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The Essential To-Do List for First-Time Entrepreneurs

By Mary Goodman and Rich Russakoff | June 29, 2011

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When you leave the corporate world to go out on your own, you trade the illusion of security for the illusion of freedom. It's best to realize that now.



It's also useful to think of starting a business like having a baby: It will take all the time you can give it and lots more money than you thought it would. Go into it with eyes wide open and be prepared to make a 24/7 time

commitment. Part-time entrepreneurs have about as much success as part-time parents.

Before we go into how to increase your chances for success, first a few dire facts. Only about half of small business start-ups survive 5 years or longer. The top two reasons for failure are:

1. Lack of experience — not operational (building or selling your better mouse trap) but lack of *business* experience.
2. Running out of cash — the earning curve never catches up with the learning curve.

So, our best piece of advice to you is this: When you control your money, you control your future. Here's a to-do list to help you get to the five-year mark — and beyond.

1. Overestimate (generously) your costs to start up.

A few years ago, a rock climber in Phoenix needed rescuing when he tried to rappel a 400-foot rock face with a 250-foot rope. Your initial cash for your start-up is like your rope. Are you going to leave yourself dangling 150 feet from your destination?

Don't make the mistake of underestimating the cost of your new business and overestimating sales and your break-even point. Instead, try this: Take your best, conservative estimate for your start-up costs, then double it. Then add 20%. Surprisingly, this is usually pretty close to reality.

2. Know your break-even point.

Ten thousand dollars in sales does not cover \$10,000 of expenses. Your cost of sales could easily be \$7,000, leaving you \$3,000 in gross profit, which you will need to pay all of your sales, general, and administrative costs. It's simple arithmetic: You reach the break-even point when your gross profit equals all remaining business costs.

3. Realize that you can't make up in volume what you lose in profit — so price accordingly.

One of the great myths in business is that by offering lower prices you will attract more customers and then, down the road, you can raise your prices. Without proper profit margins, you will not generate the cash flow to stay in business. You can't be all things to all people. It is far more important to establish a clear and unique value proposition, then price your goods and services accordingly.

4. Build your financial team.

Waiting until you make money to put together a financial team is like waiting until you lose weight before you start an exercise program. A good bookkeeper, controller, CFO, CPA, financial advisor, etc... can help you make money, and more importantly, help you keep it! A word of warning: You can delegate to your financial team but do not abdicate.

5. Find a mentor or business coach.

Even if you're sure you don't need one, find at least one mentor or coach, and be willing to listen. Ask him or her to review your budget, projections, marketing plan, targeted customer profiles, and, most importantly, your assumptions.

6. Conquer your fear of financials.

No matter what your native language, the financial language of business is foreign. Learn the language or get an interpreter you trust. Though you'll rely heavily on your financial team to create reports, build time in your schedule to review and *understand* the reports. For sure you will look at your daily sales and cash balances. Look, too, at your weekly cash flow, break even, and monthly income statement/P&L statement, balance sheet, and variance reports. Conduct both a sniff test (if it doesn't smell right then there's probably something sick and wrong) and a random integrity check.

Sound daunting? It's only the beginning. But if we only thought about dirty diapers and crying kids, we'd never have babies. The same is true with starting a business, there's a lot of crap, but there's a lot of joy to be had as well.

For those of you who have started businesses — what were (or are) your greatest challenges?

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RE: The Essential To-Do List for First-Time Entrepreneurs

Awesome tips for those just starting out. I know when I first started my business it was critical to keep costs down but still come up with quality products and organization. A key thing I found with organizing invoices, commissions, payrolls etc,

was to use excel spreadsheets. Luckily for me there was a vast amount of free templates available online which I could use while still building up the funds to invest in higher quality products. OneClickCommissions.com was the best site I found and continued to use for the first few stages, they always update their templates and are perfects for easy use.

Hope this helps those just starting out,

Janet

www.oneclickcommissions.com/commission-excel.html Janet Williams 06/29/2011 03:56 PM

On Target

Thanks, Mary and Rich, for this fantastic advice. I know that a lot of passionate entrepreneurs want to think that the money just takes care of itself. But putting attention and rigor to the "math story" is the most controllable way to lengthen the startup runway and allow for the time and space that every startup needs to iterate, experiment, and locate healthy market demand. I've found that founders can dramatically raise their odds of success by managing their math story effectively -- or at least ensuring that someone with the right skills is doing so.

John Bradberry

Author: 6 Secrets to Startup Success

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