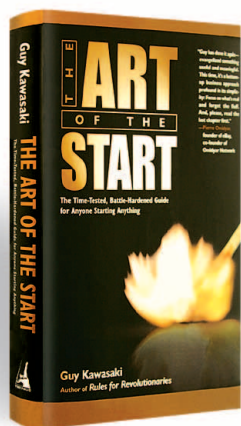


SOUNDVIEW Executive Book Summaries®

FILE: SMALL BUSINESS/
ENTREPRENEURSHIP

By Guy Kawasaki

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The Time-Tested, Battle-Hardened Guide For Anyone Starting Anything

THE ART OF THE START

THE SUMMARY IN BRIEF

“Entrepreneur” is not a job title: It’s the state of mind of people who want to alter the future. Doing, not learning to do, is the essence of entrepreneurship. Guy Kawasaki writes that his goal is to help you use your knowledge, love and determination to create something great without getting bogged down in theory and unnecessary details. In The Art of the Start, he presumes that your goal is to change the world — not study it.

At Apple in the 1980s, Kawasaki was a powerful leader who turned ordinary consumers into evangelists. As founder and CEO of Garage Technology Ventures, he has field-tested his ideas with dozens of newly hatched companies.

In The Art of the Start, Kawasaki takes you through every phase of creating a business, from the very basics of raising money and designing a business model through the many stages that will eventually lead your company to doing the right thing and giving back to society.

What You’ll Learn In This Summary

- ✓ **What the entrepreneur’s key tasks are.** Every startup must make meaning, make mantra, get going, define its business model and weave a MAT of critical Milestones, Assumptions and Tasks.
- ✓ **How a new company can articulate what it is all about.** Pitching, positioning and writing a business plan are the ways in which a startup defines itself and communicates its message to others.
- ✓ **How you can “activate” your business.** Bootstrapping (operating on little cash), recruiting and raising capital will all give you the human and financial resources you need.
- ✓ **How you can “proliferate” your business.** Creating win-win partnerships, building a brand and “rainmaking” (generating large amounts of business) all expand your startup beyond its original horizons.
- ✓ **What the entrepreneur’s obligation is to repay society.** In exchange for the right to exist and do business, each of us is required to give back to society and to be a *mensch* — a generous, honest, socially responsible, fully moral person.

THE ART OF THE START

by Guy Kawasaki

— THE COMPLETE SUMMARY

Causation: The Art of Starting

To alter the future, an entrepreneur must:

1. **Make meaning.** Create something that makes the world a better place.
2. **Make mantra.** This is a powerful, emotional statement of what the company is all about.
3. **Get going.** Get your product or service to market, even though it's not perfect.
4. **Define your business model.** Do the following:
 - Target your customer specifically.
 - Keep it simple. Describe your business model in 10 words or less with little or no business jargon.
 - Copy somebody. Relate your business model to one that's already successful and understood.
5. **Weave a "MAT"** — Milestones, Assumptions and Tasks. Compile these three lists:
 - Milestones you must meet: e.g., complete design specifications, raise capital.
 - Assumptions about your business: e.g, market size, gross margins.
 - Tasks necessary to design, manufacture, sell, ship and support your product or service.

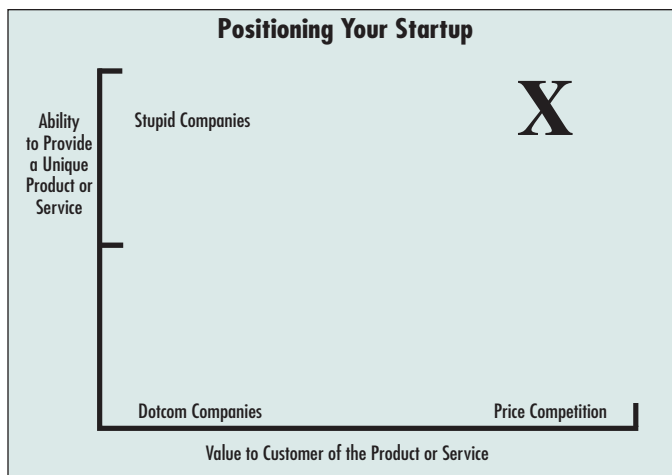
Make business cards and letterheads immediately (12-point font, minimum). You also need a Web site and a domain name. ■

For additional information on the art of starting, go to: <http://my.summary.com>

Articulation: The Art of Positioning

Positioning is a clear statement of why the founders started the organization, why customers should patronize it and why good people should work at it. Good positioning is:

- **Customer-centric.** It's all about what you do for your customers.
- **Empowering.** It shows your employees they're making the world better.
- **Practical.** It's easily understood and believed by customers, vendors, employees, journalists and partners.



It uses plain English, not industry jargon. And it is founded on the core competencies of your organization.

Clearly differentiate yourself from the competition. Instead of near-universal terms like "high quality" or "easy-to-use," offer concrete proof points that convey your unique qualities.

Pick a company name that will make your positioning easier. Use a first initial that's early in the alphabet and avoid words that begin with X or Z.

The availability of a domain name should be a factor in naming the organization. You need a domain name that people can easily remember and use.

Everyone in the company, including your directors and advisers, should understand the positioning. Put it into a short document and discuss it in an all-hands meeting. ■

The author: Guy Kawasaki is the managing director of Garage Technology Ventures, an early-stage venture capital firm for high-technology companies. Previously, he was an Apple Fellow at Apple Computers Inc. He is also the author of seven books, including *Rules for Revolutionaries* and *How to Drive Your Competition Crazy*.

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Articulation: The Art of Pitching

In the first minute of your pitch, don't lead off with a heartfelt autobiographical tale. Explain what your company does. Then your audience can listen to everything else with a more focused perspective. If they remember that alone, your pitch will be better than 90 percent of the competition.

You want to communicate enough to get to the next step. If it's funding, then you want a meeting with more partners in the firm. If it's a sale, then you want a test installation or a small purchase. If it's a partnership, then it's meeting more people within the organization.

Your audience doesn't necessarily understand the importance of what you're saying, so every time you make a statement, consider following it with an answer to the question "So what?" Know your audience. A great pitch starts with the research you do before the meeting. Visit the organization's Web site, use Google searches, read reports and talk to your industry contacts. Ask the person who invited you: What are the most important things you'd like to learn about us? What attracted you to our idea? Are there any special issues or questions I should be prepared for?

Keep the pitch down to 10 slides and 20 minutes to allow for discussion. The CEO should do 80 percent of the talking. The rest of the team (no more than two others) can present the one or two slides pertaining to their expertise.

Realistic Segmentation

Describe only your "total addressable market" — not the totality of every nickel that's spent on something related to your product or service. You'll show that you truly understand the market — and you're realistic about the segments that you can address.

Strive for a balance: Provide enough detail to prove that you can deliver — and enough aerial view to prove you have a vision. Don't even mention liquidity unless you have at least five potential acquirers that the investor is unlikely to know about — this shows you truly know your industry. Saying the industry leader will buy you out will only scare investors away.

After the pitch, take notes on the audience's responses. At the end of the meeting, summarize what you heard to make sure you got it right. Then go back and write the presentation from scratch. Let this version reflect what you've learned to date.

Continue to develop your pitch. When you're familiar and comfortable with it, you'll give it most effectively. For most people, real fluency takes about 25 repetitions. If your pitch is short and provides a compelling story of how you solve a real problem, it'll be better than 99 percent of the rest. ■

For additional information on the art of pitching, go to: <http://my.summary.com>

Articulation: The Art of Writing a Business Plan

A business plan isn't terribly useful to a startup because so much of it is based on assumptions. The plan document is actually one of the least important factors in raising money. If an investor is leaning positive, the plan only reinforces his or her thinking. If the investor is negatively inclined, the plan will probably not change his or her mind.

Still, many investors do expect a plan. And in the later, due-diligence days, the investor will ask for a plan because it has to be "in the file." The main reason for writing a plan is to force the founding team members to work together and consider any issues they had overlooked or glossed over in their initial euphoria.

Uncover Holes in the Team

Writing a plan uncovers holes in the team. If you see that no one can implement key elements of the plan, you need someone else on board. A good business plan is a detailed pitch. If you get the pitch right, you'll get the plan right.

Write a pitch that follows the 10 slides: title slide; problem; solution; business model; underlying magic; marketing and sales; competition; management team; financial projections and key metrics; and current status, accomplishments to date, time line and use of funds. Practice on mentors, colleagues and relatives. Get the team in a room and discuss what you've learned. Fix the pitch, then write the plan.

Use the slides for your pitch as the framework for your plan. Instead of a title slide, write an executive summary — a clear, concise (about four-paragraph) description of the problem you solve, how you solve it, your business model and the underlying magic of your product or service. It's the most important part of your business plan because it determines whether people read the rest of it.

Business Plan Writing Tips

Use these tips when writing your plan:

- **Keep it under 20 pages.**
- **Pick one person to write it, to give it a single voice.**
- **Keep your financial projections down to two pages.**

The most important projection is your cash flow statement for the first five years. Generally, investors want five years of projections — or however long it takes to get to "significant" revenues — to help them understand the scale of your business and determine how much capital you require.

- **Include key metrics, e.g., number of customers.**
- **Include assumptions that drive your projections.**

To make your plan stand out from others, have a credible referral source bring it to the attention of the reader.

Also, provide a list of customers the reader can call to find out how much they need your product or service — or, even better, how much they're already using it. ■

Activation: The Art of Bootstrapping

Bootstrapping is about surviving the critical, capital-deprived early days — about thinking big and starting small. It means managing for cash flow, not growth or market share.

Here are the preconditions for successful bootstrapping:

- **People already know, or it becomes immediately obvious, that they need your product or service.**
- **A megatrend is breaking down barriers for you.** A prime example is the Internet.
- **You can piggyback on a product or service that already has a large installed base.**

Here's what else you must do to bootstrap successfully:

Do a “bottom-up” forecast, starting with such real-world variables as the number of phone calls that each salesperson can make per day, until you develop a realistic forecast.

Get to market immediately (exceptions: a biotech or medical device company). You get immediate cash flow and real-world feedback.

Of course, if there are quality problems, your image could suffer, which is why there is such tension involved in deciding between shipping your product and perfecting it.

Bootstrapping Tips

To bootstrap successfully, you must also:

Hire affordable talent — inexperienced young people full of raw ability and energy. They'll try anything!

Know what you're really good at. “Off-the-shelf” is good if you can save money on products and services that have become commoditized.

Sell directly. A distribution system isolates you from your customer and requires a large sales volume.

Position yourself against the market leader. This works only if (a) the leader actually is, and remains, worth positioning against (think Enron); (b) the leader doesn't get its act together and erode your advantage; or (c) your product or service really is superior.

Stay in touch with reality. Ask the important questions about who we are, what we need and what we are doing.

Realism is so important that you need someone on your team whose role and temperament keep you in touch. This person should have at least 10 years of operating experience (as opposed to being a consultant or analyst), including firing or laying off someone. The role may shift from one person to another. The important thing is that the right person is available to give you a reality check when you need it.

Outsource. Overstaffing causes many problems, so outsource as many functions as you can — but only payroll and other back-office work that others can do as well as you.

Build a board. Include outsiders. Good guidance is always valuable.

Sweat the big stuff — developing your product or service, selling it and collecting the money. Whenever possible, do the small stuff (office space, furniture, computers, etc.) cheaply.

Execute. The real enemy of bootstrapping is failing to execute. Some recommendations include:

- Set and communicate goals.
- Measure progress and report results; at first, every 30 days.
- Establish a single point of accountability. If it takes more than 10 seconds to figure out who is responsible for a goal, something is wrong. Besides, someone who is being measured and held accountable is highly motivated.
- Reward the achievers.
- Follow through until an issue is either done or irrelevant.
- Establish a culture of execution. The CEO must set the right example — answering inquiries, solving problems and promoting people who deliver results, thus sending an unmistakable message: In this organization, execution counts. ■

Activation: The Art of Recruiting

Good recruiting starts at the top: A CEO must hire a management team that is better than he or she is. And the team must hire employees who are better than they are. Both CEO and team must have the humility to admit that some people can perform a function better than they can. And they need the self-confidence to recruit these people.

To avoid hiring the wrong people, use the following techniques:

Don't confuse correlation and causation. A candidate may have worked at a successful organization without actually contributing to its success. Analyze his or her actual performance and results.

Dramatize your expectations. Make it clear that working in a startup is different. You might scare off a few desirable candidates, but it is worth it to avoid ending up with people who cannot function in a startup atmosphere.

Learn to read references. U.S. laws prohibit providing job references that could damage a candidate's ability to get a job, so whenever you don't get a superlative reference, consider it a negative one.

Look to your current employees to bring in good staff.

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Activation: The Art of Recruiting

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Good hires should not only be better than a CEO and management team; they should also be different from them. You need people with diverse and complementary skills.

Your candidates must also be infected with enthusiasm for what you do. Take a chance with a reasonably qualified candidate who already believes in what you're doing.

What if the candidate has been with a failed organization? Failure is usually a better teacher than success. But avoid the person who has a consistent history of working for failures. You want smart people — not necessarily “degreed” people.

Double-Edged Sword

Industry experience is a double-edged sword. Understanding the industry lingo and possessing pre-existing relationships are helpful. But a candidate who is stuck in his or her way of thinking can be a problem.

The same goes for functional experience: Sometimes it will carry over to a new industry; sometimes it won't.

You should often ignore a functional weakness. When head count is low and there is no room for redundancy, you need tremendously talented people. High achievers tend to have major weaknesses. People without major weaknesses tend to be mediocre.

Ask a candidate who his or her important decision-makers are — children, parents, friends — and then answer the candidate's concerns too.

Don't prepare an offer until the end of the hiring process. It is not a negotiating tool to get the candidate to say yes — but simply a way to confirm a verbal agreement.

Sometimes the candidate's education and background aren't quite right, but your intuition says “grab him” — or the candidate is perfect on paper (education, work experience, etc.), but your intuition tells you to pass. Unfortunately, your intuition is often wrong.

Balancing Intuition

To balance any undue influence from your intuition, do the following:

Prepare a structure for the interview beforehand. Decide on exactly the attitude, knowledge, personality and experience that are necessary for the position.

Ask about specific job decisions that the candidate has made.

Stick to the script. Minimize spontaneous follow-up questions; resist making up new questions in real time.

Don't overdo the open-ended, touchy-feely questions. Instead of “Why do you want to work for this organization?” ask, “What were your biggest accomplishments and failures?”

The Mall Question

One last question you should ask yourself about job candidates: Is this the kind of person you would actually walk up to at the mall? If not — or if you would avoid him or her — don't make the hire. Life is too short to work with people you don't naturally like — especially in a young, small organization.

Take copious notes so you can accurately remember what each candidate said.

Check references early to decide whether the candidate is even acceptable — not as a confirmation of a choice you have already made.

Despite your best efforts, the new hire might not perform to your expectations. If you don't terminate people who aren't working out, you increase the probability of having to lay off people who are.

Establish an initial review period, with incremental milestones and concrete performance objectives. Agree that after 90 days, there will be a joint review, at which both sides will discuss what's going right, what's going wrong and how to improve performance. (Some issues will be your fault!) ■

For additional information on how to gauge a candidate's enthusiasm for your business, go to: <http://my.summary.com>

Activation: The Art of Raising Capital

To meet the people who can lend you money, you need an introduction by a credible third party — preferably a source that your potential investors respect, such as a current investor. When you pick a lawyer, an accountant and a PR counselor, look for connections as well as competence. Ask them to introduce you to sources of capital.

Other entrepreneurs are another source. A call or e-mail from an entrepreneur to his or her investors saying, “This is a hot company — you should talk to them,” is powerful. If you are starting a not-for-profit, look at the organizations that your target foundations have funded.

If you don't know such people, get out there and get connected. (See “Schmoozing” on the next page.)

Show Forward Momentum

You also have to show evidence of forward momentum. The factor that counts most is sales — evidence that people are willing to put money in your pocket.

Momentum can take other forms: for a church, attendance at services; for a museum, the number of visitors.

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Activation: The Art of Raising Capital

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Investors are not attracted to a company that hasn't cleaned up its act. You should have no issues in intellectual property (e.g., lawsuits), capital structure (e.g., ownership of most of the organization by a few founders), management team (e.g., married or related co-founders), stock offerings (e.g., common stock sold to friends and relatives at high valuations), or regulatory or tax compliance.

If any of the above has not been or cannot be cleaned up immediately, tell the investors — early.

If you worked for a failed organization, accept as much blame as is justified without blaming anyone else. What's important is not that you failed — it's that you learned from your failures and are eager to try again.

Some Competition Is Good

Never tell potential investors that you have no competition. A moderate level of competition is good because it validates the market. And the fact that you're aware of your competition shows you've done your homework. If you're accurate about the things that you can do and the competition can't, you will build credibility.

Your competition might simply be the status quo. Pick something, because saying you have no competition is a nonstarter.

After all this, an investor might show interest — then stall. He or she might still be watching you: Did you try to establish contact after the pitch? Did you answer questions that came up in the pitch? Did you provide supplemental information that supports your case? Have you closed the big customers or met milestones early? Have other high-quality investors written you a check?

From Persistent to Pest

If you have tangible accomplishments and significant improvements, continue to make contact (but only if you have something to report — otherwise, you've gone from “persistent” to “pest”).

Raising money is a long, hard process — and that's if it goes well. Venture capitalists don't know any more than you do about your sector. Also, getting a top-tier investor does not guarantee that you will succeed. These firms make many bets, and they assume that most won't pan out. Plus, the moment that you take a dollar of outside money, you lose control. You are obligated to all shareholders, even those with a minority position.

Lower your expectations. Outside investors can open doors, help you kick-start sales and partnerships, help you find future investors and prevent you from making mistakes that they've seen before. But that's about it. ■

Proliferation: The Art of Partnering

You enter into partnerships to drive your financial performance. Define the deliverables and objectives in such “spreadsheet” terms as additional revenues or new markets. If you base a partnership on spreadsheet numbers and define deliverables and objectives, you have tripled the probability of its success.

Successful partnerships start with a true win-win agreement that leverages the strengths and needs of both partners.

Many partnerships are formed between two organizations of vastly different sizes, so it is tempting to cut win-lose deals.

But such deals won't last. Oppression is not a sustainable system. Also, if you want the middle and lower ranks to support the partnership, both sides have to see the union as a win. Beware of win-lose partnerships, no matter how attractive the terms.

Internal Champions

To keep the partnership going, both organizations need an internal champion — not the CEO, but a single point person who truly believes in the relationship. The success of the partnership should be his or her only goal. The internal champion should be empowered to cut across internal departments, priorities and turfs.

Don't send a draft of the partnership agreement to get the discussion rolling. Instead, get together face to face. Discuss the deal points and write down the ones you agree on. Follow up with a short e-mail outlining the partnership “framework.” Then reach closure on all details by e-mails, phone calls and follow-up meetings. Finally, draft your legal document.

Then find a lawyer who genuinely wants to do deals, not prevent them.

Always include an exit clause. People are more likely to take chances and be innovative if the partnership is not set in stone.

Schmoozing

It is much easier to build partnerships with people who already know you. The process of building connections is called “schmoozing,” “networking” or “discovering what you can do for someone else.”

Attend trade shows, conventions, seminars and conferences.

When you are talking to people, ask good questions, then shut up. Good schmoozers don't dominate conversations. They start them off with interesting questions — and then listen.

For additional information on the ten top lies that entrepreneurs tell investors, go to: <http://my.summary.com>

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Proliferation: The Art of Partnering

(continued from page 6)

Within 24 hours of meeting someone, **follow up** with an e-mail or phone call.

Make it easy to get in touch. Carry business cards with your e-mail address and phone number. Promptly respond to e-mails and voice mails.

Unveil your passions. If you can talk only about your business, you're boring. But if you are knowledgeable about six subjects, you can connect to almost anyone in the world. (If you have no passions, then at least read voraciously to learn a little about many things.)

Do favors. Help people — especially people who seemingly can't do anything for you. And do it without expectation of return. Somehow, you will be repaid. ■

Proliferation: The Art of Branding

Brand-building starts with adoption. To encourage adoption, you must:

- Reduce product complexity and flatten the learning curve. A customer should be able to get basic functionality right out of the box.
- Make the manual a marketing opportunity. The better the manual, the more enjoyable the customer's experience, and the better your word-of-mouth branding. Include a thorough index.
- Test your product on someone over 45. The feedback of teenagers is irrelevant — they can figure out anything. Create a user interface that an ordinary adult can handle.
- Keep the price and conversion costs low.

Proselytize

If you have done all this, then you are well-positioned to "proselytize" — to ask satisfied customers for help in spreading the word and building a community around your product or service.

Brand building also means attracting publicity and press coverage. If your customers generate buzz, the press will write about you. But you should also make friends before you need them. Help reporters from publications you've never heard of. Later on, they'll remember you.

Decide whether your story is appropriate for a particular publication. Identify and work with the reporter in your field. Pitch that reporter only if your story really is useful for his or her readers.

Be a foul-weather friend. Whether or not things are going well, always return phone calls and maintain good relations with the press.

Always tell the truth. If you've been honest when times are bad, they will believe you when times are good.

Your employees can also help you build your brand. Make sure that everyone has at his or her disposal several snappy one-liners that enable him or her to proselytize for the organization.

Do you need a PR firm or a PR department? They can force you to create a solid branding message, open the door for you with members of the press via pre-existing relationships, schedule meetings and interviews, provide post-interview feedback and help you improve your presentation skills. They cannot take second-rate products and services and generate countless articles about them or make the company always look good. ■

For additional information on building your brand by recruiting evangelists, go to: <http://mg.summary.com>

Proliferation: The Art of Rainmaking

Rainmaking means generating large quantities of business. Two conditions make rainmaking difficult. First, you don't know who will actually buy your product and what it will be used for. Thus, one challenge is to get your first version into the marketplace to find out where it blossoms.

Also, few customers want to take a chance on a new offering from a small, undercapitalized organization. The second challenge is to overcome this resistance.

Take the Money!

If you see your offering being used in unintended ways, don't try to reposition it so that the intended customers use it as intended. Take the money! But also learn where and why you are succeeding, then adjust your business to reflect this information.

To sell effectively, you must establish credibility and develop personal contacts, which begin with effective lead generation. The most effective technique is to conduct small-scale seminars to introduce the product (not to advertise, telemarket, make glossy brochures or exhibit at trade shows).

The next best methods are, in order, giving speeches, getting published, networking and participating in industry organizations.

To generate business, you must also find the true decision-makers by asking their secretaries, administrative aides and receptionists. Here is how you can work with gatekeepers to get access:

Understand them. Their job is to enable the executive to do his or her job — partly by guarding his or her time (which many people, like you, might waste).

Don't try to buy them. Have a credible introduction

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Proliferation: The Art of Rainmaking

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and a rock-solid proposition; then treat every gatekeeper with respect and civility. After you've gained access (whether it worked out well or not), follow up with an e-mail, handwritten note or gift.

Empathize. This person is not making much money — certainly a pittance compared to the executive. And he or she could probably run the place better. So don't assume the gatekeeper has to put up with you.

Never complain. Even if the person is wrong, your complaint will circle back, and you can kiss your access goodbye. Forever.

Dream Accounts

Rainmakers typically want to land the big, prestigious customer who provides tons of money, plus credibility. The problem is that these accounts are already successful and established. They're the least likely to embrace your innovative product or service.

So if your dream account doesn't "get it," find customers who are at least willing to consider you. They're typically not using anything. You are enabling them to do something they can't do — as opposed to having to displace an entrenched competitor.

Let Them Talk

Let your sales prospects talk. If a prospect is willing to buy, he or she will often tell you what it will take to close the deal. Create a comfortable environment. Ask permission to ask questions, listen to the answers and take notes. Explain how your product or service fills the prospect's needs.

Begin by mentioning all your benefits — and let prospects react. They will typically tell you which ones are appealing.

If nothing resonates, ask what would. Then focus on the answer, because you've just gotten valuable information on "how to sell to me."

If the customer says, "**You don't have your act together,**" either you really don't — or you have stepped on someone's toes. Review your pitch and interpersonal skills to determine which it is. If you offended someone, figure out how to make amends.

"**You're incomprehensible**" means "redo your pitch from scratch, cut out the jargon and practice." The burden of proof is on you. If you need customers who are "smart enough to understand why they need our product," you'll starve.

"**You're asking us to change, and we don't want to**" means you are in the right market but talking to the wrong customers. Find customers with a problem that you can solve.

"**You're a solution looking for a problem.**" Keep mutating your value proposition until it really appeals to a customer. If you can't create real value, you might really be a solution looking for a problem.

"**We've decided to standardize on another product (or service)**" means that you are probably trying to sell to the wrong person — if your product or service is truly, demonstrably better. Avoid the gatekeeper and try to get access to the real customer.

Support your selling by letting customers test-drive your product or service. They react very well to being trusted to make their decision after some actual hands-on experience.

Also, offer a smooth adoption curve — ask to deploy the product or service in small pieces of the business, in a limited and low-risk manner. Satisfaction could trigger further adoption.

Encourage everyone in the company to make it rain by doing the following:

- **Set goals for specific accounts.**
- **Track leading indicators.**
- **Recognize and reward true achievements.** Don't allow people to submit intentionally low forecasts. Intentions are easy; rainmaking is hard. ■

For additional information on a matrix of blossoming flowers, go to: <http://my.summary.com>

Obligation: The Art of Being a Mensch

Your goal should be to achieve menschhood. *Mensch* is the Yiddish term for a person who is ethical, decent and admirable. It is the highest form of praise one can receive from the people whose opinions matter.

Every person and organization exists in the larger context of society. Don't do things that benefit you and your organization to the detriment of the rest of society. Also, if you want to build a truly great, lasting organization, you must set the highest moral and ethical standards for employees. A *mensch* provides a good role model for this.

Being a *mensch* means helping people who cannot help you.

A *mensch* does what is right — not necessarily the easy thing, the expedient thing, the money-saving thing or the thing he or she can get away with.

Finally, a *mensch* pays society back. There are many "currencies" other than money: giving time, expertise and emotional support. A *mensch* joyfully pays back — for goodness already received — and pays forward, with no expectation of return. ■