

# Before you start a business

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There are a lot of factors to consider before you start your own business.

## Do you have what it takes?

### Personal qualities

Running your own business can mean long hours, unpredictable schedules and thinking on your feet with little respite until you start to make a reasonable profit. And reaching that milestone can sometimes take years.

As an entrepreneur you need to:

### Be passionate about what you do

Setting up your own business is challenging. If you're not passionate about what you do, you'll find it hard to stay motivated when faced with a string of hurdles. Also, if your business is just another idea to make money and not something you're passionate about, you'll lack that key ingredient that will make your new business stand out as more attractive than the established competition.

### Make personal/lifestyle sacrifices for your business

You need to put in a lot of hard work to get your business from the drawing board to reality. You'll probably have to work harder than most of your mates and make a number of sacrifices. It might mean less time with your friends, less time for sport or hobbies, or even less time with your family.

You'll also probably be taking home less money and might need to sacrifice family holidays or put major household purchases on hold until your business is established. Ask yourself if you're prepared to make the sacrifices necessary to make it a success – and check that your family is prepared to make these sacrifices too.

### Manage risk and uncertainty

When you start your own business, you won't have the security of regular payments from an employer. Your business might not be in a position to pay you a wage for the first few weeks, months or years. In addition, you might need to draw on your savings or even take out a loan to finance your business operations. There's an element of risk and uncertainty when you start your own business so you need to be sure your business idea is viable, and that you have enough

money to support yourself and your business until you reach your break-even point and start turning a profit.

## **Be patient but persistent**

It's a rare start-up that has everything run according to plan without any teething problems. You're likely to encounter your fair share of setbacks and challenges, from financial issues to difficult customers and problem staff. While there's a fine line between persisting against all odds (when the business is clearly not viable) and giving up when the going gets tough, you'll need patience and persistence to make your business a success.

## **Skills**

Very few entrepreneurs start out with all the skills they need. The secret is to do a quick inventory of your current skills and identify the gaps in your knowledge base. You can then either get the training you need or employ people with the right skills in those areas.

You need the following skills to run your business.

**Market research skills** to understand the market you're entering and stay abreast of market developments, customer preferences, and the actions of your competitors.

**Money management skills** to forecast when you expect your business to break even, understand your financial position at any point, and assess the financial implications of any business decision you make.

**Marketing and sales skills** to promote your products or services effectively and reach your break-even target sales as soon as possible.

**People skills** to help you manage and motivate your staff and deal with customers.

**Negotiating skills** to ensure you're able to strike the best deal when dealing with suppliers or other contracts.

Try to develop skills in these areas over the long term. Even if you don't like figures, for example, it's vital you at least get a rudimentary understanding of financial statements and what the key metrics for your business mean.

## **Self-assessment**

Answer these questions to see if you're ready to start your own business.

- Do you have several years' experience in the industry you're considering entering?
- Do you thrive on challenges?
- Are you prepared to undergo training to develop the skills you need or to heed input from specialist advisers in areas that aren't your speciality?

- Do you enjoy making, and being responsible for, your own decisions?
- Are you prepared to work long hours without the security of a steady income?
- Are you prepared to lower your standard of living until your business starts to make a profit?
- Do you have sufficient savings or an alternative income to live off during the start-up period?
- Do you naturally look to streamline processes and methods when approaching a task?
- Do your family understand the impact starting a new business could have on them and support you unconditionally in your aim?
- Are you prepared to take the risk of losing the money you invest in your business?
- Are you prepared to hire staff and delegate responsibilities to them or use the services of a professional?

If you answered “no” to many of these questions, it might be worth developing your skills further before going into business for yourself or investigating other options.

## Is your business idea viable?

Idea and execution are two sides of the same coin. If you’re confident you can execute a business plan, the next step is to make sure that plan is going to work.

If you can answer “yes” to the following questions, there is a good chance your business idea is a viable proposition.

### Do you have a unique selling point?

Unless you’ve been lucky to find a gap in the market, your product or service is going to have to compete against other similar products for customers and market share. To compete, your business has to stand out from the competition – it has to have a unique selling point you can use to encourage customers to buy from you.

This doesn’t mean you have to invent a totally new product or service. Your offering might:

- Be cheaper or more economical to use.
- Be more appealing.
- Be more practical.
- Follow a fashionable trend.
- Be lighter or better made.

If you're not sure if your product or service adds value that customers can’t find elsewhere, it might be better to brainstorm a few more business ideas before you forge ahead.

### Do you have a market?

Knowing who will buy your product and what motivates their purchasing decisions is vital to the success of your business. Not only will you need to make sure your product appeals to your target market segment, but you'll need to find out how large your potential market is.

Think about the size of your market in your area or wider (if you plan to sell online, for example). How many people will be interested in your offering at the price you're likely to need to charge?

The next step is to look at your potential competitors. Find out what their respective competitive advantages are, and examine their pricing and marketing strategies. Looking at their website, physical Yellow Pages adverts or printed advertising material is a good start. Many businesses have social media offerings so check to see if they have a Facebook or Twitter profile to get a feel for how they interact online.

Is there room for you to muscle in and get a large enough share of the market to break even and start making a profit? Does your product or service really fill a need that is not met by the competition? If you're still answering "yes", then it's time to crunch some numbers to test if your idea is really viable.

### **Do the numbers add up?**

What costs will you incur in producing the goods or providing the service? What is your selling price? How much demand do you anticipate? Is there enough demand and are the margins high enough for you to break even after a few months and then start trading at a profit?

Work out a cash flow forecast using your anticipated costs, selling prices and sales quantities. How long will it take to build up your sales to a point that your business is able to break even? How long before your business starts to generate a profit?

Perhaps most importantly, once your business is established, what sort of return-on-investment will you get? There's little point in investing a lot of money, time and effort in running a business if you earn less than the returns you'd get from putting your money into a term deposit. Is your business venture going to do more than keep you busy? Is it going to make you money?

Do you have enough money to last until your business is profitable?

If you're satisfied that your business idea should bring in a good return-on-investment once it's established, the last question you need to consider is whether you have enough money to meet start-up costs and take the business to profitability.

Work out a cash flow forecast to see how much money you will need. Remember, you might need to:

- Rent premises
- Buy equipment
- Employ staff and pay salaries
- Fit out an office

- Purchase stock or supplies
- Get your marketing campaign off the ground.

These costs can add up to a sizeable amount.

In addition, you'll need to be able to cover your operational costs and personal expenses for quite a few months before you break even or turn a profit. If you're borrowing money, you will also need to be able to make the interest payments when they fall due.

If you've answered this with another "yes", chances are you have a viable business idea. But before you go charging ahead with entrepreneurial enthusiasm and set up your business, it makes sense to test your idea with a start-up business plan.

## **How to examine an idea with a start-up business plan**

The first thing you should do when starting a business is put together a basic start-up business plan to investigate the viability of the idea. This way, you don't waste time preparing a full business plan without any indication of whether the idea will succeed.

A start-up business plan should do the following.

### **Identify your potential customers**

Answer these questions:

- Why should this business exist?
- Who will be its customers, and how will it benefit them?
- How will your product or service solve your customer's problems or satisfy their needs?

### **Outline your keys to success**

Name three or four critical factors that will be essential to your new business's survival. Be tough about it and don't underestimate the importance of critical elements. For example, a restaurant will need to provide quality, value for money, service, ambience, cleanliness and consistency.

### **Determine your points of difference**

If you aim to provide a product or service that no one else is providing, that's great. As long as you have established there is a demand for it.

However, if there are already similar products or services in the market place, you'll need to have something that sets yours apart. This must be something your product or service does that is different or better than your competitors' products or services. In other words, what makes your product or service unique?

## **Analyse the market**

Do a simple market analysis. Estimate how many potential customers the business will have. Define the traits that will make somebody a potential customer. You should divide customers with similar traits into different target markets. Where do those customers now purchase, if at all? Are there enough potential customers among all your target markets?

## **Examine ease of entry**

How easy is it going to be to set up your business and how easy will it be for competitors to follow you? Answer the following questions.

- How much will it cost you to set up in business?
- How well developed is the market?
- How many competitors will you have?
- Are they direct or indirect competitors?
- How difficult will it be for others to follow you into the market?

## **A simple break-even analysis**

How many units of sales will you need to cover costs? Are you being realistic? Add up the costs you'll have for rent, overheads, wages, advertising... then figure out how much money you'll make for each unit you sell, after its specific costs, and calculate how many units you need to break even.

For example, if your shoe store's regular running costs are \$6,000 per month and you make \$20 on average (after the cost of the shoes) on every pair of shoes, then you need to sell 300 pairs of shoes in a month to break even.

***Now think about it once again! Do you really have a potential business?***

*If you do, then you need to prepare a real business plan.*

**Athens April 2017**