

## **If it doesn't make dollars, it doesn't make sense**

Today we'll talk about the fourth of the seven secrets of small business success — if it doesn't make dollars, it doesn't make sense.

In this episode, we'll review two very good books for startups to read and we'll discuss specific tactics entrepreneurs and investors use to assess the likelihood of success for a business idea.

These are important concepts, to help both entrepreneurs and those who care about the entrepreneurs in our community.

There are many non-financial reasons for starting your own business - the desire for self-determination, creating something bigger than yourself and serving needs in your community.

**Through all of that, we want you to stay focused on financial potential, because if your business idea doesn't make dollars, it really doesn't make sense.**

On business bits, we frequently caution that 60% of small businesses never deliver a return on the owner's investment. I call that a silent business failure. The bills get paid and the lights stay on but the owner never makes any money.

That statistic comes from a good book for entrepreneurs called *Hermanisms* - I quote it a lot, so here is the source.

The book is called **Hermanisms: Axioms for Business & Life**, by **John L. Herman Jr.**

While I've worked with small businesses for a quarter century, Mr. Herman spent 35 years consulting with both big and small businesses.

**Hermanisms** discusses the likelihood of failure when you're an entrepreneur, but it's not intended to discourage you from starting a new business. Like my work, **Hermanisms** is intended to help you *see issues you might want to ignore, but that you really shouldn't ignore.*

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Another great source of startup wisdom is **The E-Myth: Why Most Small Businesses Don't Work and What to Do About It**, by Michael E. Gerber

The E Myth contrasts the two extremes in small business space:

The true entrepreneur — a person who looks outside of themselves to seek out a market pain, need or gap they are uniquely qualified to serve,

And

Those who enter the market because “I've always wanted to start a such-and-such business.”

Both Hermanisms and the E Myth will help future startups adopt the right mindset and avoid common pitfalls that will waste money and time.

Let's look at some simple, proven tactics to assess your business idea's potential for making both dollars and sense.

### **The Percent of Total Market Test**

We covered this briefly in market attractiveness, so I'll just give a quick review.

Entrepreneurs look for opportunity with a very large total market, where the business only needs a single digit percentage of that market to be successful.

The example we used was homeowner services.

Remembering that there are around 10,000 single family homes in Port Angeles, and our example of needing this service four times a year, we saw a total market opportunity of 40,000 sales year.

Our example business only needed 3,000 annual sales to be successful, meaning we only needed 7-½ percent of the market to be successful.

This is good news for three reasons

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1. Plenty of room for competitors
2. Plenty of room for us to grow
3. The opportunity to carve out a target market segment that is an especially good match for our style of service delivery

Lenders and investors like these numbers, too, very much! So should you.

### **The obvious vulnerabilities test**

This test examines issues like supply chain, customer demand, sensitivity to economic conditions and the potential for a paradigm shifts

Supply chain issues include too few suppliers, too much supplier power and supplier dependability.

LuLaRoe was a company that offered women the opportunity to sell popular clothing through social media. It was very successful until the firm stumbled into supply chain issues that wiped out their supply of goods. Financial disaster ensued and there is a sad documentary about the consequences, available on YouTube.

Demand vulnerability asks, "Is this something customers will drop with a negative or positive economic change?" Thrift shops are counter cyclical, golf/tennis/skiing, etc. run with the ups and downs. Boat dealers were vaporized early in the great recession because so many people use home equity loans as part of a boat purchase. RV dealers virtually disappeared overnight at the first signs of distress, as well.

### **Barriers to exit test**

In small business, the most common barrier to exit is the financial liabilities that would accompany leaving the market.

The owner is in too much debt to leave, sometime all at once before they knew better, e.g., business purchase or franchise. Excessive debt can also come when

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a poorly understood and hastily implemented startup requires more and more funding. Each additional expenditure makes the business less and less feasible.

You don't want your runway to break even to be the half life of plutonium...

Some clients have replied that this is all very nice in theory but sometimes it's just not possible.

Of course it is!

You don't often order the first item you see on a restaurant menu, you don't always buy the first pair of shoes you try on, why would you start the first business you think of?

Keep running your ideas through the dollars and sense process, and be brutal - it's just an idea, no animals will be harmed by challenging your assumptions.

Engineers use the term "Ideating," or finding the best solution to an engineering problem. Ideating means proposing an idea, changing sides and then trying to destroy the idea, just like the real world does. That's what the people who build bridges do, and you want to build a bridge to your vision of success, so you should be just as careful.

One definition of engineering is disciplined thinking, but if you're not ready for the rough trade of ideating, you can try the much more fun version, called Business Improv.

Business improv uses the comedic devices of improv comedy, applied to business opportunity assessment. It's much more fun than ideating and it will still lead to good idea testing. The foundation is the application of the concept of "yes, and..."

So a brief example:

I'm going to sell ice to people in the arctic.

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Yes, and...

My customers will prefer my ice because it's easier than gathering it themselves.

Yes, and...

My ice will be more affordable because my customers won't need to spend money on fuel to gather their own.

Yes, and...

My ice will be more convenient because I will deliver.

Yes, and...

I can offer additional services like delivery of other stores' goods, as well.

Yes, and...

During the summer, I go commercial fishing so I can still make money when there is no ice.

Yes, and...

As you can see, business improv is less confrontational and more conversational, a great way to run a thought experiment on your business idea.

You will probably use methods somewhere between the extremes of ideating and business improv, but whatever method you choose, please treat developing a startup business as a research project rather than a hero's journey. "All in good time" is much more sustainable than "all in!"