

Practical Advice For Individuals Considering Opening A Small Business

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ABSTRACT

Recently developed business models, coupled with today's complex regional and international commerce environments, complicate the establishment and successful operation of independent small businesses. Even the smallest of businesses calls for a multiplicity of skills seldom found in one individual. The purpose of this paper is to provide practical advice to individuals who are contemplating going into business for themselves. Some of the reasons for small business failures are presented, followed by practical tips for achieving small business success. Major factors of success include going into business for the right reasons and "planning for success," including planning for eventual retirement.

Keywords: small business failure, small business success, franchises

INTRODUCTION

Small businesses and the contributions of entrepreneurs have long been the backbone of the American economic and industrial development. Using information obtained from the Small Business Administration's Office of Advocacy, a small business is defined as independent business having fewer than 500 employees. Small businesses represent 99.7 percent of all employer firms and employ half of all private sector employees and create more than 50 percent of non-farm private gross domestic product (Small Business Notes, 2008).

Recently developed business models, coupled with today's complex regional and international commerce environments, now complicate the establishment and successful operation of an independent business. Even the smallest of businesses calls for a multiplicity of skills seldom found in one individual.

The purpose of this paper is to provide practical advice to individuals who are contemplating going into business for themselves. Some reasons for small business failures are presented followed by tips for achieving small business success. Some of the advantages and disadvantages of franchises are provided for those readers who may wish to consider that option.

SOME REASONS FOR SMALL BUSINESS FAILURES

Statistics about the success of small business are varied and are based on inconsistent assumptions and definitions. While rumors of five-year failure rates of 95 percent have been debunked by most authors, practically all studies have concluded that small business failure rates are generally high, with less than half of small businesses surviving after five years. For example, in their extensive study of small business failure rates, Knaup and Piazza (2007) provide survival rates of 44 percent at the end of four years and 31 percent after seven years.

While new small business owners come from a wide variety of backgrounds, it is common for a competent technician to decide to go into business in order to harvest the benefits of their technical skills. Auto mechanics, air conditioning technicians, electricians, plumbers, and skilled construction workers are examples of

individuals who believe that they can improve their lifestyle by owning their own business. Often, however, they soon learn that technical competence does not necessarily translate into being a successful entrepreneur.

Routinely, individuals optimistically start a business with limited funds, and while not recognizing all the various start-up expenses of a new business, exhaust their limited financial resources even when they are able to escape other blunders and unforeseen adversities. Expenses such as telephone, alarms, signs, tools, fixtures, and advertising must be incurred before any revenues are realized. Furthermore, many entrepreneur-to-be technicians quit well-paying jobs to start a business without realizing that they would need to earn much more to match their employment benefits. Usually, they work much longer hours than when they worked for someone else. Moreover, they need to pay for self-employment taxes, pay for health insurance, and fund their retirement plan.

Any business, regardless of size, involves activities that are essential to its functioning. Sales, marketing, operations, record keeping, compliance reporting, hiring and training of employees, dealing with suppliers, and handling customer concerns are among the undertakings vital to any business operation that, when neglected, can prove detrimental to the longevity of the business entity. A technically competent individual, regardless of their field, is unlikely to possess all the requisite skills. The alternative, therefore, is to hire personnel to handle such duties using scarce start up capital initially intended for the revenue generating functions of the business. In short, many new small business owners fail to understand that they must spend money to make money. Witham (2006) notes that a small business owner needs to have at least six months worth of living expenses along with six months worth of expenses saved up before beginning their venture. In addition, most of the reasons that Witham offers for small business failure involve lack of funds.

Independent business owners normally go into business for themselves with the hope of improving their lifestyle. Unfortunately, however, a majority of them end up working more hours, worry more, sleep less, and lead a lower quality of life than they had before starting their new business. They work in the business rather than on the business and proceed by trial and error instead of following a proven successful strategy. An entrepreneur's product should be the business instead of what the business produces. However, this realization escapes many failing small business owners. This is particularly so when the individual's decision is based on emotional factors such as the dislike of his current job or employer rather than a logically derived set of objectives and a sound business plan. Schaefer (2006) notes that one reason for small business failure is that individuals often start their business for the wrong reasons. Like Witham, Schaefer mentions insufficient capital as one of the reasons for small business failure. Other causes offered by Schaefer include poor management and lack of planning.

SOME TIPS FOR SMALL BUSINESS SUCCESS

As mentioned above, one of the reasons for small business failure is starting one's business for the wrong reasons. So, what are the right reasons? According to Schaefer, these reasons include: (1) having a passion and love for what one will be doing, (2) being physically fit and to possess the mental stamina to withstand potential challenges, (3) thriving on independence, and (4) possessing the necessary drive, determination, patience, and positive attitude. Following are simple but workable recommendations that one should consider before deciding to become an independent business owner.

The lifestyle of many small business owners is tedious and may not be enjoyable to many people. Therefore, it is prudent for a person to learn more about being a small business owner before embracing it. Individuals who are currently employed by others should begin acting and thinking like a business owner. They could arrive at work early and leave late. They can eat their lunch, if any, at their workspace whenever they can spare 15 minutes of uninterrupted time. Individuals should put the well being of the business ahead of their personal interests. They should keep in mind that they will not be taking home any money unless the business enjoys financial prosperity. Individuals can ensure that not only do they do their job well, they also take responsibility for the performance quality of their coworkers. They should treat customers and other employees in a manner that they would treat them if they were the business owner. Individuals can forget about holidays and annual vacations. They can think about finances, cash flows, insurance, utilities, regulatory compliance reporting, and marketing expenses. After hours, they can continue thinking about potential business problems and opportunities. They can

make the business the number one topic of conversation with friends and justify why they are not able to spend as many relaxing and cheerful moments with them as they did in the past.

If one follows these recommendations for a couple of months, they may realize that they truly enjoy being a business owner and that they are passionate about owning their own independent business. Individuals could also confidently assert that their decision to do so is independent of any feelings toward their current job. On the other hand, with this new thinking, their job performance may make them the darling of their employer who might acknowledge it by offering raises and additional responsibilities. As a result, they may have the benefit of increased earnings and heightened job satisfaction. This is a useful exercise, even if one only thinks about it, and could potentially prevent some people from embarking on an uncalculated high risk adventure. In short, one must begin their small business for the right reasons.

Entrepreneurs who are intent on pursuing independent business ownership should recognize that the advent of the Internet and e-Commerce, coupled with regulatory complexities and shifting consumer preferences, have brought about flexible small business models that have further diminished the success potential of small brick and mortar businesses. Faced with these realities, new proprietors must embrace ongoing small business innovations in order to prevail. In this regard, Schaefer (2006) adamantly states that if an individual has a business today, they need a website.

A new business person needs to abide by proven principles, both at the personal and organizational levels, to avoid failure. At a personal level, someone wishing to start an independent operation must develop concrete objectives and a timetable for reaching such objectives. Isodoro (2008) includes “planning for success” as one rule for small businesses to thrive. Obviously, one can achieve an unspecified target only by coincidence; thus, individuals must proceed with a definite plan and established course of action. Individuals must have a good understanding of the financial goals and expectations that they wish to accomplish. Tangible plans help individuals visualize an ideal scene for their businesses and provide a framework for sound decision-making. Without such a framework, one develops the tendency to make impetuous and arbitrary decisions that can prove ineffective and costly.

In addition to setting measurable goals, attainable targets, and practical timetables, individuals need to be aware of their personal strengths and weaknesses before embarking on becoming a business owner. As a business owner, one will encounter personalities and situations that they may never have imagined. A prudent businessperson should be able to handle all eventualities promptly and without hesitation.

A vital ingredient to success of an independent business is for the entrepreneur to have a coach. To perform proficiently and at superior levels, most business people need to seek and accept guidance from other knowledgeable individuals. Every successful performer, regardless of the field, has enjoyed the advice of a competent coach. Running a business is no exception. Following a proven business system markedly increases one’s chances of success in business, whereas proceeding by trial and error and on-the-job learning of the business basics, such as purchasing, promotion, compensation, and pricing, is a blue print for ultimate failure.

SOME OBSERVATIONS ABOUT FRANCHISING

For individuals who need or prefer a substantial amount of “coaching”, franchising may be the best option. Franchises, in general, perform better and are more likely to survive and prosper in the long-term than independent businesses. Franchising in the service sector has lagged beyond retail. However, recently some thriving service businesses are capitalizing on their successful operation by offering franchising opportunities to independent small businesses. There are still service areas where big business cannot effectively serve consumer needs. Large companies, in general, are unable to sustain quality performance and the necessary controls outside their premises, or offer the personal touch that is often expected by the automotive, residential, and commercial clients in need of repair or maintenance. In areas such as plumbing, electrics, and appliance repair, small businesses continue to have a competitive advantage over large business. Nonetheless, today’s service industry remains highly fragmented and is slow to adopt modern business alternatives. These businesses deal with virtually the same customer base whose

needs for repair and maintenance are repetitive, stable, and cannot be exported. With this group, trustworthiness and brand name recognition serve as the basis for service differentiation.

What separates franchises from independent businesses is that they follow a proven system rather than operate by experimentation and trial and error. Franchises are designed to function independent of their owners, such that a single entrepreneur could operate several operations. To create a successful business enterprise, the entrepreneur must work to improve its structure, policies, and operation, rather than its product or service delivery alone. The business should be the product, but many independent businessmen forget that a successful business needs to undergo continuous improvement in order to remain viable.

A successful franchisor has an operating model that is designed to impose certain limitations on its franchisees. Franchises prefer a proven system that is expected to produce consistent operating results. Franchisees are promised optimum financial results if they fully implement the franchisor's system. Deviations from the franchisor's prescribed operating system, promotion strategies, pricing, or warranties could, however, greatly diminish the franchisee's potential for success.

Although there is little threat from big business or globalization to independent service businesses such as construction, appliance repair, plumbing, disaster recovery, and air conditioning, there are still the issues of economy of scale and efficiency that could render the extant small business models ineffective. Franchises offer several crucial advantages not otherwise inherent in independent service businesses.

According to Sifleet (2005) and Ward (2008), many of the advantages offered by franchises include help with start-up, training and support, market assistance, and buying power. Franchises provide coaching support to their franchisees. In addition, higher quality materials and supplies at lower overall costs could be procured through the increased purchasing power the business would enjoy by joining the franchisor's establishment. Other notable advantages of franchising include national advertising, brand name recognition, ability to offer nationwide warranties in the case of automotive services, and advice on operating matters. Effective hiring practices, adequate employee training programs, and the entrepreneur's ability to effectively deal with employees are essential to the success of a business. Most franchisors impose their elaborate training and customer service procedures as a pre-condition in their franchising agreement.

Despite the above advantages, there are disadvantages to franchising as well. Loss of independence and freedom of action could be too restrictive for many independent entrepreneurs to handle. And, of course, franchises are not failure proof. Other disadvantages include upfront and ongoing fees, as well as restrictions on transferring one's ownership (Sifleet, 2005).

CONCLUDING REMARKS

The main purpose of this paper was to provide practical advice to individuals who are contemplating going into business for themselves. Regardless of the specific type of business one contemplates, it is important to plan for success. Part of this planning includes planning one's exit strategy. According to Kopelcheck (2008), individuals should ask themselves "How can I have an asset in the future that someone will buy?" If one goes into business for the right reasons and plans appropriately, small business success should follow, including creating value for future wealth and retirement.

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