

Considering Starting a Business

Starting a business and being your own boss is a dream of many young people. It can be an opportunity to put innovative ideas to work, to fill a needed niche in a market and potentially to build your wealth. It can also be an overwhelming task. However, millions have been successful and millions have failed. There are no guarantees, but here are some of the issues you should consider.

Do you have the psychological make-up to handle a start-up?

The process of starting, building, growing and managing a business is hard work. It can also be somewhat frightening. There are always unexpected issues and concerns that arise. Most successful entrepreneurs have an innate ability to accept and manage risks. They also usually exhibit a passion that provides the incentive to go that extra mile (or make that next presentation) that may be needed.

You should also consider the effect that starting a business may have on your lifestyle and your family. Long hours, constant distractions and sacrifices can put strains on your mind, body and finances, as well as on those around you.

What type of business makes sense?

Hundreds of thousands of ventures are started each year in all lines of business. Starting a business from scratch, buying an existing business or entering into a franchise arrangement all present opportunities and potential pitfalls. Be sure to do your homework. Consider the current and potential markets for whatever business you are considering. Examine the strengths and weaknesses of competitors. The Internet and trade associations can be great sources of valuable information. You may be surprised what you can find readily available.

Find a line of business that matches your skills, experience and interests. If you are considering starting a personal service business, it can be nice to start off with at least one existing customer. Whatever type of business, be sure you like it. If you are successful, you may spend many years or several decades in that business. There are few things worse than not liking your job.

If you are considering buying into an existing business or franchise, investigate them thoroughly. Have a professional look at the financial statements and any contracts you may be signing.

Are you going alone or should you have a partner?

This can be one of the most challenging issues you face. Running the business yourself gives you the opportunity to make all the decisions, but you must live with the results. A partner can bring skills, experience and capital, however, you should be confident that you work with that person for an extended period of time.

If you choose to have a partner, you may also want to discuss how your partnership can be ended. While everyone has good intentions at the beginning, things can and often do change. Having a buy/sell agreement or a contractual agreement may avoid difficulties and hard feelings later.

Where will you get the financing you need?

Starting and growing a business takes money. Consider the funds you may need for office space, equipment, inventory, marketing and working capital. You should also remember that not all customers pay quickly. One of the most common causes of business failures is inadequate capital.

Arranging needed capital should be undertaken early in the start-up process. Once the business is operational, you will probably want to focus on running it and not have to constantly be looking for funds. Be sure to speak with your financial institution about what they may be looking for before they would be willing to lend to a new business. You may also want to explore a loan through the Small Business Administration. The SBA programs offer a number of types of loans but can be time consuming and frustrating.

The final observation on needed capital is to consider setting a limit on how much you are willing to risk or lose before shutting the business down and accepting failure. While this may be difficult to consider when starting out, having a contingency plan for failure is prudent.

What are some of the other legal, financial and tax issues to be considered?

After addressing all the other aspects, these will probably seem easy. You need to choose a business form (sole proprietorship, partnership, corporation, sub-chapter S corporation, limited liability company). While this may sound complicated, it is much easier to decide upon than issues discussed above. Each business form has attractions and drawbacks. Your attorney can be very helpful in evaluating the options and drafting any documents you need.

Your personal financial and tax situations may also change when you become a business owner. You may lose the predictability of a monthly paycheck and the other benefits found with a larger company. You may have to pay for your medical insurance and fund your retirement account.

Summary

The entrepreneurial spirit is alive and well in America. As you consider your future, remember that being in business for yourself can be risky as well as rewarding. Taking some key steps early in the process, hard work, a good idea, using sound business practices and maybe a little luck can make all the difference.