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# PERSONAL PLANNING

## Guidebook #43:

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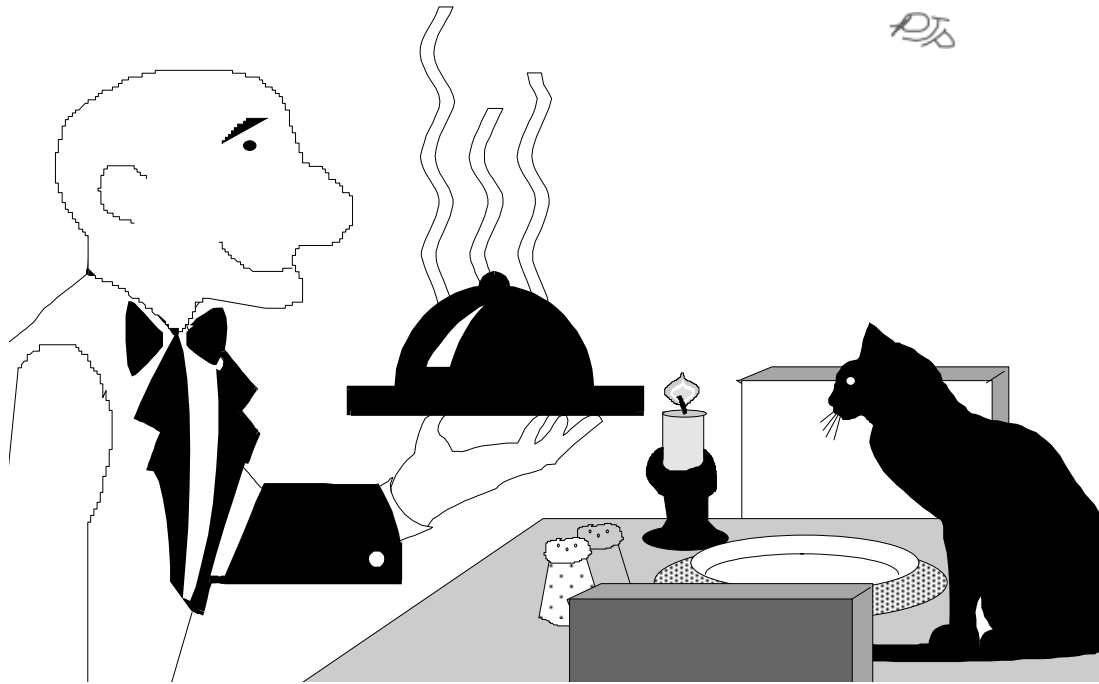
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## **STARTING & OPERATING A SERVICE BUSINESS**

**SERVICES** are the fastest growing segment of both American and Canadian economies employing approximately 70% of the workforce. Key reasons for this growth are new technologies, more disposable income and more women in the work force.

Another key reason for the growth of service operations is the fact that there is no need to carry substantial merchandise inventory for resale – as is the case in retailing or wholesaling – or to make a heavy investment in machinery and other capital goods, as in manufacturing.

Often, little more is required than printing business cards and placing a few advertisements. Indeed, your own home, garage, or apartment can start out as your place of business if necessary.

## TYPES OF SERVICE BUSINESSES

SERVICE FIRMS range from tiny, one-person enterprises to large corporations e.g., ad agencies, universities, and other multi-employee institutions. Service businesses can be equipment-based or people-based. Equipment-based businesses include arcade operators, dry cleaners and airlines. People-based services include janitorial services, beauty salons and legal assistance providers.

**NOTE** The term “service” in a retail business means the concern a business has for the continued operation and usability of its products after they are sold, especially big-ticket items like machinery, appliances, homes, automobiles TVs and com-

puters. On the other hand, in a service business, the term “service” means the work done by one person or group that benefits another. A service business sells expertise and assistance rather than concrete or tangible goods.

*I don't know the key to success, but the key to failure is to try to please everyone.*

**BILL COSBY**

### What Makes the Service Industry Unique?

The service industry is different from product based industries, such as manufacturing, wholesaling and retailing, for two basic reasons:

1. service based businesses are in the business of selling results not products i.e., when clients buy your services, they are buying a promise that you will deliver
2. the standard or quality of service from

a service based businesses is inseparable from the seller of those services.

Both above characteristics are explained in more detail below:

**The Intangible Nature of Services** – Services are elusive, abstract and conceptual in nature, meaning that it is impossible for consumers to taste, feel, see, hear or smell a service before they purchase it. This makes it difficult for people to compare and evaluate similar offerings. Advertising and sales staff must therefore emphasize the benefits of the service, especially tangible benefits, rather than the service itself.

Types of Service Businesses		
Type of Establishment	Number in Category in 1987 (1000)	Approximate Sales/Unit* 1992
Hotels & Motels	63.4	814,401
Photographic studios, portrait	56.2	52,117
Beauty & Barber shops	407.3	29,438
Advertising	79.2	212,146
Computer & data processing services	140.5	398,605
Detective agencies & protective services	45.2	205,819
Automobile Parking	10.5	256,286
Automotive Repair Shops	301.3	113,448
Electrical repair shops	65.7	115,434
Motion picture theaters	8.6	471,628
Bowling Centers	8.3	312,891
Physical fitness facilities	22.3	122,018
Home health care services (with payroll)	5.1	592,941
Legal services	273.2	264,111
Child day care services	248.7	17,226
Accounting, auditing & bookkeeping services	250.1	106,405
Management & public relations services	418.8	103,584
<b>Firms Subject to Federal Income Tax TOTAL</b>	<b>6,254.5</b>	<b>\$138,835</b>

\*Figures derived by dividing total retail sales figures for each classification by the total number of retail establishments in the category. **Source:** "Statistical Abstract of the United States 1994 & 1995, No. 1300 & No. 1315," 114th & 115th ed., U.S. Bureau of the Census, 1987 & 1992 Census of Service Industries)

**NOTE** Unlike regular inventory, which can be put back on shelves, services are perishable and cannot be returned.

**The Problem of Providing Standardized Services** – You can design one product to be the same as the next, but you can't provide exactly the same service to different clients. Services cannot be stored or warehoused. And they cannot be separated from those who perform them or who personally contact the customer. Because of this fact alone, standardization of services is nearly impossible.

*Make yourself  
necessary to  
somebody.*  
**EMERSON**

To help resolve part of this problem, the need for capable and well-trained contact personnel should be quite evident. It is also important to establish, wherever possible, minimum standards of performance

for routine operations, and perhaps introduce a few mechanized processes to provide some kind of normalization.

**NOTE** It should also be noted that unlike products, services cannot be produced or performed at one place and then delivered to another. This means that the service provider needs to open up branch offices at a number of different locations.





## STRATEGIES FOR EXPANDING INTO SERVICES

USE THE following start-up and operating strategies to help you expand into services.

### Service Business Start-up Strategies

#### 1. Choose a good location.

Just like in retail, a service business should be located as close as possible to its customer base. Make it easy for customers to get to you or for you to get to them. A location should also be affordable for as long as you need it and convenient for your staff. You want

*Economy experts have been saying for years, that the production of goods is shifting to countries where labor is cheaper and more cost-effective.*

#### **POWERPOINT**

to attract the best people possible for your service company. Customers also appreciate ease of access, and safe affordable parking.

**NOTE** Service businesses that depend on high volume walk-in traffic (like dry cleaners & beauty salons) must be located in highly visible areas of the community.

#### 2. Create a professional image.

Image is everything in a service business. Although, it is true that how you conduct your business also goes along ways to influencing what people think of your business, there's no getting around the fact that if people visit your establishment, they will look at the floors and your furniture. And if

you visit them in person, they will look at your shoes and your tie.

Three more strategies to help you develop and maintain your professional image are:

- *Design your company's image to appeal to your target market.*

Service businesses are generally more specialized and personalized than retail businesses and must therefore be more aware of customer expectations and perceptions for their type of service. For example, health care facilities should look soothing, legal firms must appear solid, and consultants and engineers must appear successful.

- *Gather presentation materials.* Just as a

*Make three correct guesses consecutively and you will establish a reputation as an expert.*

**LAURENCE J. PETER**  
*The Peter Principle*

product's packaging helps create its image, presentation materials help create an image for a service business.

When you present your service to potential clients, they want to see how committed and qualified you are. They also want to assure themselves that you will be sticking around for a while. To a large extent, they will judge you based by the amount and quality of your preparatory work.

- *Preserve your professional image as much as possible.* If a meeting in a home office would detract from your professional image, tell your client you'll be in his or her neck of the woods around noon and propose lunch. Of course, you will pay.

### 3. Do as much of the work yourself, at least initially.

Initially, a service business will require less cash because it will not have high inventory and equipment costs. However, don't use this as an excuse to hire a secretary or assistant. Needlessly increasing your overhead may make you feel like you are in business, but won't help you generate any profits. When starting out, it is better to sweep your own floors, empty your own garbage, answer your own calls and write your own letters. In fact, contribute as much of your own time as possible to keep costs down.

*Fundamentally, human beings get paid for being able to do something. People get paid a lot for being able to do something that adds a lot of value. People who fail to acquire any useful skill for which someone will pay real money, end up in low paying jobs.*

**POWERPOINT**

### 4. Learn about your trade inside out.

More than in any other type of business, the service enterprise demands mastery of the area of specialization. You must *be* or at least *appear to be*

exceptionally knowledgeable in your field. Learn all you can about your craft through reading, attending seminars and conventions, from your trade association and so forth. Keep your approach fresh.

### 5. Make the results of your service as tangible as possible.

Marketing services is more difficult than marketing products because the benefits of a

service are often elusive and hard to pin down. Thus, your marketing challenge is to make the benefits of your service as touchable and seeable as possible. Show your clients before and after pictures, prototypes, diagrams and videos. Leave it up to their imagination and you will soon find out that client imagination is a rare quality.

6. **Offer better guarantees than your competitors.** Find out the details of your competition's guarantee. Then, set your own standards, going well beyond theirs. If they offer a six-month guarantee, offer yours for a full year.
7. **Set your fees within market ranges.** One of the biggest mistakes

*There is no higher religion than human service. To work for the common good is the greatest creed.*  
**ALBERT SCHWEITZER**

fledgling service providers make is to not charge enough for their expertise. Research the market, find out a range of what the competition charges and then gravitate towards a figure somewhere in the middle. Remember that you can't give away your skills cheaply and expect to survive for very long.

8. **Train your personnel well.**

Customers will come to judge you and your business by the way they are treated at the hands of any employees you hire. Courtesy and tact are always expected; no doubt, you have already recruited these two traits in your employees. However, it is also equally important for you to make certain your employees are knowledgeable, con-

tinually informed, and technically proficient, just as it is important for you to keep current yourself. Personal and personnel training should be a continuous process.

## Service Business Operating Strategies

**9. Balance your time between doing the work and drumming up the business.** Service providers are often tightrope walkers trying to stay balanced between getting the work, doing the work and running the business.

*In recent years, the service sector has reflected the sharpest growth of all segments of American private enterprise. In 1983 alone service industries contributed more than 426 billion to our economy. More than 20 million people are employed in this sector.*

### **FUNFACT**

**good public relations.** The service business is unique in that customers often ask endless questions and present an endless variety of complaints. Be patient. Spend time explaining and giving advice. This kind of personal attention and helpful service can only enhance your firm's reputation.

**NOTE** Managers in people-based services must decide in advance who will work on each job and how much time will be necessary to complete the job. If hours are not billable, they represent a loss to the company not only in financial terms, but also in the goodwill that they might have otherwise generated.

**10. Give freely of your time to create**

**11. Grow slowly.** Many of today's successful service companies had their beginnings in part time avocations, hobbies, or home enterprises before growing large enough to require expanded premises. No doubt, the same will be true for tomorrow's successes. Don't strive to get too big too fast. Let the market push you forward. In fact, watch your overhead as if it were the tail of a scorpion.

**12. Practice good human relations.** Treat others as you would want to be treated yourself, be responsive to community problems, and join in local activities. Also, make an effort, never to let wild emotions get the better of you. People expect service providers to remain calm

*Fluctuating demand creates many planning, pricing, operating, promotional and distribution challenges to service companies.*

and cool in stressful situations.

**13. Prepare for the fact that demand fluctuates by season, day of the week, and even hour of the day.**

Fluctuating demand creates many planning, pricing, operating, promotional and distribution challenges to service companies. The time and amount of demand must be estimated to provide the right service at the right time. Creative promotional campaigns must also be developed in an attempt to level demand and keep revenues flowing more evenly.

**NOTE** Pool hall establishments often have different table rates depending on the time of day. Typically rates are cheaper during

business hours, Monday thru Thursday, and more expensive in the evenings, especially Friday and Saturday nights.

**14. Refrain from being stingy on extras.** Always use the best-quality parts, materials and equipment. Do not be a penny pincher. Be willing to spend more on better materials than your competition does. The money you save is not worth the money you will lose if the customer doesn't come back.

*Always use the best-quality parts, materials and equipment.*

**15. Strive to improve all internal systems.** Works-in-process, use of supplies and scheduling must all flow smoothly in your service operation. You must also strive to cut down on excess reporting, simplify forms, and substitute office equipment for manual

clerical operations wherever cost effective.

**16. Take pride in your work.** Demonstrate a professional, attitude in whatever you do. Proficiency, quality, knowledge and technical skill should characterize your operation.

**17. Think about adding a retail sector to your service business.** Adding a retail component to your service operation can be quite profitable for certain kinds of businesses. For example, a beauty salon can sell hair products as well as provide hair cuts, while a video rental outlet can sell potato chips as well as rent videos.



## The 12 Most Important Words in a Service Based Business

**Access** – Make it easy for customers to reach you.

**Communication** – Listen, inform and keep in touch.

**Competence** – Strive to constantly improve your skills and become more knowledgeable in your field.

**Courtesy** – Always be polite. You are the PR for your firm.

**Credibility** – Stay honest and believable and you will stay in business.

**Dependability** – Never make promises you cannot fulfill. Have things ready when promised. Become known by others as someone on whom they can rely. Make it known that your number one priority is that customers can depend on you.

**Empathy** – Understand your clients.

**Evidence** – Provide tangible evidence of the quality of your service.

**Honesty** – Make a fetish for honesty. Customer confidence and loyalty are logical outcomes of fair, ethical treatment. Do not try to fool people. Never oversell yourself, your capabilities, or your service.

**Preparation** – Prepare for all your presentations. When answering inquiries or making cold calls make sure you have a good broken down list of all the services you provide. Nothing sounds more unprofessional than a businessperson fumbling for words to describe what he or she does.

**Responsiveness** – Be ready, willing, and able to drop everything to help a client.

**Quality** – Strive for quality. Quality is dependent upon the caliber of those who deliver the service. Quality is as important in service industries as it is in the manufacture of goods. In personalized and professional services – giving accounting and legal advice, rendering medical services, making repairs – quality may be even more important.



## STARTING A CONSULTING SERVICE

CONSULTING BUSINESSES are one of the fastest growing sectors in the service industry. This is partially due to the consolidation of management staff in large corporations and the resulting excess of relatively young and ambitious middle managers.

*Consulting businesses are one of the fastest growing sectors in the service industry.*

### Setting up a Consulting Service

To set-up and establish your consulting service, use the following 8 strategies:

- Be sure you have an idea, even before you start, where your business will be coming from.
- Create as many lists as you can of potential clients.
- Develop an effective sales approach.
- Create a business plan.
  - Pre-determine all your charges and billing by comparing your fees with what others charge.
  - Create a comfortable and efficient working space that is distinctly separate from your living and family activities (this separate space is important for tax purposes as well as peace of mind).
- Install a separate business phone line, an answering device, and if necessary, a separate Fax line. If you don't want to use an answering machine, contract out an answering service.

- Make sure you have enough savings to cover dry spells (weeks may pass before you get enough business to survive between assignments).

## Striving for Success as a Consultant

Once you start your consulting business, use the following ten strategies to help build success:

- Use the best stationary and business cards you can afford.
- Always think and act positively  
Enthusiasm and confidence show.
- Believe in yourself and trust others will want to buy the knowledge and skills you possess.

*Fifty percent of an architect's success lies in the ability to go out and get the job. Attributed to DANIEL BURNHAM Designer*

- Network through professional and trade groups to make sure you are well known in your field.
- Become more visible by writing a book, authoring articles in professional or trade publications or giving talks before important groups (look into lecturing at a local community or four-year college).
- Join local Chambers of Commerce and other professional, social, and business organizations where networking is possible.
- Keep your overhead low until you are established (if you need reliable help, get it from freelancers, graduate students, or moonlighters).

- Thoroughly document all business-related expenditures for no tax deductions that can be claimed without a receipt or other proof.
- Consider doing gratuitous consulting for organizations like ACE and SCORE – this can line up contacts and paid work.
- Submit your resume to employment agencies that hire consultants, especially in high-tech fields.

## Becoming an Image Consultant

TO BECOME a successful image consultant, you must first learn how to dress for fun and for business, how to use

*Service marketing and planning executives should focus their attention on the traditional 4 P's of marketing – pricing, place, promotion, and persuasion – plus three additional marketing elements: personnel, physical assets, and process management.*

### **POWERPOINT**

cosmetics and other beauty products, how to deal with the media, write speeches, stand in front of people and give presentations, and how to sway public opinion when required.

You must also learn about proper nutrition and healthy exercise, develop an excellent eye for color, understand the principles of area and how they apply to the human body, and most importantly develop a sensitivity to peoples insecurities.

Furthermore, to become a truly successful image consultant, you must get your own life together. Why should anyone take advice from you, if you don't look good, act great and ooze positive energy?

**To expand your client list** – Contact the best hair stylists, manicurists and health spas, join civic groups where women (and men) get involved, and start a newsletter.

**To gain experience** – Try and get a part-time job in the best store in your area to learn about merchandising, effective display techniques, and how to advise people on fashion, color decisions and possible interior design. Also, volunteer your services as a speaker for community groups to help establish your name and acquire confidence.

**To improve the quality of your service** –

- become a media personality

*Volunteer your services as a speaker for community groups to help establish your name and acquire confidence.*

- become fully aware of the unspoken signals of communication especially the ones which turn an audience off
- build a library of tips
  - compile your own articles into a book, prepare an audition tape for the radio
  - do makeovers for local talk shows
  - do workshops
  - get endorsements from institutions
  - get fashion credentials
- investigate classes offered by other image and motivational consultants
- keep a list of makeovers and photographs of clients

- pyramid your success by teaching local classes
- talk with television makeup artists and camera persons to find out how television lighting affects people
- write a sample column or two

### To improve your qualifications

– Study how different people look in the same clothes; become aware of how proper proportioning affects not only the piece concerned, but also the total look; keep track of what top executives in your area are wearing; and become familiar with the best shops in your area as well as top designers.

*The consultant's task is to convince you that you have a problem and that they are the ones who can solve it – for a price, of course – and then to come up with an idea and a written proposal for a solution.*

### POWERPOINT

### To learn how much you should charge clients

– Research your area to find out how much other successful consultants charge. Most likely you will find that in general, a basic consulting fee of \$35-\$50 an hour for color or fashion consulting is the norm. As you gain experience and a solid reputation, consider increasing your fees. Top image consultants get \$150-\$200 an hour.

**NOTE** If you plan to increase your fees, old customers may not appreciate this. One way to overcome this problem is to offer

them a special discount rate while charging new customers the new higher rate.



## Sample Financial Ratios\* for Select Service Businesses

SIC Number	Type of Business	Operating Expenses	All Other Expenses	Operating Profit
8931*	Accounting, auditing & bookkeeping	83.9%	2.9%	13.6%
7372*	Computer programming & other software services	94.5	1.3	4.1
7361	Employment agencies	96.9	0.1	3.0
4722	Travel agencies	97.8	0.3	1.8
7841	Videotape rentals	90.8	1.6	7.6

Source: Robert Morris Associates, **Annual Statement Studies**, 1987 (available at library).

Consult RMA for additional ratios for other service businesses such as: auto repair, bowling centers, car washes, equipment rental & leasing, hair stylists, laundries & dry cleaners, motel & hotels, motion picture theatres, photographic studios, real estate agents & brokers, and more.

\*Based on statement studies of firms with fiscal year-ends April 1, 1991 through March 31, 1992. All statistics are expressed in terms of percentages of annual sales volume. Only data for firms with from \$0 to \$1,000,000 in assets have been shown since this would be characteristic of the beginning business.

**NOTE** RMA cautions that the studies be regarded only as general guidelines and not as absolute industry norms. This is due to limited samples within categories.