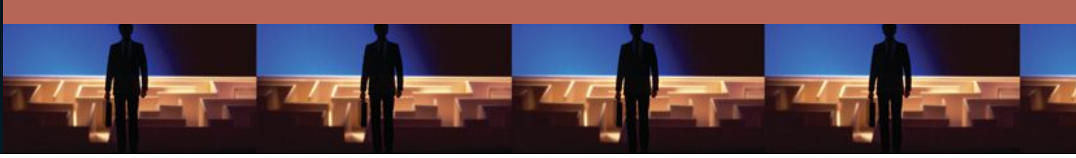


A foundation for success

Jerry Merola

Want to build a family entertainment center? Start with a solid strategy.

Opening a new business is far from easy, particularly during the slow economic cycle that haunts America.

In general, a new business always carries a degree of risk, whether it is market risk, obsolescence risk, or management risk. Despite this, the U.S. has managed to cultivate 27.5 million small business entities that operate today, controlled by 10 percent of the resident population, each of whom classify themselves as self-employed.

Consider further that more than 550,000 new businesses are started each year, of which the financial services industry provides nearly $700 billion in new loans to finance their existence.

From a downside perspective, 600,000 businesses close each year, 10 percent of which end in bankruptcy. Survival of the fittest rules apply here, with more than half of new businesses failing in the first five years of operations. About 33 percent of all new installations survive 10 years of operations, while 25 percent survive beyond 15 years.

While the above statistics might be sobering, they serve to set a baseline for measuring entrepreneurial performance. Most commonly, a business will fail as a result of under capitalization, whereby the business is incapable of continuing due to a lack of financing or access to working capital.

Other common failures result from ineffective or inexperienced management, overpowering competition, or loss of market demand, the latter of which occurs when the product or service that's being sold falls out of favor with the public.

So how do we avoid becoming one of the unfavorable statistics? The answer lies in building a solid foundation supported by market research, a compelling business case, and a knowledgeable management team, commonly coined, "The Big Three." Let's explore what's really involved in delivering the goods to our biggest critics: our investors and financiers.

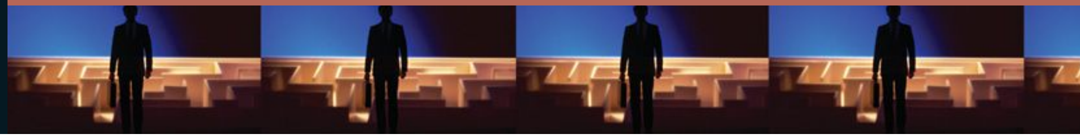
MARKET RESEARCH

There are certainly many levels of research that can occur when considering the development of a new business. Having spent the better part of 28 years working with bankers and investors in analyzing the entertainment industry, I can unequivocally state that the only level of research deemed sufficient is the one that delivers an independent, unbiased analysis of the market, the business concept, the principals, and the budget.

It's simply not possible for a project developer to fairly and accurately deliver an independent assessment of these variables. More importantly, lenders and investors are unwilling to rely upon data generated from project developers, as the developer and borrower are ultimately one and the same, triggering a conflict of interest.

Performing honest, independent market research allows a future business to address the critical factors necessary for success *before* a commitment is made to location, budget, format, and capital structure. Sadly, most businesses that do fail within the first two years were doomed to fail well before the shovel was ever put into the ground. The greatest level of passion and persistence in launching a new business can't outrun the realities of a flawed operating model.

There is no substitute for doing your homework, and to that end, dealing with a realistic set of both positive and negative economic variables is infinitely better than receiving an unanticipated surprise down the road.



BUILDING A BUSINESS CASE

Often, a new business developer will initiate the process of development based upon a single fundamental thought. In the case of entertainment centers, the basis for development is often built upon the notion that a particular market is either untapped or underserved.

> ***"Commit yourself to become a source of knowledge for the segment of the industry that you intend to enter."***

While this may prove to be true, the business case must move far beyond this level of thinking, instead incorporating a more detailed understanding of how the resident consumer historically spends money in the marketplace, how the concept will be layered into the community, and how the model will successfully generate investment returns for the project's principals and investors.

A great concept matched to a limited rate of return for investors is merely the makings of a non-profit organization. Building a profitable and sustainable business model requires a much more detailed operational strategy that is primarily driven by the generation of continued profits, taking into account that future changes in market conditions will likely affect expected outcomes.

A compelling business case provides a solution to a circumstance that presently exists or opens the door to a product or service that will meet an anticipated consumer need as it emerges. Twenty-five years ago, the idea of launching cellular phone service to the consumer segment was seen as a potential innovation that would be accessible to the top 5-10 percent of the population.

Today, cellular service is considered a necessity and has effectively replaced the need for traditional landline service for all economic classes of the population. The evolution of the cellular phone did not happen by accident; in fact, in 2012 consumers spent a greater percentage of their disposable income on communication services than in any other time in history. What was once seen as a luxury is now positioned as a consumer essential.

THE MANAGEMENT TEAM

Running a business requires a tremendous amount of commitment on the part of the executive management team. In virtually all cases, an entrepreneur-turned-new-business-owner must successfully navigate a myriad of responsibilities, including human resources, accounting and budgeting, sales and marketing, and public relations.

Becoming an expert in every facet of the business is not only expected by investors and lenders, but also essential for a new business to succeed.

A solid development strategy must effectively incorporate why the selected management team is well matched for the assignment, and what such members have done to educate themselves on industry norms and best practices for operations.

Today, a new business developer must be seen as an expert in the field, a status largely attained through continued field comparison and field analysis of similar business models already in operation.

If you were to put yourself in the shoes of a banker or investor, it's very likely that the single greatest assurance you'd want is that a project's developer possesses the charisma and capability to see the process through from start to finish.

After all, an investment in a new business is really an investment in the individual that leads it.

Commit yourself to become a source of knowledge for the segment of the industry that you intend to enter, and focus your efforts on learning the ins-and-outs of how the business model ticks. Set high standards for yourself, as perfection in execution is an expectation not lost on your investors.

> ***"Winning in business is often by design, not by luck."***

Winning in business is often by design, not by luck. A commitment to success is really a commitment to be the best, and in turn, building a strategy that will last the test of time. ▲

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