

SO YOU WANT TO START YOUR OWN SMALL BUSINESS

Phil Holland

Anyone thinking about starting a small business should first consider his or her temperament, experience, and knowledge, as well as the most crucial decision to be made—what kind of specialized product or service to sell. After defining the market, the entrepreneur should write a business plan, fulfill all legal obligations for doing business, and find some start-up money. Starting out part time with a small investment is not a bad idea.

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Own and operating a successful business can be a very satisfying way to earn a living and, at the same time, become financially self-reliant. But before starting, one should take careful measure of some of the factors that can nurture success and minimize failure. People who are successful at operating businesses of their own normally will score high marks on the following attributes:

- possessing a strong desire to be self-reliant;
- enjoying and gaining satisfaction from operating the business;
- focusing on a specialized service or product that fills an ongoing need;
- possessing previous hands-on experience in the business;
- possessing a basic knowledge of accounting and cash flow control.

There are some important advantages in starting a business on a part-time basis before quitting your present job. During the early and uncertain phase of start-up, your present job can continue to provide income and benefits. Perhaps family members, already a built-in organization structure, can help run the business while you are at your

job. And your children can learn about the challenge and benefits of being in business.

DEFINING YOUR MARKET

Defining the market is the single most important decision to be made by anyone starting a business. Most businesses do best when serving a specialized market. For example, in the United States the most successful fast-food chains market a very limited line of products, such as ice cream, doughnuts, chicken, or hamburgers. Fast-food restaurants that attempt to be good at a widely assorted menu often fall by the wayside. Seek out a single, specialized need and fill it exceptionally well. I would also recommend that you not tackle a market that may be too challenging. It is better to identify a more modest business opportunity than a higher risk one, better to jump the smaller hurdle than the larger one.

It is a good idea to avoid markets that deal in commodities. In a commodity market, you must compete entirely on the price of your product, and you must have the lowest cost to survive. If you live in a country where labor costs are low, you may find opportunities to export your product to countries where labor costs are significantly higher. On the other hand, if your product is made in a high-labor-cost country, you take the risk that someone somewhere will gain a cost advantage over you and become a serious threat to your business. In this case, you might want to consider contracting out your production to a supplier in another part of the world that has lower costs.

Many small retailers are no longer in business because huge stores such as Wal-Mart provide more choices of goods to the customer and often at cheaper prices. Businesses that market services tend to have more “pricing power” than businesses marketing goods. Pricing power is the ability to lessen the threat of losing your market because a competitor can command greater customer loyalty. In a service type of business, whether it is tool rental or house painting, your customers usually will be more willing to pay a fair price for dependable

THE BIGGEST MISTAKES PEOPLE MAKE IN STARTING A BUSINESS

- The single biggest mistake that people make is not picking the right business. Take your time. What is said about real estate—“There is no such thing as the last great location”—also applies to business: There is no such thing as the last great opportunity. If there is a business for which you have special insights that will give you a competitive advantage, it would be a mistake not to include it at the top of your list of businesses to evaluate for yourself.

- Don't depend entirely on outside resources to furnish the money to start a business. The first resource should be your own personal savings; if you haven't started already, start now to begin saving cash. And when you do ask someone for money, be prepared to provide a comprehensive business plan that includes your source and schedule for repayment.

- Many entrepreneurs rush into a business prematurely. If you are working in a job, don't quit your job until you are fully qualified and prepared in every respect to start your business full time. Or perhaps better still, start your business part time without quitting your job.

- Many start-ups make the mistake of not seeking advice from others. People like to talk about their businesses—don't be afraid to ask questions. Gain the advantage of learning what the worst problems are based on the experience of those who have been there.

- It is a mistake not to have a lawyer when signing a lease, a partnership agreement, a franchise agreement, or any other important document. Remember that when you agree to a five-year lease for \$1,000 per month, you incur a liability of \$60,000.

- Would you engage in a sport without knowing how to keep score? Think about how big a mistake it would be to risk your assets on a business without knowing about accounting and cash flow. Your business will be judged by your financial backers on classic financial measures: the balance sheet, the profit-and-loss statement, and the cash-flow statement. Your ability to be able to predict future liquidity through cash-flow control is essential.

- Don't fail to exercise rigid internal financial controls. Your goal is to make sure that your business receives all of its income, without any of it being siphoned off by waste, fraud, dishonest employees, or simple carelessness. And while you need to learn to delegate responsibilities to your



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employees, do not delegate to anyone the authority to sign checks or even purchase orders.

- It is a mistake to begin expanding a business before establishing a stable and profitable operation. Carefully work out the problems, including achieving a money-making model from which to expand. It is a good idea to test-market your product or service on a small scale first. As you expand, create cash incentives for your managers that are based as much as possible on their own individual contributions to profits rather than incentive compensation based on the company performance as a whole.

- Many entrepreneurs fail to take prompt action when major business problems or recessions occur. When you experience business downturns (and you will), identify and acknowledge your problems and don't hesitate to cut costs promptly in order to maintain a positive cash flow. Also, look for opportunities in adversity: When your business is in a recession, your competitors are struggling too, and some may be for sale at bargain prices. Remember that businesses have cycles; stick to the business you know best and ride out the adverse periods.

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and superior service rather than seek out a lower-cost competitor.

WRITING A BUSINESS PLAN

Writing a business plan is an essential step for any prudent business owner, regardless of the size of the business. The main value of a business plan is to create a written outline that evaluates all of the economic prospects of a business. The business plan will define and focus your objectives. It can be used as a selling tool in dealing with your lenders and investors. It can uncover omissions and weaknesses in your planning. And it can be used to solicit opinions from people already in your intended business, who usually will be happy to share invaluable advice.

Most start-up entrepreneurs ignore this important tool because they are inexperienced about the format and content of a good plan. To encourage entrepreneurs not to sidestep the preparation of a business plan, the Web site that I founded to foster successful entrepreneurs contains free templates that can be filled in and printed off to produce a useful and attractive business plan document (<http://www.myownbusiness.org/plans/index/html>).

COMPLYING WITH THE LAWS

There are many laws that apply to owners of small businesses. Since the operating requirements that are imposed by governmental authorities vary greatly from country to country, if at all possible it is advisable to have a lawyer by your side in obtaining necessary business permits and licenses. In most cases, a lawyer will provide you with an initial free consultation in exchange for your considering him or her as a member of your ongoing advisory team.

In many countries, business owners must select a form of organization to use for their business. Some of the commonly used business forms are sole proprietorship, general and limited partnerships, and various formats for corporations. Each form carries with it a different set of local and federal reporting requirements for the small-business owner and various levels of exposure to liability, again making the case for sound legal advice.



FINDING PARTNERS

There are a number of reasons to consider starting a business with a partner. For one thing, there is safety in numbers. You have two heads instead of one to make decisions. You will also have a highly motivated co-worker with skills complementary to your own. If you are good at making your product, it might be appropriate to have a partner who will be good at selling it. In some cases, it may be necessary to have a partner to contribute capital and share the financial risks of starting and operating the business.

Some arguments against having a partner include having to share the rewards of the business and the control in making business decisions. The worst possibility is to have a partner whose judgment is poor and whose work habits and ethics are different from your own. The details of any partnership should be spelled out in writing with what is known as a buy-sell agreement in place to determine the disposition of the business in the event of serious disagreements between the partners or the death or disability of one of the partners.

FINANCING YOUR BUSINESS

Many prospective business owners are disappointed to learn that banks do not make loans to start-up businesses unless there are outside assets to pledge against borrowing. Finding start-up money is usually considered to be the biggest hurdle in starting a business. But I don't agree with this general perception, since most businesses can be started with the humblest of beginnings and the smallest of pocketbooks. By starting small and using personal savings and money from family and friends, you can participate in every aspect of the business. With the experience you gain from such a small, hands-on beginning, you will not be easily fooled later on as to what does and does not work as your business grows.

By starting small, you can utilize the combined power of hard work and mathematical compounding. If a business can start with sales of, say, \$10,000 the first year and double its sales volume in each of the next three years, the fourth-year sales will be \$80,000. And if sales increase by 25 percent per year for the next 10 years, the 14th year will be very near to \$750,000 in sales.

PROMOTING YOUR BUSINESS

Most business sectors have specific marketing strategies that work best and have already been put into practice. You can benefit from the experience of your competitors by copying their successful marketing plans, including selling methods, pricing, and advertising. Make a list of your most successful competitors and study them. Consider using a pre-opening checklist to evaluate your market readiness. Your checklist might consider the following:

- Will your customers be looking for convenience, pricing, quality, and service?
- Are you focused on a specific or specialized product or service?
- Do you have the necessary e-commerce tools in place, including an informative Web site and provision to market your product or service online?

- If you plan to sell to your buyers on credit, is your credit-rating policy in place?
- Have you test-marketed your product before launching a broad marketing program?
- Does your one-year cash flow projection indicate that there will be ongoing money in the bank during your start-up period?

Once your marketing programs are in place, you are ready to begin the exciting journey to success in your own business. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.