

## **Chapter 1**

### **Introduction**

Thanks to Google's Streetview, I can visit my old house in Woodbridge, Connecticut – the first and only house my father ever owned – any time I want.

And what I see is a modest yellow split-level with vinyl siding and windows that are too small for the façade, as was the style at the time. It still has the same black asphalt driveway and the same iron railing and the same three steps up to the front door. The hydrangeas were in full bloom when the Streetview van drove by, and seeing them reminds me of the way they smelled when my parents, George and Margo Prager, moved us in, fifty years ago.

The house is no longer ours. Dad sold it in 2001, when he and Mom decided the stairs were getting to be too much for them. The new owners have changed it to suit their tastes, unfortunately – they removed the crabapple tree from the front lawn, and the pale yellow paint they chose is considerably more modern than the bright red with white trim that it boasted when Dad bought it in 1956. When it was ours, the house looked like a farmer's barn from an old Bugs Bunny cartoon.

(Which may have been what inspired Dad to commission a local carpenter to make a four-foot tall wooden cutout of Elmer Fudd, dressed in his hunter's outfit, with a giant speech bubble proclaiming, "Pragers are perfect!" Mom, of course, made Dad keep the sign hidden behind the bushes in the front yard. Needless to say, the new owners don't have it out on display.)

Nobody driving by would think this house was anything special. But to us, and especially to Dad, this house represented success against all odds. Though Dad had been born less than ninety minutes away from this house, this house in this neighborhood in this suburb was a world away from his home on Legion Avenue in the working class neighborhood where he grew up. New Haven was a tough town for inner-city immigrant families like the one Dad was born into; when I was born, my parents were living in the Brookside projects and struggling to get by.

Projects in the 1950s weren't much better than projects are today.

My parents both came from immigrant families. Dad was born on American soil to Russian immigrants, and Mom was born in Paris to Polish and German parents fleeing early persecution in Eastern Europe; she was raised in Cuba, where her family spent a decade waiting for their American papers to come through. Their families were so poor that when Mom and Dad were married, they didn't know if they could afford a honeymoon until they opened the wedding gifts and counted the cash. (Their windfall was barely enough to cover a week-long trip to Washington DC plus shrimp cocktails at the Statler Hotel.)

But Dad did not want his kids growing up like he did, causing trouble with neighborhood boys, avoiding fights, scrounging

newspapers to sell for pocket money. Marriage made him serious, and fatherhood made him determined. He worked a string of lousy jobs – at the A&P, at First National Stores, as a taxi driver, and at Armstrong Rubber as a secretary – until he somehow found himself in the dry goods business as an apprentice to a man named Dannenberg. He worked hard, learned the ropes, figured out the margins, and then took what he'd learned and set out in business for himself.

Not just for himself, but for his wife and children as well.

Dad always called himself a peddler. But I call him a small businessman. And if you measure his success by our fire engine red house on Luciani Road, he could be called a successful small businessman. He pulled us out of the projects and into the suburbs. He got my three siblings and I through high school and college. And he invested his sweat and sleep and dignity so that our family of six could be far more comfortable than he ever dreamed growing up.

So by that measure – and more tellingly, by the measure of all his fellow immigrants who *didn't* pull themselves out of the projects – Dad built wealth. Not a significant amount of wealth by any means, but wealth nonetheless. And he did it by focusing on what he believed to be the only two true sources of wealth in the world.

**George's Lesson #2**

Create wealth by investing in your home.  
Create wealth by investing in your business.

**Home ownership**

For most of us, our home is our largest single investment. People of my father's generation purchased their homes for as little as \$13,000 in the fifties and sixties and sold them 25 years later for close to eight times that amount. And while an argument can be made that home values drop during economic downturns, I don't believe that the loss in value is ever permanent. (Which, of course, is cold comfort to those forced to sell during a recession.) If you're in it for the long run, home ownership builds wealth.

**Business ownership**

When you're a business owner, you should make money in three different ways. First, your business pays you a fixed salary. Second, your business generates profits beyond your salary. And third, when you sell your business, the purchaser pays you again to transfer ownership of all the work you've put into it. A good business builds wealth. The challenge, of course, is to build a good business.

**Jeff's Corollary #2**

Create wealth by investing in your family.

**Family**

I'll add a third source of wealth to my dad's list: investing in your family. I don't think Dad ever thought of it this way, but his greatest investment was in his wife and his children. He invested in our moral wealth by serving as a model of initiative, diligence, integrity, and hard work. He invested in our mental wealth by stressing education above all else. He invested in our general wellbeing by spending as much quality time with us as

he could. And he invested in our destiny by instilling into each of the expectation that we possessed the capacity to take what he taught us and hand it down to our own children.

Today, all four of us are successful and happy. Dad's children, grandchildren, and great-grandchildren form a big, loving family that's growing bigger every day. And across generational lines, we're renewing Dad's investment every day. I personally invested Dad's lessons in my own children, and I know they will do the same for theirs – and the dividends it pays extend far beyond the material wealth that Dad created.

Family shows far more return on investment than your home or your business. It's a foundational investment – because love, respect, and health multiply wealth and happiness in future generations far more than money alone.

### **But was George Prager a “Small Business Superstar”?**

I can't help you replicate my father's investments in your family. And there are other experts you should turn to for help in successfully investing in your home. So in this book, I'm going to focus on what I know I can teach you because I've been teaching it for years: how to turn your small business into a source of enduring wealth.

I retired in 2007. Seven months later, I came out of retirement to start Backroom Management, which is dedicated to helping small business owners succeed across the country. And at Backroom Management, we have an informal phrase for small

business owners who build businesses that become legacies. We call them “Small Business Superstars.”

I would not consider my father a Small Business Superstar.

Of the many small businesses that are started in the United States every year, around 80% of them will fail within five years. It's almost always due to poor capitalization, poor planning, lack of business skill, or lack of financial education. And of the rare businesses that actually survive, many of them simply chug along in perpetuity without making a real impact. Only a small number of businesses generate consistent cash, grow in scope, and build genuine wealth.

My father's business was one of those perpetual chuggers. While it's no small accomplishment that he was able to support his family for thirty-five years, by no means did Dad retire a millionaire. He was not a Small Business Superstar.

If I knew then what I know now, I think I could have helped him become one. But Dad closed down his business in 1986, so it's too late for him. So I'm going to help you become a Small Business Superstar instead.

In this book, I will explain the systems Dad used to achieve his modest success. And then I'll provide corollaries I've learned during my forty years in small business that can multiply his lessons into truly powerful techniques. These corollaries are based on my own experience and others' – in my long career, I've had the pleasure of working with many genuine Small Business Superstars, and I always taken detailed notes of what they did that Dad didn't.

For one thing, a Small Business Superstar is different than a shopkeeper. I don't mean that in the literal sense; when I say "shopkeeper", I am referring to the kind of business owner who opens at eight, closes at five, and calls his accountant on April 15<sup>th</sup> to see how much money is left over. A shopkeeper makes money by accident, not by design.

A Small Business Superstar, on the other hand, is committed to creating *value*. While the shopkeeper does the same thing every day and is content to achieve the same results, a Small Business Superstar is constantly evaluating everything he or she does in order to figure out how to do it better.

When a Small Business Superstar makes money, he or she is not surprised. That's because his or her earnings are the direct and predictable result of a detailed and well-conceived plan.

A shopkeeper thinks about margins. A Small Business Superstar thinks about salary, profits, and equity.

A shopkeeper acts as an employee. The Small Business Superstar acts as an investor who **plans, organizes, directs, and controls** his business.

Here's the good news: few Small Business Superstars are born that way. As I say over and over again in my seminars, running a business is a learned skill. Small Business Superstars *teach themselves* to become experts.

Malcolm Gladwell defines an expert as someone who has practiced their craft for 10,000 hours. That works out to eight hours a day, five days a week for five years. I want to cut that time for you by eliminating a lot of the trial and error. In this

book, you'll learn from my dad's thirty-five years of sweat equity, and you'll learn more from my own decades of observation and execution. At the end of this book, you'll have a foundation of rules and best practices that will speed your transition to Small Business Superstar.

In fact, I think I should be more specific. To become a Small Business Superstar, you need to apply just two concepts: the 7 Key Numbers and the 6 Success Factors.

The 6 Success Factors are your framework.

The 7 Key Numbers are your tools.

I think that's worth about 1,000 hours right there.

## 6 Success Factors and 7 Key Numbers

The 6 Success Factors form a framework for long-term success. Because having a good idea or a marketable talent is not enough. You also need a framework for running your business that lets you maximize the time you spend executing that idea or performing that talent. And while not every Small Business Superstar I've met uses the same terminology to describe their factors, I can tell you that every single one of them displays these following six traits.

1. **Small Business Superstars have an exit strategy.** This is the fixed point towards which you steer your business. It's typically a five-year goal for a specifically-defined end point. And every decision you make along the way is

strategically calculated to steer your business towards this goal.

2. **Small Business Superstars make specific plans.** To achieve your five-year goal, you detail your steps using business plans, financial plans, strategic plans, and action plans for every employee. These plans will change, of course – but without them, you won't get anywhere to begin with.
3. **Small Business Superstars design, develop, and implement good processes and systems.** Businesses can only succeed if they can efficiently scale. And the only way to efficiently scale is through replicable systems. What's more, systems are easily delegated – which is what you need to do in order to focus on your core competency.
4. **Small Business Superstars have predictable sources of cash flow.** Profit is a short-term measure of success. And it often comes at the cost of your long-term viability. When you focus on broader cash flow instead of profit alone, you're on the way to building a company with CONSISTENT VALUE – and in the long run, that's what REALLY pays off.
5. **Small Business Superstars rely on effective teams and advisors.** If it's true that all small business owners have specific individual strengths, then they also have specific individual weaknesses. The truly successful business owners recognize these weaknesses and surround themselves with the best advisors, employees, and consultants they can find to make up for it. And then they build an environment in which everyone thrives and everyone benefits.

6. **Small Business Superstars fixate on numbers.** If your exit plan is your fixed destination, then your numbers tell you if you're on track to get there. It's imperative that you have crystal-clear insight into both your financial and non-financial data, and use that information as a competitive weapon.

(This doesn't mean you have to be good at math. You simply want to compare where you are versus where you want to be, and decide which numbers need to be bigger. Don't worry, I'll explain.)

As you can see, the 6 Success Factors extend across everything from the five-year outlook down to the day-to-day financials. But having this framework is just the half of it. In order to balance your short-term needs with your long-term outlook, you need tools. And those tools are your 7 Key Numbers.

Believe it or not, you only need to monitor seven numbers to understand your full business funnel. While two of these numbers focus on costs, the other five focus on the money coming in to your business. The 7 Key Numbers are:

**Key Number #1: Number of leads**

For measuring your marketing effectiveness

**Key Number #2: Sales conversion rate**

For measuring your sales effectiveness

**Key Number #3: Customer retention rate**

For driving long-term customer value

**Key Number #4: Number of transactions per customer**

For driving cash flow and repeat business

**Key Number #5: Average price per transaction**

For driving cash flow and boosting margins

**Key Number #6: Variable costs**

For managing your production expenditures

**Key Number #7: Fixed costs**

For managing your overhead and efficiencies

So when I say that “Small Business Superstars fixate on numbers” (which is Success Factor #6), these are the numbers I’m referring to. Your balance sheet, income statement, and statement of cash flows are important, but they don’t tell the whole story. The 7 Key Numbers complete the tale by telling you clearly and concisely how every major aspect of your business is performing, and how they cascade down to profitability.

You’ll be amazed at how powerful these 7 Key Numbers are. You’ll use them to monitor your business activities to ensure you’re on track to meet your goals. You’ll use them to manage your performance through goals and benchmarks. You’ll use them to model the impact of business decisions *before* you make them. And you’ll use them to set a profit goal and see how every aspect of your business should perform to achieve that profit.

I’ve actually written a series of seven workbooks that go into great detail on each of your 7 Key Numbers. But I want to repeat one of the key lessons here: how you use your 7 Key Numbers to plan for the profit you wish to make.

***Plan for profit: applying the 7 Key Numbers.***

To begin this exercise, ask yourself a simple question: exactly how many new leads do you need to generate this year to make your profit goal?

Few business owners can answer that question with a specific number. We all know that there’s a relationship between the leads that come into the business funnel and the profit that flows out of it, but it’s rare to find someone who can calculate the direct relationship between the two.

Well, it’s actually easier than you imagine. You only need seven numbers.

(In fact, for this example, I’ll simplify things even further by removing the rate of customer retention for now.)

To carry out this calculation, you need to know a few basic metrics for your company. If you don’t know them off hand, then make some educated guesses, because at least that gives you somewhere to start. Here is what you need to know:

- Your yearly fixed costs in dollars (including your salary as an employee)
- Your gross profit margin as a percent
- Your average price per transaction
- The number of times your average customer buys each year
- The average number of new leads you convert into customers (that is, your sales conversion rate)
- Your yearly profit goal

As I said, if you don't have specific numbers, than make some rough estimations. Even rough estimations are better than nothing at all. So for the sake of this example, let's assume you've got the following metrics:

- Your fixed costs are \$120,000 per year (including your salary as an employee)
- Your gross profit margin is 30%
- Your average sale price per transaction is \$500
- Your average customer buys 4 times per year
- You convert 50% of leads into customers.
- Your yearly profit goal is \$30,000 (beyond your salary)

So how many leads do you need to generate to meet your profit goal? Here's how you figure it out.

1) *Determine your gross profit.*

Your **fixed costs** plus your **profit goal** equals your **gross profit**.

$$\$120,000 + \$30,000 = \$150,000$$

2) *Set your revenue goal.*

Your **gross profit** divided by your **gross profit margin** equals your **revenue goal**.

$$\$150,000 \div 30\% = \$500,000$$

3) *Determine how many sales you need to make to achieve your revenue goal.*

Your **revenue goal** divided by the **average price per transaction** is the **number of sales you need to make**.

$$\$500,000 \div \$500 = 1,000 \text{ sales}$$

4) *See how many new customers you need to make those sales.*

Your **number of sales needed** divided by the **average number of transactions per customer** equals the **number of new customers you need**.

$$1,000 \text{ sales} \div 4 \text{ sales per customer} = 250 \text{ customers}$$

5) *See how many leads you need to get that many customers.*

Your **number of customers needed** divided by your **sales conversion rate** equals the number of new leads you need to meet your profit goal

$$250 \text{ customers} \div 50\% \text{ conversion} = 500 \text{ leads per year.}$$

Isn't that powerful? In just five steps, you've gone from an abstract profit goal to the tangible benchmarks you need to reach to meet that goal. And with that information at hand, you can make many more decisions. For one, you can see if your profit goal is realistic given your current production capacity. For

another, you can set specific budgets and benchmarks for marketing and sales to achieve your desired profit. And for another, you can examine each individual Key Number to determine strategies that will optimize it and bring you closer to your profit goals.

For instance: the above example showed that you need 500 new leads a year, which works out to around 40 new leads per month. Does it seem realistic that you can manage your existing clients, pay your bills, monitor your financials, generate 40 new leads a month, and still make time for your spouse and kids?

If so, you know what you need to do. If not, what can you change to make your leads goal more realistic? What if you raise your prices? What if you get your customers to buy more often? What if you lower your costs?

The 7 Key Numbers help you calculate the specific answers to these what-if questions by modeling the impact of these decisions before you spend money on them. For instance, what if you increase your gross profit margin to 35%? I can tell you what happens: then you only need 428 leads per year. Cutting your variable costs a little will cut your marketing needs a lot.

Suddenly you know that if you invest your time and energy into streamlining production, you'll cut the time, money, and energy you need to invest in marketing.

As I said, I've written seven step-by-step workbooks for using your 7 Key Numbers. They're fully worth your time to read. (Turn to the last page of this book for ordering information.) But the 7 Key Numbers are just tools, and they're much more powerful when they're used within the framework of the 6

Success Factors. So in this book, I'll continue by exploring each of the Success Factors one by one. I'll begin in the next chapter.

## Conclusion

Dad didn't have "key numbers" or "success factors" or other business systems you find in the bookstore today. But what he did have was a bottomless well of dedication, perseverance, and sweat that made up for his lack of formal business education.

And you'll need that, too.

No book in the world can teach what you learn only by pounding the pavement, shaking hand after hand at networking events, and winning and losing your first big clients. You will make mistakes. You *must* make mistakes. Because Malcolm Gladwell is absolutely right: you need 10,000 hours of practice to become an expert at anything.

But what does it mean to clock in that 10,000<sup>th</sup> hour? In Gladwell's view, that's when your career actually begins — because you're finally good enough to compete with the best of them. And that implies you have another 10,000 hours of applying your expertise to come out on top.

I want to streamline that process. At the end of 10,000 hours, I want you to be an expert AND a success. By getting the foundation and the tools now, you'll have a huge leg up to move forward. My goal for you is that after 10,000 hours, you won't be *ready* to start for your goal — you'll actually be *arriving* at it.