

One Way to Small Business Success

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Foreword

The American Dream is characterized by a financial independence that includes the freedom to choose your lifestyle. Many people chase after this dream of owning and operating their own business, but according to the Small Business Administration (SBA), roughly 50% of all small businesses fail within the first five years.

Success in business is never automatic. It isn't strictly dependent on luck (although having it never hurts). It is heavily dependent on the owner's foresight and organization, but even then, there are absolutely no guarantees.

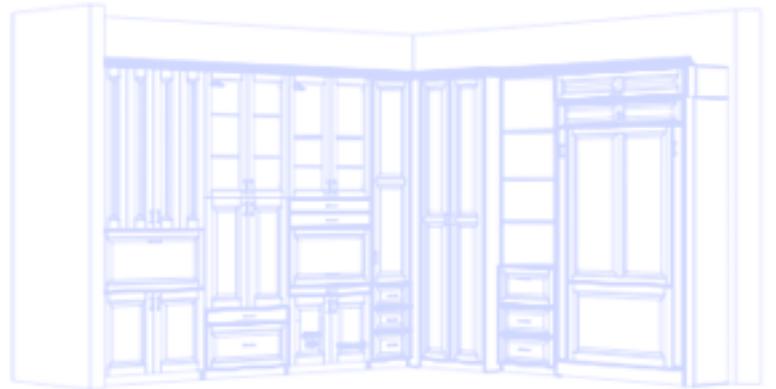
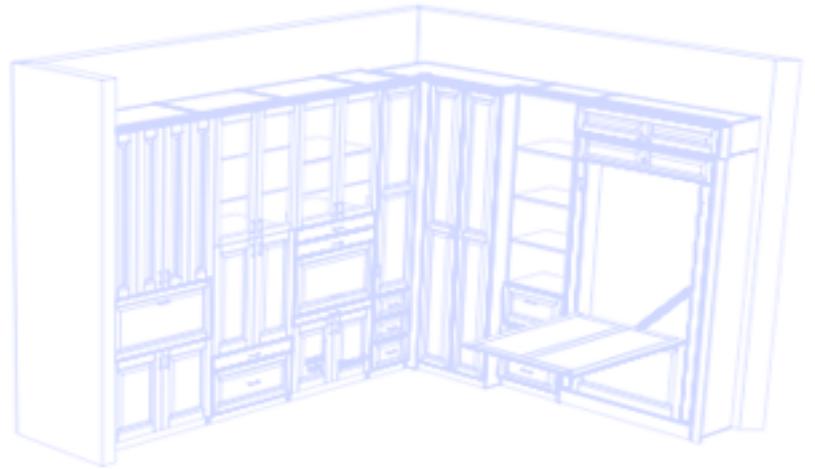
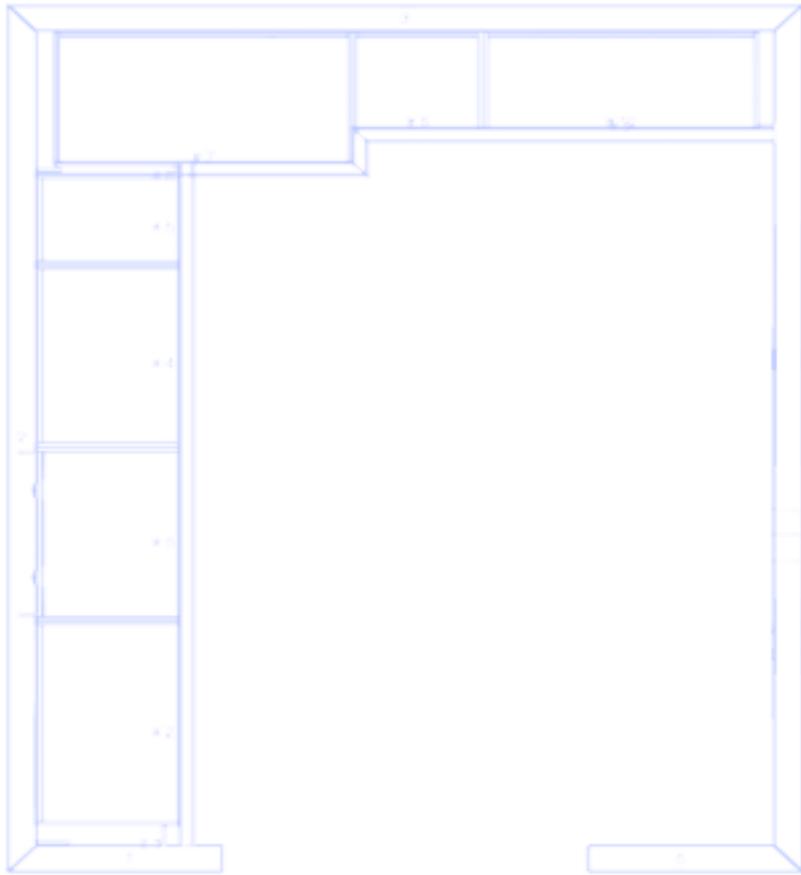
However, it is guaranteed that the business fails due to at least one of the following reasons:

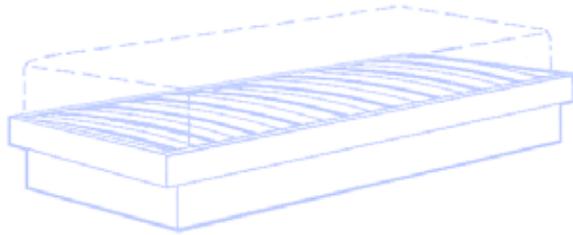
- (1) Lack of owner experience
- (2) Lack of sufficient capital
- (3) Poor business location
- (4) Poor inventory management
- (5) Poor use of available resources
- (6) Unexpected company growth
- (7) High competition
- (8) Low sales

Starting a business is like stepping on shaky ground. The above reasons aren't meant to scare you, but probe you to think --- exactly what enables a small business to succeed?

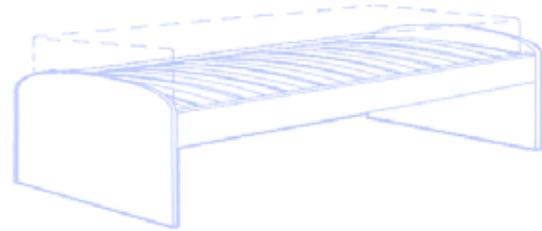
The answer to that question is one we seek ourselves as we sketch a rough business outline for you in the book for our mock-up product. Going through such a process is good practice when it's time to draw up the real thing. Due to our limited resources and connections, the professional advice we've gotten is only applicable to general business and not specifically for our mock-up. Even though our product is a sham, the thought that went into its future can serve as a valuable model for those of you who are currently thinking of yours.

Thank you to Mr. Fox and Mr. Wildanger of Valet Organizers, and the team at idEngines for allowing us to tour your company startup.





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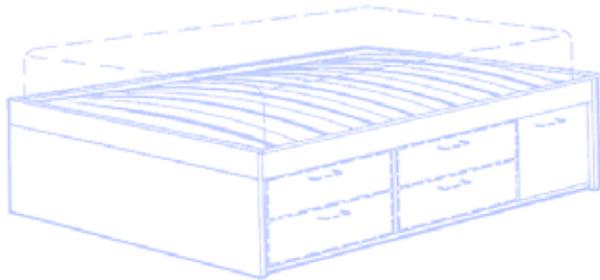
Section I:

Before the Genesis

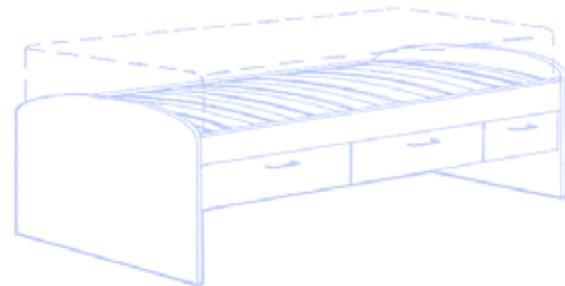
STORAGE PEDESTAL



LOW TREASURE BED



TREASURE BED



TREASURE BED W/TRUNDLE SPACE

Larry Fox
Valet Organizers



Qualification and skills

In business, there are no guarantees; no way to eliminate all possible risks associated with starting a small business. However, chances of success can improve with good planning and preparation, insight and hints. We can start by asking, is entrepreneurship for you? Because, honestly, the difficulty of starting a business is one of the biggest obstacles entrepreneurs underestimate.

Are you a self-starter? You need to be in order to develop projects, organize time, and fulfill the details.

“You need to be well organized. You need to know on any given day where you’re going to start and where you’re going to get to, and where you’re going to be. You need to be goal-orientated,” Mr. Fox says.

Can you multitask? Or can you get along with different personalities? Small business owners need to be able to handle the work in all fields as they’re starting up because you have yet to recruit others



Ward Wildanger
Eurodesign / Valet Organizer

to help you. Working relationships need to be developed with a variety of people.

“You need to be able to command the respect of the people working for you,” Fox says, “and motivate those people. And you need to be able to trust them. You need to be able, at some point, say: “This is your job, you’re going to do it, and here is what I expect of you”, and let them go at it and do their job because you can’t do it all.”

You also need three other things Wildanger adds: “The ability to attract customers, and, two, the ability to get those customers to actually buy your product, and the ability to produce the product efficiently enough that you can sell it at a profit. If you can do that, you can sell anything --- it doesn’t matter what you’re selling; you just have to be able to produce and sell it at a profit. Preferably, you should sell something that’s legal.”

Do you have the spirit of an entrepreneur? Are your skill sets adequate? Let’s move on.



Pete Selda
CEO of idEngines

Setting up

This is the part of the business that we will not go into detail about. Setting up the business is the easy part. The struggles of keeping the business alive are what we're concerned with.

There are two books that we recommend that you consult in addition to reading this book if you are seriously considering starting a business: *The Small Business Owner's Manual: Everything You Need To Know To Start Up And Run Your Business* by Joe Kennedy; and *What No One*



Ever Tells You about Starting Your Own Business: Real-Life Start-Up Advice from 101 Successful Entrepreneurs (What No One Ever Tells You About Starting Your Own Business) by Jan Norman.

* * *

Our mock-up product for our business outlining will be a PC (video) game.

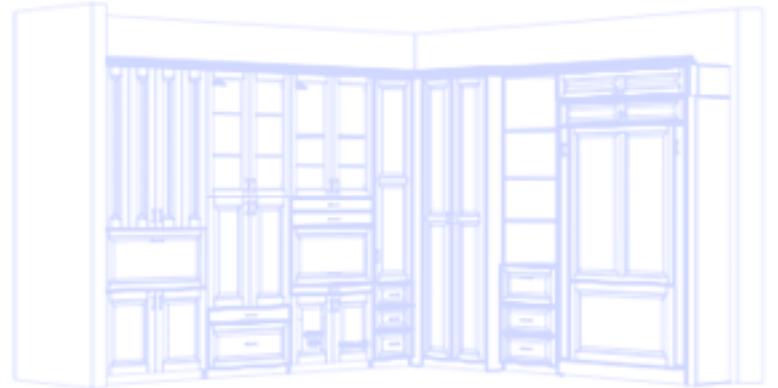
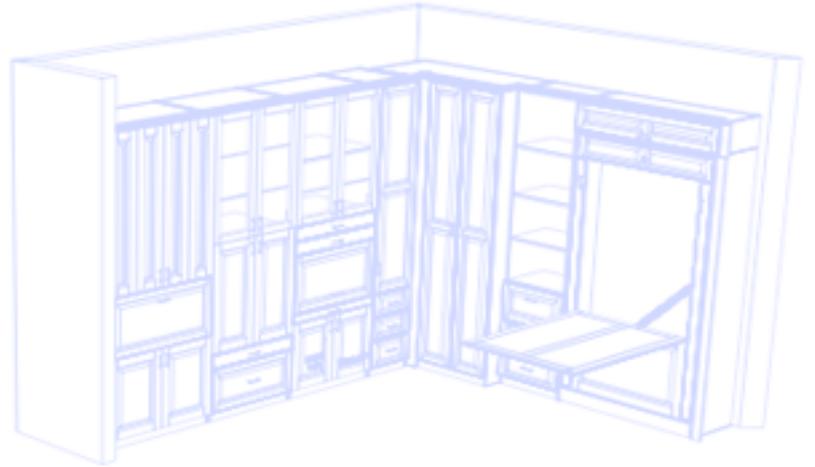
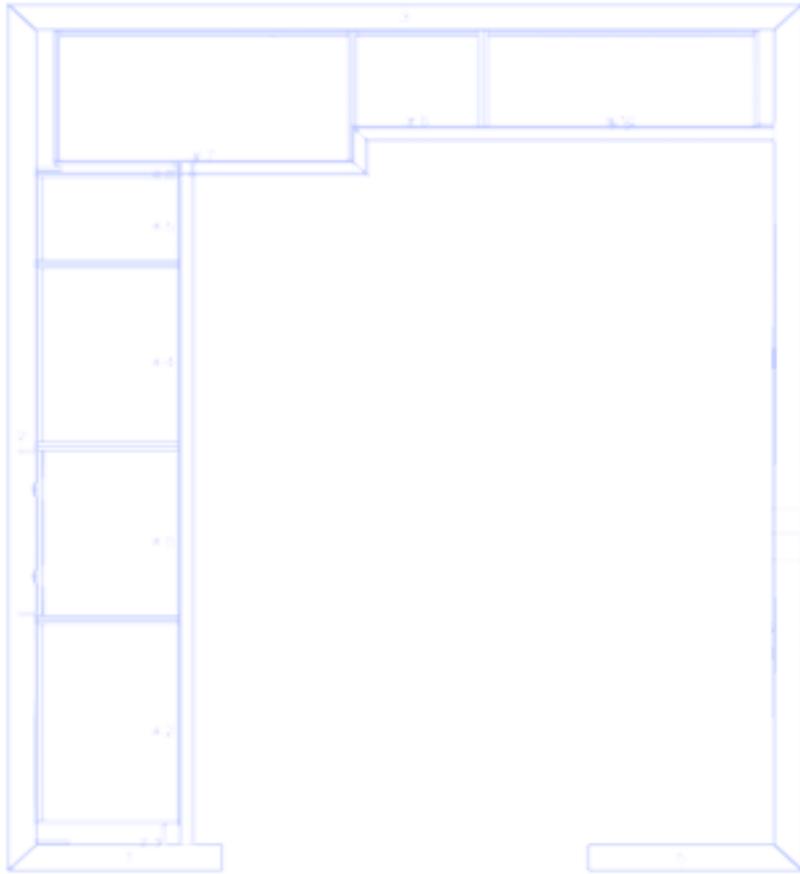
Granted, it's probably not the product you're selling, and it's certainly not the product our advising professionals are selling either (we have limited contacts). However, the product is very relevant to us (one of us is developing one) and the obscurity of it will provide you a model of how to add specifics to a general business plan.

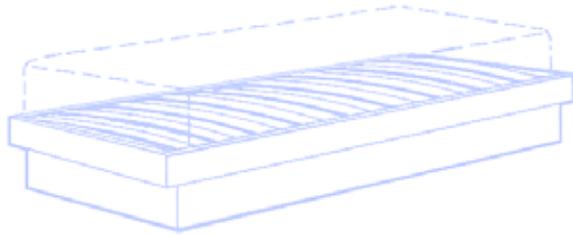
Our consultants will also have specifics to their business as well.

Mr. Fox is the president of Valet Organizers, a company specializing in the home improvement / custom home furniture niche. He acquired it as an ongoing company in February 2000, and has since expanded, even acquiring one of its competitor companies in April 2005. Valet Organizers is a full service company. Their products include custom closet systems, garage cabinetry, home furniture, wall beds, media centers, laundry rooms, pantries, etc. They handle everything from design to manufacture to installation.

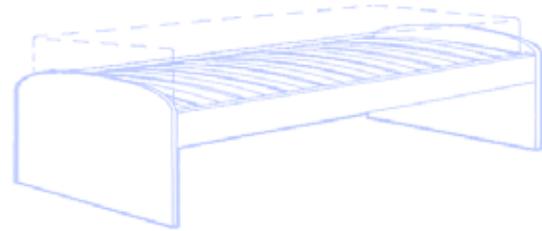
Mr. Wildanger was the president and owner of Eurodesign before he sold the company to its competitor Valet Organizers. He is now the engineer at Valet Organizers, and is responsible for integrating their product line with that of Eurodesign's.







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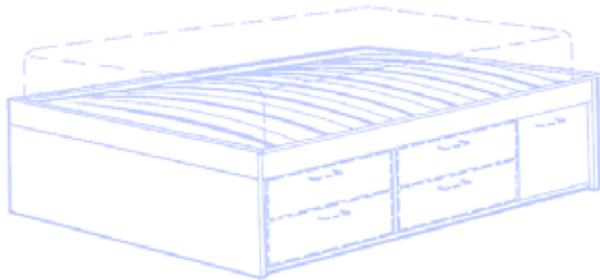
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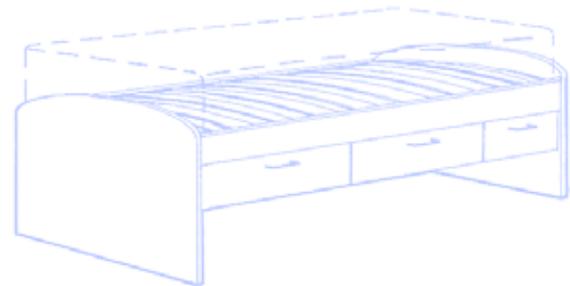
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Section II:

The Niche Market



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Defining the niche and why it's targeted

For our product type, the traditional business model for a developer would be to make the product and submit it to a publisher, such as E.A. Games, who would then handle distribution and sales. But for small, independent developers with no reputation and little resources, getting a publisher takes tremendous effort and the rewards of a successful title are less than that of a successful, independently published title.

In the entertainment world, the barrier into traditional market is higher than ever as publishers are not willing to risk resources on new artists and developers and authors and everyone else. This barrier has driven people to look for alternatives into the market, and one such alternative is the root of how publishing began: self-publishing (or "going indie" as it's known in the entertainment world). But with the revolution of the internet, the barriers for reaching potential customers have lowered, causing the self-publishing / indie venture to prosper.

Self-publishing has a different meaning in each field, but in terms of making sales, direct

sales from producer to consumer has always been a self-publishing staple (there are manufacturers and small businesses who heavily practice direct sales --- one such company is Valet Organizers. Service-based businesses usually work directly with the customer as well).

When making direct sales, you can't just sell to everyone --- not everyone would buy, and pitching your product so many times would spread your effort and resources thin. Direct sales must be targeted to be effective. By finding, identifying, and targeting a market, you gain more customers through focused effort.



Defining the target

I believe it is easier to describe this by using a concrete example.

Let us assume we own a banana farm and sell bananas. All of the rhinos, wolves, and chickens are part of the general consumer market. But they do not belong to your market, since they won't bring any benefits for you – most likely, the rhinos will only ruin your land. This market is not targeted. Chickens, wolves, and rhinos will never buy your bananas.

There are others in the consumer market too --- such as monkeys and humans. That's the targeted market. These monkeys and humans can actually buy bananas from you. They are interested in your product – they are the ones who should come to your banana farm. This is probably the most important to know when you advertise your product. It does little good to advertise your bananas to chicken or wolves. Sure, there might be a wolf who would mention the ad to a monkey, but that's not quite likely. It's much better option to advertise and sell your bananas to those monkeys (and humans). It's much better to advertise to five monkeys who might buy bananas from you, rather than advertise to 5000 rhinos that will never eat your bananas.

Targeting the general consumer market – the mass market – focuses more on quantity of spontaneous purchases. Targeting your right market – the niche market – focuses on quality of sell-through.



Efficient manufacturing and product delivery are keys to customer satisfaction. [Valet Organizers]



Capitalizing on the base of customers by offering further customization and selection.

Although the example is a little silly, the heart of the matter is very important. Target the niche and only the niche because it effectively brings about better results. Stretching your resources thin by trying to appeal too massive a market brings about doom.

According to Fox, “[as the company grew] we needed to make a decision about ... who we’re really appealing to, and where we need to put our energies. But in our case, we made an affinitive decision that we are appealing to a more affluent customer that wants a full-service turnaround product and that values quality. And, so, we have guided and positioned our business for that customer.

“...My customer is looking for someone, who would just come in and provide a professional design to maximize their space. And someone who’s going to come in and take care of it for them; bring it in their home and install it for them, and stand there year after year; and they’re going to stand behind their product.

“We have said “This is our customer.” And here is what the average household income is of our customer, and here is where – the demographics of that customer; they’re this old, or they’re married; they own their own home; and so on and so forth. Eight out of ten of them live in these pockets. So we’ve gone to that extent and identified the demographics, and --- so when we do our advertising, we’re definitely advertising to that demographic, and trying to capitalize on that base of customers.”

In other words, Wildanger adds, we target “people that have lots of money [and want to maximize the space in their homes]. Our product is an expensive product. It’s not cheap. So you need to have a lot of money, but you want to make the best of it, so you buy our product.”

In most cases, targeting a niche market and making direct sales go hand-in-hand. However, there specialty distributors/wholesalers, who handle a particular niche, do exist. For example, a publisher passes a book on gardening to a specialty distributor who would market the book to flower shops, (who typically do not have connections with major book distributors like Ingram or Baker & Taylor who sell to bookstores,) who then relies on customers to spontaneously pick the book up in-stores and buy it.



Valet Organizers is a direct seller that designs, manufactures, delivers, and installs its own products.



Sample niche business model

There is an interesting article posted by Danc, a multitalented worker in the game industry, on his Lost Garden blog.

To save you the trouble of reading the whole essay (although you should because it's an interesting read), we will block quote the relevance. He writes:

Most metropolitan areas sport a wide array of bands that eke out a reasonable living by touring about the nearby countryside. At every stop, they get a bit of cash from the till, sell a handful of T-shirts and maybe even an album or two. If they are good, they build up a sizable population of groupies that worships the ground they walk on and follows them from show to show.

Very few people outside of the circle of fans know who these bands are. Yet the moderately successful bands make enough to get by and a few even manage to prosper. These bands do not sell a product like their mass market Brittany Spears brethren. Instead, they survive by providing a service to their devoted fan base.

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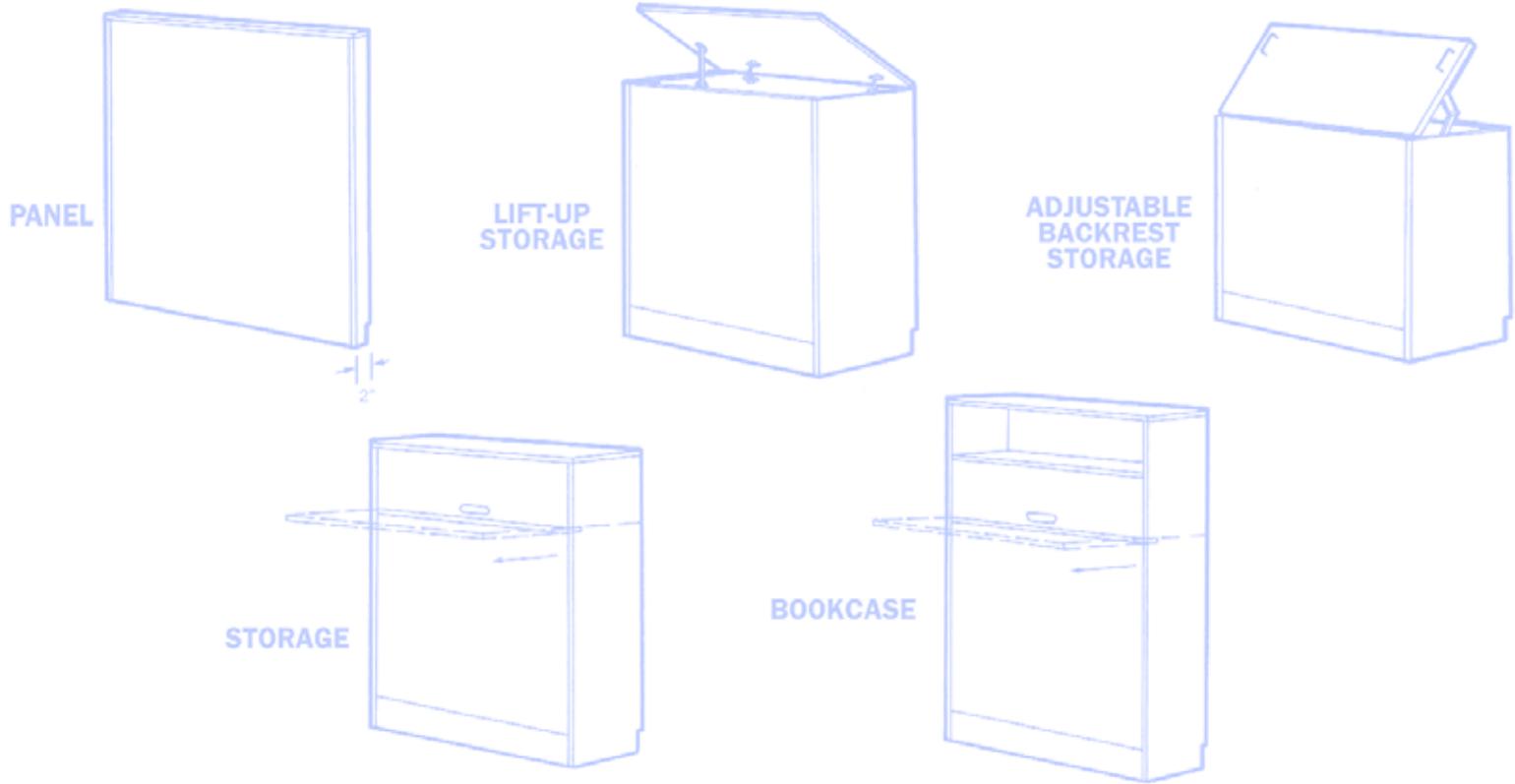
A touring band cannot rely on selling millions of copies at \$17.95 a pop to anonymous music fans across the nation. Instead, they make their money by selling a wider range of goods and services to a narrow group of fans. There are really only two ways of creating a reasonable revenue stream. You can get a little bit of money from a large number of people. Or you can get a lot of money from a relatively small number of people.

Touring bands aim for the later. They build a brand based off a powerful social experience and establish a strong relationship with their customers. They then leverage this brand to encourage the sale of merchandise, event tickets and more. The result is a strong lasting brand and high per customer revenue.

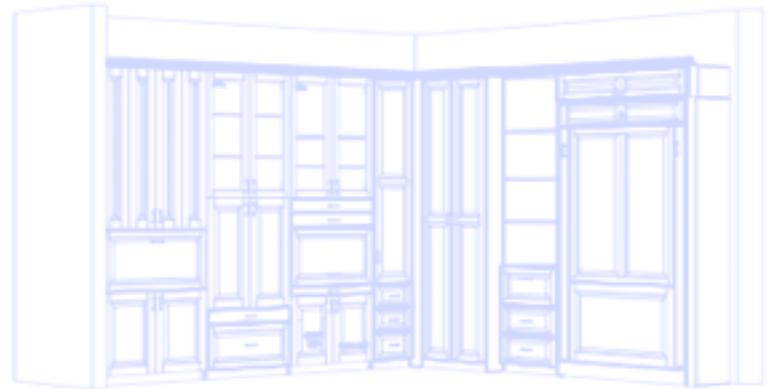
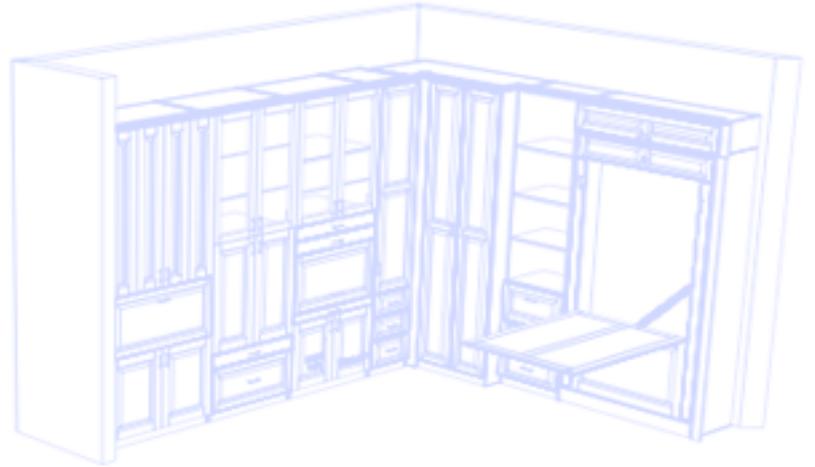
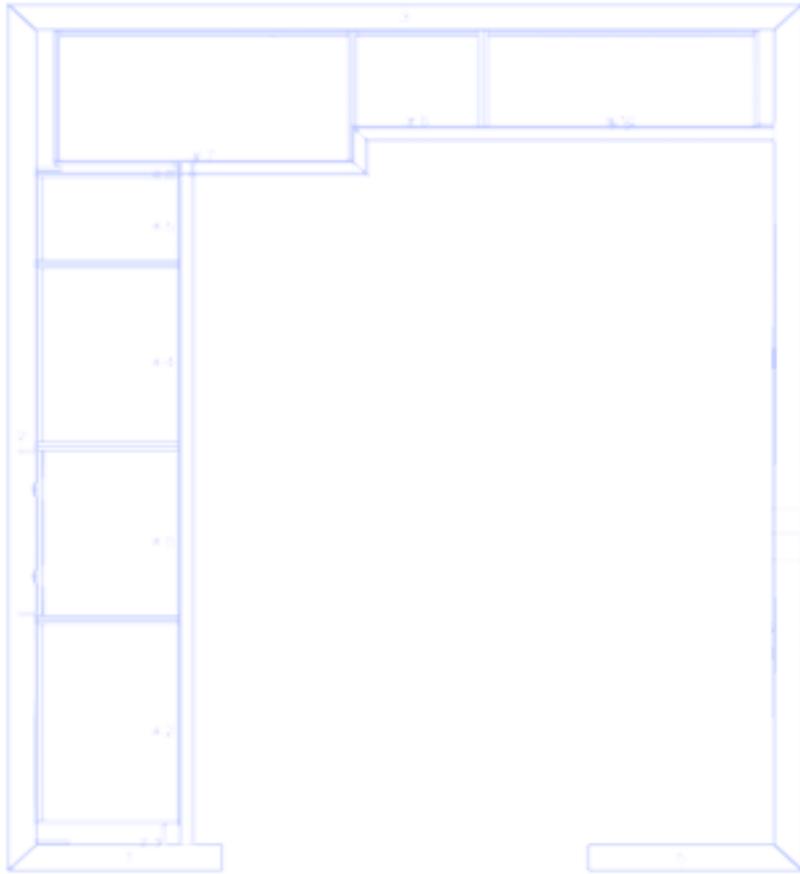
There is a classic business case taught in most MBA entrepreneur classes that examines the 30-year reign of Grateful Dead. Even though they allowed free taping of their concerts and capped their ticket prices, they remain to this day one of the top grossing bands of all time. They bucked the trend of selling records through the corporate food chain and instead provided music directly to their fans.

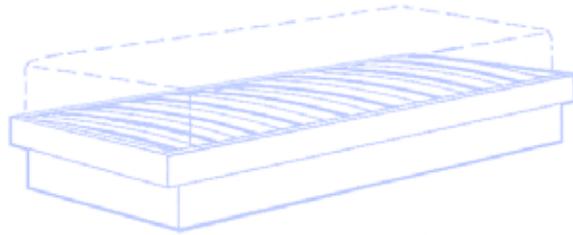
There is a simple lesson here. A dedicated fan base combined with a service-based business model can be a great foundation for an owner running a business.

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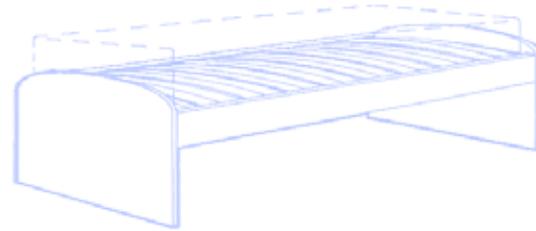


We think he's on to something.





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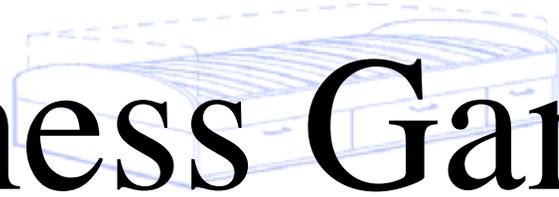
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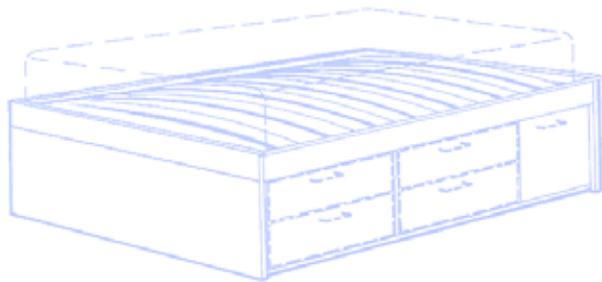
The Business Game



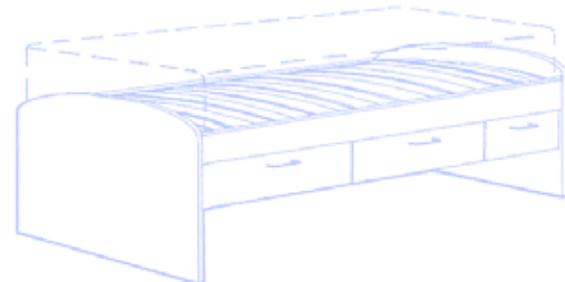
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TREASURE BED



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Although a PC game is by no means a rock band, we can apply the basic business technique practiced by touring bands to the field of PC games and online distribution with good success.

A company that can gather and sell to a dedicated fan base (albeit usually small) can get enough revenue per user to make the venture profitable. The result is a self-contained community served by a small company.

Service-based companies that generate revenue from subscriptions are in luck with this model. Companies that sell a packaged good luck out, unless what you sell supports the possibility of frequent return customers (e.g. groceries, or the PC game *The Sims*).

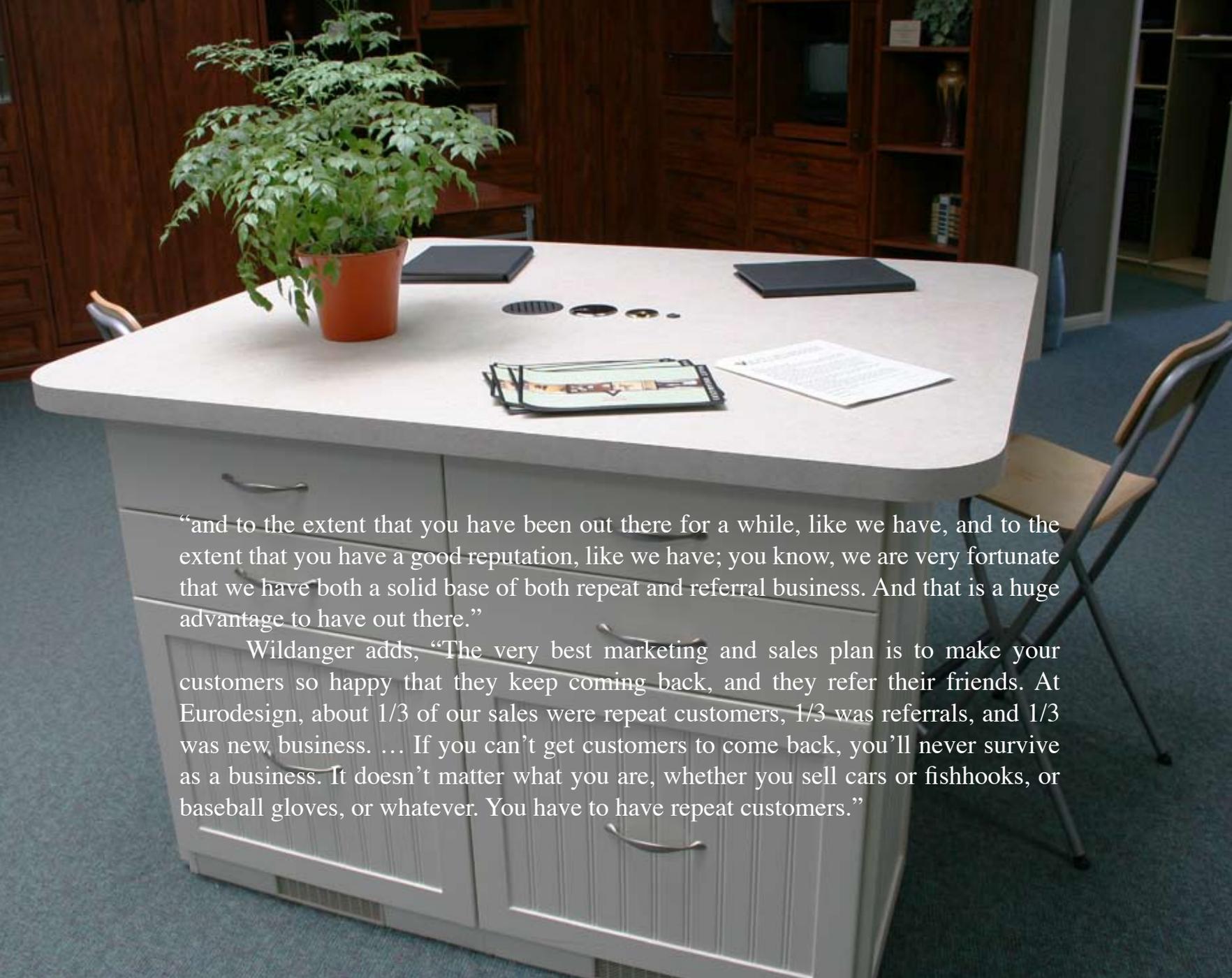
Repeat business is heavily emphasized in this model, and that certainly is not a bad thing.

idEngines is a product-based business offering network solutions to the education, enterprise, government, and health care industries. They specialize in network identity and security.

Bill Snow
Vice-president of idEngines



“...there is nothing better than repeat and referral business,” Fox says.



“and to the extent that you have been out there for a while, like we have, and to the extent that you have a good reputation, like we have; you know, we are very fortunate that we have both a solid base of both repeat and referral business. And that is a huge advantage to have out there.”

Wildanger adds, “The very best marketing and sales plan is to make your customers so happy that they keep coming back, and they refer their friends. At Eurodesign, about 1/3 of our sales were repeat customers, 1/3 was referrals, and 1/3 was new business. ... If you can't get customers to come back, you'll never survive as a business. It doesn't matter what you are, whether you sell cars or fishhooks, or baseball gloves, or whatever. You have to have repeat customers.”

Unfortunately, our mock-up PC game is not designed to be service-based (service-based games provide a predictable stream of income; an example is the MMORPG, World of Warcraft, and its subscription model). Assuming that we can capture a community within our niche market, the only way that we can continue to be profitable is if we sell multiple products to our fan base in the same year.

The mass market business model of video games is quite predictable (as well as similar to books and, perhaps, music). There is a large emphasis on mega hits in order to break even; large, up-front investments; and proven marketability (which often means sacrificing innovation). There are also high risks of failure due to intense competition in the broader market.

Due to the large amounts of up-front resources invested in game development projects (time, money, manpower, etc) a product that misses an audience and sinks in the market can drive the development studio or publisher out of business.

One counter to such a problem is episodic games --- games that are released in episodes, like a single episode in a TV series. Although the definition of episodic games has been debated amongst current developers and publishers, we will define it here as a shorter (e.g. 2 hour for game completion instead of 15, or 20, or maybe even 40 for those RPGs), but complete, game with a smaller price tag. A fine example would be Telltale Games' *Sam and Max*.





A home office setup to increase productivity
Valet Organizers

The advantages of episodic games include a smaller up-front investment since a single game episode is shorter than a full-length; less time spent in development; and less risks since a miss in the market isn't as bad as a loss (the company can terminate the remaining episodes and move onto another project that may become a hit). At the same time, if the game is successful, subsequent episodes will bring in more revenue. Player suggestions and input can be incorporated into later episodes, thus improving the overall game series.

For gamers, the amount of hours they can get out of a single episode is probably considerably less than that of a full game. But according to an article at Gamsutra.com, an online community of game developers, shorter games are actually preferred due to the tides and ebbs of daily life. People just don't have time to sit and invest 20-40+ hours for a single game (again, those RPGs).

Once the first episode is released, subsequent episodes are quicker to develop because the groundwork (essential graphics, the game engine, etc) has already been laid. This results in the time interval between episode releases to be shorter. Within a year, several episodes can be released, thus providing a sort of pseudo-service for the fan base.

TIP: Things to consider when increasing team head count

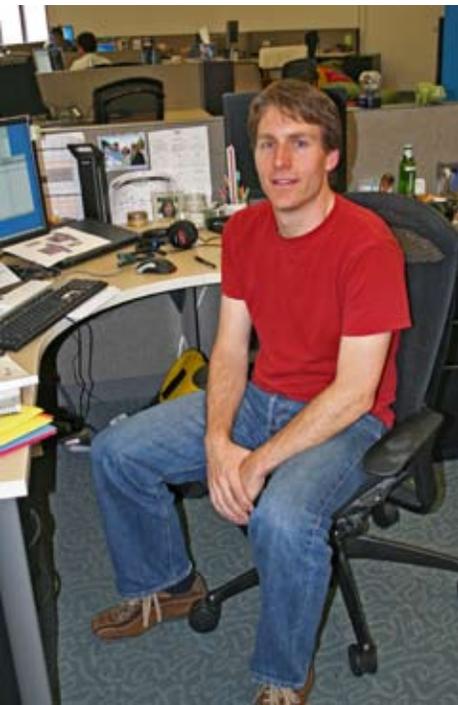
(1) Why do you need other team members?

Valuable team members are essential to business productivity (and social well-being), but answering this question is absolutely necessary before you proceed to add someone to the team. A larger team does not mean productivity (although it can), but it does mean increased business overhead.



(2) Focus on “who can do what”, and not “what has who done”

People who are motivated and have time to contribute are more valuable than people who have done great things in the past but have nothing to offer to the current project. Naturally, you should check what projects they have completed in the past, but be more concerned about if these people can get things done.



(3) Increased head count means increased management

Working in a team requires coordination, writing, and communication. Be extra careful about what kind of people you add to your team, and what it means in terms of responsibility. Dealing with (e.g.) seven other people means quite a lot of time spent on putting everything together.

Direct sales versus distributing networks

We mentioned earlier that in most cases, targeting a niche market and making direct sales go hand-in-hand. The reason behind this is that when you know your target niche, you will know who your customers are, so instead of relying on a potential customer to buy your product on a spontaneous browse, you can approach them face-to-face and sell directly to them.

Direct sales have one advantage compared to selling through a distribution network. You earn 100% of the retail cost.

Expect to lose your intellectual property when you go through a traditional publisher.

The final product that the publisher distributes will be sold at a massive discount. This is because everyone involved (publisher, distributor, wholesaler, and retailer) need to make a living too. When a sale is made, everyone takes a cut of the money. By the time the money makes it to you, the artist, author, developer, or manufacturer, it's only 5-30% of what it originally was. If you were paid an advance for the raw product, you typically will not see another penny beyond it until enough sales have been made (normally called 'an advance against royalties').

In other words, making money through the traditional business model is the worst.

To illustrate the contrast between the profitability of traditional and alternative, we asked self-publisher Morris Rosenthal. Although Rosenthal sells books, the same number crunching applies to us and our game. How many books do I need to sell to make a living?

Rosenthal answers: “It depends on how much you net from each copy sold. If you’re a trade author or subsidy published rather than a self publisher, you’ll get a much smaller share of the net than the 50% or so I get. It also depends on what you call a living. Most of the self publishers I know who publish books as their sole income net between \$5.00 and \$10.00 per book, so to make \$50,000 per year, they need to sell from 5,000 to 10,000 copies. On the other hand, as a trade author, my average net per book was around \$1.25. I needed the book to sell around 40,000 copies a year to make the same money I earn selling about 5,000 books a year as a self publisher.”

To summarize, gaining access to the mass market and selling to them means that you are reliant on the quantity of sales to make a profit due to the large discounts you must provide during distribution. Aiming at a niche market means that you are reliant on the quality of your sell-through to make the same amount of profit from fewer sales.

...making money through
the traditional business
model is the worst.

For retail title game developers, making money is a matter of selling as many copies of the game as quickly as possible. The viewing is always short term, and focuses on shipping and placing physical goods.

With the internet, commerce can be conducted online. With digital goods, such as our PC game, we can sell directly to customers and avoid the heavy distribution discounts. We earn more per sale, which means we need fewer sales to achieve a reasonable level of profit, and we get the majority of those sales from repeat business within our community of supporters.



The shipment and placement of physical components in storage is an unavoidable part of the manufacturing business.
[Valet Organizers]



TIP: Creativity vs Profitability

Being a perfectionist may be the perfect way to stunt your creative growth.

How long does it take you to exercise your craft? How often do you write a new song? Conceive a fresh article idea? Finish a painting? Write a new play?

Far too many creative people drag out the artistic process, adjusting a detail here, fine-tuning a nuance there... waiting for a time when the thing is as perfect as they can get it. Others wait years just to start a new project. They require every factor (including their mood) to be in alignment before they'll even take the first step.

There are only four ways to make more money as a creative artist:

- (1) Produce more quickly. Get work done in less time and, therefore, make more money per hour.
- (2) Increase your output. In other words, become prolific. Work at your craft every day, whether you're in the mood for it or not.
- (3) Sell more of your output. Concentrate more on projects that generate income and less on the freebies/giveaways.
- (4) Get paid more. In essence, raise your rates, increase the selling price, or focus on the better-paying markets.

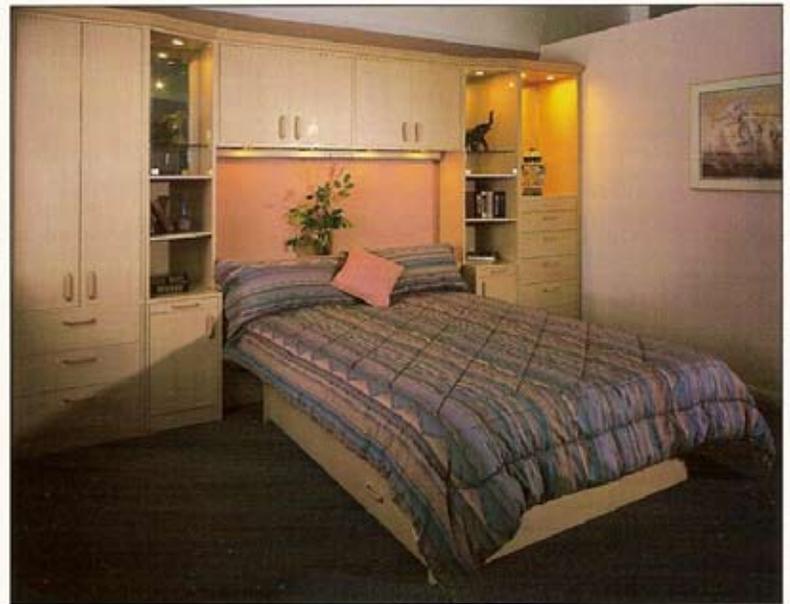
Don't get the wrong idea; we're not advocating cranking out shoddy work just so you can get more done. High quality work is what you should strive for. But if you find yourself reading a 2000-word article just to change one or two adverbs, or when you stare at a painting for three days only to add one dash of magenta in the lower right corner, it may be time to move on to the next project.

Strive to produce more often. Then work toward producing each project more quickly. By doing so, you'll get more practice, increase your skill level, and greatly enhance your ability to profit from your talents.

Fox comments that “for [Valet Organizers,] it’s not how many sales we make a month. It’s the combination of how many calls you go on every month, and what number of those sales you close. What is your sales close ratio? And, you know, if you’re able to close 50% of those calls versus, another number that is pretty close – 25% or 30% of those calls, you’re obviously making more out of those calls you are going out on, and that’s directly relates to how good a job your company is doing out there in selling your product, and also how good a job your company in directing the proper kind of customer to you in the first place. ... The other big number that is evaluated is the average sale dollar – the dollars buying the sale. ... Is your average sale \$5000 or \$3000? And again, that’s directly related to what type of business you’re going after and what features you’re doing. ... You might find that ... you’re working on a number of different sales calls, trying to make a large number of sales, but the sales are smaller. On the other end of the scale, you might be making bigger sales, but you’re going to be putting a lot more into those sales to get to the finish line, and a lot more of your time and effort. And you’re not going to have time to take as many sales calls, so you’ll probably be taking fewer sales calls, and making fewer sales, but a bigger average sale. And either can be a successful business model.”



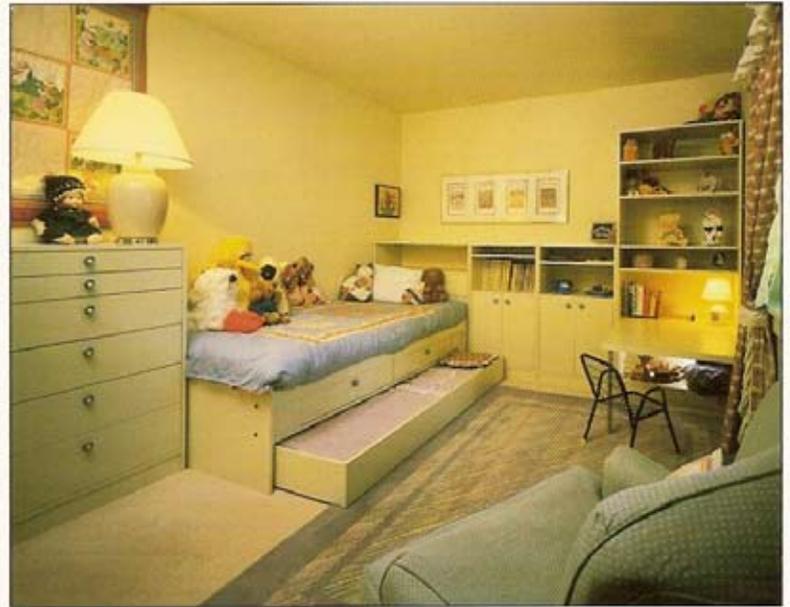
MULTI-PURPOSE ROOM



PEDESTAL TREASURE BED - STORAGE GALORE



42 SINGLE EURO CLASSIC WALLBED



TRUNDLE BED - TWO BEDS IN ONE

Reaching the customer

Informing people of your product and getting customers is the uphill battle for all businesses. In essence, every option requires resource investment and the results do not always correlate with how much money we throw at it.

But advertising is essential.

“You have to advertise to attract some new customers, and remind old customers that you’re still in existence,” Wildanger says. “Valet Organizers has an ad in the paper at least every day. It advertises in the Mercury News, and the San Francisco Chronicle, and the Town Crier, and, I think, the Palo Alto Daily News. Often they are little ads, sometimes they’re big ones. It also advertises in at-home, [and] home decorating magazines ... These are magazines that are sent to people living at certain zip codes, and it’s targeted towards people with high incomes. ... There’s so much advertising available these days that you really have to target what you do because it’s expensive. Typically in a business like this, it takes 8% to 10% of the revenue to advertise, which is a lot.”

However, for businesses smaller than Valet Organizers, such as us, print exposure comes at a disadvantage in terms of investment --- the main one being that (e.g.) a \$50 ad in a newsletter, or several hundred for an ad in the newspaper or a magazine means that we'd have to close quite a few more sales in order to break even.

We advise that free advertisement opportunities be used as often and to the best of your ability. One example would be adding a short ad to your e-mail signature. Guerrilla marketing is also an inexpensive option.

Trying to log on shouldn't set them off.



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802.1X connections. Ignition AutoConnect removes all the complexity surrounding 802.1X client configuration. AutoConnect



Valet Organizer Showroom



TIP: Customer dissatisfaction

“The problem is usually not with the product; it’s very rarely dissatisfaction with the product. Most of the time, it’s some problem with the delivery and installation. Sometimes, some jobs just go south, [and] sometimes, Murphy’s Law seems extra strong for some customers.”

[Wildanger]

Online advertising has also become a norm. A web presence is essential. Not having a web site for your business or product is a modern marketing sin, especially for a small business that relies on direct sales and building/servicing a small community. The fan base needs a gathering point and the web site is an excellent candidate. Additions, such as an online forum becomes a necessity.

The web site, however, does not always have to be the gateway to making sales.

“[At Eurodesign and Valet,] the main goal of the web site is to bring people into the showrooms,” Wildanger says, “so they’ll see how good the product is and order. They can also do a few things like; they can look at different finishes and get an idea of what we build.”

The concept of showing the product to customers and allowing them to touch and sample it first hand is a powerful marketing tool. The software equivalent of the Valet showroom would be the demo version.

Wrapping Up

What we've outlined so far for our product is definitely a good start for a full business plan. Since the actual product-in-development is not complete, it's best that we don't get too ahead of ourselves.

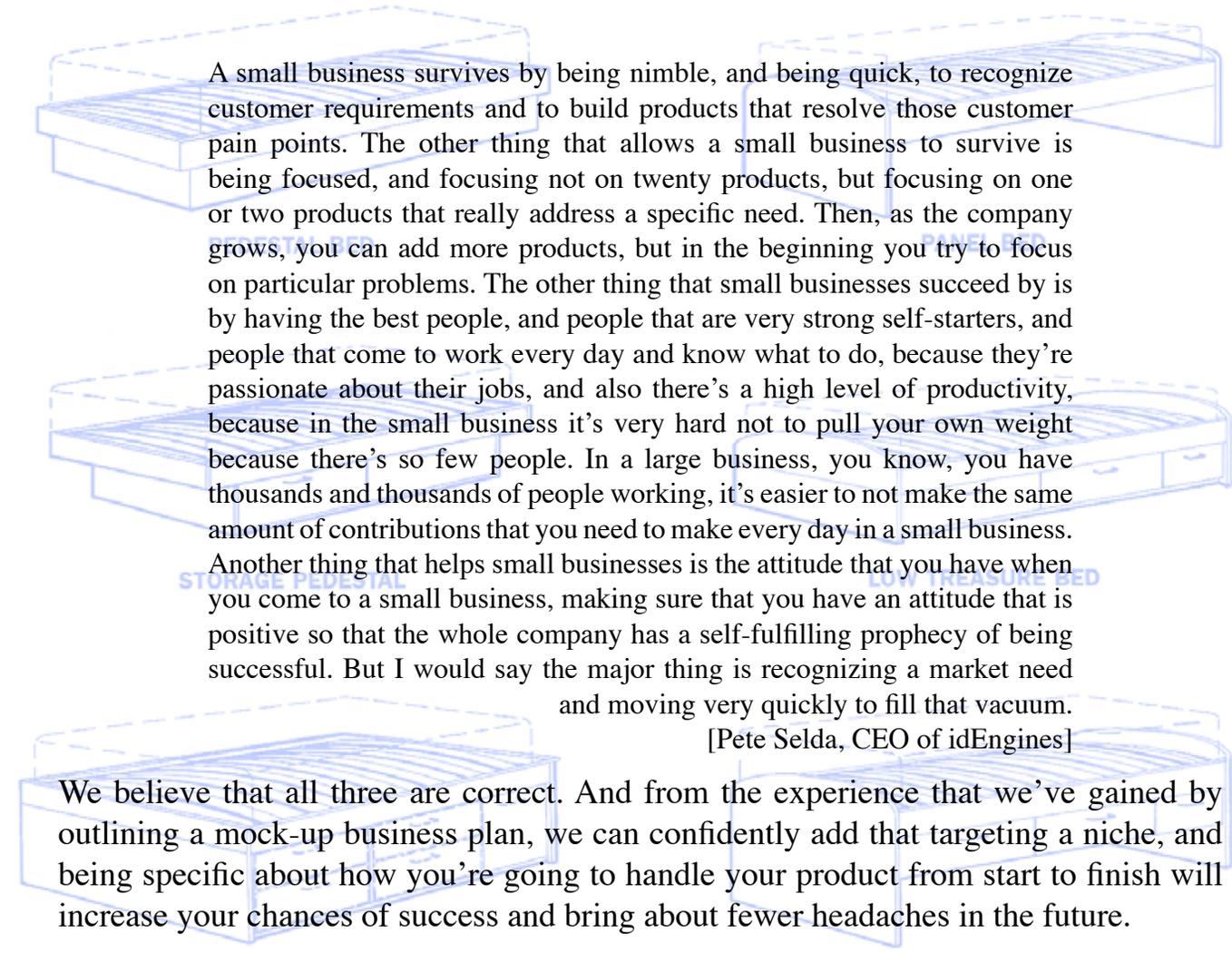
But what we've discussed thus far has given us insight for formulating our own answer to the question: what enables a small business to succeed?

"I think there are many things involved. Most importantly, as I said before, the leader of the business needs to have a vision that leader believes in passionately and can pass on to the rest of the employees and the rest of the team that buy into that vision and are motivated by that vision. Obviously, you need good people, a good team, you need to be well organized, and have a clear understanding of your mission, and where you're focused."

[Larry Fox, President of Valet Organizers]

"What enables a small business to survive is a few things, one is certainly the funding that is provided by the investors, but on top of that is people that have the skills and the desire to create good products, and to get those products to customers, who are then able to pay for them, and if you manage it smartly, then over time you will make more money than you're spending, and you can become profitable, and allow the company to grow."

[Bill Snow, Vice-president of idEngines]



A small business survives by being nimble, and being quick, to recognize customer requirements and to build products that resolve those customer pain points. The other thing that allows a small business to survive is being focused, and focusing not on twenty products, but focusing on one or two products that really address a specific need. Then, as the company grows, you can add more products, but in the beginning you try to focus on particular problems. The other thing that small businesses succeed by is by having the best people, and people that are very strong self-starters, and people that come to work every day and know what to do, because they're passionate about their jobs, and also there's a high level of productivity, because in the small business it's very hard not to pull your own weight because there's so few people. In a large business, you know, you have thousands and thousands of people working, it's easier to not make the same amount of contributions that you need to make every day in a small business. Another thing that helps small businesses is the attitude that you have when you come to a small business, making sure that you have an attitude that is positive so that the whole company has a self-fulfilling prophecy of being successful. But I would say the major thing is recognizing a market need and moving very quickly to fill that vacuum.

[Pete Selda, CEO of idEngines]

We believe that all three are correct. And from the experience that we've gained by outlining a mock-up business plan, we can confidently add that targeting a niche, and being specific about how you're going to handle your product from start to finish will increase your chances of success and bring about fewer headaches in the future.

TREASURE BED

TREASURE BED W/TRUNDLE SPACE

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