

Small Business:

The Success Formula



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Each year a significant number of individuals opt to be their own boss. While the thought is very exciting and heartwarming, it is also a fact that majority of new small businesses, close to 80% fail in the first year. There is less than a 50-50 chance that you will be in business two years from the time you start your business

There has been a significant increase over the last few years in the small businesses owned by the South Asians. Most of these businesses are started by people unable to find a job of their choice or immigrants on business visa. There is also a considerable increase in the number of new businesses started by people employed elsewhere, undertaking a side venture to supplement their existing income. When starting a new business generally there are huge expectations of tremendous success round the corner and failure is never considered a possibility.

Some people invested in business ventures following the myth “no risk, no gain”

Case studies of failed South Asian businesses in Canada indicate that majority of people did not know what they were getting into. Most of these new businessmen had no clue of the demands and pressures of the start-up business nor they had any business management experience. Some people invested in business ventures following the myth “no risk, no gain”, forgetting that successful businessmen never gamble, they take well calculated risks. While others selected a business based on the advice and analysis provided by their best friend or friend's friend or some one in the family. They never thought of doing any research or looked for professional guidance to determine whether the business they selected is right for them or if they are ready to own a business or do they have desired capabilities to successfully grow the new business.

Is there a formula or a recipe for success in business? Mostly you would hear a no to this question. It is true that there is no single formula to be successful in business. But one can follow certain basic principles, some important skills, a clear direction and a right attitude in order to minimize the chances of failure. Wishful thinking following the advice of family or friends who are not business professionals and happen to know what is best for you because they have seen some people they know being successful in certain type of businesses is a recipe for disaster.

There is no fixed formula to succeed in business but with proper research to identify suitable opportunities, careful planning, realistic goals and with appropriate resources, one can minimize the risk of failure. If you are able to recognize the warning signs of failure and develop the ability to address the challenges, you will eventually succeed.

In a series of articles, we would share information, analysis and experiences in order to help you minimize chances of failure in starting and operating a small business.

Are You Ready to Start Your Own Business?

Analyze yourself and evaluate if you are really ready to start a new business. Majority of the new businesses fail because of the owners. This may sound strange but it is true. Most important ingredient for success is your ability to take right decisions at the right time. You can not take a right decision if you do not know the market you are planning to enter, have no knowledge of the product you plan to sell, don't know your options, unable to match available resources to the demands of your business, incapable of defining your goals and have no clue how to manage finances. These are some of the basic questions that you should be able to answer before you invest even a single dollar in the new business.

Following section is comprised of an excellent checklist prepared by the Saskatchewan Industry and Resources, Business and Co-operative Services. This check list is very comprehensive, it will help you in determining if your idea represents a real business opportunity and if you really know what you are getting into.

Getting Started

You can use the checklist to evaluate a completely new venture proposal or an apparent opportunity in your existing business.

Perhaps the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business will be determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates that very few ideas result in successful business ventures, even when introduced by well established firms. Too many entrepreneurs strike out on a business venture so convinced of its merits that they fail to thoroughly evaluate its potential.

This checklist should be useful in evaluating your business idea. It is designed to help you screen out ideas that are likely to fail before you invest extensive time, money and effort in them.

Preliminary Analysis

A feasibility study involves gathering, analyzing and evaluating information with the purpose of answering the question: "Should I go into this business?" Answering this question involves a preliminary assessment of both personal and project considerations.

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General Personal Considerations

The first seven questions ask you to do a little introspection. Are your personality characteristics such that you can both adapt to and enjoy small business ownership/management?

	Yes	No
Do you like to make your own decision?		
Do you enjoy competition?		
Do you have will power and self-discipline?		
Do you plan ahead?		
Do you get things done on time?		
Can you take advice from others?		
Are you adaptable to changing conditions?		

The next series of questions stress the physical, emotional and financial strains of a new business.

	Yes	No
Do you understand that owning your own business may entail working 12 to 16 hours a day, probably six days a week, and maybe on holidays?		
Do you have the physical stamina to handle a business?		
Do you have the emotional strength to withstand the strain?		
Are you prepared to lower your standard of living for several months or years?		
Are you prepared to lose your savings?		

Specific Personal Considerations

	Yes	No
Do you know which skills and areas of expertise are critical to the success of your project?		
Do you have these skills?		
Does your idea effectively utilize your own skills and abilities?		
Can you find personnel that have the expertise you lack?		
Do you know why you are considering this project?		
Will your project effectively meet your career aspirations?		

The next three questions emphasize the point that very few people can claim expertise in all phases of a feasibility study. You should realize your personal limitations and seek appropriate assistance where necessary (i.e. marketing, legal, financial).

	Yes	No
Do you have the ability to perform the feasibility study?		
Do you have the time to perform the feasibility study?		
Do you have the money needed to have the feasibility study done?		

General Project Description

Briefly describe the business you want to enter.
List the products and/or services you want to sell.
Describe who will use your products/services.
Why would someone buy your product/service?
What kind of location do you need in terms of type of neighbourhood, traffic count, nearby firms, etc.
List your products/services suppliers.
List your major competitors - those who sell or provide similar products/services.
List the labour and staff you require to provide your products/services.

Requirements for Success

To determine whether your idea meets the basic requirements for a successful new project, you must be able to answer at least one of the following questions with a "yes."

	Yes	No
Does the product/service/business serve a presently unserved need?		
Does the product/service/business serve an existing market in which demand exceeds supply?		
Can the product/service/business successfully compete with existing competition because of an "advantageous situation", such as better price, location, etc.?		

Major Flaws

A "Yes" response to questions such as the following would indicate that the idea has little chance for success.

	Yes	No
Are there any causes (i.e. restrictions, monopolies, shortages) that make any of the required factors of production unavailable (i.e. unreasonable cost, scarce skills, energy, material, equipment, processes, technology, or personnel)?		
Are capital requirements for entry or continuing operations excessive?		
Is adequate financing hard to obtain?		
Are there potential detrimental environmental effects?		
Are there factors that prevent effective marketing?		

Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business.

How much income do you desire?
Are you prepared to earn less income in the 1st - 3rd years?
What minimum income do you require?
What financial investment will be required for your business?
How much could you earn by investing this money? (A)
How much could you earn by working for someone else? (B)
Add the amounts in (A) and (B). If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income to be your own boss with the prospects of more substantial profit/income in future

Supply

	Yes	No
Can you make a list of every item of inventory and operating supplies needed?	<input type="checkbox"/>	<input type="checkbox"/>
Do you know the quantity, quality, technical specifications, and price ranges desired?	<input type="checkbox"/>	<input type="checkbox"/>
Do you know the name and location of each potential source of supply?	<input type="checkbox"/>	<input type="checkbox"/>
Do you know the price ranges available for each product from each supplier?	<input type="checkbox"/>	<input type="checkbox"/>
Do you know about the delivery schedules for each supplier?	<input type="checkbox"/>	<input type="checkbox"/>
Do you know the sales terms of each supplier?	<input type="checkbox"/>	<input type="checkbox"/>
Do you know the credit terms of each supplier?	<input type="checkbox"/>	<input type="checkbox"/>
Do you know the financial condition of each supplier?	<input type="checkbox"/>	<input type="checkbox"/>
Is there a risk of shortage for any critical materials or merchandise?	<input type="checkbox"/>	<input type="checkbox"/>
Are you aware of which suppliers have an advantage relative to transportation costs?	<input type="checkbox"/>	<input type="checkbox"/>
Will the price available allow you to achieve an adequate markup?	<input type="checkbox"/>	<input type="checkbox"/>

Expenses

	Yes	No
Do you know what your expenses will be for: rent, wages, insurance, utilities, advertising, interest, etc.?	<input type="checkbox"/>	<input type="checkbox"/>
Do you need to know which expenses are direct, indirect, or fixed?	<input type="checkbox"/>	<input type="checkbox"/>
Do you know how much your overhead will be?	<input type="checkbox"/>	<input type="checkbox"/>
Do you know how much your selling expenses will be?	<input type="checkbox"/>	<input type="checkbox"/>

Miscellaneous

	Yes	No
Are you aware of any major risks associated with your product, service and/or business?	<input type="checkbox"/>	<input type="checkbox"/>
Can you minimize any of these major risks?	<input type="checkbox"/>	<input type="checkbox"/>
Are there major risks beyond your control?	<input type="checkbox"/>	<input type="checkbox"/>
Can these risks bankrupt you?	<input type="checkbox"/>	<input type="checkbox"/>

Dr. Ibtahaj Khurram is a marketing consultant and CEO of Meridian Multimedia Network Inc. †

Regular Exercise Minimum 3 Times a Week for 30 Minutes Keeps You Fit & Healthy

A public service message by

Paaras