

SCORE – SERVICE CORP OF RETIRED EXECUTIVES

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THINGS TO CONSIDER BEFORE GOING INTO BUSINESS

For someone who has never been in business before, facing all the factors that one has to consider can be overwhelming. We have compiled the most frequently asked questions with short responses covering the main points you will need to consider as you work toward reaching your dream of opening your own business.

What are the reasons for business failure and what do they mean in terms of challenges the new entrepreneur faces? There are several reasons – not doing enough research or investigation, lack of funds, poor or lack of planning, trying to do too much too fast or trying to reach too many people/markets/area, lack of experience in the new business/industry, not doing a business plan.

When a counselor first meets a client, what are the main reason(s) a client wants to go into business? Sometimes it is to get away from their current work/job, out of work or can't get a job and need a source of income, making a hobby into a business, turning an idea into a business.

How often do clients ask us what the best business to get into is? The question comes up often. Lists about the "best" businesses to go into come out all the time. We find that there is no "best" business to get into. However, there seems to be openings for all types of businesses IF and only IF one is willing to spend the time doing the investigation necessary, planning. Better yet if one has some background or expertise in the field.

If someone does not know what kind of business to go into, how do they find one to go into? We look to see what experience or knowledge base clients have before going any further into what to do.

What are the prime ingredients needed to start a business? It is more than having an idea of what one wants to do. It takes the 3 P's – Patience – it won't happen overnight, Persistence – not to be discouraged, and a Passion – for doing what you can do for others.

Other than running the business what other activities are involved with being in business? There are 4 facets common to running all businesses – operations (providing what the business sells/does), finances, sales & marketing, managing the business.

Which is easier to do, sell to consumers or sell to other business? Neither is easier; both have their challenges. If one has a niche or industry they wish to sell into the list of who potential customers might be is easier to determine.

A client says there is no one selling/offering their product/service. Does that indicate there is a good chance that it will sell due to the need for it that is not available other places? It may be that there are not enough people out there wanting the same thing . . . hence no market to address.

There is lots of talk about network marketing and franchises. What is the difference and should one look into this for their business? Network Marketing sometimes called Multi-level Marketing (MLM) is, besides selling what the program offers, getting others to sell the same things which bring in additional income from their sales. A franchise is buying a complete program from the resource and sometimes gives exclusive rights to an area. All franchises have a buy-in fee plus they get an annual fee and a percentage of sales.

If someone thinks their product/service has appeal to a wide audience does that bode well for success? What one thinks and what is actual may not be the same thing. This is why developing a business plan is so important.

When family and friends are enthusiastic about a client's plans, is that a good omen? An opinion with a dollar amount attached to the opinion (buying it at a price that is high enough to allow the business to cover expenses or by being willing to invest in the new company) is an invalid opinion.

The client has been selling their product/service to family and friends and so many have liked what they've bought does this mean it can be their new business? Usually not because the product/service is so underpriced because one has not done the planning to determine how much one should be charging.

How does one keep others from copying what they want to or are doing/selling? There are patents, trade-mark/logo registrations, copyrights etc that sometimes will deter copying. However, if the idea is good and is successful like products/services will come along.

Just what is a business plan and why does one need one?

A business plan is, really, a sales tool with many uses: It is an educational process to learn things you have not thought of.; a way to prove that the business is financially viable; to assure others - family, friends, associates, acquaintances that the business is financially viable; to persuade a bank or investor(s) to fund the business, to get a loan or a line of credit; to use your plan as a comparison with reality.

What does a business plan consist of? The Structure of a Business Plan has four parts – The text. The Pro-forma or Financials, The Appendices , a schedule of milestones and tasks. The text part of the plan consists of cover, table of contents, executive summary, company description, description of the product/service, marketing section, who is involved in the management, an exit strategy, and appendices and schedule of tasks. The financial or sales and expense projections are the key to one's business plan. Often the text portion of a plan are generated by what the financial portion. SCORE Counselors are there to guide you through your business plan.

Does having a business plan insure that my business will prosper? Having a business plan will not guarantee success. However, not having one decreases the chances of being successful

What are the chances for a business to be successful? Not to be negative about it but In Oregon, statistics show that 15% of all new businesses fail in the first year. Statistics do not say how many had/did not have a business plan.

Does doing a business plan and not doing what was promised, does this mean the client or business was a failure? No, it may be that the plan was too aggressive; conversely, doing better than the plan may mean that the plan was not aggressive enough. In the former case the business may be successful; in the latter it may not be.

How much does one mark-up their cost of products/services? Or does one calculate their expenses and mark that figure up and price their products/services accordingly? There are some guideline ratios that can ballpark what the mark-up might be. It varies with all types of businesses. The best answers come from developing a business plan.

What is the difference between Sales and Marketing? It depends on who you talk to as to what the answer will be. The term "marketing" can go from putting together a Marketing Plan to taking an idea from the concept all the way to the being used by the consumer or user of the product/service. For small businesses it means "identifying to whom and what different methods or formats one would use to reach their potential market. Selling, on the other hand, is the act of presenting and then having the customers

buy the product/service. Neither Sales or Marketing can survive without the other.

What is marketing, first of all, and why is marketing important to the success of a business? Without knowing who one's potential users/customers are, and how one gets the word out to them, makes marketing an important part of all businesses.

How does one decide WHO your potential customers are, HOW MANY there are, and HOW OFTEN they'll use your product or service, ie. potential repeat sales/business? It is more than an "I think/believe" who one's customers will be. It takes doing some research, guess work or a combination of both.

In today's electronic oriented world, is having a web site a necessity? Yes and No. With some businesses it may be a good adjunct to other format of marketing. Having a web site is not the answer to one's prayers. It is what one needs a site for and how it accomplishes, if it can, what is desired that becomes important.

Many clients want a web site because they don't need to open a store. Is this the reason to have a web site? There is a trade-off between having an on-line only business and a bricks'n'mortar business. The money saved by not having a store/office is offset by the cost of getting people to one's web site.

Can a new small business afford a marketing or advertising-sales program? Afford, maybe not, but having a program is a necessity if one wants to get the word out that the business exists.

What is meant by having a marketing-mix? A marketing mix is a combination of "Personal"(one-on-one contacts in-person, letter, fax, telephone, e-mail etc.) Presentations and "Prospecting Presentations (print, broadcast, web site, PR releases, direct mail, telemarketing services, etc) It is a mix of using coordinated multiple formats used multiple times that makes for a marketing mix.

Some clients are told they need a marketing plan. How does that differ from a business plan? They are, really one in the same and the terms are often thought to be synonymous A difference may be that a business plan with its marketing section is a plan for the entire business; a marketing plan would be for a new product/service within an existing business. The formats are the same for both.

Is a logo necessary? Possibly Yes but maybe No. Sometimes with a new small business the money spent on a logo that could be put to better use. No logo ever made a business, service or product successful. Successful

businesses, services, products make logos successful.

What is the difference between branding a product/service and being a brand? The term “branding” often means “customer awareness” and that by putting the product/service name before the public will do this. Great products make brands and not the other way around.

Are brochures necessary? Most likely, Yes. After the business plan is done, then it is time to take some of that information and use it as a base for what might go into a brochure. Because of one’s enthusiasm for their new business idea they want to get a brochure out before they are really ready to sell their product/service.

A client finds that in trying to reach their market they find it is too costly. Does this mean they should not go into this business? This is something that doing a business plan will determine.

How important is it to know who and where the competition is? Not only who and where but also what they do/not do is important plus potential customers may know and one needs to know how they differ from their competitors.

And where does one find who the competition is? If it is local, the yellow pages is a place to start. Then there is the Internet, trade shows, and several data base services your SCORE counselors can help you with.

Since most people cannot sit down and write a check for what they need to start their business, where do they get the money to start and operate the business? There are 6 possible sources for financing a business and it usually takes a combination of them to do it. They are one’s self, (based on one’s financial resources), family, friends, partners, investors & venture capital firms, banks, credit unions, credit cards. All have perils and problems to consider. Discuss this with your SCORE counselor.

How much does it cost to get into business? This is determined by doing a business plan. However, we can assure you that it will be much more than anticipated.

How does someone obtain an SBA Loan? The SBA does not loan money. They will, if a bank does not wish to take all of the risk, the bank will suggest to ask the SBA to underwrite up to 85% of the loan. There is a fee added to the percentage rate the bank usually charges.

How long will it take before someone can make a profit? It will not happen right away because it takes time for sales to grow enough to cover expenses. The question to ask one’s self is “How long can you support your business and

yourself without taking out salary or a profit out of the business? That’s a reality check.

If someone has a poor credit history does that stop them from going into business? If one needs a loan, then credit history and rating will come into play. It also depends on when, how much and if the creditors have been fully compensated.

What do banks or investors look at/for when deciding whether or not to back the business? First, a realistic business plan with a reasonable growth. Then they look at what the marketing plan looks like to see if it is enough to help generate that growth, what the experience the owner(s) have in this type of business/industry, and how much they are putting into the business and how fast that amount comes out as salary. Then, after they are satisfied they will go on to other aspects of the business plan before making their decision.

How important is record keeping and what is the best method to do it? The best method is an accurate method whether it be kept by hand or using a software program. For some new small businesses such hand systems as “One Write” suffice to start. They also have a software version. Other programs, depending on whether or not one has employees or not it software could be Quicken, Quick Book, Quick Books Pro (going from very simple to mor complicated. The date in simpler programs can be transferred to the more sophisticated versions)

Is there one legal structure better than any others for someone considering starting a business? There are 5 different types of legal structure one has to choose from. They are sole-proprietorship, partnership, Limited Liabilty Comany, S-Corporation ,or a C-Corporation. Which is best depends on the business and those involved. All have different tax and libility aspects that one needs to take into consideration. Your SCORE counselor can help you with the understanding the differences. Most likely, because there are facets relating to your other finances, one should talk to a CPA or Lawyer.

Does one need insurance and, if so, what kind do I need? Yes, you will need a business liability insurance. For most business there is a BOP (Business Owner’s Policy” that covers most all aspects of a business’s needs. There are other added insurances needed for some types of businesses. We suggest you talk to a business insurance brokerage firm.

What professional resources should someone starting a business seek at both the planning stage of a business as well as on an ongoing operational basis? First, of course, is SCORE. We can be your sounding board or advisors. Then, we suggest everyone have a business lawyer and a

CPA who they can call on when needed.

Should the item or services be patented? Mechanical processes or physical items can be patented. Services and written materials can be have a copyright. Logos, business names, product names can be trademarked..

What licenses are needed to be in business? Depending on the business, there are local, city, county and state licenses needed. In some instances there may be some licensing done with on the federal level.

What are the key challenges in managing the ongoing business operations and how might they be addressed? Time seems to be the biggest challenge. . . when does one have the time to do all the things it takes to run the business – sales/marketing, operations, bookkeeping, etc. Sometimes there is a need to bring in part time help to do some of the paperwork aspects of the business.

What are key considerations in managing employees? Think of employees as customers on one's actions and words. The other thing is to make sure you have communicated all the things expected of them beyond what might be a normal job description. Secondly, they have to believe that they are being fairly compensated for the type of work they are being asked to do.

Many do not want to hire employees but would rather use independent contractors or temp services. Is there a trade off for either or both? Using Independent Contractors as a way if not having to pay benefits is a no-no. IC's are really businesses under a different name and they must have other sources of earned income to qualify as an IC. The Dept of Labor makes the determination of what makes one either an IC or an employee by 31 different criteria. The SCORE office has a list of these. Temps are a good way to get part-time help as the temp agency's fees include doing all the paperwork for benefits, etc.

Should businesses initially hire full or part-time employees or instead use outsourcing services, independent contractors and/or temporary services? This would vary by the business. When doing different scenarios of one's business plan these different ideas can be explored.

Is having a home-office business better, less expensive, etc. than having an office or store? It would be less expensive

but that does not mean it is the right reason for having one. If customers/clients are coming to the business then a home office would not be best.

A common term is "location, location, location. What does this mean? It means that if a business is not located in an area where it is expected to be, it may cost a lot more to get people to come to the business. It also means the products/services one sells have to be of such a better quality and value that people upon learning of this will take the time and effort to seek out the business.

When leasing an office/store/building, what is meant by a "triple-net lease"? A lease requiring the tenant to pay, in addition to a fixed rental amount, the expenses of the property leased, such as taxes, insurance, maintenance, etc. Also known as net, net-net, net-net-net, or gross lease, depending on what state you are in.

I have my site on a great location and I want to sign the lease now. Should I? Our advice would be not to sign a lease before you've done your business plan. When the lease is signed, rent begins and you're not open yet.

How much space does one need to have for their business? This varies by the business. Some can be done out of desk at home or in the car. Others need more space. Usually it takes more space than most think it would take. Planning space needs is part of a business's development.

How much should I pay for space? Space costs vary by the location, type of building, space needed. As a general "rule of thumb" for many businesses could be estimated rent might be about 7% of gross sales once a business gets established.

How important is parking, public transportation to a business? If one has employees and/or expects people to come to the business these factors become an important.

Is knowing drive or walk by traffic counts important? Yes, it can be if one is dependant on this for being noticed. Most cities have traffic counts for most areas where businesses might be located.

If one wants their family to be in the business, what are the drawbacks or advantages of this? The biggest problem is not having the business relationship affect the familial relationship and visa versa. The same goes for being in business with friends or having them as employees.