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6 STEPS TO A SUCCESSFUL START

BY NANCY MANN JACKSON
PHOTOGRAPHY BY JEFF CLARK

ERIK OBERHOLTZER, MATT LYMAN AND DAVID DRESSLER met while working in the kitchen at a luxury beach resort in Southern California. Together, they envisioned a restaurant where they could follow their cooking passions and serve organic, farm-fresh, "slow food" dishes at affordable prices. But the food wasn't the only thing that was slow. Once the trio decided to join forces and launch an eatery, they took their time to carefully plan every aspect of the business before taking the plunge.

"It took probably two years from idea to opening," says Oberholtzer, chef and co-owner of Tender Greens, which opened in 2006 and now operates seven locations across California. Much of those two years involved fundraising and constantly revising the business plan.

"We would make revisions to our plan after every meeting with a potential investor, because sophisticated investors would ask questions we hadn't thought of, causing us to go back and refine the numbers," Oberholtzer says. "That process was really beneficial, because we went into the opening with a lot of focus. We went into it knowing the culture we wanted to create, the brand we wanted to build and the type of employers we wanted to be."

All that planning paid off: First-year profits were projected at $850,000, but the company ended up with $3 million. Last year, Tender Greens reported a 53 percent year-over-year sales increase from $10.9 million in 2010 to $16.7 million in 2011. The owners have plans to open three more locations in 2012, and starting in 2013, the plan is to open four to five new stores per year.

Tender Greens offers a casual, walk-up dining environment, where guests can watch meats grilling and meals being prepared behind a glass partition as they walk through the line. The core menu consists of "big salads," "hot stuff" (a hot plate or sandwich) and soups. A few crowd favorites include the Southern fried chicken salad, the octopus salad, the Happy Vegan salad and the mashed potatoes.

How the founders of Tender Greens turned farm-fresh fare into a $16 million business

DIGGING IN: (FROM LEFT) TENDER GREENS' ERIK OBERHOLTZER, MATT LYMAN AND DAVID DRESSLER.

Executive chefs at each restaurant also create their own specials that vary by location, change twice daily and are made from scratch, like Cajun chicken and sausage gumbo; aged-cheddar bread pudding; English pea risotto; steamed clams with chorizo brown-butter spaghetti; shredded duck and kale salad; and house-made *porchetta* (pork roast).

What really sets Tender Greens apart from other fast-casual eateries is the care taken in preparing the cuisine. The chefs cure the bacon in-house, make their own salami, craft handmade pastas, cure their own caviar, mix their own natural sodas and work to support small farmers.

While not every new business will require two years of upfront planning like Tender Greens, every aspiring entrepreneur should pay significant attention to laying the proper groundwork before launch. In studying businesses that have succeeded and those that have failed, the difference is planning, says George F. Brown Jr., CEO and co-founder of Blue Canyon Partners, a management consulting firm in Evanston, Ill. "The successful business leaders don't go to work every day expecting a new adventure. They have a plan and know what to do. Over and over, in small businesses and large ones, I've seen the benefits of careful planning and the disasters that can result from a failure to plan," he says.

Before launching your business, here are six steps to ensure a successful start.

1. GO BEYOND THE BUSINESS PLAN.

Planning carefully before launching a new business is not limited to preparing a business plan, says Bruce Bachenheimer, clinical professor of management and director of the Entrepreneurship Lab at Pace University in New York City. "While preparing a business plan is generally a valuable exercise, there are other ways to plan carefully," he says. Bachenheimer recommends three planning methods.

• **The Apprentice Model:** Gaining direct industry experience, as the founders of Tender Greens did.

• **The Hired-Gun Approach:** Partnering with experts who have in-depth knowledge and experience.

• **The Ultra-Lean School of Hard Knocks Tactic:** Figuring out a way to rapidly test and refine your model at a very reasonable cost.

While writing a business plan is certainly helpful, the real value is not in having the finished product in hand, but rather in the process of researching and thinking about your business in a systematic way, according to Victor Kwegyir, founder and CEO of Vike Invest, a U.K.-based business consultancy. "The act of planning helps you to think things through thoroughly, study and research if you are not sure of the facts and look at your ideas critically," he says.

TALK THE TALK

Speaking to potential customers will help your startup succeed

Many startup businesses fail because their owners skip a critical step in development: talking to potential customers before opening the doors.

It should be an obvious, early task for entrepreneurs to determine if people will buy what's on offer, and if so, what they will be willing to pay for it. The answers may be surprising.

But not getting customer feedback is a major mistake that can cost you a lot of time and money—and ultimately, your business.

Here's an example of how valuable raw customer feedback can be. Robin Chase, co-founder of car-sharing company Zipcar, says that before launching, she wrote possible names for her company on index cards and then handed them to people, without explaining anything about the business. All she would ask is, "What do these names suggest to you?"

Chase quickly discovered several of her favorite candidates for the name only confused customers. Though the company offers car-sharing services, names with the word *share* in them were a turnoff.

Ash Maurya, founder of the measurement-apps company Spark59, discusses effective customer research in the book *Running Lean: Iterate From Plan A to a Plan That Works.* Maurya contends there's a right way and wrong way to do it. Here are a few of his tips on getting feedback effectively:

Skip the focus groups. Often one person in the focus group has a strong opinion and hijacks the discussion, pressuring everyone to agree with him or her. So you've got 10 people in a room, but you end up with just one opinion.

Ditch the surveys. Conducting a survey can be problematic. Rather than pose questions and suggest answers, it's better to let your customers tell you what's important to them, Maurya says.

Watch the body language. The other problem with simply sending out surveys, Maurya says, is that you don't get to see how customers react to your idea. "Body-language cues," he says, "are as much an indicator of problem/solution fit as the answers themselves." —CAROL TICE

> **"Too often people rush into business without carefully checking out their idea to see if it will work. Research is essential." —Victor Green, author**

If you don't commit to in-depth preparation, launching a new business can be a very expensive lesson in the value of planning. Bachenheimer asks: "Would you enter a high-stakes poker tournament without knowing the game, assuming that you'll figure it out as you go?"

2. TEST YOUR IDEA.

Sixty percent of new businesses fail within the first three years, according to Victor Green, a serial entrepreneur and author of *How to Succeed in Business by Really Trying.* "Too often people rush into business without carefully checking out their idea to see if it will work," he says. "Research is essential."

While the internet makes it possible to conduct research without leaving your desk, Green says Googling isn't enough. "Talk to real people who are in the business you want to go into. Talk to people who might be your customers and get their views and opinions," he says. "Test your ideas if possible."

For the founders of Tender Greens, spending two years in the planning process allowed for a unique opportunity to try their ideas out on the public that would eventually become their clientele. "During that time we were testing recipes and refining our business," Oberholtzer says. "Because we were already working in the restaurant industry, we were able to actually test some of our recipes on customers at the resort, for two or three times the price we planned to charge at our own restaurant."

3. KNOW THE MARKET.

Ask questions, conduct research or gain experience to help you learn your market inside and out, including the key suppliers, distributors, competitors and customers, Bachenheimer says. "You also have to really understand the critical metrics of your market, whether it's as simple as sales per square foot and inventory turnover, or an esoteric measure in a highly specialized niche market," he says.

Tender Greens' Oberholtzer and his partners spent many years working in the California restaurant industry before launching their business. That experience allowed them to not only perfect their craft, but also to develop longtime relationships with food purveyors, farmers and other suppliers that they relied on to help Tender Greens succeed. In fact, Scarborough Farms, the restaurant's lettuces and greens supplier, is a partner and investor in the company, thanks to its long relationship with the founders.

4. UNDERSTAND YOUR FUTURE CUSTOMER.

In most business plans, a description of potential customers and how they make

purchasing decisions receives much less attention than operational details such as financing, sourcing and technology. But in the end, it will be the customers who determine your success or failure, Blue Canyon Partners' Brown says.

"You need to know who they are going to be, what drives their purchase decisions, what you can do that will differentiate your offering from that of competitors and how you can convince them of the value of your offer," he says. "And the answers to those questions shouldn't be off-the-cuff guesses. They need to be well-grounded in reality and market testing."

Before launching Tender Greens, Oberholtzer and his partners spent years creating and serving the kinds of dishes they wanted to one day serve at more affordable prices. That experience, says Oberholtzer, is what helped them develop an understanding of the types of farmers-market-inspired dishes that would please local customers.

Understanding your future customers can be the difference between changing a failed aircraft engine on the ground vs. doing so midflight, Brown says. "The former is much simpler and much more likely to be successful. Once you start up the business, it's likely that you will be consumed with operating details, often with little time to think and even less to make adjustments. Implementing the right plan from the start is far more likely to yield success than figuring out a plan on the fly."

5. ESTABLISH CASH RESOURCES.

"Cash is king, so you must take steps to adequately capitalize the business and secure ready sources of capital for growth," says Steve Henley, senior managing director and national tax practice leader at Cbiz MHM, an accounting and management service provider. "A good cash-forecasting tool is critical so that you can plan for the sources and uses of cash on a rolling basis."

While some startups rely on owners' capital, others look to investors. Tender Greens' owners raised funds from friends, family members and colleagues.

To determine how much cash you'll need, develop a cash-flow statement that estimates your expenses and income. Be sure to include appropriate expense levels by researching actual business costs rather than estimating based on your personal experience as a retail consumer. "For instance, you can host your personal website with unlimited bandwidth for $9.95 a month, but operating a commercial website may cost hundreds or thousands of dollars a month," Pace University's Bachenheimer says.

Limit your need for cash by avoiding long-term commitments, like long-term leases, until necessary, adds Cbiz's Henley. "There will be a considerable amount of uncertainty during the first few years, so be conservative in making commitments for resources that might not be yet needed."

6. CHOOSE THE RIGHT BUSINESS STRUCTURE.

From the beginning, it's crucial to select the appropriate corporate structure for your business, which will have legal and tax implications. The structure you choose can also ensure the success of future decisions, such as raising capital or exiting the business.

“Implementing the right plan from the start is far more likely to yield success than figuring out a plan on the fly.” —George F. Brown Jr., Blue Canyon Partners

Most startups should probably operate as either an LLC or an S Corporation, Henley says, because starting with one of those structures and converting to a C Corporation later is much easier than starting as a C Corp and trying to convert to an LLC or S Corp. To determine which structure is best for your business, Henley outlines four considerations.

- **Liability limitations:** For C Corps, S Corps and LLCs, the owners' personal liability is generally limited to the amounts invested and loaned. There is unlimited liability for general partners.
- **Startup losses:** If your company is an S Corp or an LLC, also known as “pass-through” structures (because tax liabilities and benefits “pass through” to the owners' personal tax return), you

can usually write off startup costs as losses on your personal tax return. In a C Corp, startup costs producing tax losses can only be utilized at the business level and offer no future benefit if the new company has future tax profits.
- **Double taxation:** “Generally, double taxation of earnings is avoided for pass-through entities, but not for C Corporations,” Henley says.
- **Capital-raising plans:** If you plan to take your business public or fundraise through private equity, these plans may require that the company not be a pass-through structure. S

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