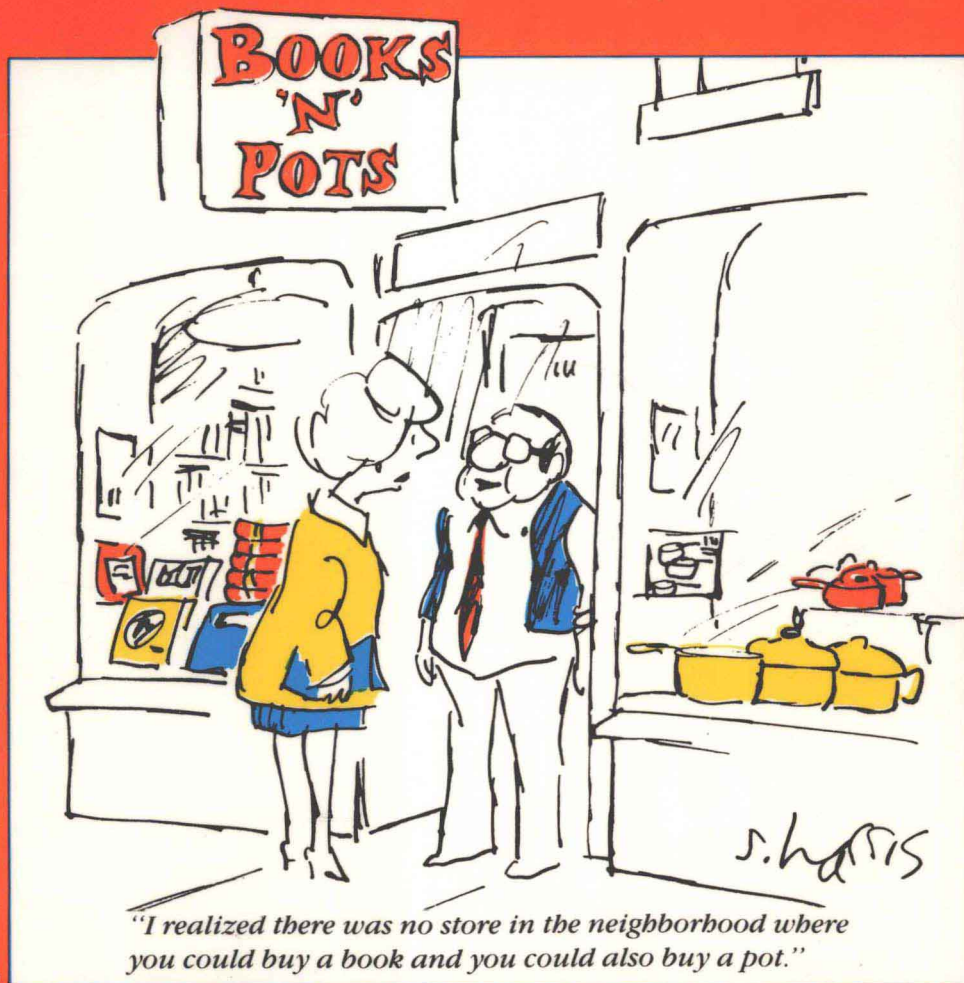


STARTING YOUR NEW BUSINESS

A Guide for Entrepreneurs

Charles L. Martin, Ph.D.



A Step-by-Step Action Plan for Success

STARTING YOUR NEW BUSINESS:

A Guide For Entrepreneurs

Charles L. Martin

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ABOUT THIS BOOK

STARTING YOUR NEW BUSINESS is not like most books. It has a unique “self-paced” format that encourages a reader to become personally involved. Designed to be “read with a pencil,” there are an abundance of exercises, activities and assessments that invite participation.

The objective of this book is to help a reader think through all of the critical issues before charging ahead to set up a new business. It contains several hundred questions that, if answered honestly, will assist with a decision of whether or not to start a business.

This book is part of a series of similar self-help books. For more information on other titles that are available, please turn to the back of this book.

PREFACE

So, you've been thinking about starting your own business? Perhaps you've had a great idea for some time and finally mustered the courage to see what it takes to start a small business. Perhaps you mowed lawns or baby-sat as a youngster and miss those days of independence and autonomy. Perhaps you're having trouble making ends meet and think that operating a business in your spare time may be the answer.

Whatever your motivations are for wanting to start a new business, this book can help you. But it is essential that you understand what this book is and what it is not.

This book is...

- A good place to start. It will give you a "feel" for what is involved in being an entrepreneur.
- Realistic. It is based upon solid business wisdom presented in a straightforward and objective manner.
- A resource that asks almost one thousand questions. If you don't know which questions to ask in business, you'll probably never find the answers you need.

This book is *not*...

- The only source of information you'll need. No single book can accomplish everything you'll need to know.
- A get-rich-quick scheme. Owning and operating a small business requires *hard* work and *smart* work. No illusions to the contrary are fostered.
- A book of almost a thousand answers, because no two businesses are alike. Some answers are included, but the primary objective is to point you in the right direction so you can find answers for your specific business.

To make the best use of this book, first read it casually—from cover to cover. Such a reading will give you an overview of what is involved in starting and owning a small business. Then read it again, carefully—with a pencil and plenty of note paper. Try to answer the questions as you go, work the exercises and take notes. Follow-up by using some of the recommended techniques as well as items listed in the “Additional Sources” section. If you’ll follow these suggestions, the chances of your new business being a successful one will increase greatly.

Good Luck!

A handwritten signature in cursive script that reads "Charles L. Martin". The signature is written in a dark ink and is positioned above the printed name.

Charles L. Martin

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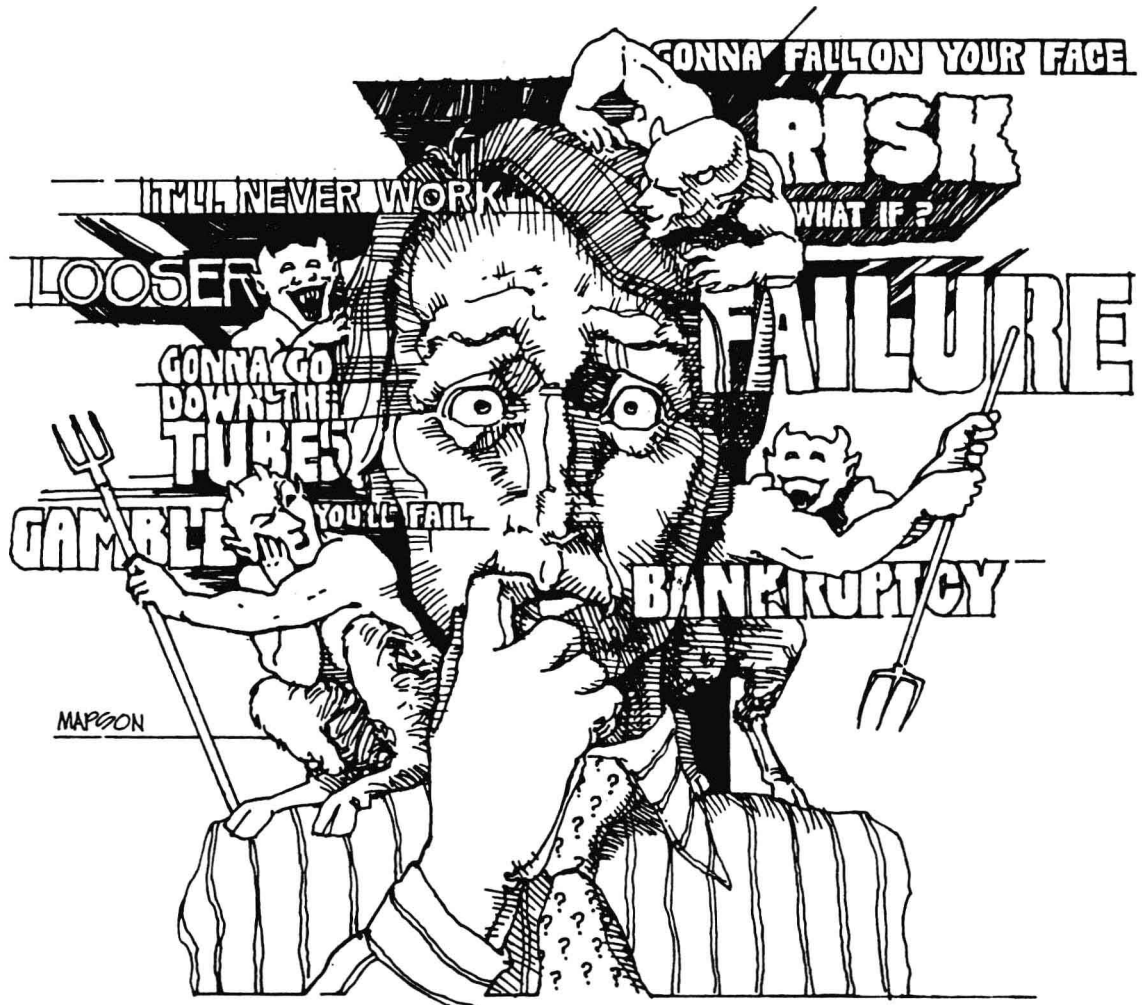
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PART ONE

THE NATURE OF ENTREPRENEURSHIP AND ENTREPRENEURS

*"It is easy to find fault with a new idea.
It is easier to say it can't be done, than to try.
Thus, it is through the fear of failure,
That some men create their own Hell."*

E. Jacob Taylor



THE NATURE OF ENTREPRENEURSHIP

Part of the American dream is to someday own your own business. For most of us, this dream is within reach. Opportunities for owning and operating small businesses abound. Over 675,000 businesses were started last year alone and most were founded by people probably not too unlike yourself. There are currently 15.2 million small, nonfarm businesses in the U.S., but by the year 2000, this number is expected to grow to 25 million. That's 25 million separate entities that began with an entrepreneur's dream and desire to succeed.

To a budding entrepreneur, starting a small business offers the opportunity for a personally and financially rewarding endeavor—a chance to “battle the world,” to build something from scratch, to control one's destiny, to be independent and work autonomously, to satisfy a genuine need in the community, to grow as an individual, and to have no one else limit the business' horizons.

The Facts of Small Business In The U.S.

- 87% of all businesses employ less than 20 employees.
- The number of small businesses is expected to increase 64% by the year 2000.
- More than 27% of all workers work in businesses that employ less than 20 employees and 56% of the labor force work in businesses employing fewer than 100 employees.
- Businesses employing fewer than 49 employees created almost 50% of all new jobs last year.
- The fastest growing small-business industries include: 1) Amusement and recreation services, 2) Masonry work and plastering, 3) Credit reporting and collection, 4) Outpatient health care, 5) Millwork and plywood, and 6) Medical and dental laboratories.
- More than 10,000 students are enrolled in entrepreneurship courses today, compared to one-ninth as many ten years ago. More than 350 colleges and universities offer entrepreneurial courses for budding businessmen.
- About half of the small businesses started this year are predicted to fail within four years.

THE NATURE OF ENTREPRENEURSHIP (Continued)

The glamorous and exciting lure of starting a small business blinds many to the stark realities of entrepreneurship. The risks and disadvantages should not be quietly dismissed because they are very real. For example, 62,000 small businesses failed last year. Many of these failing businesses took with them the life savings (and often the self-esteem) of their founders. If past trends continue, about 70% of all small businesses started this year will fail by their fifth year. Of those 30% that somehow manage to survive, many will not be as financially rewarding as originally envisioned.

Beyond the financial risk of insolvency, there are numerous personal drawbacks facing those who start their own business. Successful small business owners, for example, rarely enjoy the luxury of a standard work day. As an owner of a small retail clothing store explained, "Owning your own business means working Saturdays forever." The responsibility of running the business ultimately lies with the proprietor, a role that can be stressful and lonely. The most difficult decisions and unpleasant tasks cannot be delegated. Also, most small business owners find they are not as independent as they initially believed. Customers, suppliers, and government agencies become the proprietor's new "bosses" and they are equally (if not more) demanding than any boss in a "big business".

Some owners grow to hate their businesses and/or their partners. They may feel trapped—unable to sell the business or dissolve the partnership as quickly as they'd like. So, as you see, starting a business is not something to be undertaken casually or lightly.

Clearly, there are opportunities for successful small business ventures, but anyone considering going into business for himself or herself is well-advised to weigh the pros and cons. In other words, look before you leap!

THE NATURE OF ENTREPRENEURSHIP (Continued)

Beating the Odds

Because you are continuing to read, you must still be interested in starting a business. Either you didn't read carefully, or else the advantages and promise of small business ownership outweighed the disadvantages and risks described. If this is the case, the question becomes: What does it take to beat the odds and enhance the likelihood for a successful business venture? What do profitable, ongoing, businesses have in common? Take a moment and list as many success factors as you can in the space provided.

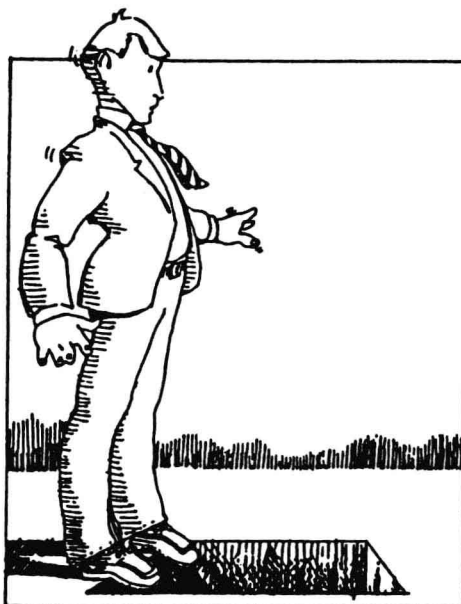
SMALL BUSINESS SUCCESS FACTORS

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____

THE NATURE OF ENTREPRENEURSHIP (Continued)

If the factors you listed on page 3 are consistent with small business experts, at least one success factor focused on the *personal characteristics* of the entrepreneur: a person who is independent, not afraid of working hard, with a high need of power and/or achievement, who enjoys good health, and so on. Another success factor you may have listed is *prior experience* as an entrepreneur or expertise in a particular industry. Every type of business has its own "ins and outs," its own idiosyncrasies. And experience is the best teacher when it comes to learning a specific industry or type of operation. Your list should have included a *winning idea*. Winning ideas are not only superior to competitors' offerings, but are also in demand by your potential customers. There is no such thing as a better mousetrap if consumers are completely satisfied with the mousetraps they've purchased for years. Another key factor is that every successful business venture must have *a plan*—a blue print, to safely guide the business toward its objectives. Finally successful businesses must have *sufficient funds* to not only open the doors, but to keep them open for several months during the slow and expensive start-up period. If you listed most of these success factors, congratulations! All of them will be discussed in greater detail throughout this book.

Another way of beating the odds is to understand some of the major pitfalls that so often lead to business failure. The facing page summarizes several pitfalls and suggests ways to avoid them.



PITFALLS OF OPERATING YOUR OWN BUSINESS

Pitfalls

1. Lack of Experience
2. Lack of Money/Capital
3. The Wrong Location
4. Inventory Mismanagement
5. Too Much Capital Going Into Fixed Assets
6. Poor Credit Granting Practices
7. Taking Too Much Personal Income
8. Unplanned Expansion
9. Having the Wrong Attitude

What Can Be Done About These Pitfalls?

1. Recognize Limitations
2. Plan Properly
3. Keep Records
4. Watch the Balance Sheet—Not Just the Profits
5. Investigate
6. Cooperate With Suppliers and Banks
7. Learn
8. Utilize Professional Assistance
9. Watch Your Health

Source: *The Pitfalls in Managing a Small Business*, W.H. Kuehn, New York: Dun and Bradstreet, 1973.

DO YOU HAVE WHAT IT TAKES?

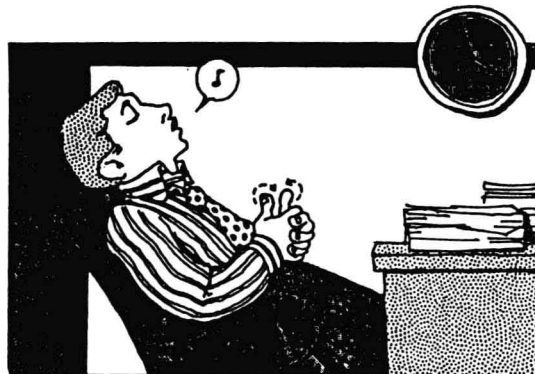
"Real opportunities lie within a person, not outside. What lies behind you and what lies before you are tiny matters compared to what lies within you."

Ralph Waldo Emerson

As shown below, entrepreneurs have backgrounds as varied as the nature of their ventures. Many start their businesses as youngsters in their twenties, while others wait until retirement from a career. Formal education seems to be a "plus," but is not absolutely essential. Most entrepreneurs in the past have been male, but females are making substantial inroads in small business ownership.

BACKGROUNDS OF ENTREPRENEURS

- Twenty-five percent started their business before age 30. Eleven percent were over age 50 when they started theirs.
- Thirty-two percent graduated from high school but never attended college. Twenty-seven percent earned a Bachelors and/or an advanced college degree.
- Forty-five percent have parents who owned an independent business.
- Forty-six percent had been previously employed in a small business.



WHAT MAKES A SUCCESSFUL ENTREPRENEUR?

More reliable predictors of successful entrepreneurs involve the assessment of each individual's aptitudes and level of motivation. Many schools and some government agencies provide testing services to help prospective entrepreneurs to diagnose their strengths and weaknesses. One such program is called GATB—General Aptitude Tests Battery.

If you can be objective, a self-assessment of your entrepreneurial potential may be a viable alternative to formal tests such as GATB. Robert Schaefer in his manual *Starting and Managing a Small Service Business** recommends that a self-assessment should begin with your honest answer to the following question:

Knowing what I do about myself, would I hire someone like me to run a business that I have invested my life savings in?

If your answer to the above question was yes, you should next list your work experience, skills, and education much like an employment agency might ask you to do. Such a list will help you to identify your weaknesses that might be strengthened with additional preparation.

The Small Business Administration provides a structured self-assessment questionnaire (reproduced on the next page) that will help you learn if you've got what it takes to be an entrepreneur. Check the answer under each question that best reflects the way you honestly feel. After you have answered all of the questions, read the instructions for interpreting your self-assessment.



*Source: *Starting and Managing a Small Service Business*, Robert A. Schaefer, Washington D.C.: U.S. Small Business Administration, 1986, page 8.

CHECKLIST FOR GOING INTO BUSINESS

Are you a self-starter?

- ☐ I do things on my own. Nobody has to tell me to get going.
- ☐ If someone gets me started I keep going all right.
- ☐ Easy does it. I don't put myself out until I have to.

How do you feel about other people?

- ☐ I like people. I can get along with just about anybody.
- ☐ I have plenty of friends—I don't need anyone else.
- ☐ Most people irritate me.

Can you lead others?

- ☐ I can get most people to go along when I start doing something.
- ☐ I can give orders if someone tells me what we should do.
- ☐ I let someone else get things moving. Then I go along if I feel like it.

Can you take responsibility?

- ☐ I like to take charge of things and see them through.
- ☐ I'll take over if I have to, but I'd rather let someone else be responsible.
- ☐ There is always some eager beaver around wanting to show how smart he is. I say let him.

How good an organizer are you?

- ☐ I like to have a plan before I start. I'm usually the one to get things lined up when the group wants to do something.
- ☐ I do all right unless things get too confused. Then I quit.
- ☐ You get all set and then something comes along and presents too many problems. So I just take things as they come.

How good a worker are you?

- ☐ I can keep going as long as I need to. I don't mind working hard for something I want.
- ☐ I'll work hard for a while, but when I've had enough, that's it.
- ☐ I can't see that hard work gets you anywhere.

CHECKLIST FOR GOING INTO BUSINESS (Continued)

Can you make decisions?

- ___ I can make up my mind in a hurry if I have to. It usually turns out O.K., too.
- ___ I can if I have plenty of time. If I have to make up my mind fast, I think later I should have decided the other way.
- ___ I don't like to be the one who has to decide things.

Can people trust what you say?

- ___ You bet they can. I don't say things I don't mean.
- ___ I try to be on the level most of the time, but sometimes I just say what's easiest.
- ___ Why bother if the other fellow doesn't know the difference.

Can you stick with it?

- ___ If I make up my mind to do something, I don't let anything stop me.
- ___ I usually finish what I start—if it goes well.
- ___ If it doesn't go right away, I quit. Why beat your brains out?

How good is your health?

- ___ I never run down!
- ___ I have enough energy for most things I want to do.
- ___ I seem to run out of energy sooner than most of my friends seem to.

Source: *Checklist for Going Into Business*, Management Aid #2.016, U.S. Small Business Administration, 1985.

INTERPRETING THE SELF-ASSESSMENT QUESTIONNAIRE

Are most of your checks beside the first response choices? If so, congratulations! You've probably got what it takes to own and operate a business. If many of your checks are beside the second choices, consider teaming-up with a partner who can offset your weaker areas. If you've checked many of the third responses, you might pat yourself on the back for being honest and then seriously consider working for someone else.