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Six Steps to Starting a Successful Business

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Six Steps to Starting a Successful Business

By Chandler Allen

The world economy took a nose dive in 2008. The reason for the recession was the residential construction market. Though he seemed crazy to most people, Chad Allen started his own residential construction business in 2008. Allen successfully established his company despite not having a college education. Allen’s experience is evidence that anyone can start a successful business by following six simple steps, as outlined below:

1. Develop a Product or Service
2. Market the Business
3. Receive Financing
4. Balance Accounts
5. Structure Internal Operations
6. Be Passionate

#1 Develop a Product

An entrepreneur must develop a product or service that possesses value to others. Bob Nilson, chairman of Café Rio Corp. and President of Burger King Corp., once said that when people sincerely love a product, those people will continue to buy it. When people love a product, they will also tell friends and family about the product. Any successful business begins with a successful product.

Consumers love products that solve problems. One example of a product that solves a problem is the rumble strip found on the side of roads. Accidents caused by drowsy drivers were a problem. Transportation departments needed to decrease the number of injuries and fatalities attributed to drowsy driving. The solution literally “shook the world”. Rumble strips cause any vehicle to vibrate loud enough to wake any sleepy driver. Rumble strips saved many lives by solving the drowsy driving problem.

When developing a product or service, positioning must also be kept in mind. Position is the place where the consumer perceives a product fits in the market. The following table exhibits possible product position in terms of quality and price of a product:

The following table exhibits possible product position in terms of quality and price of a product.¹

		PRODUCT PRICE		
		Higher	The Same	Lower
CUSTOMER BENEFITS	More	Higher price for more benefits	Same price for more benefits	Lower price for more benefits
	The Same		“Me Too” positioning	Lower price for same benefits
	Fewer			Much lower price for fewer benefits

Successful businesses are often located in one of four categories bordered in green. Positions with yellow and red borders find little to no success.

Why is the position of higher quality for lower price not a successful positioning technique? Positioning product as higher quality and lower price can be successful, but only temporarily. The four positions bordered in green provide sustained success. If an entrepreneur can develop a product or service that solves a problem and is correctly positioned, the entrepreneur can start a successful business.

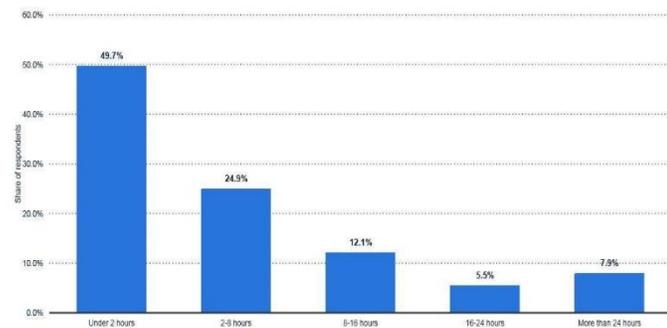
#2 Market the Business

Second, marketing a business leads to entrepreneurial success. The following graph depicts the percentage of small business owners as a relation

to the amount of time spent marketing each week and shows the need for marketing in a small business scenario:

Weekly time spent on marketing efforts according to SMBs in the United States as of March 2017

Weekly time spent on marketing according to U.S. SMBs 2017



Almost half of all small business owners spend less than 2 hours marketing each week. And 75% spend less than 4 hours marketing each week.

Lack of marketing efforts is one main reason why startups often fail. Without marketing, an entrepreneur can't effectively sell a product or service. Effective marketing is reaching the heart of the consumer.^{iv} Marketing isn't merely selling a product. Marketing is showing how a product or service can support consumer's values. For instance, Nike TV commercials focus on figures that exhibit hard work, determination, resilience, and health. Rarely will Nike air a commercial explaining its new shoe technology. Nike doesn't sell a product; Nike sells a lifestyle. So, how can your product reach the heart of your consumers?

Lastly, to market effectively, an entrepreneur must target consumers. The first step is to segment the population into groups, so that each group possesses a similar trait. Groups can be segmented by age, household income, or location. After segmenting groups, targeting strategies that will reach the hearts of individuals from each specific group must be developed. Entrepreneurs who target specific markets reap business success.

#3 Receive Financing

Third, successful businesses require financing. Manufacturing products, hiring employees, and renting office space each require money. Multiple financing options are available to entrepreneurs. Certainly, loans from family and friends may be used, but one must be cautious when doing so. Business failure can easily disrupt any close relationships.

Rather than putting important relationships at stake, seek financing options like the following:

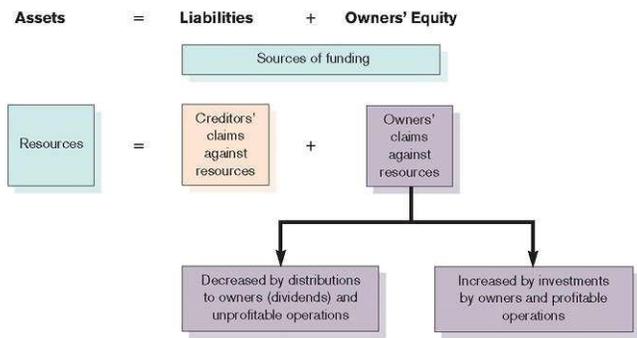
- Bank Loans
- Hard Money Loans
- Personal Investors

Each of the stated financial sources have accompanying risks; typically, each lender asks for collateral in the case that the loan is not satisfied. Be wary of these loans; many entrepreneurs have lost homes and cars because of failure to repay the loan. An entrepreneur can avoid losing collateral if the business is structured correctly by following the six steps outlined in this article.

#4 Balance Accounts

Once financial backing is received, a business must have an appropriate accounting plan to manage the money. Money is the life of a business. Effective management of a business's assets will allow any business to succeed.

An entrepreneur must abide by age-old accounting principles to ensure success. The most important accounting principle is the Accounting Equation. The Accounting Equation dictates the balance of all accounts. The following graphic depicts the Accounting Equation:



Assets include cash, inventory, equipment, and accounts receivable. Liabilities would be defined as accounts payable, loans payable, and wages payable. Equity is company stock and profit. No matter the case, assets must equal liabilities plus equity.

Balancing the Accounting Equation in a personal business can be difficult. The capacity to do so separates good entrepreneurs from great entrepreneurs.

The second most important accounting principle is the break-even analysis. Every business owner must run a break-even analysis using the Cost-Volume-Profit (CVP) Model to determine whether a business will be viable. The CVP Model exhibits the target income as the difference between sales price and fixed and variable costs. It also informs the business owner how many units must be sold to make a profit. The equation is simple:

$$\begin{aligned}
 & (\text{Sales Price} \times \text{Units}) \\
 & - (\text{Variable Cost} \times \text{Units}) \\
 & \quad - \text{Fixed Costs} \\
 \hline
 & = \text{Target Income}
 \end{aligned}$$

The target income must be set at zero to determine how many units must be sold to break even.

Once the break-even point is calculated, the entrepreneur must compare the number of units that must be sold with the number of consumers in the target market. If the number of consumers is less than the number of unit sales needed, then the entrepreneur must either expand the target market or decrease costs.

By using the Accounting Equation and the CVP Model, an entrepreneur can create a successful accounting plan. Both investors and consumers rely on sound accounting practices to make decisions. Effective accounting results in more funding and profit.

#5 Structure Internal Operations

Fifth, a successful business requires structured internal operations. Two main components go into internal operations:

1. Structure
2. Employee Satisfaction

Structure within a business allows for success. Most managers surprisingly fail to adequately distribute responsibility. A personal story from my career demonstrates the business structure dilemma:

I was once hired to be an assistant project manager for a mid-sized company. My boss threw me into the job the first day without much direction. After the first month I was still confused about what was expected of me by my boss. There were no concrete goals set; my boss simply told me to do a “good job”.

My boss’s vague structure brought unnecessary stress in my life and caused me to underperform on projects. From my viewpoint, personal stress and underperformance could have been avoided if my manager provided a detailed description of my responsibilities. A successful manager defines each employee’s scope of work and holds him or her accountable to the responsibilities given.

A manager also succeeds when employees are satisfied. Traditional belief is that “cold hard cash” is what speaks to employees. But modern business models suggest otherwise.

Vivint provides a great example of how to effectively motivate employees. Salesmen at Vivint earn commission from each sale. Cash is important to some degree, but Vivint goes beyond just cash. Managers incentivize salesman to work harder by offering prizes on top of commission for hitting quotas. Prizes include fashionable clothing, vacations, and tickets to sporting events. Vivint is making work enjoyable by offering fun experiences rather than lifeless money.

By communicating responsibilities and ensuring employee satisfaction, a company will thrive from within. Happy employees provide a great marketing advantage. Consumers will be happier when interacting with satisfied employees and happy consumers lead to profitability. Any entrepreneur can direct a successful company by correctly running internal operations.

#6 Be Passionate

Lastly, the root of any successful start-up is a passionate entrepreneur. The entrepreneur must want it. Even great businesses might take a few years to be profitable. Passion for the product or service will motivate an entrepreneur to keep going when times get hard. Passion will bring success.

Notes

1. Bob Nilson, “Word of Mouth Marketing”, Presentation Given at Brigham Young University, September 17, 2019
2. Swenson, Whitlark, and Rhoads, Marketing Fundamentals, Ed. 3 (Orem: MyEducator, 2019), chap. 8.6, <https://app.myeducator.com/reader/web/1590a/a5511/k556g/>
3. Dossier, SME Marketing in the U.S. (Hamburg: Statista 2018), 11, [file:///C:/Users/admin/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/study_id42671_sme-marketing%20\(1\).pdf](file:///C:/Users/admin/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/study_id42671_sme-marketing%20(1).pdf)
4. Michael J. Swenson, “Marketing Strategy”, Lecture Given at Brigham Young University, September 3, 2019
5. Albrecht, Stice, Stice, Introduction to Marketing, Ed. 11 (Orem: MyEducator, 2019), chap. 2.2, <https://app.myeducator.com/reader/web/671aea/topic2/o72u3/>

Passion also leads to profitability. Entrepreneurs who love their product don’t have a problem selling the product to consumers. Sharing the personal value of a product with consumers will allow consumers to connect the product with their own values. Successful businesses begin with a passionate owner.

Even the most renown self-starter strongly suggests entrepreneurs must have passion for what they do. Steve Jobs said the following:^{vii}

“The only way to do great work is to love what you do. If you haven't found it yet, keep looking. Don't settle.”

Ultimately, a successful business is driven by a passionate entrepreneur who loves what he/she does.

Conclusion

To reiterate, successful businesses start with these six simple steps:

1. Develop a Product or Service
2. Market the Business
3. Receive Financing
4. Balance Accounts
5. Structure Internal Operations
6. Be Passionate

Anyone that applies the six simple steps when creating a business will be successful. Anyone can be an entrepreneur. Anyone can make a difference in this world.

6. Albrecht, Stice, Stice, Introduction to Marketing, Ed. 11 (Orem: MyEducator, 2019), chap. 21.4, <https://app.myeducator.com/reader/web/671aea/topic21/zg35o/>
7. Steve Jobs, "Steve Job Quotes," goodreads, accessed November 12, 2019, <https://www.goodreads.com/quotes/tag/steve-jobs>