

SHOESTRING VENTURE

THE STARTUP BIBLE



TURBOCHARGE YOUR BUSINESS
THROUGH OUTSOURCING

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contents

about the authors
a note from the author
a note about prices quoted
introduction

CHAPTER 1: STARTUP 1

1.1 What's Your Goal? 2

*1.1.1 SCORE: Counselors To America's Small Businesses 3 • 1.1.2
The Entrepreneur's Reference Guide to Small Business Information
3*

1.2 Business Structure 3

*1.2.1 FindLaw For Small Businesses – Incorporation and Legal
Structures 6*

1.3 Business Plan 6

*1.3.1 Palo Alto Software 7 • 1.3.2 SCORE: How to Develop
a Business Plan 8 • 1.3.3 Startup Nation 9 • 3.4 U.S. Small
Business Administration 9 • 1.3.5 Entrepreneur Magazine Online
10*

- 1.4 Naming Your Business and Designing Your Logo 11**
- 1.4.1 Creative Marketing Solutions – Business Name and Tagline Generator 13 • 1.4.2 All Graphic Design – Logos 14 • 1.4.3 LogoBlog.org 14 • 1.4.4 Logoworks 14 • 1.4.5 Logo Yes 14*
- 1.5 Naming Your Website: Finding a Domain Name 15**
- 1.5.1 WHOIS 16 • 1.5.2 Domain Name Registrars: Network Solutions, Dotster, GoDaddy 16 • 1.5.3 Domain Name Brokers and Marketplaces 17 • 1.5.4 Web 2.0 Name Generator 19*
- 1.6 Business Licenses 19**
- 1.7 Incorporate Online 20**
- 1.8 Trademark, Patents, and Copyright 22**
- 1.9 Law, Reference, and Small Business 24**

CHAPTER 2: FINANCE, TAXES, AND BANKING 26

- 2.1 Financial Structure**
- 2.1.1 SCORE 2.1.2 Inc.com How To: Finance & Capital 2.1.3 CCH Financial Planning Toolkit*
- 2.2 Financing Your Business**
- 2.2.1 BusinessFinance.com 2.2.2 Second Venture Corporation 2.2.3 University of Michigan Libraries: Funding for Business & Economic Development 2.2.4 Angel Capital Association 2.2.5 National Association of Seed and Venture Funds 2.2.6 vFinance, Inc. 2.2.7 FundingMatch.com 2.2.8 Circle Lending 2.2.9 Prosper 2.2.10 Venture Capital Finance Online 2.2.11 VCFodder.com*
- 2.3 Grants**
- 2.3.1 The Catalog of Federal Domestic Assistance 2.3.2 Grants.gov 2.3.3 The Amber Foundation: Grants for Women-Owned Businesses*
- 2.4 Financial Management**
- 2.4.1 ManagementHelp.org 2.4.2 BusinessTown: Basic Accounting 2.4.3 AmericanExpress Open For Business: Financial Ratio Calculators*

2.5 General Financial, Business, and Economic Information

2.5.1 *Bloomberg* 2.5.2 *CNN Money* 2.5.3 *Business Week*

2.6 Taxes

2.6.1 *Tax Information for Businesses* 2.6.2 *TaxAnalysts* 2.6.3 *Entrepreneur Magazine Online Tax Center* 2.6.4 *U.S. Chamber of Commerce Small Business Center Tax Toolkit*

2.7 Business Banking

2.7.1 *NetBank* 2.7.2 *CitiBank* 2.7.3 *Bank of America* 2.7.4 *Wells Fargo*

2.8 Online Bill Payment Services

2.8.1 *MSN Bill Pay* 2.8.2 *Billeo* 2.8.3 *MyCheckFree*

CHAPTER 3: HARDWARE AND SOFTWARE

3.1 Desktop vs. Laptop

3.2 The Desktop Computer

3.2.1 *PC World* 3.2.2 *MacWorld*

3.3 The Laptop Computer

3.3.1 *PCMag.com: Laptops: The Essential Buying Guide* 3.3.2 *C|Net* 3.3.3 *Laptop Magazine*

3.4 Systems and Software: Proprietary vs Open Source vs Web-Based

3.5 Operating System

3.5.1 *Windows Vista* 3.5.2 *OSX* 3.5.3 *Linux*

3.6 Productivity Software

3.6.1 *Microsoft Office 2007* 3.6.2 *Open Office* 3.6.3 *NeoOffice* 3.6.4 *Scribus: Open Source Desktop Publishing* 3.6.5 *Powerbullet Presenter: Free Presentation Software* 3.6.6 *Web-Based Office Software*

3.7 Productivity Software

3.7.1 *Adobe Photoshop* 3.7.1.1 *The Photoshop Guru's Handbook* *Photoshop Tutorials* 3.7.2 *GIMP* 3.7.2.1 *Grokking The Gimp* 3.7.3 *Web-Based Image Editors*

3.8 Bookkeeping, Finance, and Accounting

*3.8.1 QuickBooks 3.8.2 Microsoft Money & Microsoft Accounting
3.8.3 Peachtree Accounting 3.8.4 Free Accounting Software 3.8.5
AdminSoft Accounting Software 3.8.6 OneStep Accounting 3.8.7
GnuCash 3.8.8 KeepMore 3.8.9 Intacct 3.8.10 Juno Accounting*

3.9 Project Management

*3.9.1 Microsoft Project 3.9.2 dotProject 3.9.3 Intuit QuickBase 3.9.4
AceProject 3.9.5 eLoops*

3.10 Contract Management

3.10.1 Sertifi

3.11 Human Resources Management

3.11.1 Mystaff 3.11.2 ADP PayLine Solution

3.12 Calendars and Schedules

3.12.1 Google Calendar 3.12.2 AirSet

3.13 Browsers

*3.13.1 Internet Explorer 3.13.2 Mozilla Firefox 3.13.3 Netscape
3.13.4 Opera*

3.14 Instant Messaging

*3.14.1 AOL Instant Messenger (AIM) 3.14.2 Yahoo! Messenger
3.14.3 MSN Windows Live Messenger 3.14.4 Jabber*

3.15 Web Conferencing and Collaboration

*3.15.1 WebEx 3.15.2 GoToMeeting 3.15.3 Mr Web Office 3.15.4
Hyperoffice*

3.16 Internet Voice Portals

*3.16.1 Vonage 3.16.2 Skype 3.16.3 Yahoo! VOIP 3.16.4 Google
VOIP*

3.17 Virtual Fax Services

3.17.1 MyFax.com 3.17.2 Innoport 3.17.3 GreenFax.com

3.18 Virtual Private Branch Exchange (PBX)

*3.18.1 GotVMail 3.18.2 Ring Central 3.18.3 Virtual PBX 3.18.4 In-
telphone 3.18.5 Phone Fusion 3.18.6 Virtual Telecenter*

3.19 Virtual PBX Software

3.19.1 Axon Virtual PBX Software

CHAPTER 4: BRINGING YOUR PRODUCT TO MARKET

4.1 Getting Your Product To Market

4.1.1 SCORE 4.1.2 Don Debelak 4.1.3 The Launch Doctor

4.2 Idea Generation

4.2.1 MindTools: Essential Tools for an Excellent Career

4.3 Idea Screening

4.3.1 Techno-Business Solutions: How to Screen an Idea

4.4 Concepting and Testing

4.4.1 Arteology: Developing an Industrial Product 4.4.2 Zoomerang 4.4.3 QuestionPro

4.5 Business Analysis

4.5.1 Marketing Teacher: Pricing 4.5.2 Bradley University: Planning Issues for Small Businesses: Breakeven Analysis

4.6 Prototyping and Beta Analysis

4.6.1 Prototyping 4.6.1.1 CFA Design 4.6.1.2 The Harshaw Research Group 4.6.1.3 San-Tech 4.6.1.4 McLellan Engineering 4.6.1.5 Slingshot Product Development Group 4.6.2 Beta Testing

4.7 Implementation

4.7.1 Creative Consulting, Inc. 4.7.2 Market-Ability, Inc. 4.7.3 Studio Productions, Inc. 4.7.4 The Oxford Group

4.8 Roll Out

4.8.1 MRO Today: The Five-Step Approach to Product Launch 4.8.2 Baltimore Business Journal: Launch Product Carefully 4.8.3 Chief Marketer: Six Steps to a Successful Product Rollout

4.9 Licensing

4.9.1 LIMA: International Licensing Industry Merchandiser's Association 4.9.2 Inventor Fraud: Companies Looking for Inventions 4.9.3 Patent Value Predictor

4.10 Manufacturers

4.10.1 Thomas Register of American Manufacturers 4.10.2 Harris InfoSource 4.10.3 Hoover's Online 4.10.4 OneSource 4.10.5 Industry Search Online 4.10.6 TradeEasy

Appendix: 15 Steps to Bring Your Product to Market by Don Debelak

CHAPTER 5: OUTSOURCING YOUR BACK OFFICE

5.1 What Is A Virtual Back Office?

5.1.1 TutorialReports.com 5.1.2 Sourcingmag 5.1.3 OffshoreExperts.com 5.1.4 Outsourcing.org

5.2 Outsourcing Your Back Office: Marketplaces and Job Boards

5.2.1 Guru.com 5.2.2 Elance 5.2.3 Contracted Work 5.2.4 Craig's List 5.2.5 Monster

5.3 Virtual Assistants

5.3.1 International Virtual Assistants Association 5.3.2 International Association of Virtual Office Assistants 5.3.3 VA Networking 5.3.4 Virtual Assistance U 5.3.5 Creative Resources 5.3.6 Suburban Office Services 5.3.7 Electric Quill Virtual Assistant Services 5.3.8 Virtually Yours 5.3.9 KB Freelancing Solutions 5.3.10 In-a-Pinch Administrative Services for Small Businesses 5.3.11 Virtual Staff Solutions 5.3.12 Word Processing Plus 5.3.13 Virtual Gal Friday

5.4 Virtual Staffing Services

5.4.1 Benchmark Support Services, Inc. 5.4.2 Business Office Support Services 5.4.3 The Virtual Office Center 5.4.4 Business Order-taking 5.4.5 InteLANTS

5.5 Word Processing

5.5.1 Type-Write Word Processing Service 5.5.2 Compudex 5.5.3 Type-Righters 5.5.4 RJ's Word Processing Services 5.5.5 A2Z Word Works 5.5.6 KCO, Inc.

5.6 Project Management

5.6.1 Basu Technology 5.6.2 PM Solutions 5.6.3 CH2M HILL IDC

5.7 Data Entry and Processing

5.7.1 Data Entry Group 5.7.2 OpenWorld Data 5.7.3 Tab Service Company 5.7.4 Techspeed 5.7.5 Axion Data Services

5.8 Accounting, Bookkeeping, and Taxes

5.8.1 I Do Your Books 5.8.2 PayCycle

5.9 Human Resources

5.9.1 H-R Guide 5.9.2 HR.Com 5.9.3 ADP 5.9.4 Taleo

5.10 Internet Research

5.10.1 Marcos Research 5.10.2 Informa Research Services, Inc.

5.11 Telephone Reception

5.11.1 American Executive Centers 5.11.2 Agent Phone, Ltd. 5.11.3 Real Time Reception 5.11.4 Ruby Receptionists

5.12 Customer Support

5.12.1 SupportSave 5.12.2 Ybrant Technologies 5.12.3 WebGreeter 5.12.4 TWS

5.13 Call Centers

5.13.1 EasyCall, Call Center Solutions 5.13.2 Entel Call Center

5.14 Online Shipping and Mailing Services

5.14.1 USPS (United States Postal Service) 5.14.2 FedEx (Federal Express) 5.14.3 DHL 5.14.4 UPS (United Parcel Service) 5.14.5 Endicia Internet Postage

CHAPTER 6: INFORMATION TECHNOLOGY

6.1 Information Technology: Introduction

6.1.1 CIO Magazine 6.1.2 Information Week 6.1.3 TechWeb 6.1.4 CIO Index 6.1.5 Tutorial Reports.com

6.2 Outsourcing Information Technology: Directories

6.2.1 SourcingMag 6.2.2 CIO Index 6.2.3 OffshoreExperts.com 6.2.4 Outsourcing.org 6.2.5 RussSoft

6.3 Outsourcing Information Technology: Marketplaces & Job Boards

6.3.1 Guru.com 6.3.2 Elance 6.3.3 Contracted Work 6.3.4 Rent-A-Coder 6.3.5 GetACoder 6.3.6 oDesk 6.3.7 Craig's List 6.3.8 Dice

6.4 Computer Help Tech Support

6.4.1 iTOK 6.4.2 ComputerHelpSOS 6.4.3 Plum Choice Online PC Services

6.5 Application Service Providers

6.5.1 ASPStreet.com 6.5.2 ASPNews.com 6.5.3 All Business: Application Service Providers

6.6 Database Development

6.6.1 *Foraker Design* 6.6.2 *Database Development Services, Inc.*
6.6.3 *Virtual Girl Friday*

6.7 Database Administration

6.7.1 *Virtual-DBA* 6.7.2 *PICS* 6.7.3 *Firetower Tech* 6.7.4 *Ntirety*
6.7.5 *Remote DBA Experts*

6.8 Data Mining & Analysis

6.8.1 *Statoo Consulting* 6.8.2 *Drayton, Drayton & Lamar, Inc.* 6.8.3
JMP 6.8.4 *Analyse-It*

CHAPTER 7: WEB AND ECOMMERCE

7.1 Web Design and Development

7.1.1 *Website Magazine* 7.1.2 *Digital Web Magazine* 7.1.3 *Practical
ECommerce*

7.2 Web Design and Development: Marketplaces and Job Boards

7.2.1 *Guru.com* 7.2.2 *Elanca* 7.2.3 *Contracted Work* 7.2.4 *Craig's
List* 7.2.5 *RentACoder*

7.3 Web Design and Development: Outsource Companies

7.3.1 *WebDesigners-Directory* 7.3.2 *MarketingTool.com* 7.3.3 *Heri-
tage Web Solutions* 7.3.4 *Fix This Site* 7.3.5 *IMC Sites* 7.3.6 *123Tri-
ad*

7.4 Website Hosting

7.4.1 *IX Web Hosting* 7.4.2 *Host Excellence* 7.4.3 *Dot5 Hosting*
7.4.4 *Host Monster* 7.4.5 *Blue Host* 7.4.6 *Pow Web* 7.4.7 *Host-
Gator* 7.4.8 *Go Daddy*

7.5 Dedicated Hosting

7.5.1 *RackSpace* 7.5.2 *Completely Dedicated* 7.5.3 *Host Gator* 7.5.4
GoDaddy

7.6 Domain Name Registration

7.6.1 *WHOIS* 7.6.2 *Domain Name Registrars – Network Solutions,
Doister, GoDaddy* 7.6.3 *Domain Name Brokers and Marketplaces*

7.7 Search Engine Optimization and Copywriting

7.7.1 *Editorial Freelancers Association* 7.7.2 *The Write Content*
7.7.3 *Custom Copywriting* 7.7.4 *Web Copywriters* 7.7.5 *Dot Com*

Copy 7.7.6 Ascent Copywriting

7.8 Search Engine Optimization and Submission

*7.8.1 TopSEOs 7.8.2 SubmitExpress 7.8.3 AddMe 7.8.4 AddPro
7.8.5 WebPosition Gold*

7.9 Ecommerce: Shopping Carts and Catalogs

*7.9.1 Google Checkout 7.9.2 osCommerce 7.9.3 Miva Merchant
7.9.4 Agora Cart 7.9.5 Zen Cart 7.9.6 Volusion*

7.10 Ecommerce: Payment Gateways and Merchant Accounts

7.10.1 Authorize.net 7.10.2 PayPal 7.10.3 iTransact 7.10.4 Shift4

7.11 Ecommerce: SSL Certificates

7.11.1 Verisign 7.11.2 Thawte 7.11.3 GoDaddy

7.12 Site Analytics: Software

*7.12.1 AWStats 7.12.2 Google Analytics 7.12.3 Clickalyzer 7.12.4
Stuffed Tracker 7.12.5 HitBox Professional 7.12.6 ClickTracks*

7.13 Content Management Systems

*7.13.1 Mambo Server 7.13.2 Joomla! 7.13.3 Drupal 7.13.4 PHP-
Fusion 7.13.5 php-Nuke*

7.14 Blogging Software

*7.14.1 Word Press 7.14.2 Movable Type 7.14.3 b2Evolution 7.14.4
Serendipity 7.14.5 Performancing Metrics*

7.15 Wikis

*7.15.1 WikiMatrix.org 7.15.2 MediaWiki 7.15.3 DocuWiki 7.15.4
TWiki 7.15.5 bitweaver 7.15.6 Tikiwiki 7.15.7 MoinMoin*

Appendix: Content Management Systems

CHAPTER 8: PROMOTING YOUR PRODUCT: MARKETING & SALES

8.1 Promoting Your Company, Products, and Services

*8.1.1 American Marketing Association 8.1.2 12Manage: Marketing
8.1.3 Marketing Profs 8.1.4 Entrepreneur Magazine: Small Business
Marketing and Advertising 8.1.5 Marketing Sherpa*

8.2 Web Marketing

8.2.1 ClickZ 8.2.2 Awecomm Web Strategies 8.2.3 USWeb 8.2.4

- WebAd.Vantage*
- 8.3 Search Engine Marketing
- 8.3.1 SEMPO: Search Engine Marketing Professional Organization
- 8.3.2 Web Logic Group 8.3.3 InfoSearch Media
- 8.4 Link Exchange Management
- 8.4.1 Automate Link Exchange 8.4.2 LinksMaster 8.4.3 Link Wrangler
- 8.5 Web Advertising
- 8.6 Search Advertising/Paid Placement
- 8.6.1 Google AdWords and Google AdSense 8.6.2 Yahoo Search Marketing 8.6.3 Ask.com 8.6.4 Microsoft Office Live adManager
- 8.7 Pay-Per-Click Networks
- 8.7.1 Miva 8.7.2 Bidvertiser
- 8.8 Banner Exchanges
- 8.8.1 1800Banners 8.8.2 Click4Click 8.8.3 eBannerTraffic 8.8.4 E-BannerX 8.8.5 Exchange Ad 8.8.6 Neobanners 8.8.7 SkyscraperAds
- 8.9 Exit Exchanges
- 8.9.1 Exit Exchange 8.9.2 w3exit
- 8.10 Widget Advertising
- 8.10.1 Intelligent Web Marketing
- 8.11 Virtual Adservers
- 8.11.1 AdvertSERVE 8.11.2 Zedo Ad Serving
- 8.12 Affiliate Marketing Networks
- 8.12.1 Azoogole Ads 8.12.2 LinkShare 8.12.3 DirectLeads 8.12.4 ShareSale and FineClicks
- 8.13 Affiliate Marketing Software
- 8.13.1 DirectTrack 8.13.2 My Affiliate Program and Kolimbo 8.13.3 AffiliateShop 8.13.4 AffiliateRunner 8.13.5 Interneka
- 8.14 Email Advertising
- 8.14.1 EMG Marketing Solutions 8.14.2 Constant Contact
- 8.15 Customer Relationship Management
- 8.15.1 Salesforce.com 8.15.2 Microsoft Dynamics CRM 8.15.3 Sugar CRM

introduction

If every brilliant business idea succeeded the way it should, most of us would be billionaires.

If every entrepreneur focused most of their energies on the things they're best at, nine out of ten new businesses would succeed wildly, rather than nine out of ten failing.

In 2006, I started ScourEvents.com. It was not the first business I built, but it was the first virtual organization I built. I focused my energies on what I did best and built an entire staff located all over the world to do the work that needed to be done. I control dozens of "employees" who perform hundreds of different job functions. And I made this all happen on a shoestring budget.

My virtual organization designed and developed a sophisticated Web site for ticket sales, helped launch the site in local markets through local PR blitzes, and developed all my marketing. With significant revenues pouring in and the site poised for an international launch, I got from start to finish in a few months time while still holding down a 9 to 5 job. And taking weekends off. And vacations.

To finance the site, I developed Web sites for other clients. Trolling Craig's List and other sites, I found clients throughout the United States. Once they hired me to build a site, I immediately outsourced the work to companies in India and China. Within 24 hours, I would have designs to show my clients. Within a few days or weeks, I'd have sophisticated, database-driven sites completed and quality-assured.

As for Craig's List Computer Gigs-- I was strapped for income, when a light went

off. I wanted to test if I could turnaround web projects from outsourcing quickly, and make a profit. I went to Craig's List for each city under computer gigs for work needed. I emailed each one with a small bio, and received several responses. Once I secured a contract, I went to elance, and outsourced. Within 24 hours, I would have samples for the client, who will later come back over and over again.

My profits ranged well above 70% of my costs. It's not that I didn't do anything: I built specifications based on the client needs, project managed the outsource company, and performed final quality assurance. But I didn't do the heavy lifting. And everyone in the picture – I, my clients, and my outsource companies – walked away happy with the value they received.

By concentrating on what I did best – strategizing Web sites, translating strategy into doable specifications, and project managing design and development – I spent my time on activities designed to bring the greatest value to my clients and to me. By outsourcing what I did not do better than anyone else – designing, coding, and programming – I made huge profits by finding people who could do these activities better and more cheaply than anyone else.

If I can build a powerful, successful business using only my laptop, then anybody can.

But I literally had to learn a million things to make it work. And so will you and any other entrepreneur. That's why we wrote this book, distilling all the knowledge, hard work, sweat, and mistakes that go into building a successful virtual organization into a reference that can help entrepreneurs like you make it there a little more quickly and easily.

This is the century for small business

Corporate leviathans appear have every advantage – big bank accounts, armies of Harvard-educated MBA's, fleets of lawyers, and pockets full of powerful politicians, as well as access to the biggest, baddest, priciest media on the planet. You've got a great idea, a laptop, and a stressed-out checking account. What chance do you have?

If every successful start-up venture required MBAs and more cash than can be counted, we would never have things like Web browsers, search engines, or even McDonalds. So even though you can't fill a oil tanker with your money or wouldn't know an MBA from a hole in the ground, you might have the next great billion dollar business or product. Your shoestring venture could be the next Google, the next Bratz, or the next McDonalds. And you – and all other business owners starting out with a great idea and a ton of passion – have an advantage that previous generations of entrepreneurs never even imagined. Information technology allows you to easily start a business and find all the resources, skills, and materials you need simply by firing up your laptop and connecting the Internet.

Roy Crocker had to hire staff and rent a building to make McDonald's work. Bill Gates had to hire staff and rent a building to turn Microsoft into a going concern.

You just need a computer.

That's what this book is all about. You have the tools to build a powerful start-up organization, from financing to product development to marketing, without ever really having to walk out your front door. We're here to give you the tools you need to start your new venture or take your current business several levels higher by exploiting the resources our interconnected world offers you.

Using global communications and data networks, you can staff an entire organization with every human resource and skill you need at rock-bottom prices. Your corporate office can be a room in your home or a table at a coffee bar. All the parts of your business, from bookkeeping to manufacturing, can be done by staff all over the world. Even the physical and technological infrastructure can be distributed all across the globe.

Your phone exchange lives somewhere in Minneapolis while your faxing service sits in Milwaukee. Your phone receptionists work in Manila. Your customer service reps handle all customer concerns from an office in Mumbai. Your Webmaster manages your entire Web site – from development to maintenance – from Moscow, but your site sits on a server in Moline. All your word processing is done by a virtual assistant working from her home in Marietta. And your laptop computer is periodically tuned up by some tech dude in Montreal. People from all over the world shop at your store without ever leaving their kitchen table . . . and a warehouse in Mountain View ships all the orders.

You are, in short, running a virtual organization using only a desktop or laptop computer. That's all you need.

Well, not quite. You also need very generous helping of business sense, dedication, ideas, planning, organization, and sound decision-making, but we deal with that in a separate book.

Thus the magic of outsourcing. The newspapers and politicians all scream that outsourcing means that your job is going somewhere else – India, China, or some other far-flung and foreign place. But outsourcing also means that you can be a pretty formidable player in the business world. Why? Because it permits you to focus your energies on what brings real value to your business – what you do best.

Core Competencies and Outsourcing

In the MBA world, they call “what you do best,” core competencies.

Corporations understand that they succeed by doing what they do best and letting other folks, like suppliers or vendors, do the other stuff.

For instance, most hotel chains don't actually own their hotels. Why? Any moron can own a hotel. The owning part is easy; it doesn't take tons of talent or business acumen. In fact, it doesn't even take ounces of talent or business acumen. In the hotel business, the hard part is a.) figuring out the best places to locate hotels; b.) cutting favorable real estate deals; c.) managing the construction of the hotel; and d.) managing and marketing the hotel. Being able to do these things better than everyone else is what makes one hotel chain more successful than others. But owning the hotels . . . no hotel

chain is “better” at owning hotels than any other hotel chain. So they often don’t waste their time on the owning part of the hotel business. This frees them up to do the business activities make the big bucks.

The same applies to building the hotel’s Web site. Hotel chains don’t build Web sites any better than other hotel chains. So they pay someone else to build the Web site. What hotel chains do well is use their Web sites to find and build a loyal customer base. So that’s what they spend their valuable time and money trying to do better than any other hotel chain. The better a hotel chain is at filling hotels through their Web sites, the more they “beat” their competition. But actually building the site? No hotel can “beat” other hotels by actually building the site.

When doing what you do best allows you to beat your competition, MBA’s like to call that a competitive advantage.

Big companies like to concentrate on doing the things that they can do better than anyone else. They find vendors or suppliers to do the rest.

Just because you’re a small business venture on a shoestring budget doesn’t mean that you, too, shouldn’t focus exclusively on your core competencies, too. In fact, because you’re a small business venture on a shoestring budget means you should only focus exclusively on your core competencies! And outsource the rest! You have neither the time nor money to waste performing activities that others can do just as well as you can.

If you’re not going to join the 9 out of 10 start-ups that fail, you need to focus on the things that you do better than anyone else, the things that, if you do them well, will give you a competitive advantage over all other businesses . . . including the big guns that don’t even know, or care, that you exist. To stay focused, you, more than any other kind of business, need to find vendors and suppliers to do all the other stuff.

You may be an off-the-scale salesperson or networker. You may be a megawatt idea generator. Or you’re the best engineer this side of the Mississippi. An inspiring leader. Someone loaded with consumer insight.

The reality is this: the more time you spend doing tasks related to what you do best, the more competitive your business will be and the more likely your venture will succeed. The more time you spend doing tasks that you’re not good at, like bookkeeping or HTML or word processing . . . or whatever . . . the less competitive your business will be and the less likely your venture will take off. It’s a simple principle that doesn’t take a \$60,000 MBA degree to figure out.

But why outsource when you can do it yourself more cheaply? After all, you have to pay someone when you outsource when, for all practical purposes, you don’t have to “pay” yourself. Isn’t “free” a better deal than paying outsource vendors, especially since “lots of money” is your goal rather than the present reality?

Wrong.

You see, money flows in two directions in a business. It flows out, which we call expenses, and it flows in, which we call revenues. A business spends money and it makes money. Yes, if you do all your own word processing and project management and advertising, your expenses will be technically zero (if you’re not paying yourself). In that sense, you’re “free.” But diverting your attention and focus away from the things that

will make money for your business – like managing your business, building strategy, developing ideas, or networking – means that your business will have less money coming in. Businesses make money when people spend their time doing the things that make money. Businesses never make money by saving money. Never.

It's hard to let go, though. The hardest thing for a manager to do is delegate. The hardest thing for a business owner to do is have other people perform the activities of the business. When (not if) a vendor or employee goes wrong, owners see their money being flushed down the toilet – and that's anything but a warm and fuzzy feeling. I once worked at a restaurant where the owner would go through the garbage and pull out food he thought was still good food. And it would end up on some customer's plate. No joke. That's right. His customers sometimes ended up eating food right from the garbage. Now, normal people would consider this a few miles south of bonkers, but when the owner saw food in the garbage, he saw his money in the garbage.

Remember: a business spends money and a business makes money. As the business owner, you can lose money in two ways: by spending badly or by not making money. Money you don't make is just as lost as money that gets spent badly.

In the financial world, there are two kinds of bad investments: investments you make that lose money and investments that you don't make that end up making money.

Inevitably, when a business spends money, it sometimes gets a bad deal – perfectly good food gets thrown out, employees talk on the phone rather than work, vendors screw up. But you don't make money by pulling food out of the garbage can. And you don't make money by doing the work yourself.

What should you outsource?

Well, you can sit down with your business and determine all the activities that need to be performed in order for your business to succeed. You look at this list of activities and determine where your time and effort will maximize your business' success. We outline this entire process in another book.

But you don't necessarily have to do this. When your business needs to perform some activity, just ask yourself a simple question: the hire yourself question.

When you see that your business requires a certain "job," ask yourself:

"Would I hire myself to do this job?"

In other words, if your business needs someone to do word processing, would you hire someone exactly like you to do the job? If your business needs a bookkeeper, and someone exactly like you walked in the door for an interview, would you think that person the right person for the job?

If the answer is "You bet! I'm the best person for that job!" you probably should perform the task yourself. If, instead, your answer is, "Whoa! I'm way underqualified for that job!" or "No way, I'm way overqualified for that job," you should probably think about outsourcing that task. Why! You want to focus all your efforts on the jobs you would only hire yourself to do.

I have seen thousands of small businesses come and go. And I have seen thousands of entrepreneurs essentially "hire" themselves to do jobs they were way under- or over-qualified to do. And that's why many of them came and went.

There are two kinds of business books

One type likes to pull out the pom-poms, jump about, and do the “success” cheer. Page after page of “Success! Success! Success!” We call them cheerleading books.

You know the type. After reading the book, you feel you can take over the world, but the book ends up moldering in a box somewhere.

“Rah Rah Rah! Harness the power of the Internet and make a fortune on eBay!”

“Sis boom bah! Money just rolls right in when you use permissions marketing!”

“1! 2! 3! 4! Brand-building! That’s the way to strike it rich!”

It is true that these books help people make money. Two people, actually. The author and the publisher.

Here’s the bad news. Business success takes hard work. All the “success” books in the world don’t make businesses successful. It takes knowledge, research, intelligence, good ideas, good decisions, discipline, adaptability, leadership, organization, and planning.

If you read these books very, very carefully, you’ll find very little practical advice. Sure, you can make tons of money through permissions marketing. But how do you get from here to there?

So we wrote the other kind of business book. This is a book about how to get from here to there. Every step of the way.

We wrote a book about the real world, not about wish fulfillment. About the hard work, knowledge, and decisions you have to make to transform your idea or small business into a fully-functioning, well-organized venture. We wrote a book about the the tasks and processes that are critical to a business’s success and how to perform them on a limited budget. We wrote a practical book about all the things you need to know to make those tasks and processes happen.

An Ocean of Knowledge Two Inches Deep

You are the CEO of a company, albeit a very small one – maybe even a one-person company run from your basement. No matter what your venture’s size, you are the CEO. As a CEO, you make the decisions impacting every aspect of your business.

If there is one irrefutable truth about business, it’s this: business success is the result of making the right decisions.

The science of business, if there is such a thing, is the science of making good decisions.

From the start of your business to the very peak of its success, you will be called upon to make very specific, detailed decisions across the entire scope of your business’ activities: planning, strategy, finance, accounting, taxes, marketing, advertising, infrastructure. Everything. Including some of the most mundane, boring, dumb decisions – like who answers the phone. Just because you’re uninterested in some issue doesn’t exempt you from the responsibility of making a good decision.

An acquaintance of mine spent many years at the pinnacle of the corporate ladder as the President of Worldwide Marketing first at Walt Disney and then at Sony Pictures.

I once asked him what it was like to do such “big” jobs. He answered, “You have to have an ocean of knowledge . . . about two inches deep.”

As CEO of your company, good decision-making requires that you have an ocean of knowledge two inches deep.

When some Web developer blasts you an email and tells you that this or that page on your Web site should use Ajax, you shouldn’t be wondering why any Web page should need a good scrubbing. You should know what Ajax is and why anyone would want to use it. Otherwise, how can you decide? How do you know you’re making the right decision? Because some tech guy who never had a date says so?

When some designer hands you a logo, how do you know it’s a good logo? Because you like it? What if it looks great on your screen but looks like garbage warmed over on a fax sheet or business card? What do you need to know to make sure your logo is right? How do you decide?

That’s what this book is about.

We’re here to help you with that ocean of knowledge that you need in order to make good decisions. We’re not here to cheer you on with the virtues and promises of outsourcing a shoestring venture. We’re here to arm you with the knowledge and resources you can use to build a business through outsourcing on a shoestring budget.

Since this book is about knowledge – the knowledge you need to set up your organization, outsource vital functions, and make all the decisions that land on your desk – we have written it as a reference work. You can always read it from beginning to end. Why you’d do that, we can’t imagine, but it’s always an option. Better yet, you’ll get to know each section as the subject becomes important to your business. You’ll spend a lot of time in the index. You’ll mark up the pages. When you’re faced with a decision, you’ll flip through the pages and find what you need. Even if you read it through at one sitting, it’s a book we intend you to use over and over again through the life of your venture.

As a result, we’ve repeated some sections. Since obtaining a domain name is vitally importuning when naming your company, we provide you with domain name resources in the very first chapter on starting up your business. But obtaining a domain name is also key to developing your Web site, so we’ve repeated this section in our Web site chapter.

Some of the online resources we cite have uses across a variety of business activities, such as SCORE, the free consulting service for small businesses, or Craig’s List, the number one online classified advertising site in the world. So we’ve repeated these resources in more than one part of the book.