THE ENTREPRENEUR'S GUIDE TO RISK AND DECISIONS

"There are few resources that effectively help entrepreneur's navigate the black box of risk and decision-making along their tumultuous journey. Every aspect of that journey - whether it be marketing, financing, partnerships, HR, networking, or actually launching has unlimited landmines that can put an end to a dream. This book is a critical how-to guide for any entrepreneur at any stage to spot and disarm those landmines with expert precision."

—Doan Winkel, Senior Vice President of Programming,
United States Association for Small Business and Entrepreneurship

"In their new book, *The Entrepreneur's Guide*… Thom Pittz and Eric Liguori have identified all of the key issues that entrepreneurs face in developing and growing businesses and provide critical and detailed guidance for success. I am pleased to see a major section of the book devoted to networks and networking as an entrepreneur's network of support is the foundation for entrepreneurial innovation and growth."

—William B. Gartner, The Bertarelli Foundation Distinguished
Professor Family Entrepreneurship, Babson College

"This book is an essential tool for every entrepreneur during his startup journey. It provides a handy reference which can be reverted to based on real life experiences. An essential companion for all aspiring entrepreneurs or small business owners."

—Ahmed Osman, President,
International Council for Small Business

"Thom Pittz and Eric Liguori have provided a no-nonsense, incredibly insightful and practical guide for entrepreneurs looking to launch and/or grown their businesses. Great insights on guerrilla marketing, the power and pitfalls of crowd funding, and understanding failure and rejection. Recognizing the massive amount of work and stress necessary to build a successful venture, Pittz and Liguori have masterfully distilled wisdom gained from working with hundreds of startups around the globe to help entrepreneurs avoid landmines and gear up for success. Great reading for anyone immersed in the entrepreneurial process!"

—*Tim Mescon, Executive VP and Chief Officer,*
Europe, Middle East and Africa, AACSB International

THE ENTREPRENEUR'S GUIDE TO RISK AND DECISIONS

Building Successful Early-Stage Ventures

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PROLOGUE

Entrepreneurs and small business owners are ruthless pragmatists, effectuators, and exploiters of resources. They are nimble, quick to eliminate what does not add value, and are not afraid to make bold decisions and even cut corners. Managers are deliberate, patient, and stewards of resources. They assess risk, perfect operations, dive deeply into processes, and keep a company humming along. This is not a book for managers. This book is designed for founders of early-stage ventures and would-be entrepreneurs. In our view, these are the business leaders most in need of pragmatic advice and most open to receiving it.

In this book, we will not be delving into each and every aspect of starting and growing a business as that would require an exhaustive treatise that no entrepreneur would have time to read. You will find that there are aspects of the entrepreneurial journey where we have only scratched the surface (e.g., social media marketing, accounting, legal compliance, etc.) or have ignored altogether (e.g., creativity, exit strategies, site selection, etc.). These decisions were made, in part, for parsimony but mostly because this book prioritizes bold action over second-guessing and risk-aversion. And there are also plenty of other resources available on these topics. Diving too deeply into areas of risk for entrepreneurs has alarming potential to derail an entire venture, no matter its potential. As a result, our goal for this book is to cut to the quick of the lessons that we have learned over years of working in early-stage entrepreneurial ventures, discuss some topics that have not been adequately addressed before, and to encourage readers to continue their entrepreneurial journeys.

This book builds from the lean startup approach to launching a business (Ries, 2011), which aims to shorten development cycles and rapidly discover whether a business model is viable in the

marketplace. The assumption of lean startup is that when entrepreneurs use an iterative process to building their business and focus on quickly gaining and responding to customer feedback, they reduce resource requirements, time, and risk. Following the lean startup logic, this book has been designed to help entrepreneurs move quickly while providing guideposts for managing the risks of business startup. It presumes a rudimentary level of business concepts and jargon or the willingness to pick up the nomenclature as you digest the book.

Becoming a successful entrepreneur is impossible without accepting risk – the question is which risk to take and at what time. It is not a challenge to find published work on entrepreneurship that can help determine whether it is the path for you. There are textbooks that cover the process of business startup from an academic perspective, there are articles that dive more deeply into particular aspects of the entrepreneur's journey, and there are plenty of unicorn stories that lionize the entrepreneurs who have found success. Very few, however, focus on providing guidance for founders of early-stage ventures regarding what risks to take and when to take them. We hope that this book can help to provide a roadmap for making those incredibly important early decisions.

Startups Versus Small Businesses

There are distinct differences between a startup and small business and most resources for entrepreneurs focus on the former. Startup companies are intended to create something new and innovative or to radically improve what already exists. Small businesses, conversely, do not make any claims to uniqueness and prefer to follow turnkey business approaches (e.g., restaurants, lawyers, digital marketers, etc.). Startup companies are most often founded with technology as their bedrock, whereas small businesses use technology as an important but not mission-critical tool. Startup companies typically run for as long as possible without hiring employees, while small businesses often require employees from the outset. Startup companies generally view numerous options for exit strategies while small businesses either plan to sell the company or make it a family business.

Educator and entrepreneur Steve Blank offers a concise definition of a business startup as a temporary organization that is in search of a repeatable and scalable business model. Put differently, a startup company is merely a stage in an evolving business. A small business, on the other hand, is a self-sustaining company that does not require major investment to scale, has a smaller base of sales and employees, and typically enters a local or regional market. Most books and articles focus exclusively on either startups or small businesses but not both, and usually with a predisposition to the former. According to data gathered from the Census Bureau in 2016, however, companies with fewer than 100 workers account for 98.2% of all US employer firms (Small Business and Entrepreneurship Council, 2019). Suffice it to say that very, very few of these companies ever achieve large company status, which suggests that it is vital to discuss the entrepreneurial process for *both* startup companies and small businesses as much of the challenges of business formation and growth are equally relevant.

While many of the challenges inherent in the launch of a new venture are the same for small businesses and startups, it is nevertheless important to consider what type of entrepreneur you want to be. That decision will frame many of your early-stage business decisions and how you will define success in the end. A small business owner measures success within a small market and how well their business efficiently meets customer needs within it. Most people can name many successful local restaurants, electricians, or coffee shops. A startup founder intends to disrupt and take over a large market as fast as possible. A startup positions itself to give up ownership to take in major investments to scale the business, whereas a small business will often choose debt financing to retain full control of their company.

The obligation to properly identify and respond to customer needs is the critical aspect of business formation and growth that is held in common by both startup companies and small businesses. The goal of any entrepreneur should be to identify a customer problem and innovate a solution. Both types of companies need to quickly ascertain product/market fit, or whether their proposed product or service fits the needs of the targeted consumer marketplace. This can only be achieved by gathering information from

customers, which is perhaps the most valuable skill that an entrepreneur can practice. This book will outline numerous methods for achieving product/market fit in as quickly, inexpensively, and efficiently a manner as possible. Through the course of this book, we will offer practical, no nonsense advice for marketing and financing your business, bringing on partners and employees, networking with key connectors, and launching your business as inexpensively and aggressively as possible.

FOREWORD BY KEVIN HARRINGTON: ORIGINAL SHARK ON *"SHARK TANK"*

The biggest risk that an entrepreneur faces is becoming so bogged down by details and beset by fears of failure that their business never gets off the ground. In "The Entrepreneur's Guide to Risk and Decisions: Building Successful Early-Stage Ventures," Thomas Pittz and Eric Liguori offer practical advice for making the key early decisions that will keep your business moving forward. Many of the lessons I have learned the hard way through many of my own successes and failures are synthesized in this book to let you start and scale your company while sidestepping landmines along the way.

The process of entrepreneurship is all about managing risk: leveraging personal assets, deciding when and how to protect intellectual property, spending cash to bring a new product to market, taking on investments, partners and employees, and many more. *The Entrepreneur's Guide to Risk and Decisions* provides advice for all of these decisions in an approachable style that demystifies the entrepreneurial process and motivates the hard work necessary to become successful. Hard work and perseverance have been the most critical aspects of my success, especially during the hard times, so I wish this book had been around when I started out!

While this book is geared toward entrepreneurs in the early stages of their business venture, the insights provided are immediately relevant and valuable at any stage of entrepreneurial journey. *The Entrepreneur's Guide to Risk and Decisions* goes into detail about the entrepreneurial process, with a focus on launching lean and gathering prompt feedback from the marketplace – greatly improving your chances for success. It also discusses the human component of entrepreneurship and how to properly structure partnerships

that will help grow your business rapidly. Pittz and Liguori offer a lot of pragmatic advice for early-stage entrepreneurs on the nuts and bolts of marketing, sales, financing, legal, and human resource considerations for their growing business – they've done a masterful job capturing what I spent years learning the hard way.

In my favorite section of the book, Pittz and Liguori discuss the power of networks and join a conversation I began in my own book titled *Key Person of Influence*. In my experience, building networks is of vital importance for entrepreneurs and becoming successful means both leveraging your network and becoming a valuable player within it. I have shown how a 'key person of influence' enjoys a special status in their field because they are well known and highly regarded. They are the people that make things happen with a phone call. They attract opportunities and can make a project successful simply by being involved. By following the practical advice provided in *The Entrepreneur's Guide to Risk and Decisions*, you will have started down the path towards joining that illustrious group.

The best advice I can give you is to take the content in this book seriously, work hard, surround yourself with the right people, and always try to remain positive and to persevere! Entrepreneurship is a marathon, not a sprint, so use this book to play the long game the smart way.

–Kevin Harrington KH

1

PROCESS

1. IDEAS VERSUS EXECUTION

The power of ideas is a bit paradoxical when it comes to launching a business. On the one hand, it makes no sense to start a business without a good idea. Initiating a business startup without an idea rarely, if ever, generates successful companies. Beginning with an idea that you are passionate about is often what motivates entrepreneurs through the difficult times and keeps you from giving up too early. Furthermore, starting a business before arriving at a good idea tends to motivate a rush toward a business model which, unfortunately, usually results in plausible-sounding but derivative business concepts. However, the paradox of ideas is that without execution, ideas are worthless, but without ideas execution is futile.

And, in instances where the founder believes so much in the idea that he or she is unwilling to learn from customers or colleagues and is unable to pivot, then ideas are worth less than nothing. This sentiment about the power of ideas in launching a business is echoed by nearly everyone who has experienced entrepreneurship first-hand. Let us continue to speak plainly, your business ideas are not original. Perhaps you have never previously encountered anything like the brilliant concept rolling around in your head, but rest assured that someone else has thought of it and perhaps even tried to make a business out of it. The idea matters very little. What matters is execution.

To be brutally honest, ideas themselves are worth nothing. Great ideas can also cause entrepreneurs to become too secretive

about their business models. If entrepreneurs guard their ideas too closely, they often miss out on opportunities to share them with someone who can help bring them to fruition. Even if your business idea sound like a cannot-miss concept to others (and, here's a news flash, it likely won't) those would-be idea thieves still must out-execute you and your team. Launching a startup company is perhaps one of the most difficult and all-consuming jobs a person could choose; most people will simply not have the guts and stamina for it. So, rather than steal your idea, most advisors will tell you that it has no future as a business (friends and family will, of course, likely tell you that it will be a smashing success). So, as opposed to jealously guarding ideas, it is far more important to develop a strong sense of self-belief and to share ideas to stimulate learning, growth, and create the space for organic and serendipitous opportunities.

There are many ways to generate business ideas and entire volumes have been written on the subject. You can look at the macro-environment for trends and technologies that are on the horizon and determine how to move into these areas or apply these concepts in other industries. You can focus on something that bothers you to find a solution that can become a business. You can find a way to make a product or service cheaper. You can look for gaps in customer demand in industries that are dominated by large players or an industry that has fallen behind the innovation curve. Whichever path you choose for generating your business idea, your success will be greater if you start with something that you know and, most importantly, that you concentrate on talking to potential customers to determine what their needs and interests are.

Whatever idea you choose, how well you execute on your business model is far and away the most important predictor of success in your new venture. Execution can be conceived of as comprising two parts: growth and optimization. Growth is the most important aspect of execution because it creates momentum: When your company is growing, people are happy and it feels like you are succeeding. When your company is growing, new roles and responsibilities are created and people feel like their careers are advancing and their investments are paying off. The opposite is true as well;

when your company is not growing, it is demoralizing and causes rapid burnout.

As a result, the most critical aspect of successful execution is to maintain growth by making it your top priority. Identifying a growth metric that can be easily tracked and gamified will bring focus to the company's momentum. After all, what the founder measures, the company does. Do not, however, fool yourself with vanity metrics. Vanity metrics are common mistakes that can derail momentum. For example, do not focus on press, conference presentations, and trade shows unless you plan to sell (and track sales) from your company there or focus on new customers without also looking at retention of existing customers. Set aggressive growth goals that are achievable and celebrate successes. Decipher what is blocking your growth and talk regularly about what could make your company grow faster. These conversations will create employee buy-in and stimulate new ideas for attracting customers.

It is quite common for a company that is growing like crazy to struggle to maintain efficient internal processes and create concern among the founders and employees about things coming unraveled. This concern is amplified when people start to question how the company can maintain its operations at a large scale out when you get there. However, there are many resources available to help optimize your business and investors seek out opportunities where growth is rapid and optimization is minimal. They see these companies as undervalued. So, while growth should always be the priority, best practice would dictate that some attention is focused on optimization of the business model. This is particularly true when considering customer service – do not focus too much on growth that it hinders your ability to provide consistently excellent customer service to existing consumers.

Focus on building products or services that consumers love – this is the way that all great companies have achieved growth. Do not fall prey to the splashy partnership or massive press launch as these rarely work in the long-run. Rather, attract consumers organically and continually ask where you can find more of them. Test numerous growth strategies including advertisements, guerilla marketing, traditional sales, social media, etc. Perhaps most importantly, do not be afraid to engage in sales yourself. At least one

founder must become adept at asking people to use your product or service and asking people to give money.

A quick related word on competitors: most founders believe that if they fail it will be because they could not out-compete their competitors in the early stages of their business. This could not be further from the truth. In reality, most early-stage startups die from self-inflicted wounds as opposed to any retaliatory action by their competitors. When companies fail, it is nearly always because they did not find a solution to the problems of their customers. Frankly, entrepreneurs would be better off by simply ignoring competitors unless and until they are able to out-execute them with actual customer products or services. This is especially true when competitors make a big splash in the press or raise a lot of money as witnessing those events can be demoralizing and can distract from the fact that it is all about execution and meeting customer needs. No amount of press or money can shortcut that process.

Plus, without competition, entrepreneurship does not exist. It is the reason antitrust legislation has developed and why some policy-makers suggest that in industries where intellectual property plays an important role, enforcement should be more stringent. Young companies require a competitive marketplace to compete with established firms and we must remain diligent to ensure that economic and tax incentives do not favor big firms over small or old firms over new. We must also be careful of the scope and duration of non-compete agreements as our goal is to preserve entrepreneurial entry into the marketplace. The message to entrepreneurs is thus: do not play the victim when competitors enter your market or employees leave with trade secrets. Protect your company wherever you can, but, ultimately, your job is to outperform them.

2. BUSINESS PLANS VERSUS BUSINESS MODELS

The business model is intended to replace an elaborate business plan with a single page, easily digested, and easily updated picture of the company and its activities. Frankly speaking, business plans take too long to write, are seldom updated, and are often out of date by the time they are completed. A full business plan can be valuable for convincing friends and family to support your

business endeavor and are still required by bankers for debt financing, but they too often distract from the primary foci of the early-stage venture: getting feedback from customers and adapting to new information. Business models, on the other hand, are intended to be simple and dynamic tools that can be adjusted and synchronized with changes to the business. If used correctly, they can also be a powerful tool for cogently and parsimoniously explaining your business to potential partners, employees, customers, and investors. It is useful to think of a business model as a drawing that shows all of the different parts of your company's strategy and how they are related and interdependent. It demonstrates how the business makes money in a simple and straightforward design that is easy to describe to others.

A business model is a company's plan for making a profit and mapping out how the business will create ongoing value for customers. That last part, called the value proposition, is the crux of the business model as it addresses what differentiates the product or service from competitors and the status quo solution to customer problems. A quick search on google will yield numerous definitions and articles describing the business model but all (at least the good ones) will focus on the customer value proposition. The profit model is the other critical aspect of the business model as it involves revenue streams and cost structures.

Over the years, business models have become more diversified and more sophisticated. Perhaps the most widely utilized conceptualization of the business model is Osterwalder and Pigneur's (2010) "Business Model Canvas" that includes nine components that integrate to form the full business model. Each component represents an important building block in the construction of the overall business. It is a dynamic model that is intended to be routinely analyzed and updated to reflect the changes in the competitive landscape and macro-environmental forces. The Business Model Canvas includes:

1. *Value proposition* – The unique value that a company's product or service provides to customers.

2. *Customer segments* – The customers targeted by the company's product or service.

3. *Customer relationships* – How the company builds relationships with its customers.

4. *Channels* – The channels that a company uses to acquire, retain, and develop its customers.

5. *Revenue streams* – The different areas of revenue generation and how the company generates continuous cash flow.

6. *Key partnerships* – The strategic partnerships that the company forms to increase efficiencies and scalability of the business.

7. *Key resources* – The assets and knowledge that the company possesses that allow it to provide distinct value to customers that other companies cannot.

8. *Key activities* – The routine activities that the company engages in that enable it to execute its strategy and establish market presence.

9. *Cost structure* – The costs associated with the business model and which components can be leveraged to reduce costs.

In our experience, a derivation of the business model canvas by Ash Maurya (2010), called the "Lean Canvas" is probably even more suitable for use by entrepreneurs of early-stage ventures. The Lean Canvas uses the same nine-component framework of the Business Model Canvas, reframed to be of use to the early-stage business. The new framework consists of:

1. *Problem* – What is the customer's problem that your business is trying to solve?

2. *Solution* – What is the company's solution or set of solutions to the customer problem?

3. *Unique value proposition* – How and why the company is different from competitors and other solutions to the customer's problem?

4. *Key metrics* – The performance indicators that demonstrate how the business is performing.

5. *Unfair advantage* – Something the company has that cannot be easily copied or purchased.

6. *Channels* – The various paths that will be used to reach customers.

7. *Customer segments* – The target market and alpha users.

8. *Cost structure* – The costs associated with the business model and which components can be leveraged to reduce costs.

9. *Revenue streams* – The different areas of revenue generation and how the company generates continuous cash flow.

Existing within the Business Model Canvas and Lean Canvas, there are numerous revenue models for entrepreneurs to consider. The "bait and hook" revenue model involves offering a basic product at a very low cost (the bait) and then charging substantial recurring amounts for refills or services (the hook). Examples of this model include razors and razor blades, printers and ink cartridges, and Adobe's reader and writer. The "freemium" revenue model involves basic services are offered for free to entice users in premium services, which require an upgrade and a fee. In the "franchise" model, the franchisee uses another firm's successful business model and leverages the corporate brand while the franchisor generates fee and royalty revenues from the franchisees. The "direct sales" model involves marketing directly to consumers through personal contact arrangements through demonstration or personal presentations. In "collective or shared" revenue models, businesses that come together to share information or resources. The "value-added reseller" is a revenue model in which a business makes something which is resold by other businesses with some modifications that add value to the original product or service. The "disintermediary" model involves sidestepping traditional middle men to reach customers directly, made famous by Dell, WebMD, and Warby Parker. The aforementioned are only some of the most popular business models and we encourage interested entrepreneurs to research additional ideas and information on the subject.

Savvy entrepreneurs will experiment with numerous business model varieties and even consider developing some of their own to test the underlying assumptions of their business and explore other ways of generating customer value. Frequent and successful business model innovation can increase a company's resilience to

changes in the competitive landscape, which can provide a competitive advantage. Also, be sure to match your marketing plan with your business model. For example, if you are offering a free product, it does not make sense to grow by buying users. Or, if you have a product or service with less than a $500 LTV, you should experiment with guerilla marketing techniques, social media, and other less-expensive marketing methods. Conversely, if your product or service brings more than $500 in LTV, then traditional sales methods may be the optimal approach. We will discuss LTV (lifetime customer value) in much more detail later in the book.

3. PROTOTYPING AND MVPs

The overarching goal of any entrepreneur in any industry should always be rapid response to customer feedback. That is why prototyping a business idea is an integral part of a lean startup approach and is widely used in design thinking. It allows an entrepreneur to test ideas with customers quickly and improve upon those ideas based on feedback. It allows ideas that should not see the light of day to be shut down quickly, while allowing ideas that have appeal to customers to continue to improve. Prototyping is as important for small business owners as it is for founders of startup companies as well, for example, should a restaurant add a new menu item without testing it first? The most important feature of prototyping is that it encourages action instead of planning.

   Picture this scenario: Your founder team has ideated an exciting new business concept during a dynamic brainstorming session. You are so enthusiastic about this new idea that you decide to plan every detail and craft the perfect product while holding the idea close so that no competitor is aware of the brilliant new design that will disrupt the market. You plan this product meticulously to ensure that it has all of the features that your experience has shown that customers want. After all, wasn't it Steve Jobs who said that customers don't know what they want and that it was the entrepreneur's job to show them? That is terrific company to be in and you are sure that your product is the next iPhone. So, you build the perfect product and then begin an aggressive marketing campaign that is tailored with impeccable messaging and design. The website you built attracts immediate attention and the social media cam-