

## BEATING THE ODDS

PUT THE ODDS ON YOUR SIDE WITH THESE 10 STEPS THAT (ALMOST) GUARANTEE STARTUP SUCCESS.

BY MARK HENRICKS

**E**ven with your great idea, thorough research and hours of hard work, one rule still applies: Nothing is certain in business. No one can unfailingly know if a new product will succeed, how investors will receive a startup idea or whether a company will survive past the one-year mark. So how can you increase your odds of, well, beating the odds?

Whether it is trying to turn a web visitor into a customer, getting a purchase order out of a cold sales call or maintaining a stress-free lifestyle, you'll face a series of challenges and opportunities to make the leap to success. Every day, companies are started, new products launched, sales made and e-commerce conducted. Clearly, entrepreneurs can overcome the odds. Here's how to be on the winning side of the entrepreneurial equation.

### 1. Build to Last

About half of companies don't survive past four years, according to the SBA Office of Advocacy. That's much better than the outdated notion that 90 per-

cent of startups fail in the first year. But even if you plan for the long haul, the odds can still be against you. Fortunately, serious startup entrepreneurs don't let those kinds of statistics stop them from pursuing their dreams. Take Carol Fitzgerald, who survived pretty bad odds. Her company, The Book Report, was one of 46 internet startups AOL funded a decade ago. Of those 46, just four are still in business, and Fitzgerald's New York City-based book review website is one of them. Fitzgerald, 50, says she did it with passion and focus. "Start with the employees and making them happy," she says. "Then it's about customers and making them happy. Then it's vendors, and beyond the vendors, it's the community."

Babson College entrepreneurship professor Andrew Zacharakis says you can improve your odds of success by building a strong management team. "The foremost weakness many entrepreneurs have is they don't have strong, deep experience in the industry they're entering," says Zacharakis. To fix this shortfall, he recommends recruiting experienced team members, or getting experience yourself by working in your chosen field for a while before starting your business.

### 2. Get Investors

Venture capitalists fund just one of every 100 business plans they receive, says John Taylor, vice president of research at the National Venture Capital Association in Arlington, Virginia. ble, as it did with a technology-enabled sport coat, it's due to insufficient development and market study, Jordan says. Doing it right takes time and money, but Jordan believes he can leverage the investment into related products. "Based on the success of the T-shirt," he says, "we're getting ready to introduce a golf shirt."

### 3. Develop the Right Products

Most new products fail, primarily as a result of companies not paying enough attention to customers, says Aaron Oppenheimer, principal designer at West Newton, Massachusetts, design firm Continuum. "We meet a lot of clients who have a technology that does something faster or a little cheaper or maybe in a more high-tech way," says Oppenheimer. "But people don't buy products for those reasons. They buy products because they're the right tools for them." Research and talk with customers in depth on an ongoing basis to find out what they need and, just as important, how to craft a story that convinces them your product is the one, he says.

New products are the lifeblood of Scott Jordan's gadget-friendly apparel.



The right fit: Extensive R&D was key to the success of Scott Jordan's gadget-friendly apparel.

### 4. Make the Cold Calls

Only about 4 percent of cold sales calls are likely to turn into sales, says Dennis Kyle, CEO of Avon Lake, Ohio, sales training and consulting firm Positive Results. To beat these odds, generate better leads by carefully researching the market and warming up cold calls with a blended marketing campaign of e-mail, regular mail and other channels. That should mean 12 percent to 20 percent of sales calls produce a hot prospect likely to buy, Kyle says. But sales will still take stick-to-itiveness. "A lot of it comes down to pure persistence," adds Kyle. "That's never going to [change]."

For Anderson Toney, a New York City image and etiquette consultant, cold calls generated more customers after she took communication courses that taught her how to listen and allow prospects to express their needs. "Prior to taking those courses, I would just plow through cold calls because I hated them," says Toney, 40, who employs one other person at the Anderson Center for Image & Etiquette. "After taking those courses, my closing percentage went up 300 percent."

### 5. Convert Web Visitors to Buyers

For every visitor who buys from the typical e-commerce website, 40 leave without ordering. Conversion rates for most websites are stuck in the low single digits, says Bryan Eisenberg, a principal at New York City online retail consulting firm FutureNow. "They've been hovering around 2.5 percent the past couple of years," he says. "With all that people are doing, they haven't budged the needle." What entrepreneurs should do, Eisenberg says, is

found knowledge that banks won't readily loan to companies that aren't established. Breaking this paradox requires starting small with whatever you can raise from other sources, growing gradually and building up both assets such as accounts receivable and your own personal equity in the business, says Zacharakis. "That positions you to be attractive to banks," he says.

You can also rely on your personal credit. Jordan seeded Scottvest with a home equity loan, reasoning that an SBA-guaranteed loan would require his house as collateral, and the home loan took less paperwork. Toney borrowed \$100,000 for startup marketing against her co-op. She used her credit to help the company's credit as well. "I invested in some computer equipment for my company, but used my own personal credit," she explains. "Then the company gets its own business credit."

### 6. Reduce Turnover Costs

To replace an employee lost to turnover, it costs from 50 percent to 300 percent of that employee's annual salary, says Ravin Jesuthasan, managing principal and global practice leader of HR consulting firm Towers Perrin in Chicago. Costs are less for lower-level employees and highest for senior executives, says Jesuthasan, but in any case, turnover is no bargain. It's a costly problem for Scottvest, which Jordan blames partly on his location in a sparsely populated area and partly on frustration with an intractable problem: "You hire someone and don't think they'll work out, so you don't train them well," he says. "It becomes self-fulfilling." He's coped by outsourcing, hiring well-trained, motivated contract workers all over the country.

Jesuthasan says you can reduce turnover costs by training and cross-training employees thoroughly and developing career paths to keep them engaged. He says, "It's proactive, deliberate, conscious management of talent as opposed to [dealing with an employment problem] after the fact."

Many a startup entrepreneur has asked a bank for a loan only to leave shaking his or her head with the new-

### 7. Finance Yourself

develop a personal relationship. "I

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had a female banker who completely believed in me," Fitzgerald says. Recruiting a banking advocate can help you overcome a lot of red tape and inertia. Fitzgerald cites one occasion when The Book Report needed a credit line of \$25,000 more than the bank would offer. "[My banker] went to the mat for me and said, 'Just do it,'" Fitzgerald says. "That was pretty cool."

**8. Raise Your Net Profits**  
The average sole proprietorship returns just 21.5 percent of revenue as net profit, according to BizStats.com. But startups can boost profitability by picking industries with better-than-average margins. "Emerging industries where demand exceeds supply typically have very high profit margins," Zacharakis says. "Think of the PC industry in the early years." Jordan maintains much higher than average margins, he says, by being the exclusive supplier of patent-protected products and, most important, marketing direct. "We have very high profit margins," he says, "because we're selling direct to the consumer and don't have a middleman."

### 8. Raise Your Net Profits

**9. Put a Banker on Your Side**  
Minority- and women-owned startups are significantly more likely to be denied credit, the U.S. Government Accountability Office reports. One way around this obstacle is to find a banker you can relate to and develop a personal relationship. "I

**10. Balance Work and Life**  
After starting a business, entrepreneurs are often challenged to maintain a life. A 2005 survey by Wells Fargo Bank and The Gallup Organization found that 57 percent of small-business owners work six days a week; 20 percent work seven days. The average workweek was 52 hours, and 14 percent took no vacation. But entrepreneurs can beat stress, says Rebecca Macieira-Kaufmann, executive vice president and small-business segment manager for the San Francisco-based bank, noting that 67 percent were content with their work-life balance, and 84 percent would do it all over.

Involve family and friends to create a support group, and join organizations such as your local chamber of commerce or the National Association of Women Business Owners, where you can find kindred spirits, Macieira-Kaufmann says. Build work-life balance into your business plan by knowing your work tolerance and picking a suitable business. "If the industry norm is working seven days a week," she says, "then you need to know that going in." You can also fashion a business that encourages balance. Jordan started his company in Chicago, where he'd formerly worked as an attorney, and moved west to ski, bike and hike. He works fewer hours—although still a lot—but enjoys himself much more. "While most people are at their desks," he says, "I'm on the ski lift in the afternoon, typing messages on my BlackBerry."

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