

MANAGEMENT

FIRST THINGS FIRST!



What's This Session All About?

Many microbusiness owners don't bother learning about management, because they feel it's not important to them. However, there are two very good reasons to understand management. First, practicing sound management techniques will make you better at your job...and being better at your job means more profits!

Second, when you *do* add staff—whether temporary or permanent—you'll need management skills. If you wait to learn how to manage employees until the day you hire them, you'll have waited too long!

In this session, we'll discuss:

Why management matters. The best time to learn management skills is when you're just starting out. That way, you can build on them as you grow. The longer you wait to learn these skills, the harder they'll be to use!

Managing time. Time management is the foundation on which other forms of management are based. If you don't

have the ability to structure your time and make the best use of it, you'll have serious problems getting your business idea off the ground.

Managing a home-based business. Home-based business has become one of the fastest-growing forms of entrepreneurship in the United States. According to statistics, a new home business starts every 11 seconds, creating 8,219 jobs

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We are what we repeatedly do. Excellence, then, is not an act, but a habit.

— Aristotle

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Good managers know how to:

- **Manage time.** This includes both their time, and the time of their employees.
- **Communicate effectively.** If you can't communicate effectively, your customer and employee relationships will suffer.
- **Manage people effectively.** Managing people requires that you use your time efficiently, and set a good example for others.
- **Manage problems.** This includes knowing when to tackle a problem, and when to leave it alone.
- **Manage risk.** Good managers understand how to lessen the risks of doing business, both by avoiding them, and by overcoming them.

each day. These businesses generate over \$401 billion per year. There's no reason you can't join them, and become the owner of a profitable home business! In this section, we'll look at managing a home-based business, as well as the advantages and disadvantages of working at home.

Managing business communications. There are right ways and wrong ways to communicate in the business world. Using the tips presented in this section will improve your business communication, and help you to put your best foot forward.

Managing people. Effective managers know how to manage relationships with advisors, suppliers, employees and customers. They also know how to expand and develop new contacts through networking.

Managing problems. The best way to manage your problems is by first understanding the nature of problems. This includes knowing when to tackle a problem, and when to leave it alone.

Managing risk. There's a certain amount of risk associated with owning and operating a small business. There's no way to eliminate all these risks. But there are ways to reduce them, like having the right insurance, getting expert advice, and establishing standard operating procedures.

Why Management Matters

Sole proprietors often think they shouldn't have to waste their time studying management techniques. This is shortsighted! In the first place, good management helps your business runs smoothly. That's important to your success whether you have 100 employees, or none.

In the second place, hiring someone doesn't always mean hiring a full-time employee. Even the smallest businesses need a little help from time to

time, even if it's just from family or friends. No matter who your workers are, you need to know how to direct their work, how to get them to work as a team, and how to resolve conflicts. If you haven't learned something about management skills before you hire your first employee or contract worker, you're starting out at a serious disadvantage.

Setting Standards

Part of being a manager is having a set of standards by which to judge actions you've taken and decisions you've made. This helps you to look at the big picture, and to consider whether your decisions are moving you closer to, or away from, your business goals.

For instance, here are the sorts of questions a manager might ask in order to decide whether a certain business practice is the right one:

- Will it get you into business more quickly?
- Does it lower the risk of market entry?
- Does it enhance flexibility?
- Does it build on your personal strengths?
- Does it maximize your business's resources?
- Does it allow you to evolve, and to redirect resources easily?
- Does it make your business attractive to investors and lenders?
- Is it appropriate for your kind of industry?
- Does it fit the kind of life you want to lead?
- Will it result in the kind of company you'd be proud to call your own?

Ask For Advice!

When you're developing your skills as a manager, one of the most important things you can do is to seek outside advice. Today, there are more

voices of experience for entrepreneurs to consult than ever before. Ask a mentor, a colleague, or a professor to evaluate the way you plan to structure your business. You should also seek out advice from friends, or fellow business owners. You can learn from their successes and mistakes, improve on their ideas, and tailor their advice to fit your business.

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In 2001, Dora and I moved into a three-room apartment. It wasn't as nice as our old house, but it was a lot less money, and that's what mattered most at that point.

I was poking around in the basement, and I came across a dusty old radio. An Emerson Model 587 Series B table model from 1949, to be precise. I took it upstairs and plugged it in, but it didn't work. I figured I could fix it without too much trouble.

That's how it started, and it hasn't stopped since. Part of it was that I wanted to focus on something, to take my mind off the other stuff that was going on. But while I worked on it, I started thinking "I wouldn't mind doing this for a living. Too bad they don't make these things anymore!"

Today, Walt Benjamin runs a small but successful home business in McKeesport, Pennsylvania, repairing tube radios and other vintage audio equipment. But back in 2001, he was trying to get back on his feet after a run of bad luck.

First, a workplace injury left him unable to work. He was able to get a desk job, but that ended when his department's work was outsourced. That left him living in subsidized housing on a small disability check. Their only other source of income was whatever his wife Dora could earn waiting tables at a restaurant on Lysle Blvd.

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Managing Time

As we said in Session 1, time management is critical to the success of your business. If you don't have the discipline to manage your time, all the management tools and tips in the world won't help you succeed!

This is a good place to review the Session 1 material on time management. Take a moment to look back at the text and your worksheets. Once you've done that, we'll explain how to prioritize tasks.



Priority Management

The first step in time management is to identify your business's main activities. Which tasks must be done every day to ensure your survival and bring you closer to success? Which are less critical on a daily basis, but still important for ongoing performance?

Consider the tasks you face every day. Some tasks are a priority. Others aren't. Some things that come up have to be dealt with now. Others can wait until later. In other words, you can break tasks down like this:

Priority Management Matrix

| | Do Right Now | Do Later |
|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------|
|  <p>Priority</p> | Crises—putting out fires Pressing problems Deadline driven Meetings | Preparation Prevention Planning Relationship building |
|  <p>Not a Priority</p> | Interruptions Phone calls Mail Pressing Matters | Trivia Junk mail Some phone calls Time Wasters |

Good time managers usually won't spend more than 30% of the workday in the Do Now / Priority area. This is because they plan ahead! Having a plan means that they're not always dealing with one crisis after another, or struggling to meet deadlines.

Setting your priorities

As an experiment, try prioritizing the things you do during an average day. Start by writing them down as you do them. Then, use the chart above to prioritize them, like this:

| Task | Rank |
|---------------------------|------|
| Priority / Do Now | 1 |
| Priority / Do Later | 2 |
| Not a Priority / Do Now | 3 |
| Not a Priority / Do Later | 4 |

Next, look at how much time you spend on each task. If you devote the first part of the morning to answering phone calls, monitor the time this chore takes over the course of a week, and come up with an average. Do this with all your regular activities, and you'll have an idea of how much time your basic routines take.

It's normal to spend some time in all of the areas, even the time wasters (we all need to take a break once in a while). But if you're like most people, you'll be surprised at just how much of your day is spent on low-priority items!

Understanding time wasters, and seeking out time savers, can fix this pattern. Again, the goal is to figure out the tasks that you want to accomplish during a day, and prioritize them. Then, follow through by working on them in order of importance. Keep this up, and you'll soon get better at structuring your workday.

Managing a Home-Based Business

To most people, working at home sounds like a dream. And it's true that it does have many advantages. But the reality is not always as pleasant as it sounds!

Here are a few of the misconceptions you'll need to give up before starting a home-based business.

"Working at home means less stress."

It's true that when you work at home, you don't have to spend two hours a day riding a bus. You also don't have to suck up to a disagreeable boss, get blamed for other people's mistakes, or attend pointless meetings.

But you may have to do everything else! You may end up being the accounting department, the marketing staff, the receptionist, and the janitor... all at once!

"I can work when I want to."

Your customers may disagree! On the one hand, you need to be there when your customers need you. On the other hand, your customers may feel they can contact you at all hours, and on weekends. (After all, you work at home!)

"I'll finally be able to catch up on my housework."

If you didn't have time for housework when you were working for someone else, you probably won't have time for it when you're working at home! Most entrepreneurs put in very long hours, and home-based entrepreneurs are no different. If anything, they tend to work even *longer* hours, because they don't have a clear boundary between work time and home time.



Setting Boundaries

Most entrepreneurs find that the biggest challenge of working at home is setting clear boundaries between home and work. When it's five o'clock in an office, people can get up, go home, and leave their jobs behind. But when you work at home, your job is always right there in front of you.

Your friends and family may have problems with boundaries, too. It might be hard for them to realize that they have a different relationship with you when you're working. If you worked in a regular job, they probably wouldn't barge in and interrupt you in the middle of your work. But since you're at home, anything goes!

Structure your workday

It's important to get into good working habits from the outset. Plan your time carefully, by setting aside certain hours for the tasks you do every day. Use a timer or alarm clock, if you have to. You'll find it's much easier to start with a strict deadline and adjust it, than to try to turn chaos into order.

Make a clean break

A lot of people who work at home fall into the trap of goofing off or getting distracted during the day, and trying to play catch-up at night. This is a very bad habit to get into!

Set a cut-off time for work, and stick to it. It helps to have some kind of ritual—like having dinner, or watching a movie—to help you switch gears and feel that work is over for the day. If you can, have it be something you do with friends or family members, so that you have a commitment to them that you can't break easily.

If it's hard to stop working on the weekends, find something you like to do on Saturday morning, and get into the habit of doing it, so that your free time has some structure.

Of course, sometimes you'll have no choice but to work during your free time. The goal is to reduce

these times to the minimum. If work keeps eating up your personal time, you need to restructure your working habits, not your time with family and friends. Having the ability to relax, unwind, and have fun is just as important to your success as working hard! The trick is to make sure that recreation is a *reward* for hard work, rather than an escape from it.

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Walt had been looking for a distraction when he decided to fix his first antique radio. And he got one! Most of the parts he needed, he didn't have and had no idea where to get. You can't buy parts for an Emerson Model 587 Series B at the corner store, after all!

Dora suggested that he go down to the library and look for parts on the Internet.

That turned out to be very good advice. Walt typed the name of his radio into Google, and with the click of a button found repair diagrams for his radio, a company that sold tubes for it, dozens of Websites devoted to radio collecting, and three more radios being offered for sale on eBay.

One of the radios—a nicely restored one in perfect working order—was at \$195, with 12 bids, and the auction wasn't even over yet. The other two were broken, and had no bids at all. He could get them both for \$25, if he wanted them.

Walt was beginning to think he'd hit on something more than a distraction!

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Give yourself some space

If you can, set your workspace apart from the rest of your house. Choose a room with a door you can close and lock, where household noise won't disturb you. Decorate and light it differently, so that it really feels like you're going to work when you

walk through the door! You may not be able to do some of these things in your current situation. In that case, try to find other creative ways of setting emotional and physical boundaries between work and home life.

Setting Up a Home Office

Many homes and apartments—especially older ones—lack adequate power, lighting, Internet connections, and air conditioning. Before you start a home-based business, you need to make sure that your living space is up to the job.

Electricity

Setting up a home office can seriously increase your energy use. This can increase your electricity bills, and it may also be dangerous. If you're going to be running lots of equipment, you may want to have an electrician check your wiring. To keep your energy costs down, look for appliances that have earned the Energy Star® seal, which use very little electricity.

You should also buy surge protectors to keep your equipment safe from power surges and outages.

Internet connections

Some houses and neighborhoods have limited or unreliable Internet connections, which means that your connection speed may be slow or erratic. You may also need to have new outlets or cables installed.

Lighting

Good overhead lighting will reduce eyestrain, and make your office more pleasant. If your office doesn't have it, you should install it! Compact fluorescent bulbs are quite bright, and some last for five to ten years. (Bulbs with replaceable ballasts may last for up to thirty years!) Better yet, they use little energy, so they can reduce your electricity bills.

Air conditioning

Your office should be comfortable throughout the year. It should have good ventilation and air conditioning. You won't be happy working in an office that feels like an oven in summer and an icebox in winter, and your customers won't like it either!

Projecting a professional business image

Managing your image is an important part of earning respect from your customers. What business image do you project? Factors to consider include:

- Your address (you may want a post office box instead of a rural address)
- Business graphics—logo design, business card, letterhead, signs, etc.
- Telephone answering service, e-mail, fax
- Establish regular work hours
- Prompt response to mail, phone, and e-mail messages
- Professional communications

Managing Business Communications

One of the biggest obstacles for businesses is poor communication. Miscommunication can lead to lost business, rejected loan applications, and many other serious problems.

There are two primary ways you'll communicate in the business world: by writing, and by talking. Either way, there are three basic rules you must always follow:

- **Be polite!** Everyone likes and deserves to be treated with respect.
- **Be honest!** Integrity is something you can't buy back after you've lost it.

You may not be talking, but you're still sending a message!

What do these physical behaviors say about your attitude?

- Good posture
- Slouching
- Fidgeting
- Smiling
- Frowning
- Eye contact
- No eye contact

- **Be clear!** Don't leave any room for misunderstandings with customers, suppliers, and business partners.

Written Communication

This includes all normal business correspondence, such as letters, memos, bids, invoices, bills, e-mails, and so forth.

One good rule in written communication is always to use duplicates. For instance, order a book of duplicate telephone message pads and keep them by the telephone. The duplicate pad lets you rip off the top message for immediate attention, while creating a duplicate record of all messages for later review and follow-up. In the same way, you should always photocopy or duplicate all your letters, bills, invoices, faxes, and so on.

You'll need a place to file these papers. It doesn't matter what type of filing system you use. The important thing is that the system works for you. If you can quickly file and find information, your system works!

As we pointed out in Session 1, it's a good idea to have a master calendar where you can keep all your important dates written down. If you have employees, hold regular staff meetings to make certain that everyone knows what needs to be done, and by when, and who's responsible for which tasks.

Poor communication can lead to:

- Lack of cooperation
- Inefficient use of time and resources
- Low morale
- Resistance to change
- Lack of discipline
- Failure to meet your goals
- An unprofitable business

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Dora thought I'd gone crazy. We'd go to the thrift stores and junk shops, and when I found an old radio, I'd buy it. Just for the parts, usually. I had pieces in boxes everywhere, grouped by make, model, and year.

She'd come home sometimes and I'd just be sitting there, staring at the orange glow in the tubes. When I got an old radio working, I really felt like I'd brought someone back to life.

Walt named his business "Resurrection Radio." He'd been able to sell the first radio he fixed for almost \$200, and he was eager to sell more. He'd had a couple of other successes with sets he found at flea markets or rummage sales. But in most cases, he either couldn't sell the radio, or couldn't sell it for very much more than it cost him to fix it. It wasn't long before he had a pretty large collection of nicely restored vintage radios. He enjoyed looking at them, even if he couldn't sell them!

On the other hand, he'd learned to fix just about any model out there. And those skills were applicable to other vintage audio equipment, like microphones and amplifiers. He started to think of himself as a repairman first, and a retailer second.

In an average month, Walt did eight to ten local repair jobs. The rest of his income came from eBay, where he had a great reputation among radio collectors. His contact with eBay customers soon led to inquiries about mail-order repair. He'd done a couple of these jobs before he realized that he'd found a potentially huge new business opportunity! From there on out, his auction pages always mentioned the fact that he did repairs.

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Verbal Communication

This includes face-to-face and telephone conversations with customers, suppliers, advisors, and anyone else you come into contact with in the



Communication basics:

- **Be courteous.** Everyone likes and deserves to be treated with respect.
- **Be honest.** Integrity is something you can't buy back after you've lost it.
- **Be friendly.** A smile and a good attitude count.
- **Be natural.** Be yourself.

course of your business. You should keep two things in mind when communicating verbally.

First, tell the same story to everyone. Sometimes we're tempted to tell our important customers we can do things we can't. If you do this, the day will come when your customers won't believe anything you tell them! The best approach is always to stick to the facts, and never to make promises you can't keep.

Second, smart business owners never say anything that they wouldn't be willing to put in writing!

Body Language is Communication!

What do these physical behaviors say about us?

- **Good posture.** Happiness, confidence, strength, energy.
- **Slouching.** Unhappiness, weariness, disinterest, defeat.
- **Fidgeting.** Anxiety, distraction, lack of self-control, boredom.
- **Smiling.** Optimism, friendliness, warmth, welcoming.
- **Frown.** Anger, unhappiness, disappointment, unwelcoming.
- **Eye contact.** Confidence, honesty, interest, respect.
- **No eye contact.** Dishonesty, no confidence, disinterest, fear.



Phone etiquette

For many business owners, the phone is the primary form of contact with customers, vendors, and suppliers.

Here are some tips on phone communication:

- Sound confident and enthusiastic
- Answer the phone with a greeting, the name of the business, and "May I help you?" It's not enough to say something like "Joe's Garage." You need to include a statement that welcomes the call, or offers help.
- Keep a duplicate message pad nearby. Always take down the caller's full name, and always ask for his or her company and phone number. Include your initials, and the date and time of the call.
- If you're receiving a call that was transferred by another person, respond by saying, "Hi, my name is Bill. Jane has just explained to me that you need a new hose for your vacuum cleaner. I can help you with that." Don't make the customer explain everything all over again, if you can help it.
- When closing a phone call that involves follow-up action, summarize the action that is going to take place. For instance, "Okay Mr. Johnson, let's make sure I have this right. We will be ordering a part for your Hoover 1600. It's part number 123, and should arrive in three days. As soon as it comes in, we'll give you a call at 123-9800. Is that correct?"
- Always finish the call with "Thank you for calling!"

Managing People

What with the day-to-day pressures you face as a business owner, it's easy to overlook the crucial task of managing your business's most precious resource: people. Whether we're talking about permanent employees or temporary help, advisors or partners, suppliers or customers, people are at the heart of your business.

Your Management Team

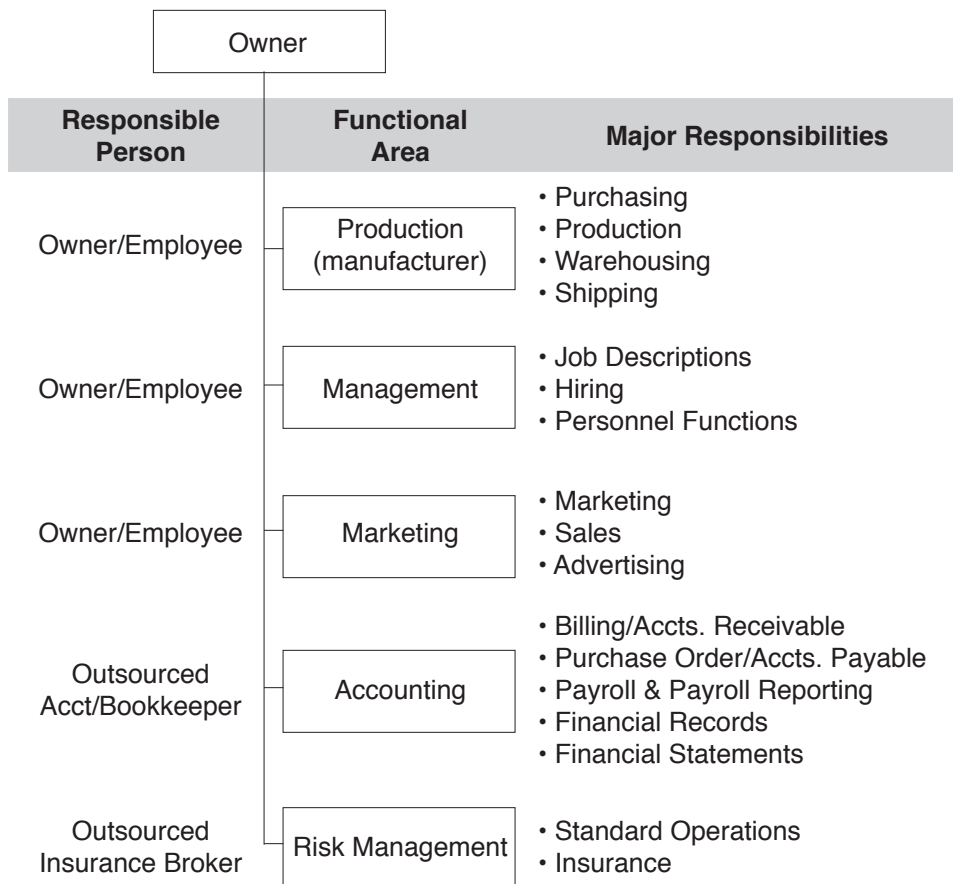
One of the best ways to manage people is by creating a management team. Your team will probably include internal members (employees, family, and trusted friends that help you with your business) and an external network (outside advisors, business professionals, mentors, independent contractors, and customers).

A good way to organize your team is to create an **organizational chart**, which maps the relationship between your internal team and your external network, and describes responsibility for management activities.

Although your core team may just be one or two people, it's still a good idea to map out the specific roles each person plays. This will make it easier to assign tasks to new people as your business grows.

You can begin with major business activities, such as:

- **Sales.** Who run the register, takes orders, or makes sales calls?
- **Accounting.** Who balances the checkbook, and keeps the books?
- **Purchasing.** Who keeps track of inventory levels and other supplies?
- **Promotions.** Who's in charge of ordering ads, creating flyers, ordering business cards, and sending out press releases?
- **Budgeting.** Who will create a budget?
- **Production.** Who manufactures your product, and who checks its quality?



Tips for managing employees:

- Don't try to be an expert on all issues. Ask for help!
- Don't hire an employee if a consultant or independent contractor can meet your needs
- Don't hire family or friends if they aren't qualified and responsible
- Make a list of skills necessary to perform the job and interview candidates to ensure they possess these skills
- Know what interview questions you can and cannot ask
- Don't hire without checking an applicant's references
- Do write job descriptions and an employee handbook
- Don't rely on money to motivate all employees
- Treat all employees with honesty and respect
- Work hard to keep communication lines open

Building an effective management team takes time. It also takes a real commitment to thinking critically and creatively about your business. Give your management team plenty of time to learn how to work together and share ideas. Try to identify what each person needs to do in order to help others perform well.

Here's another tip, from management guru Peter Drucker: Don't think of your team as people who are there to achieve. Instead, think of them as people who are there to *contribute*. A successful business isn't about the achievements of individuals; it's about what individuals contribute to the team!

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I know a lot about radios, but I don't know much about things like recordkeeping and bill paying. For most of my married life, I guess you could say I was spoiled. I didn't have to do that stuff at all. Dora had the skills and the time, so she handled all the financial chores.

When I started up my repair business, she was working full-time. I figured I could manage my business well enough without her.

But a few months later, I was bouncing checks left and right.

Why was Walt bouncing checks?

The problem wasn't lack of success. At the time, Resurrection Radio was really taking off. There was plenty of demand for Walt's repair services. But more important, he'd found an unexpected market for his restored radios. It turned out that a number of old hotels were decorating their rooms to look like they did in the 1920s and 1930s, in order to attract customers who liked "retro" furnishings.

Walt found a couple of hotels that wanted vintage radios in every room; he was able to sell 24 radios to one of them, and 30 to the other. This led to further sales, because each radio had a sticker on the back with the name of

his company, his contact information, and his eBay seller name. Many guests admired the radios, and wanted one for their own homes.

So checks and money orders were coming in almost every day. But Walt wasn't regularly depositing them. He meant to; he always put them in their own pile. But things were hectic, and it was easy to put the deposits off, or forget about them, or—most often of all—to misplace the checks.

Also, he wasn't filing receipts from his work expenses, or keeping track of the bills he was paying on his check register. The result: ten bounced checks in six months, and stacks of paperwork all over his office. Walt had no idea how he'd pull things together in time to file his tax return!

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Outsourcing

Outsourcing means hiring people or businesses outside of your company to perform such tasks as accounting, marketing and sales, purchasing, inventory management, and market research. It's an alternative to the expense of hiring a full-time employee. Many large companies outsource to reduce their overhead, and focus their energy on the things they do best.

You have limited resources and time, so you must carefully choose how you'll spend your time. If others can do something better than you, why not benefit from that expertise? Allow them to make your business more competitive, by contracting with them to do what they do best.

It may even be possible to trade services. For instance, if you trim trees, maybe you can partner with a firm that will handle yard-waste disposal for you. Or maybe you can trade for unrelated services (e.g., doing jobs for a graphic-design firm that will make a business card for you in return). As always, you should look for creative, low-cost

ways to get the help you need and run a more profitable operation.

Outsourcing can mean that you use **independent contractors**. An independent contractor is a bit like the plumber who comes into your home to perform a repair, and then gives you the bill. He does work for you, but doesn't work *for* you. You can set up a similar arrangement for advertising, custodial cleaning, bookkeeping, sales, and many other services.

Be sure to review the legal issues before hiring independent contractors, to make sure you're not actually setting up an employer/employee relationship.

Managing Employees

After a certain point, outsourcing no longer makes sense for a growing business, and you need to start looking for permanent employees. While this day may be a while off for you, it's a good idea to give it a little thought now. Among other things, it'll help you understand how setting up good management practices early on can make the tricky process of hiring employees a lot easier.

Most entrepreneurs succeed because they're talented, motivated, and full of both ideas and energy. However, while these traits are valuable, they can also be a major stumbling block when you want to grow your business. Many entrepreneurs find it difficult to allow other people to help. Some are too proud to ask for help, while others are afraid that someone else won't do the job as well.

This is normal, but it's also something that entrepreneurs must overcome. The plain fact is, when your business begins to grow, you'll need help, and that means you'll have to learn to give up some control. Prepare yourself now, and you'll have fewer conflicts later.

Unfortunately, qualified employees don't appear magically on your doorstep when you need them.

Finding them, training them, and keeping them all require time, effort, and management skills. But the payoff is huge. Reliable, well-trained, trustworthy employees could become your most important assets!

Managing Networks

A business owner depends on lots of people in order to conduct business. As we discussed above, this group of people, institutions, and other businesses is your network. Your network may also include family members, your landlord, your bank, your babysitter, your suppliers, and so on.

One way to think about your network is as a safety net. The more support you have, the more prepared you'll be to overcome problems and tackle new challenges.

Strengthening your network

Every so often, you'll have to approach someone in your network in order to get something you need. It might be a business checking account from a bank, a line of credit from a supplier, or a favor from a friend.

One key to building and strengthening your network is that each time you get something from a network partner, you give something in return. In the case of a supplier, perhaps you'd refer another business to her. In the case of a friend, perhaps you'd agree to babysit the kids so he and his wife can go out to dinner.

It doesn't have to be anything fancy; the goal is to make the other person feel valued. For some people, a thank-you card is enough. For others, a box of candy will express your gratitude nicely. This is another chance to be creative!

Expanding your network

The main tools required for expanding your network are a warm, outgoing personality, and a stack

There are several ways you can outsource contractors:

- Trial basis
- Seasonal
- Short-term project
- Long-term project
- Regular hours—full-time
- Regular hours—part-time



**Your network
consists of
those con-
tacts that you
depend on to
support your
business.**

**It's also your
safety net
when times get
tough!**

of business cards. Here are some great ways to make new contacts:

- Join a formal networking group. Your local Chamber of Commerce or similar groups offer regular networking sessions and business seminars.
- Become active in local business organizations, and get to know people with similar interests.
- Start an informal support group. Meet with other microbusiness owners to discuss common business issues
- On behalf of your business, get involved with a local charity. As you give to the organization, you'll also have an opportunity to let others know about your business.
- Add contacts to a mailing list that you can use to advertise your products and services.

Managing Problems

One of a manager's most important—and common—jobs is problem solving.

Some small-business owners believe their problems will go away as their business grows. Actually, the opposite is true! As your business grows, you'll face even more problems. Ideally, they'll be good problems, like those tied to increased sales and customers! But either way, you'll be managing problems for as long as you're in business.

When facing a problem, the first question you need to ask is "Is this *really* a problem?" You also need to learn how to recognize when a problem is *your* problem. One way is to ask yourself this question: "What will happen to my business if I don't solve this problem?"

Even when you do have a problem, that doesn't mean you have to solve it right away. Like business chores, problems can be prioritized. Ask yourself

this question: "What will be the impact on my business if I *don't* solve this problem right now?"

These are not easy questions, and there are no set answers. Learning to prioritize your problems takes practice and experience. But the first step is realizing that when business gets hectic, all problems may start to seem equally huge.

For example, the fact that a customer is trying to stiff you on a big job, and that your printer used the wrong ink for your business cards, can both contribute to your feeling that everything's going wrong. But the problem with the business cards is probably not that serious, all things considered. Do you *really* need them right now? And if you do, do you *really* need to have them redone with the correct color?

Try to keep things in perspective, and don't let general stress make you overreact. Take a deep breath, smile, and move forward!

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Dora wasn't too happy about the checks. "Face it," she said. "You need help, and lots of it."

She put me in touch with George Agamben, a CPA who ate every day at the restaurant where she worked. She said, "He charges \$50 an hour, but it'll be worth it not to have these problems anymore."

Fifty an hour seemed like way too much to pay. But it's not like I had a better idea. And all the evidence showed that I couldn't handle things on my own. So I called George that day, and we set up an appointment.

When he arrived at the house, George stood and stared for a while at Walt's "office." It was a dusty, dark, cluttered jungle! Everywhere he looked, he saw piles of paperwork, coils of wire, old tubes and speakers, and tools.

To George, the surprising thing wasn't that Walt was misplacing things, but that he ever found anything!

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A Problem-Solving Framework

Creating a problem-solving framework can help you make the right decision when things are going wrong. Here's one basic approach:

- **Define the problem.** One of the best ways to see if you clearly understand the problem is to write it out. Try to state the problem in one or two short, descriptive sentences. Also, try to list all the ways in which the problem is affecting your business.
- **Identify the root cause.** Important questions to ask here include, "Why do I have this problem?" and "Why *else* do I have this problem?"
- **Find people who can help you with solutions.** Family, friends, key employees, and mentors can offer new insights and fresh perspectives. The more perspective and experience you can bring to bear on the problem, the better the solution will be.
- **Gather information.** Once you have a good idea of what the problem is, and have assembled your problem-solving team, it's time to gather all relevant facts having to do with the problem.
- **Come up with possible solutions.** The benefits of having people to help you are very clear in this step. Write down all their suggestions, whether they seem possible or not. By encouraging this sort of brainstorming, you'll get a wider range of solutions.
- **Choose the best solution.** In this step, you evaluate which are your best solutions. Then, it's time to prioritize them and take action!

Managing Risk

There are three basic ways to manage business risk. The first is through insurance. The second is by seeking the help of qualified advisors. The third is by developing standardized procedures for running your business.

Insurance

No other means of risk management is as inexpensive, effective, or readily available as insurance. Even so, it's estimated that 80% of small businesses are not properly insured!

No two businesses are exactly alike. Therefore, determining which type of insurance you need is going to take some research and study. The standard advice is to insure anything you can't afford to lose. If you can't afford to pay 100 percent of a business loss, you need insurance!

In most cases, having insurance is a condition for getting a bank loan. In a sole proprietorship, insurance is especially important because you're personally liable for all debts of the business.

The basic steps involved in developing your insurance program are:

- Go over the coverage you already have, if any.
- Determine what further insurance you might need.
- Investigate insurance agents or brokers.
- Ask friends or business owners in your industry for referrals.
- Pick out three insurance brokers/agents.
- Seek their advice, and get bids.
- Follow the recommendations of the agent/broker you chose.

When seeking bids, ask the agent to look at your present coverage. The agent can analyze what additional areas of risk your business faces, and

recommend the types and amounts of insurance your business requires to protect you, your family, and your business.

Some kinds of insurance are mandatory, such as auto insurance. Beyond that, most businesses should have fire, automobile, and liability insurance.

The *Insurance Worksheets* at the end of the session will help you take a first look at types of insurance you may need to consider.

Choosing an agent

Insurance agents work for one or more insurance companies, and receive a commission for each policy they sell. They tend to offer standardized coverage.

There are two types of insurance agents:

- **Direct writers** represent one insurance company, so they tend to be very familiar with the policies they offer.
- **Independent agents** represent multiple insurance companies, so they may offer more competitive prices.

Personal referrals are the best means of choosing an agent. Ask your banker, accountant, or other businesses for a recommendation. You may need several agents for the various types of insurance you need.

A good insurance agent will ask enough questions about your business to identify all the threats it faces. You should always get three bids, and check references carefully. You should understand exactly how your premium is calculated, and make sure the agent's estimate is correct. Your agent should pick the policy that's in your best interests, and sell it at a competitive price. Since your agent is your contact with the insurance company, you'll need to have confidence in him or her should a claim arise.

Walt told George that he didn't like accounting, and had never regularly balanced his checkbook. He understood that such things were necessary. But every time he sat down to do it, more important things always seemed to come up.

"What sort of things?" George asked. After some good-natured prodding, Walt admitted that most recently, he'd been distracted from doing his books by the challenge of repairing an old accordion that someone had dropped off with a box of radio parts. George laughed.

Walt was embarrassed. "I guess I'm a hopeless case, huh?"

George assured him that he'd seen worse, but pointed out his accordion repair had cost him \$135 in bounced-check charges. They decided that over the coming month, George would work with him for two hours a week to get his paperwork in order, and his accounts balanced. After that, they'd meet for an hour a week.

Walt protested that he couldn't afford that much, so after some discussion, they struck a deal. For the first 12 hours, George would take a radio worth \$200, plus \$400 in cash. After that, George would be an on-call supervisor and teacher, helping Walt to set up and maintain a simple filing system, and stay on top of his business affairs. For this service, which would mostly involve brief phone conversations, he'd charge \$30 an hour. Walt agreed, and they shook on it.

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Types of insurance

The insurance industry divides coverage into two categories: property and liability, and life and health.

Property and liability insurance

These are the most important types of business



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insurance. A property policy provides insurance on your building and other physical assets. Liability protects you against claims of injury or property loss resulting from negligence on your part.

Property and liability coverage is often offered to businesses as a package policy covering a number of risks at once. You should be careful with these plans. Don't assume that a package policy covers all your insurance needs!

There are other types of property and liability insurance your firm may need. Insurance companies have developed coverage for almost everything, but these are the plans most businesses should consider:

- **Liability insurance** protects your business if, for example, someone is injured while on your site and sues you for damages. The cost is usually related to your type of business. If you work with dangerous chemicals, the cost will be much greater than it would be if you ran a florist shop.
- **Product liability insurance** protects you against claims of injury or property loss due to your product's defects or design flaws.
- **Business property insurance** protects equipment or assets that are stolen, or damaged by fire, flood, vandalism, or other unfortunate incidents. Other hazards, such as windstorms, hail, smoke, and explosion can also be covered. The coverage is written for a specific value, such as the cost of replacing a building or its market value. Premiums are based on the insurable value.
- **Business interruption insurance** protects against lost business due to disasters such as fire or weather damage. It's very important for businesses with a high risk of fire damage, like restaurants.
- **Commercial auto insurance** is not much different from the automobile insurance on personal cars. Most commercial auto policies include property coverage for the vehicle itself, and liability coverage for damage to other vehicles and persons, and the cost of injuries to the driver and passengers of the insured vehicle.
- **Electronic data processing insurance** protects you against damage to computers and data from mechanical failures, power surges, and viruses. A good EDP policy will cover costs associated with business interruption and data recovery.
- **Home office insurance** covers office equipment, which is not automatically included in a standard homeowner's policy.

Insuring home-based businesses

If you run a home-based business, you may think that your homeowner or renter policy will cover business losses. This is usually not the case! However, by adding a special "endorsement" on that policy, you can cover the activities of your home office. Here are your basic options for insuring home-based businesses:

- **Endorsement to an existing homeowners' policy.** Standard homeowners' policies usually cover no more than \$2,500 for business equipment. An endorsement can double your business property coverage for as little as \$14 a year. They're usually only available to businesses that generate \$5,000 or less in annual sales.
- **In-home business policy.** These policies insure business property for up to \$10,000. You can also buy up to \$1 million in liability coverage. In-home business policies also cover lost income from damage to your

The five most common kinds of business insurance:

- Fire and casualty
- Automobile
- Liability
- Workers' Compensation
- Property or renters'

house, and offer limited coverage of valuable documents and off-site property.

- **Business owners' policy (BOP).** This is an off-the-shelf policy designed for small to mid-size companies. It's available in most states, and offers broad coverage. It isn't available to certain types of business, however.



Life and health Insurance

Life and health coverage is usually part of employee benefit packages, but it may also insure the owner and/or partners.

- **Workers' Compensation** covers employees who are injured on the job. It's required by law, but specific requirements vary by state. Check with your state insurance commissioner's office to find out what coverage you need.
- **Life insurance** often comes as part of a health insurance package. Otherwise, term life insurance can be purchased for your employees at a reasonable cost.
- **Self-insurance** is the practice of choosing not to purchase health coverage, but paying claims of a specific type and cost as they occur. The business only purchases what is called "stop-loss" insurance, which protects the business against major catastrophic illness/accidents and expenses. Consider the advantages and disadvantages carefully before choosing self-insurance!
- **Social Security** covers certain types of long-term disability that make work impossible. The amount of the disability benefit depends on the your age at the time of the disabling sickness or injury, and your record of covered earnings. Social Security also provides survivors' benefits to your spouse or children in the event of your death.

Seek the Help of Qualified Advisors

Good advice translates into better management decisions! This lessens the risks you and your business face.

Here's some of the professional assistance you'll probably need:

Advisors and mentors

One of the most important things you can do for your business is get outside advice. Ask your mentor to evaluate the way you plan to structure and run your business. You should also seek out advice from friends or acquaintances that work in larger businesses. How did their company tackle similar issues? Your goal here is to learn from the successes and mistakes of others. Then, improve on their ideas and tailor their advice to fit your business.

Bookkeeper

One of the most important advisors you can enlist for your team is a qualified bookkeeper or accountant. A bookkeeper will keep records of your daily, weekly, monthly, and annual sales and expenses. A bookkeeper can also help you find your way through the maze of regulations relating to employees and payroll records.

If you're going to keep your own books, an accountant can evaluate your work, and also complete important reports that will help you look at revenues and expenses, cash flow, and liabilities and assets.

Banker

Sooner or later, most small businesses need outside capital. It's much easier to obtain financing if you have a good relationship with a banker.

Attorney

Although you may not have an immediate need

of a lawyer, you should have the name of a good one on file in case the need does arise. Be sure to choose a lawyer who's knowledgeable in your field.

When hiring attorneys to act on your behalf, the biggest issue is usually price. Basically, lawyers price their services in two ways:

- **On contingency.** Payment is based on a percentage of the monetary outcome of a lawsuit. This sort of pricing schedule is only relevant when one is engaged in a lawsuit seeking damages.
- **Straight fee.** Charges are based on hourly work.

There are free and low-cost legal services available to small businesses. Check with an SBDC counselor, or look online.

Your Operations Manual

One last way to manage risk is to develop standard, proven procedures for doing things. This lessens the chance that problems will arise.

Such standards often develop naturally. Suppose you run a retail shop. You want to keep the floor free of dirt, grime, and other things that may cause a customer to slip. You've determined that the best time to wash the floor is first thing every morning. While doing so, you always put out the "wet floor" sign to advise customers that the floor may be slippery.

Probably without meaning to, you've developed a standard procedure for your business. You know that by following this procedure, you lessen the chance that a customer will slip.

It takes a lot of discipline, but many successful business owners develop an operations manual to describe all such standard procedures.

This is especially helpful as a guide for temporary help. When you can't be at your business, the

manual tells your stand-in how to keep your business safe and protected.

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I think what bothered me most was the idea that I needed to pay someone to hold my hand, just to get me to live up to my responsibilities and do what was expected of me. It hurt my pride.

I decided I wasn't going to run away from it. These were all simple tasks that I knew I should be doing, and I was going to start doing them. I was going to be the best student George ever had.

Over the following month, there were a lot of changes made at Resurrection Radio. George spent an afternoon at Walt's office, reconciling accounts and processing payments. Afterwards, he worked with Walt to create a sensible, easy-to-use filing system, and they got all his paperwork filed.

Later, during phone consultations, George set forth a schedule of management duties that Walt would complete each week and month. Basically, this was an action plan that laid out the purchasing, bookkeeping, and paperwork chores that Walt needed to do regularly. George called it a "First Things First" plan; it set forth exactly what Walt needed to do, and exactly what day he needed to do it.

Walt got the hang of it quickly, and was able to do most tasks without George's guidance. Soon, he was meeting with George only once a month, to review his reconciled bank statements, invoices, and bills. This usually takes about an hour, and Walt considers it money well spent! He hasn't bounced a check in over a year.

Looking back, I think the main reason I never liked managing my office and my finances is that I didn't know how to do it. Now that I do, it's really not that different from fixing a radio, or doing a crossword puzzle, or a lot of other things I do for pleasure even though they might not be easy. These days, I see the management tasks I do each week as a nice change from my repair work. It can



be a struggle, but it's satisfying to do it right. And it's nice to know that if I get stuck, I always know where I can get help.

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What You've Learned

In this session, you learned:

1. The best time to learn management skills is when you're just starting out. That way, you can build on them as you grow.
2. If you don't have the discipline to manage your time, you'll have serious problems getting your business idea off the ground.
3. Three rules of business communication: Be polite, be honest, and be clear!
4. Developing people management skills early on can make hiring and managing employees much easier later on.
5. Creating a problem-solving framework can help you make the right decision when things are going wrong.
6. You can reduce the risks of starting a small business by having the right insurance, getting expert advice, and establishing standard operating procedures.