible enough to sell the right product at the right price and at the right time. The desire to sell a product must be balanced against two other important objectives: keeping customers happy and making sufficient profits to take care of your family. Sometimes, you will have to sell a product at less than the highest price in order to get a slow-moving item off your shelf or get immediate access to capital for investment in quick-moving inventory. But at other times, you will need to refuse to lower your price for one customer if you are reasonably confident that another customer will be willing to pay a higher price. Flexibility and wisdom should guide all pricing decisions.

Two Practical Examples

Roldan, a fish merchant in Cebu, realized the importance of buying low. He shopped around for good suppliers and was finally able to negotiate a 5 percent discount on purchases from Evan, a fish wholesaler. Roldan now buys at the discount and keeps his selling price the same, even though his costs are lower. Thus, his 5 percent decrease in costs translates into an increase in profits. With the extra profits, Roldan gives himself a small increase in his salary and puts the rest of the increased profit into the business' savings.

Buying low also works for Barbara, a tutor, who deals with services instead of products. She hires college students to tutor other students in English, math, and science. Although she isn't buying raw material, she is buying time from the tutors she hires. She has entered into an agreement that she will guarantee each tutor a specific number of hours per week if the tutor will charge her 3 percent less per hour than the tutor's normal fee. Buying low helps Barbara pay less for her tutors. Again, Barbara hasn't lowered her prices; she has just lowered her costs. And by doing so, she is seeing more profit in her business.

Obstacles to Overcome

Most merchants are very aware that they can make money in the second stage of the sales process by selling the product for a healthy markup. But very few pay adequate attention to the subject of buying correctly in order to make money on the purchasing side of the business transaction as well. They fail to realize that if they were to buy products for a lower price, they could make even more money in the sales process. The first step to buying low is recognizing the need to do it.

A second obstacle deals with pricing. Merchants always struggle to price their good and services appropriately; they often become so rigid in their pricing that they end up losing money in the end (in the form of products that don't sell because they are priced too high). You need to be flexible in your pricing so that you can adjust to the demands of your customers. If you always insist on holding out for the maximum price the market will pay, you might risk missing sales that are almost as profitable. On the other hand, if you are so eager to sell your goods that you will sell at any price—even if you could really make more money at a higher price, you'll lose potential profits and never maximize your earning potential. The optimum situation is to remain flexible and seek to get what you can from each willing and reasonable customer.

Benefits of Applying the Principle

The bottom line of applying this principle is that business owners can successfully keep customers happy and maximize their own profits by buying low and selling for an appropriately high price. By buying low, you can save money as you purchase needed business items; by selling high, you can maximize your earnings. Both practices, if used wisely, will send money directly to the business' profits.

8 – Don’t Eat Your Inventory

Medel is the proud owner of a small hardware store. He sells hammers, screwdrivers, wood saws, drywall, nails and screws, measuring tape, plumbing tools, levels, and other small construction items. When he helps customers with purchases, Medel often talks with the customers about the projects they are working on. He enjoys hearing all about their plans to repair something at home or at their place of employment.

Because he hears these stories every day, Medel has become excited about doing some home-repair projects of his own. His first project is to fix a leak in the family’s bathroom. In preparation for making these repairs, Medel has begun stocking up on tools and materials he will need. For example, he has taken home several tools, a dozen small pieces of drywall, and boxes of various sizes of nails.

One day, Medel noticed that even though he had sold a normal amount of inventory during the previous week, he didn’t have enough money at the store to make his usual weekly purchases. He looked through his records and was alarmed to find that a substantial amount of inventory was unaccounted for. He was convinced that thief must have broken into his store and stolen his products. He worried about the store’s security all day long—until he got home that night and saw the pile of supplies sitting in the corner of his bathroom. Medel then understood that he was the so-called “thief” and that by borrowing items from the store for personal use, he had hurt his business’ ability to supply goods to all of its customers.

The Principle—Don’t Eat Your Inventory

Medel’s story is a perfect example of the cash drain that comes to businesses when business owners (or even friends and family of the business owners) use business goods for personal reasons. This problem, nicknamed “eating your inventory,” occurs with both non-edible and edible goods. Imagine a situation in which the owner of an ink-refilling business fills up his own ink cartridges without paying for the ink. Or imagine the owner of a small eatery giving away sandwiches to his friends on a regular business.

The problem is the same, no matter what the business makes or sells: consuming inventory—rather than selling it—takes inventory and money out of the business and will kill the business quickly. As a business owner, your intent when you buy products is to sell them at a higher price and make a profit. Any deviation from this very basic business plan can lead to disaster.

Obstacles to Overcome

When people live in poverty, the odds are high that their friends and family members are very poor as well. If your family struggled financially before you started your business, your life changed dramatically when you decided to improve your status in life by building a business. You now deal daily with products and money—you might handle more money in one week at your store than you did during your whole life previous to your new business endeavor!

Be aware that with this increased success might come jealousy on the part of your friends and family members. As they see the goods and money that move through your business, they might not be able to stop themselves from becoming jealous—not in a bad way, but in a logical, expected way. They will probably fail to see that the products and money belong to the business, and they might even think that because they love you and you love them, they should be able to access the inventory for their own use. Sometimes you and your immediate family members will fall into this trap. The result is predictable and devastating: you and your loved ones start "eating the business' inventory."

In order to overcome this tendency to use business assets for personal purposes, you need to establish a firm policy—with yourself and with your loved ones—that anyone who wishes to obtain goods from the business must purchase them in the same way that normal customers do.

Benefits of Applying the Principle

By establishing a "don't eat your inventory" policy at the very beginning of a business, you can resist the temptation to use business products for personal use. Sticking to this policy will keep business assets in the business and will enable the business to grow by reinvesting capital from sales of all products. (See a similar rule of thumb in 1 – Practice Separate Entities.)

And for business owners like Medel, who don't establish this kind of policy until they are faced with a problem, the benefits are still great. It's never too late to decide to obey this rule of thumb; by following this simple principle, you will immediately be rewarded with increased profits and greater financial stability in your personal life and your business.

9 – USE MULTIPLE SUPPLIERS

Gwen has successfully run a small fruit stand in downtown Cebu for about ten years. She displays her pineapple, apples, bananas, and berries in attractive, clean baskets. Her customers are very loyal to her; some visit her stand daily to purchase fruit for their families.

In a similar attitude of loyalty, Gwen has purchased her inventory from the same supplier since her first day of operation. But at the start of this year's summer season, Gwen's wholesale supplier suddenly decided to raise his prices. The supplier had visited all the fruit shops in the market and recorded the prices that the fruit stand owners charged for the produce. Since he was selling the fruit to the stand owners for much less than the retail price, he decided to raise his prices up to the amount the customers were paying the stand owners. This left the retailers—including Gwen—in a tough position. They had to either increase their prices to continue to make a profit on each sale or shut down their businesses.

Gwen really enjoyed her business, so she chose to increase her prices. One day later, she told her friend, "My regular customers are refusing to buy my produce. I'm not making any money. I guess I'll have to close my stand and do something else." Gwen insisted that because her supplier had "taken care of me for so many years," she felt like she had to be loyal to him. Her unfounded sense of loyalty and her failure early on in the business to find multiple suppliers eventually cost her the business.

The Principle—Use Multiple Suppliers

Most problems between business owners and suppliers can be avoided if business owners will practice the habit of using multiple suppliers. Some business owners have only one supplier because they don't want to search for other suppliers. But the reality is that in most local areas, several businesses act as wholesalers for identical products that microenterprise owners need in their business. Having multiple suppliers enables business operators to bargain for low prices, take advantage of sales, and get the things they need when they need them. It could also enable business owners to get credit from more than one supplier.

Jaime had an experience many years ago that taught him the importance of having multiple suppliers and using his power as the buyer to demand good service. Jaime used to purchase a large amount of medical equipment from one supplier. The supplier treated Jaime fairly; however, his customer service was poor when Jaime had a mechanical problem. Jaime had a feeling that the poor service was the result of the supplier's belief that he had all of Jaime's business.

So one day, Jaime called four other suppliers and asked each supplier to meet him at his store the following Friday morning for a one-on-one meeting. Jaime posted the names and appointment times of the competitors on the blackboard behind him in such a way that each salesperson could see the competitors' names behind Jaime as they spoke at the desk. He then made sure that his main supplier came in that afternoon to check on a problem he was having.

When Jaime's main supplier came in that afternoon and saw that Jaime had spoken with the suppliers' competitors, the supplier quickly understood the message that Jaime expected him to continually "earn" Jaime's business.

As a microentrepreneur, you need to seek out multiple suppliers and help the suppliers understand that your business needs to be earned with every transaction. When suppliers know they are in competition for your business, they will most likely treat you very well.

Selecting Suppliers

As you search for multiple suppliers, you will obviously want to find suppliers who will sell to you for a reasonable price. But be sure to also consider some additional issues; examine the supplier's reliability, speed of service, delivery costs, trustworthiness, and depth of inventory. Remember that if a supplier can't meet the needs of your business, your business will not be able to meet the needs of your customers.

When you start your business, you will most likely be very small and need certain credit and price considerations. Many times you may need to ask for special favors from your suppliers. Be wise as you select your suppliers: look for ways to decrease the wholesale prices you pay for products and services. Researching suppliers' credit or consignment programs can also help you pay less for the products that you resell.

When you begin a new business relationship with a supplier, don't be afraid to ask for special pricing, terms, discounts, and new-customer promotions. This is all part of the gathering process. Remember that you often make more money by purchasing at a good price rather than by selling at a high price.

Obstacles to Overcome

As your business grows, it will inevitably change. The suppliers who met your needs when you were small might not be able to take care of your needs once you begin growing. And while leaving the suppliers who took care of you when you first started might be difficult, it may be necessary in order for your business to grow, especially when you buy in larger quantities. When you look for new suppliers—or even for additional suppliers—remember to always give your current suppliers opportunities to match prices and compete. You may be pleasantly surprised by what they are willing to do to keep you as a regular customer, including giving you better credit terms or more products on consignment.

Benefits of Applying the Principle

Having multiple suppliers is important for any business. When you have more than one supplier for each of your business' needs, you are enabled to make better decisions—and more decisions. With more than one supplier, you can likely get the products you need when you need them. And you can ensure that you get the best quality for the price you are paying.

Having multiple suppliers also helps you get your products to your customers on time and at a decent price. If you have more than one supplier, you will be able to maintain your low prices and good service even if one of your suppliers decides to raise his prices or can't get his products to you when you need them. (Many small businesses regularly lose sales to customers because the store is out of stock, mainly because their single supplier is out of stock.) Working with at least two suppliers can act as a safety cushion for you and your small business.

10 – Buy on Credit; Sell for Cash

Jonith, a bright young man, had a hard time deciding what business to start after he graduated from a microenterprise academy. As he was walking around his hometown one day, he strolled by his high school and stopped on a street corner to wait for some cars to pass by. He noticed several students asking a delivery service employee if the store in which she worked (which was located just across the street from their school) offered photocopying services. The employee told the students that the store didn't have any photocopiers and that, as far as she knew, no such services were available nearby.

Jonith knew that he had found his business idea. He asked the owner of the store if he could rent a small, currently unused space inside the store. The owner granted him permission, and they drew up a rental agreement. The only problem was that Jonith didn't have any money for rent. He asked the landlady if he could pay her at the end of the month. The landlady agreed, so Jonith asked his friend Maria, who was a sales manager for an office supply company, if he could get one photocopying machine and pay for it at the end of the month.

Maria, wanting to sell a machine, relayed the request to her boss, and Jonith left the store with a receipt for the photocopier, which was delivered to his small business space the following day. Jonith didn't have any paper to use for making copies, but he figured that if he could borrow just a few pieces, he could serve a few customers and make enough money to buy more paper. He asked the landlady to give him 25 pieces of paper on credit; she gave him a full ream.

He then started promoting his services to students at the school near the store. Jonith attracted so much business that very first day that he earned enough money to pay the landlady for the ream of paper she had loaned him. Jonith continued to buy his supplies on credit, and by the end of the month, he had raised enough money to pay the rent and purchase the machine, pay himself a pretty good salary, and begin a savings account to pay for a second photocopier.

The Principle—Buy on Credit; Sell for Cash

Buying on credit enables business owners to use other people's money (e.g., suppliers' money) to purchase items without paying for them immediately. Selling for cash helps business owners maintain a stable and reliable cash flow.

In theory—and often in practice—when you buy an item on credit, you will not actually have to pay for the item until after you have sold it (depending on how quickly you can sell the item). If this happens, you have essentially used a creditor's money to buy a product and have used a customer's money to pay for it. This practice helps create a healthy cash flow because it keeps money in the business for longer periods of time and ensures that the business has cash to pay for the product once the bill becomes due. This increase in cash flow can sometimes enable you to keep some extra cash on hand. And having extra cash can help you take advantage of special promotions or bulk purchase discounts.

Although you can buy on credit in a wide variety of ways, three methods are most common: (1) post-dated checks, (2) consignment plans, and (3) creative lender arrangements.

Post-dated Checks

The option of using post-dated checks is available only in some areas of the world where banks are plentiful and business owners have access to inexpensive or free checking. Using post-dated checks is an excellent way to buy merchandise on credit, but it takes some practice. The key is making sure that funds are in the bank before the check is presented at the bank.

Ursula, a pharmacy owner, is an excellent example of how a business owner can wisely use credit to her advantage. In the Philippines, business owners have a very hard time obtaining large lines of credit (e.g., credit cards, cash advances from banks, and so forth). But the practice of using post-dated checks is accepted in almost every industry. So Ursula does much of her purchasing with post-dated checks. The process is as follows. If Ursula were to go to the market and make a purchase on May 4, she would write a check for the full amount and date it June 4 or even August 4. (The acceptable length of post-dated checks is generally 30 to 90 days.) The vendor from which she purchased the goods would hold onto the check until the date for which it was written. On that date, the vendor would cash the check and receive the appropriate money from Ursula's bank account.

This method of using credit would enable Ursula to have merchandise in her store for 30 to 90 days prior to the time when she actually has to pay for the products. If all goes well, Ursula could sell the merchandise before the check is presented at the bank, and she would have more than enough in the bank to cover the amount of the check.

Consignment Plans

A second method for using credit is called "selling on consignment." Consignment selling is an excellent way to offer more merchandise without having to pay money to purchase it and without incurring the risk of being stuck with inventory that does not sell.

This arrangement is used when a supplier needs to sell merchandise but can't find anyone who is willing to buy it. When this occurs, you can offer to display the supplier's merchandise for sale in your retail store under the following conditions. If a consigned product is sold, you will pay the supplier the normal cost of the good and keep the profit. But if the product does not sell after a certain period of time, the supplier must agree to take back the merchandise you got on consignment.

By getting inventory on consignment, you are able to offer a wide selection for your customers and thereby increase the likelihood of having customers purchase goods from your store. Selling items on consignment also gives you the opportunity to earn income on the markup of a product that you don't even own yet. In order to sell on consignment, you must keep detailed records so you don't get a false sense of ownership over items that belong to someone else. You must also be sure to pay the supplier for each good shortly after you sell it.

Creative Lender Arrangements

Some microenterprise owners operate in areas of the world where checks are not regularly used and where consignment is not commonly practiced. But even these business operators can take advantage of the benefits of buying on credit.

A modified consignment method can be used with suppliers who are seeking to sell merchandise but are not willing to part with their goods without any money or assurance of payment. Let's use Marilyn, a business owner, and Jose, a supplier, to illustrate this concept. Marilyn and Jose have done business with each other for a few months and have established a relationship of trust. Marilyn is looking for some additional merchandise to sell in her grocery store, but she has very little cash to use in purchasing items. So she asks Jose if he has any products that are not selling particularly well. Jose says that he has had a hard time selling his supply of canned carrots and is worried that they might go bad if they aren't sold soon. His usual wholesale price is .25 pesos per can.

Thinking creatively about buying on credit, Marilyn could ask Jose if she can buy 100 cans on credit at .15 pesos per can and see if she can sell them. She could propose that if she can sell the cans, she will pay cash for the .15 pesos per can that she borrowed on credit; if she can't sell the cans, Jose must take the cans back and excuse the credit. (If, prior to making the deal, Jose is hesitant to take any unsold goods back, Marilyn might promise to pay Jose an additional five pesos for each product she sells.)

One additional way to get inventory through credit is to obtain merchandise on loan from a fellow retailer. If you know a business owner who has slow-moving merchandise, you might ask the retailer to loan the product to you to see if you can help the original owner sell the product for a fee or a percentage of the sale. For example, let's suppose that Rosalima paid 25 pesos for a flashlight and has tried unsuccessfully to sell it for 45 pesos. Samuel asks Rosalima to loan him the flashlight so that he can try to sell it for 45 pesos. Samuel asks, "If I can't sell it for 45 pesos, will you accept half of anything that I can make over 25 pesos?" If Rosalima says yes, and if Samuel is successful in selling the flashlight, both benefit. Samuel makes a little extra money on merchandise that he never paid for, and Rosalima is able to recover her costs on the flashlight (and maybe even make a little bit of profit).

Obstacles to Overcome

Two main obstacles stand in the way of business owners who are trying to buy on credit and sell for cash. First, suppliers might be unfamiliar with the concept of credit and might feel reluctant to sell their goods on credit. If you are faced with this type of problem, you might consider asking for small amounts of credit and then moving to larger credit purchases when your suppliers are ready. Show your business associates that you are credit worthy, that you will always pay them back at the promised time, and that they can benefit from selling to you on credit.

The second obstacle you might encounter has to do with your customers. They might recognize the benefit of paying on credit and might not want to pay cash for goods they buy from you. Having cash in your business is crucial—without sufficient cash flow, your business simply can't operate smoothly at all times. But retaining good customers is also vital. You might want to insist that new customers pay cash for goods but be more flexible with faithful customers, allowing them to purchase on credit occasionally. As a rule, try to avoid credit sales whenever possible—hundreds of businesses have gone run out of cash because the owners gave credit to their customers. If you should, however, choose to make some credit sales, be sure that you always have enough cash sales to cover your credit purchases and that you keep detailed records of all credit purchases.

Benefits of Applying the Principle

Finding creative ways to buy on credit can clearly benefit you, the business owner. Using other people's money enables you to potentially generate revenue for your business without using scarce working capital. And when you pair this good practice with the practice of selling for cash, your business' cash flow should be sufficient to meet all of the cash demands that arise.

Remember that credit relationships always entail a little bit of risk. You take a risk because you can't be 100 percent sure that you will be able to sell the merchandise you bought on credit. And the creditor assumes a risk that you won't be able to pay for the merchandise that you bought on credit. Because credit involves such risk, your good reputation is the best asset you can have when seeking to obtain and use credit. Be sure to always keep your promises to your suppliers and pay your debts in a timely manner. Using credit wisely will not only improve your profitability but also reinforce your good reputation throughout the business community.

Buying on credit and selling for cash is a very effective way of stretching your limited working capital. This technique helps you leverage the money you have in order to get more money. Improving your money-leveraging skills will enable you to lift yourself out of poverty.

11 – Purchase in Bulk

When Raul's sausage-making store opened for business in his small neighborhood, he struggled to price his products well. He had purchasing contracts with multiple suppliers, but the suppliers were all charging overly high prices for the meats he bought, for preservatives to keep the meat from going bad, and for packaging wrap. Although Raul's prices weren't the cheapest in the area, he had excellent customer service, so his customers kept coming back.

After being in business for about eight months, Raul decided that he was no longer willing to pay such high prices for his raw materials. He hired an employee to watch the store for a few hours each day, and Raul set out to find suppliers who could give him a lower price on the things he needed most.

As he talked with various meat suppliers, Raul identified an interesting trend. Many told him that if he would buy 80 kilos of the meat at a time (as opposed to the 35 kilos he usually bought each day), they would sell the meat to him at a significant discount—almost 25 percent lower than what he was currently paying for the meat. Raul was immediately excited about the lower bulk rate, but he was concerned that he might not be able to sell all of the meat before it went bad. But then he remembered that his friend, who also sold food products that had to be kept cold, had recently moved to another area of town and had left his refrigerator behind. Raul figured that if he borrowed the refrigerator to store the meat he couldn't use immediately, he would have to pay a little more for his electricity but could still save significantly—and pass those savings on to his customers.

Raul entered into several agreements to purchase his supplies in bulk and has been very pleased with how that decision is affecting his business. He is able to buy his meats at a much more affordable price, his profit margin has improved, and he is able to pass some of his savings on to his devoted customers. His low price is attracting new customers as well. Indeed, purchasing in bulk turned out to be a very good thing for Raul.

The Principle—Purchase in Bulk

All businesses that sell products (as opposed to those that sell services) have one thing in common: they have to possess items before they can sell them. Businesses might acquire their items by purchasing them with the intent to resell them, or they must make the items using raw materials, which must be purchased as well. Either way, the businesses have to acquire products in order to make money. Inventories don't just appear out of thin air. Fruit smoothie stands can't sell their delicious drinks without a blend of raw fruit; clothing retailers can't sell shirts unless they either buy the shirts from a wholesaler or buy material from a cloth maker and convert the material into fashionable shirts.

You can usually cut costs and boost profits by buying your needed items in bulk rather than in the smaller quantities that you might be accustomed to purchasing. Suppliers want to sell their products just as much as retailers do, so suppliers are usually willing to give discounts to retailers who buy their supplies in bulk. In a bulk-buying arrangement, the supplier benefits by selling more items in a shorter amount of time, and the purchaser benefits by paying a lower price per unit.

Obstacles to Overcome

Purchasing in bulk is not a risk-free opportunity for vendors. Indeed, many dangers can be associated with buying in bulk.

Perishable Goods

In the story at the beginning of this chapter, Raul was worried that if he bought 80 kilos of meat rather than just 35 (which he knew he could sell in a single day), the extra 45 kilos would spoil, leaving him with unusable (albeit less expensive) meat. Raul's situation is representative of what many business owners face (especially owners of food-related stores) when they decide whether to buy in bulk. You can deal with this obstacle by never buying more than you can either reasonably use in a short period of time (before it will go bad) or safely store for long periods of time.

Bundles of Products

Sometimes, suppliers will let you purchase a desired item in bulk only if you agree to also buy a bundle of less-attractive or harder-to-sell items. They do this so that they don't get stuck with slow-moving inventory products. If a supplier is requiring you to buy bundles of products in order to get a bulk discount, you should carefully evaluate whether you can actually sell the less-attractive items. If you think you can sell them, buy just one bundle of goods and try to sell all of the items. If you find that you can't sell the less-desirable items quickly enough, don't buy the bundle again—unless the savings you receive from buying the fast-moving products in bulk is large enough to warrant the combined purchase.

Large Upfront Costs

One of the biggest obstacles to overcome when trying to purchase in bulk is that of cash flow. The nature of buying in bulk is that you get a larger quantity of goods (at a cheaper price per unit) but you also have to pay a larger amount of money—usually at the time of the purchase. If you are accustomed to buying small quantities of goods and reselling those quickly, then coming up with a lot of money at one time to buy a lot of goods upfront can be quite a challenge.

You can deal with this issue by finding other retailers who are selling the same product and who would be interested in buying in bulk with you. If the upfront cost for a large amount of products is 2,000 pesos, and you can find four other people to join with you in purchasing the items, then you each pay only 400 pesos and still get the discounted bulk price without having to pay the whole amount alone.

Inventory = Unavailable Capital

Whenever you buy a piece of inventory, you trade your capital for that item; you obviously hope to sell the item quickly so you can convert it back into cash. When you buy in bulk, you invest a lot of your capital in inventory that may or may not sell quickly. If you need that capital for other purposes in your business, you would be foolish to tie it all up in inventory by purchasing in bulk. If, however, you decide that buying in bulk is appropriate for your business, never tie all of your capital up in inventory by purchasing in bulk. Monitor your cash needs carefully to ensure that when you need money, it will be there.

Beware of Fads/Trends/Styles

Retail markets all over the world operate in an environment in which customers' desires for some products change rather frequently and rapidly. Some items (e.g., bread, milk, solid-colored shirts, blue jeans) are a fairly stable part of many people's lifestyles. But other items (e.g., tie-dyed shirts, drinkable yogurt, fried meat products) are less stable and more subject to trends/fads. These products may be very popular for a few months and then totally drop off of the purchasing scene.

When buying in bulk, be careful not to invest too heavily in products that are part of a passing craze or fad. If you buy a large supply of a trendy item and then find that the trend changes, you might never be able to sell your inventory. So, instead, concentrate your bulk purchases on items that are stable—items that people need regardless of what the current fads or styles are. By carefully choosing your bulk purchases, you save yourself from being subject to the ever-changing and never-dependable desires of the public.

Benefits of Applying the Principle

Because all product-selling businesses need inventories, many businesses can benefit from purchasing in bulk. Two of the biggest benefits are bulk discounts and elimination of a middleman.

Bulk Discounts = Better Pricing

Buying in large quantities is usually the best way to get a low price on the items you purchase. Suppliers will often be willing to sell to you at a reduced price per unit if you will purchase a large amount of goods at a single time. The supplier benefits from this arrangement because she no longer has to store the large amount of goods; you (the purchaser) benefit because you get a good deal on the items you needs. Bulk-rate discounts can greatly boost a business' profitability.

Cut Out the Middleman

Purchasing in bulk can also simplify the supply chain—the process by which businesses get all of their supplies and inventories. Many times, retailers get their inventories through a middleman—someone who buys from wholesalers and distributes to smaller retailers. The retailer usually pays a fee to the middleman for his or her services. But if you plan carefully, you can buy in bulk directly from the wholesaler and bypass the middleman altogether. By doing so, you will end up spending less money per item for the product and won't have to pay any fees to the middleman.

12 – Use Suggestive Selling

Holly has owned and operated a beauty parlor for years. Her hard work has resulted in a group of faithful customers who visit her shop every time they need a haircut or another beauty treatment. Holly has always enjoyed the work that she does, but when her oldest son was about to graduate from high school, she knew she had to somehow make more money. She wanted to pay for his technical training as a mechanic, but her current income wasn't enough to cover his school expenses. She needed to somehow increase the beauty parlor's revenues.

Holly knew that revenues increase when sales increase, so she tried to find ways to generate more sales each day. She couldn't realistically attract enough new customers to significantly raise her revenues, so she started offering new services to her existing clients. In addition to giving manicure clients a great hand treatment, she began suggesting that they also buy a pedicure treatment. In addition to cutting clients' hair, she began suggesting services such as a deep shampoo, hair coloring, and relaxing scalp treatments. By using suggestive selling methods, Holly was able to increase her revenues significantly (and with very little extra work) and was easily able to pay for her son's school.

The Principle—Use Suggestive Selling

The idea behind suggestive selling is that instead of trying to increase sales by finding new customers, you try to sell more to the customers you already have. Even if you don't think of yourself as a great salesperson, you can begin practicing suggestive selling immediately by trying two simple techniques.

Upselling Items

Upselling is a way of turning an ordinary sale into a larger sale filled with more expensive or more comprehensive products or services. For example, if customers come into your store dressed in swimsuits and sandals (obviously dressed for a trip to the beach) and ask for SPF-15 sunscreen, you can upsell by showing them your selection of SPF-30 sunscreens (higher-priced items) that will likely protect them from sunburns even better than the original product they wanted to buy. If the customers are persuaded by your upselling tactic, they will buy a more expensive product and will leave the store happy with their purchase and with the help they received from you. And you'll be happier because you will have turned a small sale into a slightly larger and more profitable sale.

Bundling Items

You can bundle items by doing one of two things: (1) combine several related products or services and try to sell them all together at a price below what the total price would be if the customer bought all of the products separately, or (2) notice that a customer wants to buy a product and then spontaneously create a group of items that would likely appeal to the customer.

For example, if while helping the customer, you learn that she and her family will be at the beach all weekend long, you might suggest that she prepare even more for the weekend by purchasing a sun-shading umbrella, some beach towels, and a pair of sunglasses as well as the sunscreen.

Or, if you anticipate that many customers will want to purchase items from your store in preparation for water destinations, you might prepare a bundle of goods in advance and then market them to customers as a great package deal.

Using Both Principles Together

These two principles can be used together to produce effective suggestive selling. Take the example of Sandra, a store clerk, and Marcos, a customer who comes into a pet store and begins looking at the budget-priced gold fish.

Sandra, the clerk, sees Marcos looking at the cheap gold fish, but leads him over to the more impressive and longer-living (and more expensive) tropical fish. Once he has decided on a few beautiful tropical fish to purchase, Sandra says, “You’ll need a fish tank to keep that little guy in. These beautiful fish live only in salt water. And we have these great 60-peso salt-water tanks on sale for just 36 pesos.” By the time Marcos leaves the store, he has purchased much more than the 8-peso fish he originally came in to get. He is proudly carrying home several exotic species, a 36-peso fish tank, fish food, a tank light, and other fish accessories. The sale went from a tiny 8-peso transaction to a sale of nearly 350 pesos!

Using Suggestive Selling Wisely

In order to use suggestive selling effectively, you must know your products well enough to suggest one above another if a customer asks which product is best. Customers don’t always know exactly which item will best meet their needs, so if you are able to make an informed suggestion, customers will likely accept your suggestions and do as you recommend.

You must also approach each sale with enthusiasm. Use upbeat language that encourages customers to purchase items. For example, instead of asking, “Do you want a drink?” you can ask, “Can I get you a glass of our refreshing raspberry iced tea or freshly squeezed lemonade on this hot day?”

Lastly, you must think quickly in order to effectively sell additional items. Once you know what items the customer is planning to purchase, think of other items that would go well with those items. Try to get the customer to buy those add-on items.

Obstacles to Overcome

Sometimes business owners get so excited by the idea of suggestive selling that they take it too far and end up driving away business rather than attracting more business. You can prevent these harmful effects by guarding against the common tendency to “oversell”—to push the customer to buy too much at one time.

Overselling, or being too pushy with your sales efforts, often results in the customer being upset by the transaction and deciding against visiting your store again. Suggestive selling is not a short-term strategy to temporarily boost revenues; it is a long-term, service-oriented approach to permanently build a mutually beneficial relationship between a store and a customer. With that long-term perspective in mind, learn to avoid putting your customers in uncomfortable situations where they feel put on the spot or embarrassed into buying more than they really want to buy. Try to form long-term relationships with your customers, and you'll be rewarded with consistently satisfied customers, repeat sales, and long-term growth.

Benefits of Applying the Principle

The biggest benefit of suggestive selling is higher revenues with the same number of transactions. Everyone in business knows that keeping a customer is easier and less expensive than gaining a new one. If you can learn to use upselling and bundling with your current base of customers, you will likely be surprised by how much more revenue you can generate each day.

13 – INCREASE SALES; DECREASE COSTS

June has been managing her uncle's pharmacy for a few months. When she took over the management of the pharmacy, she immediately studied how the business had been doing and how much profit it was making every month. After evaluating six months of income statements and balance sheets, she noticed that the store's expenses were very high and that more than half of its monthly revenues went toward paying the rent.

June immediately talked with her uncle about relocating the pharmacy to a less expensive location. After much discussion on the matter, June's uncle assigned her to search for a new location that was not too far from the original site of the store (he didn't want customers to have to go out of their way to visit the new store). A week later, June found a new location that was only two blocks from the pharmacy, was on the corner of a street leading to the entrance of a hospital and a busy shopping area, and whose rent was nearly 20 percent lower than their current rent. The uncle was pleased with the information that June told him about the new location, and he soon agreed to transfer the pharmacy there.

After three months of operation at the new location, the store's sales had increased by a full 30 percent, and June had been able to cut back not only on rent expenses but also on other unnecessary expenses.

The Principle—Increase Sales; Decrease Costs

A business' profits are affected by two items: its revenues (sales) and its expenses (costs). The formal expression of profit is as follows:

Profit = revenues – expenses

You can generate more profit by either increasing revenues or decreasing expenses—or by doing both. The common thought (both in business and in life) is that you should decrease your expenses to fit your income. However, the opposite might be a formula for a more fulfilling and flexible life: you should work to earn the income you need to cover the cost of what you really want or need to do in life. With that perspective in mind, you can see how decreasing costs is important, but increasing sales should really be the focus of business owners.

Increase Sales

In order to increase your sales, you must either (1) sell to more customers or (2) sell more to the customers you already have. To attract new customers, you can find a better location, differentiate your business more carefully, choose products that are historically more popular with customers than the ones you currently carry, or advertise more effectively. To sell more to the customers you already have, apply the principles of suggestive selling (see information on suggestive selling in Chapter 12).

Decrease Costs

Before you can decrease your costs, you need to fully understand those costs. Review your records, making note of expenses that are either unneeded or larger than you think they should be. Once you have identified the problem expense areas, work to decrease one problem area at a time. Many of the cost problems can be solved by applying principles such as using multiple suppliers, assessing personnel needs and hiring employees only when they are really needed, and negotiating contracted services.

Obstacles to Overcome

Without capital to put into a business, the business cannot grow and will probably ultimately fail. So increasing sales and decreasing costs is especially important in the early stages of the business cycle.

As you seek to increase sales and decrease costs, avoid the mistake of increasing costs before you can really afford to do so. Looking successful is not the same thing as being successful. Many new business owners think that if they buy a motorcycle or car, they will look successful and will thus become successful. But that is rarely the case; instead, by purchasing status symbols before they can really afford them, business owners set themselves up for long-term debt obligations and ultimate business failure.

Benefits of Applying the Principle

By increasing sales and decreasing costs, you can positively affect your bottom line—that is, you can improve your profits and set yourself up to be successful for a long time. Profits can be a magical thing for businesses: profits (when used wisely) generate more profits. With a sizeable profit, you can reinvest in the business and set the business up for continued success and profitability.

14 – Turn Your Inventory Often

Years after retiring from taxi driving, Wade Cook began teaching seminars on how to make money. He often spiced up his presentations with stories from his taxi-driving days. He used one of his favorite stories to respond to people who asked how he managed to earn a good living driving people around the city all day long. He always answered quickly and with conviction. "The money is in the flag drop."

The response often caught people off guard. "What do you mean?" they would ask.

"The money is in the flag drop," he would repeat. "On the meter of my taxi was a small red flag that was visible from both inside and outside of the taxi. When I was looking for a customer, the flag would be up, letting people know that I was available. When a new passenger got in, I'd drop the flag down, starting the meter. The more times I dropped that flag each day, the more money I made."

The Principle—Turn Your Inventory Often

Wade Cook's story serves as a parable to illustrate a very important business principle that is applicable to every business in every industry. The concept is very simple: the more often you sell and restock your inventory, the more profit you generate. Wade Cook's inventory was his taxi's empty back seat; he turned that inventory every time he dropped off a customer and picked up a new customer. And as he suggested, the more often his turned his inventory each day, the bigger his profit became.

Let's take a step back to define some key terms. Inventory is the products that you have in your store and can sell at any given time. Inventory can be valued either at the price you paid for the goods or at the price you are selling the goods for. It really doesn't matter how you decide to value your inventory; the important thing is that you value the inventory the same way each time.

In this context, a turn of your inventory occurs when you sell all of your products. For example, if you purchase an inventory of 50 sandals, you complete a full "turn" of the inventory when you have sold those 50 sandals. If you've priced your sandals well, you will make a profit on each pair of sandals you sell. And if you sell all 50 sandals, your profit will be equal to 50 times the markup on each pair of sandals. So the more often you turn your inventory, the more profit you can make.

Pricing your products well, regularly counting inventory, and recording inventory transactions lie at the center of your quest to manage your inventory and maximize your profit. Keep accurate records of every product purchase and every sale so that you can track how often you are turning your inventory and how much you make each time you turn it.

A Practical Example

The best way to understand this concept is to see it mathematically. Let's assume that Pedro, a children's clothing retailer, buys sandals for 60 pesos each and sells them for 100 pesos each. He has decided to value his inventory of sandals at the selling price. At the beginning of

October, he has 800 pairs of sandals in his inventory. He determines that the inventory's total value (in terms of how much money he can make if he sells it all) is 80,000 pesos (800 pairs of sandals at the selling price of 100 pesos each). At the end of the month, Pedro adds up all of his sales and finds that he had 80,000 pesos of sales for the month of October. Because his revenues are exactly equal to the value of the inventory he had at the beginning of the month, Pedro knows that he turned his inventory one time in October. By subtracting the costs of the sandals from the revenues from the sandals, Pedro figures that his gross profit for the month was 32,000 pesos (see the following table).

Pedro is an inquisitive business owner, and he wonders how he can make more money in the same amount of time. He does some quick math and discovers that if he were to turn his inventory 1½ times each month, he could have gross revenues of 120,000 pesos each month (and a resulting gross profit of 48,000 pesos). And if he were to turn his inventory two times each month, he could have gross revenues of 160,000 pesos each month and a resulting gross profit of 64,000 pesos.

	1 turn	1.5 turns	2 turns
Revenues from sandal sales	80,000 (800 x 100)	120,000 (1,200 x 100)	160,000 (1,600 x 100)
Costs of buying sandals for sale	48,000 (800 x 60)	72,000 (1,200 x 60)	96,000 (1,600 x 60)
Gross profit from sale of sandals	32,000	48,000	64,000

This example should help you to see, at least in concept, why turning your inventory is so important. The more often you turn it—even keeping everything else constant—the more money you will make.

Obstacles to Overcome

The biggest inventory-related problems occur when business capital is tied up in slow-moving inventory. When money is tied up in slow-moving inventory, the cash is unavailable to the business for other purposes, such as paying bills or buying products that sell faster. Every peso of inventory that sits on the shelf gathering dust is a peso that is not being used to its fullest capacity. Capital that does not earn money for the business actually costs the business money. Likewise, if inventory sits on the shelf for a long time, it costs the business money.

Many shop keepers complain that their biggest cash flow problem is that they simply need more capital. In reality, many just need to sell the slow-moving inventory that they have in their stores. By selling inventory more quickly, the store owners can recapture the capital that was used to buy the inventory, and they can then have more money to use as they need.

When products sit on the shelves of a store in the form of slow-moving inventory, that inventory (or the money used to buy it) is “sleeping.” Wise business owners carefully plan how much product they need to have on hand at all times so they aren’t guilty of letting their money sleep. (This advice is not meant to suggest that you should never have more inventory than you think you can sell in a day—unless the products are perishable and will be wasted if not sold that day. Instead, the advice is meant to serve as a reminder to carefully consider how much inventory you need over a short time span and to buy only that much so that you don’t have a lot of excess inventory “sleeping” on your shelves.)

If you buy products on credit (with any form of borrowed money), and they end up sitting on a shelf in your store, those products are even more costly than are products purchased with cash. If you can’t sell your credit-financed inventory fast enough, you’ll end up paying interest on the borrowed money, and those interest charges (which are incurred because of slow-moving inventory) can quickly eat up the profit from faster-moving inventory.

Benefits of Applying the Principle

The biggest and most significant benefit of turning inventory often is that a fast-moving inventory produces incoming cash and profits. You should wisely keep good records so you can understand which items sell quickly and which items tend to sit on your shelves for longer periods of time. Then build your business around those items that have a fast turnover. When you stop thinking about your inventory as “products” and start thinking about it as “pesos,” you will realize that you should manage your inventory by carefully investing in high-profit, fast-moving products. You should then work hard to turn those pesos over as frequently as possible. By doing so, you will see your sales and your profits go up rapidly.

Just as Wade Cook made more money every time his taxi’s flag dropped, you will make more money every time you turn your carefully purchased inventory.

15 – Value Your Customers

Philip has been running a bottled water-distributing business for about six years. He buys very large amounts of filtered water from distributors; repackages it into convenient, portable containers; and then sells the water to nearby businesses and residents. Philip has about 60 customers who buy from his store on a weekly basis. He has a weekly average revenue of 9,120 pesos, so he knows that each of his customers brings about 152 pesos of business to him each week. Philip is constantly trying to attract new customers to his business, so he knows how hard it is to attract new customers; thus, he focuses his time and energy on keeping his current customers and encouraging them to bring even more revenue to the business either by purchasing more water from him each time they make an order or by purchasing their normal amount of water more frequently.

Philip also tries to cater to his customers' every need while they are in his store. He greets them in a friendly way, tries to remember their names, carries their water purchases to their bicycles or cars, and even offers to deliver the water to the home or business of his best customers. He encourages his two employees to do the same. By showing his customers that they are important to him, Philip is able to take good care of his business' most valuable asset: its customers.

The Principle—Value Your Customers

When we think about valuing customers, we usually think in terms of how we should treat the customers and what we can do to show them that we appreciate their business. But in reality, you can show that you value your customers in two ways: (1) give them good customer service and (2) think about the financial value of each customer and then try to increase that value.

Value Customers by Serving Them Well

Customers are one of a business' most valuable assets. The money that customers spend in a store is what enables owners to buy products, pay the bills, pay employees' wages, and ultimately find success instead of failure.

An old business adage states, "If you don't take care of your customers, someone else will." It has proved itself to be true over and over again. Customers have dozens of options available to them today. Virtually every business has competitors; thus, every customer has choices or substitute sources for the solutions he or she seeks.

In order to take care of customers, you need to have a full understanding of your customers' wants, needs, preferences, and desires. And you must work to ensure that each and every first-time customer becomes a second-time and third-time customer. Unless customers achieve satisfaction from the purchase and use of your business' product or service, they may be unlikely to buy from your business again. Thus, in order to retain customers, you must develop customer loyalty—you must do those things that keep the customer coming back time and time again. This perspective on customer service should encourage you to think beyond the normal activities involved in the sales cycle. Post-purchase activities that become important include repairs, routine maintenance, trade-ins, and re-sales.

So, how can you keep customers coming back? Practice simple principles that show each customer that he or she is important to the business.

- When a customer comes into the store, acknowledge him immediately. Approach him with a friendly smile, and introduce yourself with a handshake or other physical gesture that is appropriate in the culture.
- Take an active approach to selling. Instead of asking, “May I help you?” ask a question that gives you an opportunity to share information about your store, your merchandise, or whatever differentiates you from other stores. An example of such a question is, “Have you been in our store before?”
- Give as much attention to customers as they need, but give customers time to browse if they seem interested in just looking at the merchandise and taking their own time.

Of course, different customers will want different things from you in terms of customer service. If you truly recognize how important customers are to your business, you will do whatever is needed to make them happy. Good customer service is always worth the effort.

Value Customers by Analyzing Their Financial Value

Research has shown that finding a new customer costs a lot more than keeping an existing customer. Thus, wise business owners spend most of their customer-related time and energy building and maintaining good relationships with their current customers so they can keep them for the long term.

Regardless of what business you are in, you can grow your revenues in only three ways: (1) increase the number of customers, (2) persuade current customers to buy in larger volumes, and (3) encourage current customers to buy products more often. Regardless of which business-growing tactic you decide to pursue, you must realize that pursuing any of the strategies must start with an understanding of how financially valuable each customer is to the business’ bottom line.

If your business has 10,000 pesos of revenue each week and has a regular customer base of 50 pesos, then each customer has a financial value of 200 pesos per week. If you want to increase sales, you must either take care of those customers and persuade them to buy more from you, or you must get new customers. If you want to double your revenue, you need to double the amount of each customer’s purchases or double the number of regular customers. The path you pursue is largely dependent on your personality and ability to attract new business. But it all must start with an understanding of how much each customer is worth financially to the business.

Obstacles to Overcome

Business owners are usually quite interested in developing good relationships with their customers; training employees to feel the same way is, however, often a different story. Employees are not as invested in the business (either emotionally or financially) as the owner is, and so they sometimes see their jobs purely as sources of income and do only what they have to do in order to get paid. This perspective often leads to poor treatment of customers by employees.

One of the most common complaints voiced by customers at retail stores is that employees often treat them as though they are interruptions instead of paying customers deserving of good service. For example, a customer might walk into a store and find two employees talking with each other about something that is very non-business related. The employees may stop their conversation to help the customer, but even then, the employees often use a tone of voice or use facial expressions that suggest that the customer has bothered them and cut into an important conversation. Or the employees may not put their conversation on hold at all; instead, they might finish their discussion and then turn to the customer with an expression that clearly communicates, “What do you want?”

You need to carefully and consistently train your employees to serve customers well. Customer-service training should involve reinforcing in the employees’ minds the importance of customers; teaching employees to greet customers, identify their needs, and help them find the products that can satisfy those needs; and encouraging employees to treat every customer with respect. Frequent, consistent training will help ensure that employees develop and maintain the proper perspective on customer service.

Benefits of Applying the Principle

By valuing your customers—and teaching your employees to value your customers—you work to develop loyal customers whose relationships with the business sustain it from day to day and from year to year.

16 – DIFFERENTIATE YOUR BUSINESS

Naomi is a sharp young woman who likes to talk with waiters and waitresses at restaurants. One day, she enjoyed a particularly good meal at a small diner 20 kilometers from her hometown, and she asked the waiter where the restaurant got such great vegetables for its salads. The waiter said that the vegetables came from a supplier who got them from a wholesaler in another nearby town. Naomi was intrigued by the answer and wondered if she might be able to start a similar business in her own town.

About four months after establishing her own produce business, Naomi began catering her services and products to restaurants. Victor, a restaurant owner, was a particularly faithful customer for Naomi. One day, Victor told Naomi that unless she would lower her prices, he would have to get his fruits and vegetables from another supplier. Naomi really couldn't afford to lower her price, but she really didn't want to lose Victor's business. So she looked for a way to give Victor more value for the same price.

Naomi knew that Victor would find value in Naomi's product only if she were doing something that her competitors weren't doing. She studied the other competitors' selection of produce and found that her produce was of a higher quality. She talked with Victor about the quality difference and tried to convince him that the better fruits and vegetables were worth a little more money.

Victor wasn't convinced by Naomi's explanation, and he began buying exclusively from another supplier. Just a few weeks later, Victor called Naomi and asked her to supply his business again. She readily agreed, and she asked Victor what had changed his mind. He explained that he had discovered for himself the difference between her quality produce and the other supplier's sub-par product. He also explained that he had been frustrated by the other supplier's late deliveries and rude employees. Victor was now convinced that Naomi's business was better not only because her produce was fresher but also because she always delivered on time and was willing to go the extra mile to help out her customers.

With this feedback, Naomi knew that she had successfully differentiated her business—that she was offering something that others couldn't or didn't offer. As a result, she was actually able to slightly increase her price and justify it by showing customers that the price was worth what they would receive in high-quality produce and good customer service.

The Principle—Differentiate Your Business

In most third-world countries, a customer can walk down any large street in any town and find dozens of small businesses that look exactly the same and offer the exact same products. The copycat businesses usually start emerging when one person has a new idea (e.g., selling fruit, sewing rags into skirts, repairing bicycles) and starts a business based on that idea. Pretty soon, others see the business and decide to duplicate it. And before long, all of the neighbors are selling the exact same thing in the exact same way. This phenomenon is especially true with simple businesses that are easy to understand and duplicate, and it often leads to price wars, in which businesses compete for customers based solely on who can offer the lowest price. When these price wars happen, the supply of a product quickly becomes larger than the customers' total demand for the product, and all of the businesses end up doing poorly or losing money as a result.

In order to prevent price wars and attract customers away from other businesses, you must be able to offer something unique to customers—something that differentiates your business or products from the other businesses and products in the area. You can differentiate your products in a variety of ways. A few of them (illustrated with the example of a fruit stand) are listed below.

- Differentiate based on location. Moving your fruit stand even just a block away from the other fruit-selling businesses might put your business in a new business district that doesn't yet have any fruit sellers. When moving a business to differentiate it from the competition, look for a location that is more easily accessible than your competitors' locations. Perhaps find a site that is closer to a parking area or bike path, so customers can see and access the fruit stand more conveniently.
- Differentiate based on products. Carrying a wide variety of fruits, innovating with new products (e.g., fruit salads), selling complements, or packaging products in unique ways might entice customers to visit your fruit stand or to buy more from your store than they might usually do.
- Differentiate based on business services. Offering lines of credit to big-spending customers might keep them coming back to your business.
- Differentiate based on customer service. Doing small things like delivering fruit to customers' homes, offering services with products, or developing a reputation for delivering on time can help boost sales tremendously.

Obstacles to Overcome

Differentiating a business from its competitors is not something that happens overnight. It takes time and creativity. But anyone can do it. The first step is just being aware of the need to differentiate your business. Once you are aware that differentiation is vital, actually doing it is quite simple. It all comes down to observation—of businesses in different industries and of your competitors—and innovation.

By observing businesses in different industries, you can gain a lot of insight into the operations of your own business. For example, when the mass production of cold cereal became big-time business, industry leaders toured automobile production factories to learn how to streamline their operations. From their observations, the cereal manufacturers learned that the assembly line structure that facilitated the mass production of cars could be modified and used in the production of cold cereal. The implementation of what they learned helped these innovative cold cereal companies differentiate themselves and produce and sell their goods more quickly. The same principle can work for you—no matter how small your business might be. See what innovations are happening in other industries and think about how those principles can help you differentiate your offerings and your business from competitors within your industry.

As you think about how to differentiate your business, don't forget to observe what your competitors are doing as well. We can learn a lot from watching what others are doing and from thinking about how to improve upon their innovations. For example, if you see that your competitors are experimenting with their product displays, see how you can create an even better display. Or if you observe that your competitors are expanding their product lines, think about how you might expand your line in a different way and perhaps couple it with a line of services as well. By staying informed about ways in which others are trying to innovate, you can get new ideas and hopefully stay one creative step ahead of the competition.

Benefits of Applying the Principle

The benefits of differentiating a business are as varied as the ways in which you can differentiate the business. Differentiation can help the business get out of an emerging price war, create a foundation for future expansion, and gain a reputation that can lead to great word-of-mouth advertising and publicity. In short, differentiating a business can distinguish it from similar businesses and attract customers who are looking for something new and fresh.

17 – Hire Slow; Fire Fast

After a few weeks of job searching in a large city, Jerry was able to interview with Andre, the owner of Construction Guys, a small construction company. As the interview ended, Andre was impressed with Jerry's people skills and thought that Jerry would work well with the company's other employees and its clients. So Andre hired Jerry to work with suppliers, customers, and advertisers to promote the image of the company and help people become acquainted with what the business could do for them.

A few weeks after Jerry began working, Andre observed that Jerry was always busy making telephone calls. At first, he was impressed by what appeared to be Jerry's strong work ethic and desire to promote the business as often as he could. However, after listening more closely to the phone conversations, Andre found that most of the calls were personal in nature—Jerry would spend long periods of time chatting with his friends. A week later, one of Andre's clients reported that Jerry had also started representing other companies that competed against Construction Guys.

Andre struggled to understand Jerry's inappropriate behavior, and he tried to decide what to do about it. Andre knew that Jerry had recently moved to the big city, was struggling to make ends meet, and had no relatives or friends nearby. So he didn't want to fire him. However, after a few weeks of thinking about how much Jerry's behavior was hurting the company, Andre decided that he needed to fire Jerry.

Although Andre had a very hard time firing Jerry, he knew he had made the right decision. He regretted a few things, however. He realized that he had not taken enough time to fully evaluate Jerry's qualifications for the job; he had not properly trained Jerry or monitored his work immediately upon hiring him; and he had also delayed firing Jerry because he was too emotionally involved in the situation.

Andre learned his lesson the tough way. But when he set out to hire Jerry's replacement, he carefully evaluated five applicants for the job. And when he hired Alberto, Jerry's replacement, he worked side by side with him until he was sure that Alberto fully understood his job duties and daily performance expectations. Andre also promised himself that if any significant problems arose with Alberto, Andre would fire him quickly.

The Principle—Hire Slow; Fire Fast

Employees are a very important part of a growing business. As the business owner, you create the vision for the company, raise the necessary money to run the business, set the business practices, and oversee the operations of the business. But the employees are often responsible for the small, day-to-day tasks involved in running the business. They must interact with customers, deal with small problems that arise, and do many other things to keep the business running smoothly. If they perform their jobs well, they can help the business reach its goals. But in any of those responsibilities, the employees can also cause tremendous problems for you. So choosing good employees is extremely important to the long-term success of any business.

Not every business needs employees, so the decision to hire employees should be made carefully and after a great deal of thought. Before you even think about hiring an employee, you might want to ask yourself the following questions to assess your need for extra help.

- What tasks could I be performing if I had more time? Would these tasks make me more money?
- What tasks can I give to someone else that would not negatively affect my business while the employee learns how to perform those tasks?
- How much could I afford to pay another person? Is that a fair wage?
- During which hours of the day do I need help the most?

If, after thinking about these questions, you decide that your business really is ready for employees, think about three critical periods involved in working with employees.

Before Hiring an Employee

In making hiring decisions, you shouldn't just hire whoever is available—you should hire the best person for the job. Finding the right person for the job is a hard task, but it can be accomplished by following these steps.

1. Commit to take as much time as you need in order to find the right person for the job.
2. Know what you are looking for. Decide what qualifications your employee needs to have and what kind of person will fit the culture and values of the company.
3. Before meeting any candidates, write out a job description. Include in the description a list of the following items: (a) what work experience the person must have, (b) what the job entails, and (c) a contract or work agreement stating what hours the employee will work, what the employee will be paid, how often the employee will be evaluated, and what consequences will apply if certain conditions of the contract are not met.
4. Check each applicant's references from other jobs.
5. Get to know the people you consider hiring. Interview them at least twice. If you already have a trusted employee, have that employee do some of the interviewing as well.

Immediately After Hiring an Employee

Your hiring responsibility does not end with the hiring of a qualified applicant. As soon as you carefully choose a new employee, take time to train the person—to give the new employee the tools needed for success in the job. Teach employees exactly what their responsibilities are, and make sure they feel comfortable with their duties before they have to perform them. Although you will have hired intelligent, capable people, you'd do best to assume that the employees know nothing and must be shown how to do everything. This attitude will remind you to be specific in your instructions, to be patient as the employees learn, and to help them build their level of confidence. Careful training also ensures that you don't have to continually correct your employees and run the risk of tearing down their morale.

As you begin training employees, explain to them the purpose of the training. Explain that while in training—and for a certain period of time after the training—they are to do their tasks exactly as you want them done. Explain that after that time expires, if they have discovered a more effective or efficient way of doing the tasks, then—and only then—will you have a discussion about their "better way."

If, after a few days, you find that the employee will not take direction from you or that he is not working well with the customers or other employees, then you need to take corrective action immediately, rather than waiting and hoping that the person will change. People generally don't change on their own, unless they are shown a better way.

When Firing an Employee

All employers hope that their employees will work out perfectly—that they will be able to do a great job and that they will be an excellent match for the business. But unfortunately, very few employees will be a perfect fit for the business' needs. Once you decide that an employee isn't going to work out, do not delay in letting the employee go and starting the process to hire a new one.

You don't want to be left with an important job to be done and no one to do it for you. So you should start immediately interviewing to find someone to replace the employee. Don't make the mistake of keeping the problem employee on your payroll; unhappy or unproductive employees can bring down others' morale, reduce the level of performance of other employees, and even completely ruin a business if they are not dealt with promptly.

Obstacles to Overcome

In small businesses, especially those in third-world countries, business owners are usually passively "talked into" hiring an employee rather than actively deciding to hire one. Typically the decision is made when a job-seeker approaches the owner and offers to help out around the store. The discussion is very informal and includes almost no mention of duties and expectations. And soon a hire has taken place. The "employee" starts coming around and helping out. Eventually, the "employee" begins to feel so comfortable with the business owner—and eventually with the business—that he moves from feeling like he can help out around the business to feeling like he can help himself to the assets of the business. This, of course, becomes good for the employee but bad for the employer.

If you decide that you need help in your business and want to hire an employee, you must begin by creating a formal relationship with your employees. When rules are established and enforced, people usually follow them. When no rules exist, people don't know how to act, and so they usually end up acting in self-serving ways, even if they mean no harm.

Another obstacle to overcome in both hiring and firing individuals is the desire we all have to help those we love most. Often, business owners will hire friends or family members to do jobs for which those loved ones are not really qualified. If you were in a situation in which your friend really needed a job, and if you had a job that needed to be filled, you would probably be tempted to just give the job to that close friend. After hiring him, you might feel satisfied that you had both filled the position and helped out your friend. But the relationship could become tricky if you discovered that the person you hired was not necessary qualified or able to do all that is required of the job position. Firing the employee becomes the inevitable but unpleasant next step. And firing family members, friends, and neighbors is never fun.

So, clearly, the best way to solve an employee problem is to make sure that it never becomes one. Don't let anyone "help" around the business unless you have carefully thought about the job that needs to be done, the qualifications an employee must have to do the job, and the kind of experience you think the person needs in order to be successful in your business.

Benefits of Applying the Principle

Benefits are derived from interactions with employees when business owners think carefully about their decisions to hire and fire. In order to grow a business, the owner generally must hire employees at some point; but there is a right way and a wrong way to go about hiring people. By taking enough time to make wise hiring decisions, you can ensure that you'll have to make fewer firing decisions.

As you hire people, remember that the economic future of your family and your business are dependent upon you building a business with the people you hire. You must always hire the best people you can find, not the ones who just happen to be available.

18 – Inspect More; Assume Less

For about three years now, Gladys has been engaged in exporting cocoa plants to European countries and importing unique European products (from countries such as Holland, Germany, and Italy) to sell in the Philippines.

Her business is getting quite large, so a few months ago Gladys started hiring employees to work in various aspects of the business. Her bookkeeper, Lynn, was hired to keep records of the company's financial transactions. After Gladys trained Lynn to do all the aspects of his job, Lynn was given the freedom to work more autonomously. Every month, Lynn would create a financial report showing the condition of the business. The reports always looked fine, and Gladys felt comfortable with the business' financial standing.

Then one month, Gladys noticed that the amount of receivables (money owed to the company by customers who pay with credit) was abnormally high. She started calling the customers to collect the money, and she was very surprised to find out that the supposedly unpaid receivables had actually been paid by the customers long ago. Only then did Gladys realize that Lynn, her bookkeeper, was stealing money from her.

Gladys learned a hard but important lesson that day—she can't just assume that her employees are doing their work honestly and correctly. She has to regularly inspect their work to protect the company's reputation by ensuring that all aspects of the business measure up to her expectations.

The Principle—Inspect More; Assume Less

So many times in business, we hear of a business owner who expected one thing to happen and was devastated when something totally different happened instead. Why do such things happen? More often than not, the problem occurs because a business owner assumes she knows what is going on in her business but fails to inspect to make sure.

In business, expecting things to happen is not enough to ensure that they will in fact happen. Once you've trained employees and defined your expectations for them, you must continue to inspect their work to make sure that they are doing what you want them to do, at the time that you want them to do it, in the manner you want it done. You must inspect their work and make corrections at the time you observe the errors, unless it is in front of a customer. (Whenever possible—and it isn't always possible—wait until the customer leaves or the task is finished before correcting an employee, especially if the reprimand will embarrass the person. Remember the old adage: Reprimand in private, reward in public.)

Letting errors go either unnoticed or uncorrected spells trouble. People aren't likely to change—especially if they don't know that they are doing anything wrong—unless they are asked to change by a supervisor or leader. As you inspect and correct improper or faulty actions, be gentle but firm. Reinforce your expectations for your employee, and point out differences you see between the employee's performance and what you expect the performance to be. Be aware of the need for periodic training to ensure that the job is always done how you want it to be done.

Obstacles to Overcome

As with many of the principles discussed in this book, the biggest obstacle to overcome when trying to apply the principle of inspecting more and assuming less is a psychological obstacle. Responsible and ambitious business owners typically value independence and the ability to work how they prefer. They often assume that if they choose to inspect their employees' work, the employees will think that the owners don't trust or respect them.

If you fall prey to this obstacle, the first step to overcoming it is to convince yourself of a simple truth: inspecting work does not indicate a lack of respect or trust. Instead, when you inspect work, you show your employees that you take pride in your products and that you want your employees to be as personally involved in the process as you are. Think of inspecting employees' work not as a way to monitor their every move but as a way to look for opportunities to provide more training to your employees. By inspecting more and assuming less, you can create opportunities to share your work ethic and commitment with your employees, thus encouraging them to adopt the same philosophy and take a similar amount of pride in their work.

Once you feel comfortable with the idea of inspecting your employees' work in order to reinforce the importance of consistent, quality performance, you need to let your employees know why inspecting work is important to you. They must come to understand that you inspect their work because you care about their ability to uphold the reputation of the business and because you want them to succeed at their assigned tasks. Employees must come to expect that you will follow up on assignments you give to them so that they don't become offended when you inspect their work.

Benefits of Applying the Principle

By developing the habit of inspecting more and assuming less, you will become better able to monitor and oversee all aspects of your business operations. As the business owner, you are primarily responsible for the success of the business, even if your employees are in charge of smaller functions. Inspecting employees' work on a regular basis enables you to be more aware of what is going on in your business on a daily basis and more able to stop small problems before they become big problems.

19 – Have Written Agreements

Allan and Ren, childhood friends, have always been involved in entrepreneurial pursuits. When they turned 21, they decided to stop working as delivery boys for the local newspaper and start a business of their own. They loved the breads that were sold in larger cities near their homes, so they decided to start baking and selling freshly baked bread.

They enthusiastically jumped right into business. They did some research, decided which partner would do which activities, opened their doors, and began selling their delicious bakery goods. Their business built a strong reputation quickly; before the year was over, they had opened six booths in locations around the neighborhood.

As the business grew, so did the tension and conflict between the two friends. Most arguments were about two very important issues: their individual responsibilities for the company, and the sharing of profits. Unable to resolve their conflicts or remember what they had originally agreed upon, Allan and Ren dissolved the partnership and closed down the business. The death of the business came hand in hand with the death of their close friendship.

The Principle—Have Written Agreements

Agreements are an essential, though often overlooked, part of business. They take time to create, but they can save business owners a lot of heartache and struggle in the long run. Simply put, agreements are meant to protect business owners from a whole slew of things: false accusations, faulty memories and forgetfulness, abrupt policy changes by suppliers and land owners, claims of disgruntled employees or partners, and so forth.

A wise person once said, "The dullest pencil is better than the sharpest memory." The implied message of this saying is that none of us has a perfect memory and that recording important information—such as the details of our business agreements—is good protection against the negative consequences of our bad memories. At the onset of any exciting undertaking, such as at the start of a business, the people involved are usually so focused on the opportunity and the successes they hope to have that they think things will always be perfect. So they make a few informal plans and hand-shake agreements, and move forward with the work. But because the memories of partners, suppliers, landlords, and creditors are imperfect, business owners must plan for the inevitable—the forgetting of essential information upon which business operations are based. Start each new relationship with a written agreement (even if it's written with the dullest pencil ever made) and make prompt written records of any changes that might affect the agreement.

Written agreements are great at solving problems that arise in the course of business. But they also give prospective business partners an excellent opportunity to brainstorm all of the important issues that have the potential to affect the business. Having an open and honest discussion about business-related issues (e.g., profit sharing, contract length, pricing, division of responsibilities, what to do if the business splits up) at the beginning of a new relationship enables all involved parties to understand other people's perspectives and to either feel comfortable with the arrangements or get out before any serious damage is done.

Obstacles to Overcome

The obstacles that prevent most business owners from establishing a habit of recording their agreements in writing are the result of popular but deceiving myths.

Myth #1: Agreements Reveal Mistrust

Many people think that an insistence on written agreements reveals mistrust between the parties involved in the agreement. When we receive requests to enter into a written agreement, we often react poorly by resenting the idea that our partner might not trust our integrity.

If you are met with this obstacle, work with the other person to ensure him or her that your real purpose for wanting an agreement is because you don't want misunderstandings to get in the way of the good relationship that you already have.

Myth #2: Agreements are Time Consuming and Unnecessary

Many people fail to create important written agreements because they think that agreements take a lot of time to develop and don't really do any good in the end. In reality, though, if all parties involved in the agreement have thought about what they need out of the relationship and are committed to satisfying the needs of the other people as well, agreement writing can be a very fast process and can have significant benefits for all people involved. Even with more complex agreements that do in fact take a good deal of time, the assurance and stability produced by having an agreement will be well worth the investment of time.

For example, suppose that you find a great supplier and want to work with her. Her warehouse is close to your shop, she offers bulk discounts, and her rates are 3 percent lower than other suppliers' rates. So you decide to use her as your main supplier. You have an informal discussion during which you both agree that she will keep her prices set at their current rate for the next six months, and then you will re-evaluate the rates. Your relationship is great for two months, but at the beginning of the third month, her rates increase significantly. You remind her about your agreement, but she insists that the agreement was to keep the rates for just two months. You debate about it for ten minutes, but both of you insist that your memory is correct. Clearly, a written agreement would have benefited you in this situation.

Myth #3: Agreements are Complicated

A third myth that often prevents business owners from making written agreements is a lack of understanding about how to write a proper agreement. Basically, there is no such thing as a perfect template for written agreements. The way to approach a new agreement is to decide what important decisions must be spelled out and then write a document that clearly and concisely describes those decisions. For example, you and your partner might decide what jobs each person will do and what to do with the business assets if one partner later wants out of the business. You and your suppliers might decide upon a bulk discount rate, how long prices are set for, if the supplier will be the business' sole supplier, and so forth. As long as the document spells out the important details of the agreement and is signed and dated by each person involved, the parties can be confident that their interests are protected.

Benefits of Applying the Principle

Problems are a part of daily life for business owners. Businesses are formed to solve problems or meet needs; businesses change operations to meet arising needs or solve unforeseen problems; and business owners confront various problems as they seek to earn money and provide for their families. By anticipating problems and writing down the solutions in a written agreement, you can protect yourself from the negative consequences of problems that may arise in the normal course of business. Agreements provide stability, certainty, and a firm foundation upon which you can build relationships with people who are involved with your business.

20 – Work on Your Business Ten Hours a Day and 5½ Days a Week

Leo is a business owner who has dreams of turning his small hamburger stand into a chain of fast-food restaurants. He keeps good records, sets challenging goals, values his customers, buys hamburger buns and ground beef in bulk, and trains his employees carefully. Leo is well on his way toward accomplishing his goal of expanding his business.

He wasn't always on the right path, however. In fact, Leo faced bankruptcy early on in his entrepreneurial career. He knew that his grandmother's secret burger recipe (a special blend of meat, sauces, and spices) would be popular with the young professionals who work near his hamburger stand; he was convinced that his attractive storefront would attract hundreds of people each day. And he was right—for a while.

The success Leo found during his first three months of business surprised him: Leo was busy from first thing in the morning until after 7:00 each night. In fact, he was so busy that he decided to hire two employees to run the store while he took his young family on vacation to celebrate. The employees did fairly well during the week that Leo was gone, so when he returned, Leo decided to leave the business in their hands while he continued to enjoy spending the money his business was generating. He stopped by the store for a few hours each day—to help with the lunch crowd—but he was very much an absent owner. Not until it was almost too late did Leo realize that his business wasn't really going as well as he thought it was.

One day, he happened to look at the books and found that the business had made a profit only once in the past nine days. Worried by this finding, he decided that he had been foolish to invest so little time and effort into the business that he hoped would support him and his family for the rest of their lives. He resumed his original habit of working at the store all day and even took time on the weekend to work on the more strategic elements of the business. After five months of putting his full-time effort into the business again, Leo is finally back on track and is working hard to turn his long-term dreams into a reality.

The Principle—Work on Your Business Ten Hours a Day and 5½ Days a Week

Some business owners approach their business like a hobby: they start the business because they are passionate about their products or services, but soon after the business opens its doors, they tire of the work involved and significantly cut back the time in which they are at the place of business. They might go to their business location for a few hours each day or for a few hours each week. But they don't devote as much time to the business as they need in order to lift it off the ground.

While this kind of lifestyle might seem carefree and fun, it can't sustain you and your family. To combat these foolish tendencies and establish business patterns that are more likely to lead to success, you should work at least as hard for yourself (on your business) as you would if you were accountable to an employer—and probably even harder (especially at the beginning of the business)! Hence, the recommendation to work at least ten hours a day and 5½ days a week.

A popular saying in the field of entrepreneurship states, "If you will work for five years like no one else will, you can live the rest of your life like no one else can." The meaning of this piece of advice is quite simple—hard work in the beginning of a new endeavor always pays off in the end. In order for you to establish good business habits and allow yourself the time to really get the business up and running, you should have a set schedule, work about 5½ days per week, work a full ten hours a day, and be constantly striving to increase business. You can grow your business by being at work, talking to customers and employees about the business, establishing good partnerships with suppliers and customers, and so forth.

Obstacles to Overcome

Working ten hours a day and 5 ½ days a week can really start feeling like a sacrifice after a while. But it's a sacrifice worth making. Whenever we make a sacrifice, we give up something of value for something of an even higher value. With respect to running a business, you must sacrifice your spare time and short-term personal interests in order to reap the greater benefits of financial security and long-term business success. By adopting this proper perspective, you can overcome your personal hesitancies to work in your business as much as needed.

Benefits of Applying the Principle

Demonstrating devotion to the business pays off quickly for most business owners—especially when they put forth small efforts to really live this principle. Take, for example, the advice to work 5½ days each week—a half day more than most people do. Over the course of a full year, that additional half day each week adds up to an additional 26 working days a year—almost a full month of additional productivity in which you can gain advantage over competitors who work the normal five days a week. This hard work will pay off as you begin establishing self-reliance for yourself and your family.

21 – PRACTICE KAIZEN

Marketplace Meats opened for business in 2001 by producing two unique types of sausage. The first eight months of operation were pretty rough, due mainly to the fact that many customers weren't accustomed to the unique meat products. The business was faced with customers' criticisms, an overwhelming number of returned products, and pretty substantial losses.

These setbacks did not hamper the partners' hopes of someday coming up with a good product. They set out to conquer their problems. Through around-the-clock experimentation, they discovered what kept customers from liking the product, fixed the problems, and then started marketing the improved product. Their almost-instant success indicated that they had finally created a product that customers were looking for. Just six months later, Marketplace Meats had a positive cash flow.

Now, the company has expanded to produce gourmet hamburger patties and supply them to smaller businesses. Though the company isn't as large as many others in town, its products rival the quality and taste of the products that big companies offer. All this growth was made possible by the owners' dedication to improve the quality of their products and build their business.

The Principle—Practice Kaizen

Back in the 1980s, a group of business writers popularized a term that reminds business owners of the need to continuously improve their businesses: Kaizen. The Kaizen principle traces its origins to a Japanese management concept that emphasizes the need for improvement that is both incremental (gradual) and continuous. For those who developed the concept—and for those who have implemented it—Kaizen is a way of life, a philosophy that permeates every aspect of life and business.

When business owners decide to practice Kaizen in their lives, they commit themselves to developing personal discipline and to pursuing long-term change. These characteristics guide the business owners in their pursuit of Kaizen-like improvement.

At a very basic level, Kaizen means continual improvement. But a closer definition of the word reveals another level of meaning: "to take apart and put back together in a better way." In business, the thing that is taken apart is usually a process, system, product, or service. Businesses that embrace this application of Kaizen are characterized by a culture where asking questions, examining processes and products, and making suggestions for improvement are encouraged and rewarded.

In this way, the cycle of Kaizen activity involves standardizing an operation or product; measuring or examining the operation or product; comparing the measurements against the goals or requirements; innovating to meet requirements and increase productivity; standardizing the new, improved operation or product; and then beginning the cycle again.

Because Kaizen emphasizes making small, ongoing changes and then re-examining processes and products, Kaizen is a never-ending cycle. And because it requires constant attention, the

Kaizen cycle is also one that encourages learning by doing. It doesn't suggest that the perfect solution must be found before a product is produced and sold or before an operation is implemented. It accepts learning and improving as part of the process. Trial and error is not only acceptable to business owners who practice Kaizen—it is part of the equation for improvement.

Obstacles to Overcome

Unfortunately, most small business owners don't know the concept of continuous improvement; and many of those who do know the concept either don't understand it or don't know how to put it into practice to improve their business and, therefore, their lives.

If you were to visit several small businesses in your hometown, you would likely find that many of the shopkeepers you meet have been doing business the same way at the same location for years and years. Ryan, who researched possible business options by walking around his hometown to observe businesses that were doing well, made a startling discovery one day. He realized that the man who he saw selling cotton candy across the street from a local elementary school was the very same person who, as a younger man, had sold the very same candy at the very same spot when Ryan himself was a little boy. For 54 years, the man had done business in the same location with the same product. Nothing about the business had changed. And neither had the man's quality of life or his ability to provide for his family.

Knowing that adjusting to externally imposed change is hard for everyone and that motivating oneself to change is quite difficult as well, if you choose to apply Kaizen in your own life and in your business, you must first become comfortable with the idea of change. You can do that by focusing on the good things that changing your business can bring to you—higher income, more free time to serve in the community, a bigger home—rather than on the difficult process of change itself.

Benefits of Applying the Principle

Practicing Kaizen is what the successful entrepreneurs of the world are known for. They are constantly trying to find a better way to manufacture, distribute, and market their products and services. Their minds are always looking to the future—to how they can do things better, faster, cheaper. They ask of lot of forward-looking questions: Can I find new suppliers? Can I carve out a new niche market that no one else has discovered? What can I do better today than yesterday to make my business work better and at the same time get more of the gross revenue to the bottom line? Change and improvement are their constant companions.

Once you come to appreciate the fact that seeking continual improvement is the only way to do better in business, you will also find that it enables you to move your business to new levels of revenue generation, of clientele growth, and of success. Those who ignore this principle just might find themselves breaking the cotton candy maker's 54-year record!

22 – Make a Profit Every Day

Last month, Domenic opened a grocery store in a newly developed area of town. When he first opened the doors for business, he was one of only three food shops within walking distance of most of the homes, so he was confident that his business would be profitable very quickly. During the first few weeks, Domenic worked hard to earn enough money to pay off his business loans and other costs, but he found himself falling further and further behind in his daily interest payments. He also found that he didn't have enough money to buy as many products as he needed each day, so his inventory was shrinking.

He asked a friend who had established several successful businesses to help him understand why his business, which he had such high hopes for, was doing so poorly. Noemi started by looking at Domenic's books and observing transactions at the store. She noticed that, on almost a daily basis, Domenic was losing money. He was charging more for his goods than what he was paying for them, but he simply wasn't charging enough to cover his non-product-related costs. She observed that he worked sporadic hours and would go home each night whenever he felt like he had worked enough. After a few days of watching these dangerous patterns, Noemi told Domenic that she had seen several things he could fix in his business and that all of the problems could be traced back to one simple problem: he wasn't making a profit every day.

The Principle—Make a Profit Every Day

Profit is defined as a business' revenues minus its costs for any set period of time. In application, profit is the money left after you have purchased your products, marked them up, sold them, and paid all of the related expenses (including things like electricity, rent, payroll, and the owner's salary). Because your business cannot survive without capital, your most basic business goal should be to make a profit every day.

Central to the idea of making a profit every day is the fact that a business must sell something in order to have the potential to make a profit. You might think that if you take the day off, you haven't lost any money. But that assumption is not true. Any time you decide to close the shop and do something besides attending to the business, it costs you something—either in terms of opportunity costs or fixed costs.

The opportunity cost of any use of time is all of the other things you could have done with that time; likewise, the opportunity cost of any use of money is all of the other things you could have purchased with that money. So when you decide to spend a day shopping or sightseeing instead of working either in or on your business, your opportunity costs are the things you could have done for your business with that same amount of time. For example, it might include the money you could have earned, the contacts you could have established, and the value of the strategic planning work you could have done to grow the business.

Fixed costs are incurred daily by the business regardless of how much is sold (or not sold) on any given day. In other words, you incur fixed costs each day regardless of whether the business is open or closed. Examples of fixed costs are rent, interest due on debt, and property taxes. So again, if you choose to not go to work on a day when you really should be working, you still “spend” money in the form of fixed costs but don’t generate any revenue to cover those costs. So, choosing to skip work results in a double penalty: you don’t make any money, and you also lose money due to fixed costs.

As you think about ways to make a profit every day, keep in mind that on some days, business will be great, and you’ll earn a profit by noon. But on other days, business will be slow, and by the time you are accustomed to going home, you might not have made enough to cover your daily costs. On days like that, stay committed to your decision to earn a profit every day. Realize that you don’t have to close the store at the same time every day. On slow days, you might be better off staying open as long as you can expect to have customers coming in. An extra hour or two might make the difference between making a profit that day and going home with a loss for the day.

Pricing products well is a critical part of earning a profit. You must establish a difference (or margin) between what you pay for a product and what you sell it for. That margin must be large enough to cover not only the cost of the goods sold (COGS) but also a portion of the business’ fixed costs. (For example, if you have an inventory of 100 items, and your fixed costs total 500 pesos, the margin on each item sold must cover the cost of the item and an additional markup of 5 pesos to cover the product’s portion of the fixed costs.) Only by setting that margin appropriately high can you actually make money on the overall transaction. Prior to setting your prices, you must have a thorough understanding of all of your costs so that you can set your prices to cover those costs and leave extra for profit.

Obstacles to Overcome

Most of the obstacles that stand in the way of business owners making a profit each day are the result of owners’ poor habits. Failure to make a profit every day is often caused by owners pricing their products incorrectly, not working enough hours, or not marketing and selling their products wisely. Overcoming poor pricing skills can usually be accomplished by keeping good records and studying them closely. Not working enough hours is a sign of less-than-full commitment to the business and should be modified by increased motivation on the part of the owner. And not marketing or selling products wisely requires little more than a lesson in using suggestive selling (see 12 – Use Suggestive Selling).

Benefits of Applying the Principle

As a business owner, your goal should be to earn a big enough profit to sustain and grow the business and to sustain your family. Ultimately, if you aren’t able to make a profit on a consistent—even daily—basis, you won’t stay in business for long. But by doing the little things that add up to a daily profit, you can ensure the long life of your business and meet your personal and professional financial goals.

23 – Work on Your Business, Not Just in Your Business

Claudia has always been a very conscientious business owner. Her paper-recycling station has been in operation for about seven months and is doing quite well. Although she was pretty nervous about opening the business, she soon found that she really enjoys talking with customers, tallying up each day's collection, creating income sheets and other important records, keeping the store tidy, and traveling to take her collected items to the larger recycling station a few hours away. Her store receives enough business that she really could use some help—she is totally swamped from about 7:00 a.m. till about 6:30 p.m.—but she hasn't yet hired an employee to help out.

Claudia's friend, Jose, frequently tells Claudia that he thinks she should open another station so that people in other parts of town can use a conveniently located paper-recycling business. Claudia is always pleased to hear this compliment from Jose, but she tells him that she simply doesn't have time to start up another location—she is so busy with her current store and can't imagine trying to operate two stores at once. Jose is afraid that if Claudia doesn't hire an employee to help with the small jobs around the business, she will soon wear herself out and will never take advantage of opportunities to expand her great business idea.

The Principle—Work on Your Business, Not Just in It

New business owners are generally very good about being properly involved in their businesses. They recognize that getting a business off the ground takes a lot of hard work, and they are usually willing to pay the price. Wise owners, for the first year or two, are at the store all day every day, greeting customers, building relationships with suppliers, making plans for the future, and perhaps eventually training employees.

But after that initial stage is over and the business is fairly successful, some owners adopt one of two extreme levels of involvement in their businesses. On one side are people whose lives remain totally consumed by the little tasks of running the business. They practically live in the store as they fill all of the needed jobs: they interact with every customer who comes in, keep all of the records, travel to purchase materials from each supplier, scrub the floors at night, count the inventory, pay the bills, and so forth. For these people, keeping up with the daily functions of the business becomes the focus of their lives—it's all they think about and all they do.

On the other extreme are people who get the business going and then want to hire others to do all of the work of keeping the business running. These owners may have been very active in the business when it was very young, but after a little while, they start coming in less and less. In almost no time at all, the employees are practically running the shop on their own without any daily supervision or guidance from the owner.

Both of these extremes can be dangerous. The over-involved business owner has no time to spend with friends or family, and he is generally so busy with the day-to-day operations of the business that he fails to give adequate attention to the strategic planning that is so important for the business' long-term growth and success. But the totally absent owner has no control over what happens with the business she fought so hard to establish. She is unaware of the direction in which her business is headed, and she pays no attention to the strategic planning that, again, is a crucial aspect of business growth. Many dangers, including theft and mismanagement by employees, can cost her the business.

As a wise business owner, you should seek to find a balance between these extremes—between working too much on the details of the business and not working in the business at all. If you focus solely on the day-to-day tasks of the business, or on no part of the business at all, your business cannot grow and will likely fail. To prevent this failure, you must work not only in your business but also on your business.

Working in your business means that you remain an active part of the daily operation of the store. You might serve customers, train employees, and monitor records frequently. Working on your business means that you take valuable time to develop strategic goals for what you want the business to become and that you establish plans for accomplishing those goals. Activities such as strategizing, monitoring markets in the local area, searching for multiple suppliers or bulk discounts, observing competitors, and reviewing business records all fall under the category of working on your business.

By working both on and in a business, you can closely monitor the daily events of the business and make fast adjustments when needed while also keeping an eye on the overall growth of the business. As you work both on and in your business, you will probably need to hire trustworthy employees to oversee the technical work of the business so that you can be confident that the business is in good hands even when you can't be in the store. If you can't hire an employee or forget to set aside time to work on developing the company, you will likely end up being both the owner and the assistant—that is, you will do all of the detail work and never end up growing the business.

By working on your business, you will gain the advantage of being able to develop systems that enable your business to be less dependent on people and more dependent on functions or processes. Once you have developed, put into place, carefully documented, and perfected a system, you don't really have to worry about hiring people with advanced skills—you can then hire just about anyone who is trustworthy and able to follow the operating manual and other systems. Because perfect systems can be run by imperfect people, you can then open up multiple locations or even franchise your business to other fledging business owners.

In the end, if you fail to work on your business and take time to strategize, you will probably get caught up in the details of your business and never grow beyond the start-up stage. But if you will make time to develop sound strategies and take small steps to reach your strategic goals, you will find greater fulfillment—and profits—by working on your business and growing it to new levels of success.

Obstacles to Overcome

Similar to how some business owners end up on two extreme sides of the business-involvement spectrum, the obstacles they encounter when trying to work on their businesses also fit into two fairly extreme categories.

Business owners who can't seem to let go of their high involvement in the day-to-day tasks of the business often find that they struggle to overcome the desire to control everything about their business. They like the feeling of knowing exactly what is going on in the business because they do everything in the business. The thought of hiring someone else to oversee the technical aspects of the business scares them and prevents them from moving forward with strategic planning.

On the other hand, business owners whose excitement for being involved with their business fades after a while struggle to overcome their feelings of complacency. After establishing their businesses as profitable sources of income, many business owners get comfortable with their level of success and decide to just do what they need to do to maintain their current level of income and standard of living. So they turn over control of the business to their employees and hope to just make their living based mostly on the work of their employees. They simply don't want to put in the time and energy necessary to build the business to an even higher level.

Benefits of Applying the Principle

Overcoming the obstacles of either wanting to control everything in the business or wanting to stop working so hard on the business can bring great results to business owners, their employees, and their families. If you can master the balance between working only in the business and working only on the business, you will be able to spend your time on a variety of exciting work—on monitoring the small tasks and facilitating the large changes in your businesses. Most of all, if you will devote adequate quality time to working on the strategic elements of your business, then you can reap the tremendous benefits of business growth and income growth.

24 – Write Down Daily and Weekly Business Goals

Enrique, a skilled fisherman, was a smart and motivated young man. After learning about how to create successful businesses, he decided to start a fish-vending business in his home town.

At first, Enrique carried his fish over his shoulder as he walked from home to home. His aim was simple—he wanted to sell all of his fish by the time that the sun went down and people started preparing their evening meals. With this goal in mind, Enrique worked very hard. And each day, he ran out of fish before he ran out of daylight. His business was doing very well.

Recognizing that if he covered a larger area, he could probably sell more, Enrique purchased a bicycle with a small basket and started to expand his routes. Again, he was successful in selling all of his fish by the time the sun set. So he set a larger goal. He wanted to save enough money to buy a small truck that could transport him and his fish to another neighborhood to sell additional amounts of fish.

This was a lofty goal. Enrique had to work very hard in his neighborhood to earn enough money to support his family and also save for the small truck. But instead of being discouraged by the difficulty of his goal, Enrique was motivated by it. He got up earlier in the morning to purchase the fish and begin his routes. He'd pedal faster to make his way through the neighborhoods in less time. And he'd work as late as he needed to in order to sell all of his fish supply.

After months of this hard work, Enrique earned enough money that he was actually able to change his plan. He decided that instead of buying a small truck and selling all of the fish by himself, he would create a system in which he would deliver his fish to one business owner in each of the nearby neighborhoods. Those business owners would then sell the fish on the local markets.

So now, all Enrique has to do is buy the fish early in the morning, deliver the fish to his contractors in the nearby areas, and then spend his additional time monitoring the contractors and working on his business. Enrique says that his success is due to the fact that he has learned to set goals, work hard to meet them, evaluate his progress regularly, and move steadily from one goal to another.

The Principle—Write Down Daily and Weekly Business Goals

People start businesses because they want to achieve something with that business. The end result or dream is different for each person; some want to earn more money than they can earn by working for someone else, some want increased freedom in how they use their days, and some just have an innate desire for independence and adventure. But they all have one thing in common—they all have a dream that motivates them to start the business.

Your decision to create a business is just the beginning of your entrepreneurial journey. Once you embark on that adventure, you must then make thousands of small decisions in order to run the business on a daily basis and make the business successful. In the midst of those decisions, you might get caught up in the details. You might become distracted by the daily work required to keep a business going. And sometimes, you might get so focused on the daily decisions that you lose sight of the overall goal—making the business successful enough to help yourself accomplish the dream that motivated you to be in business in the first place.

Business goals can help you stay on the path toward financial success. They serve as reminders of the larger dream and, if used properly, help guide daily decisions and actions. They bring purpose and direction to the smaller decisions.

The Goal-setting Process

Skilled goal setters know that merely setting a goal does not guarantee the accomplishment of that goal or bring the desired results of meeting that goal. Once a goal is set, it needs to be reviewed often enough so that the desire to accomplish the goal is reinforced in the mind of the goal setter. Progress toward the goals needs to be measured frequently (even daily, if possible) so that the goal setter knows how much work is yet required in order to meet the goal. And goals need to be adjusted as circumstances require. Sometimes we set goals that are either too hard to achieve or too easy; those kinds of goals do nothing to help motivate us and should be revised.

Characteristics of Good Goals

Effective goals share five important characteristics. Good goals are

<u>S</u>pecific. They are detailed so the goal setter knows when he has accomplished them.
<u>M</u>easurable. They are concrete, and progress toward them can be measured objectively.
<u>A</u>ttainable. They are challenging but reasonably within reach of the goal setter.
<u>R</u>ealistic. They are both practical and useful.
<u>T</u>ime-bound. They have a time limit attached to them.

The following goals are examples of SMART goals:

- I will generate an additional 500 pesos each week so that by April 15, I can hire one more employee.
- I will increase my product line by one item per month until the end of the year.
- I will promote my business better by talking about it to five new people each day (e.g., strangers on the bus or people who attend church with me).

Research indicates that goals that are written down are more likely to be achieved than goals that are not written down—goals that are recorded only in the goal setter’s mind. People who write down their goals are largely in the minority. But they generally accomplish more and earn more money than people in the majority who do not write down their goals. Why is this? Probably because the process of actually writing something on a piece of paper helps us make more specific goals, increases our dedication to the achievement of those goals, and places the goal in our long-term memory. And perhaps most importantly, the act of writing down a goal gives us a document that we can review often as we track our progress toward the goal.

Short-term and Long-term Goals

As a business owner, you should have both short-term and long-term goals in order to push your business toward success. Short-term goals guide the daily actions of the business and establish successful patterns that help the business in the long run. Such goals might include increasing the number of customers served each day, obtaining an average sale amount of 200 pesos, or convincing each customer to purchase additional items every time he comes into the store (i.e., upselling). These goals must be tracked daily and weekly to gauge progress.

Long-term goals can help you see how your daily actions lead to the overall success of the company. Long-term goals are more strategic in nature and are not accomplished on a daily or weekly basis. Examples of long-terms goals include increasing total sales by 10,000 pesos each month, or acquiring one new line of complementary products every four months.

Obstacles to Overcome

Goal setting is not a natural tendency for many people. We all have dreams of one sort or another, and we all really want to reach those dreams. But goal setting is more than just dreaming. It is defining our dreams in specific, measurable, attainable, realistic, and time-bound ways. It is developing the discipline to think frequently about the goals and to work toward achieving them. It is getting into the habit of setting and achieving increasingly harder and larger goals. And it is gaining an appreciation for how goals can lead toward success. And each of those activities takes work.

Perhaps the largest hurdle to overcome as you try to set goals is to just gain the courage and discipline to set the first goal. Don’t worry about setting the perfect goal or obtaining it on a daily basis (although you should definitely be working hard to achieve it). Just use that first goal to help you begin to feel more comfortable with the goal-setting process. You’ll find that once you’ve set and achieved a goal, you automatically feel more determined to set and achieve the second goal, and then the third goal, and so forth.

Benefits of Applying the Principle

The benefits of goal setting are as varied as the goals themselves. The benefit of setting a goal to increase profits by 100 pesos daily is that you are more likely to have that extra 100 pesos by the end of the day. The benefit of setting a goal to keep better records is that you are more likely to keep better records and, therefore, run your business more efficiently and effectively.

Goal setting can transform your life and your business if you use it effectively and regularly. If you will develop the habit of setting daily, weekly, and longer-term goals for your business, you will get more satisfaction out of your business activities, will build a successful business more quickly, and will be much more likely to reach the dream that prompted you to start the business in the first place.

25 – Focus, Focus, Focus

About a month after finishing a mechanical engineering program at a small technical college, Andréa returned home without a job and with no real direction in her professional life. Her friends and family members encouraged her to use her new skills to start a business, but they couldn't agree on what kind of business opportunity she should pursue. Some wanted her to start a small-appliance repair shop; some wanted her to create her own brand of light fixtures; and some wanted her to open a retail store selling electrical components to consumers.

Andréa couldn't decide which business sounded most exciting to her, so she decided to pursue all three. She borrowed money from her family members, got a small loan from a microcredit lender, and put all of her energy into making her businesses work. For three months, she wore herself out, jumping back and forth between the three shops (which were fortunately located only four blocks apart), working with all of her various suppliers, and catering to the needs of all of her customers. She managed to turn a very small profit at the repair shop during the third month, but the other two stores were suffering badly. She just had so many customers at the repair shop that she could find very little time to serve customers at the other two stores.

After continuing to put in 14-hour days for another two months, Andréa finally decided that she could no longer handle the pressure of running all three stores. She hadn't had time to keep records for any of her businesses, but she could tell that she made more at the repair shop than at the other two businesses. So she decided to close the other stores and focus her efforts more directly on her appliance repair business.

That single decision has made a huge difference in Andréa's life. She now has time to really grow her repair business, find and take advantage of deals from multiple suppliers and wholesalers, establish short-term and long-term goals for business growth, and apply all of the other rules of thumb that she knows will make her business successful. She is making a much bigger profit at her store than she was before she cut back to just one business, so she has started repaying her business loans. Andréa's friends and family members are also a lot happier now that Andréa has cut back to 10- or 11-hour days and has time to spend with them again.

Although Andréa no longer operates the other two businesses, she hasn't completely given up on them. Her plan is to focus her efforts and attention on her repair business for a few years and then shift some responsibility for day-to-day operations to a trusted employee. She will then tackle a second business, concentrating her efforts on building that business to an acceptable level of success. Andréa is happy with her plan and is confident that with hard work and focused attention, she can make it a reality.

The Principle—Focus, Focus, Focus

The prospect of starting a new business can be quite exciting. It can motivate people to make significant changes in their life. It can open up new earning opportunities for them. And it can start them on a journey of personal growth and exploration.

But sometimes the excitement of business can be too exciting. Some new business owners are so excited about the possibilities that await them in business that they decide to jump into several businesses—all at the same time. Sometimes they start two or three businesses thinking that they can succeed in all of them. Other times, they start two or three businesses because they just want to make sure that one will succeed. Regardless of what their motivations may be, these over-eager business owners usually find that if they don't focus on just one business, all of the businesses fail. The very action the owner thought would reduce the odds of failure (i.e., opening up multiple businesses) actually ends up increasing those odds.

In order to find success in business, you must discipline yourself to focus on just one business at a time and to pour your time, energy, and capital into that one business. Focusing on a business means that it becomes a priority in life. Clearly, you can't devote all of your time and energy to the building up of the business; but you can make it one of the most significant priorities in your life.

Some of your other priorities might include time with family, church service, and time spent doing other fulfilling activities that refill your "emotional gas tank" and enable you to succeed in the other essential parts of life. If you focus on building your business without neglecting other aspects of life, you can succeed by combining activities to involve the business and your other important objectives. You can focus on both your family—the most important aspect of life—and your business by involving family members in the business. Perhaps you could have your children help create, market, or sell your business' products; this arrangement teaches the children to work hard and also involves them in the family's income-generating activities.

While focusing on the business, concentrate your efforts on applying each of the principles discussed in this book. Each rule of thumb is tailored to the needs of new business owners and provides owners with a list of proven principles they need to work on constantly in order to progress toward success. Striving to follow these rules will keep you motivated on your work and ensure that each day will bring a variety of new challenges to overcome and opportunities to embrace.

Obstacles to Overcome

Focusing on the business takes a lot of hard work, and not everyone is willing to work as hard as needed in order to be successful day in and day out. You must fight off the temptation to take a break from your hard work, to put in less than is required on a daily basis, and to cut corners on your application of rules of the thumb.

Benefits of Applying the Principle

Deciding to place the business as a high priority in your life might seem like a difficult, big first step as you begin a new business. Deciding each day to keep the business in the proper place of concentration and focus is even harder. However, focusing on a business and making that business work with the other high priorities in life can bring you immense satisfaction.

Once you and your family decide to be dedicated to the journey of making the business thrive, you will have taken your first step toward entrepreneurial success. And if you remember to focus all of your energy on one business instead of splitting energy, time, and capital on multiple businesses, you can grow that business to its full potential. After establishing systems that will ensure that you receive money from the business no matter what employees run it, you can then move on to additional endeavors, eventually building a stable and comfortable future for yourself and your family.

RULES OF THUMB FOR MICROENTERPRISE SUCCESS, V3.0

By Stephen W. Gibson, The Academy for Creating Enterprise

1. Sell What the Market Will Buy. Solving a critical, recurring problem is the best way to create income.
2. Practice Separate Entities. Keep personal money and business money separate.
3. Start Small; Think Big. Learn the basics when your business is small and mistakes are less costly. Then grow.
4. Be Nice Later. Don't give your product or business capital away to friends and relatives.
5. Keep Good Records. Success comes from beating yesterday's sales and profit records.
6. Pay Yourself a Livable Salary. A salary must cover living expenses so "stealing" from the business is not necessary.
7. Buy Low; Sell High. Bigger differences between purchase price and selling price mean greater potential profits.
8. Don't Eat Your Inventory. Consuming inventory or seed capital will quickly kill your business.
9. Use Multiple Suppliers. Negotiating with several suppliers for the best price is critical to profit.
10. Buy on Credit; Sell for Cash. Selling a product before you must pay for it increases cash flow.
11. Purchase in Bulk. Suppliers usually sell products for less if purchased in volume.
12. Use Suggestive Selling. Suggest to each customer other items in your store that they might like or need.
13. Increase Sales; Decrease Costs. As the spread between sales and costs grows, so do net profits.
14. Turn Your Inventory Often. Profit is made every time inventory is priced correctly and sold.
15. Value Your Customers. Success comes when customers keep coming back and buying more.
16. Differentiate Your Business. Give customers a reason to return. Be better, cheaper, faster, and more convenient.
17. Hire Slow; Fire Fast. Screen potential employees carefully. Terminate bad employees quickly.
18. Inspect More; Assume Less. Consistent performance comes from inspecting not from assuming or expecting.
19. Have Written Agreements. Agreements are essential with partners, suppliers, landlords, and employees.
20. Work on Your Business Ten Hours a Day and 5½ Days a Week. Anything less is a hobby.
21. Practice Kaizen. Kaizen means continual improvement. This is vital to income growth.
22. Make A Profit Every Day. If a workday goes by without making a profit, it's a loss.
23. Work ON Your Business, Not Just IN Your Business. Stand back, watch, and then fix the problems.
24. Write Down Daily and Weekly Business Goals. Aiming high will move your business forward faster.
25. Focus, Focus, Focus. A concentrated effort in one venture will pay huge returns.

Other books by Stephen W. Gibson:

From Clergy to Convert (Bookcraft)

One-Minute Answers (Horizon Publishers)

Where There Are No Jobs Vol. 2, Vol. 3, Vol. 4

$uccess Beyond the Bottom Line