

Introduction to Starting a Business

Outline

- What is a Business?
- Do you Really Want to Run a Business?
- Evaluating your Capabilities
- Business Value Chain
- Business Plan
- Value Proposition

Introduction

What is a Business?

- Hobby
 - Motivation is interest/enjoyment, not profit
 - Expenses not deductible and income generally not taxed
- Investment
 - Motivated by long term financial gain
 - Expenses reduce cost basis and profit taxed as capital gain
- Business
 - Intent to make money
 - Deductible expenses and taxable income
 - Can be part time
 - Doesn't have to be primary source of income

Introduction

What is a Business?

- Hobby
 - Makes no profit in three of five years in danger of being judged a hobby
- Business
 - Affairs of the activity are conducted in a businesslike manner - accounting & records
 - Separated from personal affairs

Introduction

What is a Small Business?

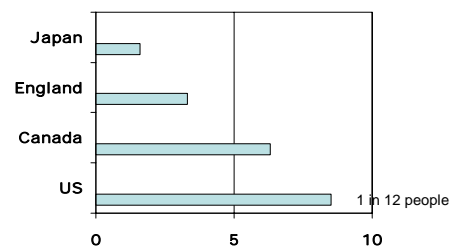
- Independently owned and managed venture that does not dominate its market
- Less than 500 employees
 - 86% have less than 20!
- Generally have revenues less than \$1M

Introduction

Source: Small Business Administration

Starting Businesses

Percent of Adults Starting a Business

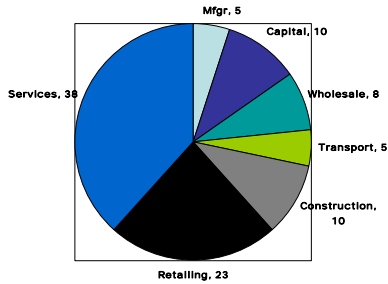


A new business is born every 11 seconds in the United States

Introduction

Starting Businesses

Types of Business



Introduction

Starting a Business

- Common Knowledge
 - Starting a business is a huge gamble
 - 50% fail in one year
 - 95% fail in five years
- Reality
 - 67% survive first two years
 - 44% survive at least four years
 - 37% survive at least six years
 - Starting a business is a calculated risk



Introduction

Source: Small Business Administration

Who Starts a Business?

Age at Start-Up

- 18-24 years 8%
- 25-34 71%
- 35-44 13%
- 45-54 6%
- 55+ 2%



Introduction

Source: Small Business Administration

Starting a Business

- Common Knowledge
 - Starting a business requires longer/harder work
- Reality
 - 8% work less than 40 hrs
 - 25% work more than 70 hrs
 - Average is 64 hours/week (first two years)
 - 84% of entrepreneurs polled love the type of work they do!



Introduction

Source: Small Business Administration

Starting a Business

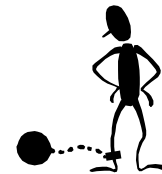
- Common Knowledge
 - I can live off the business immediately
 - I'll get rich overnight
- Reality
 - "Lemons ripen in 2 ½ years, pearls take 7 or 8"
 - 20% of millionaires started and run private business



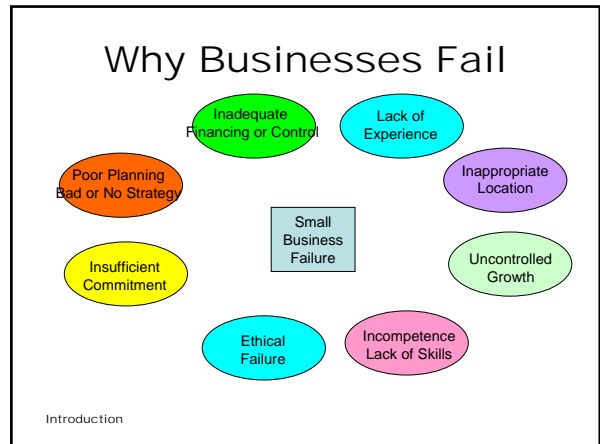
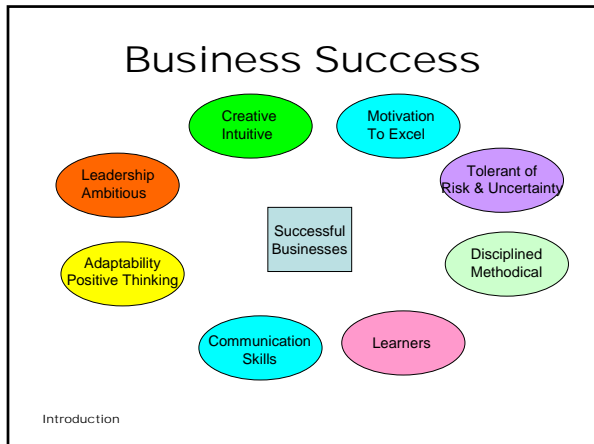
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Starting a Business

- Common Knowledge
 - I'll be my own boss
 - I can be independent
- Reality
 - Business owners are far from independent; they serve many masters - partners, investors, customers, suppliers, creditors, employees...



Introduction



Evaluate your Capabilities

Personal Characteristics

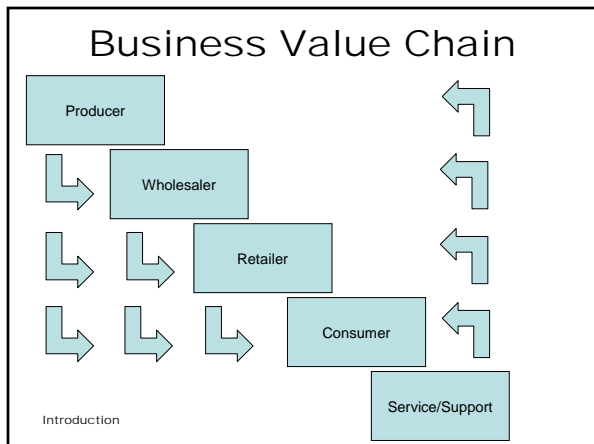
Family Support

Business Skills

Financial Resources

Introduction

- ## Business Types
- Producer
 - Post Production/Finisher
 - Wholesaler
 - Retailer
 - Service
 - Franchise
- Introduction



- ## Producer Business
- Produces goods for sale in large quantities for sale to wholesalers
 - Fewer transactions of larger amounts
 - Primary value(s)
 - Price
 - Product
 - Availability
 - Right Product, Right Price, Right Time
-
- Introduction

Wholesale Business

- Offers goods for sale in large quantities and/or minimum sale amounts to retailers or large customers
- Fewer transactions of larger amounts
- Primary value(s)
 - Price
 - Availability
- Right Product, Right Price, Right Time



Introduction

Retail Business

- Offers goods for sale in consumer quantities
- Many transactions of modest amounts
- Primary value(s)
 - Location, location, location
 - Availability
 - Price
- Right Place, Right Price, Right Product



Introduction

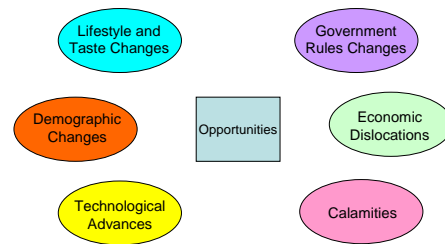
Service Business

- Offers labor services, expertise, and/or unique equipment to wide range of customers
- Wide variety of transactions amounts
- Primary value(s)
 - Unique Process/Equipment
 - Expertise
 - Price
- Right Person at Right Price



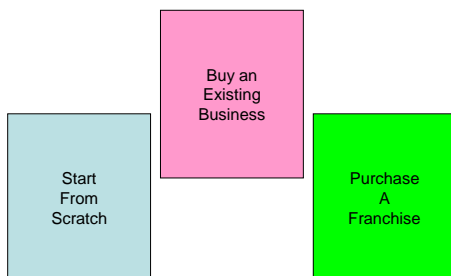
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Spotting Opportunities





Introduction

Getting Started in Business



Introduction

Buy an Existing Business

- 
 - Customer Base
 - Location
 - Business Systems in Place
- 
 - Customer Losses
 - Dependencies on Previous Owner
 - Collections of Outstanding Receivables

Introduction

Franchise Business

- Contractual arrangement to use trademark in selling of goods/services
- Franchisee economically dependent on franchisor integrated business system
- Primary value(s)
 - Product/Service Recognition
 - Geographic Territory
- Known and recognized product/service

Introduction

Franchise Business

- Fastest Growing
- Business Processes
- Lower Failure Rate
- Proven Business
- Centralized Power
- High Start-Up Costs
- Restrictions
- Share Profits
- Market Saturation



Introduction

Starting Your Own Business

- Control your Destiny
- Recognition
- Do what you Enjoy
- Uncertainty of Income
- Risk of Loss
- Complete Responsibility



Introduction

Business Planning

What is a Business Plan?

- Detailed, written description of your business, business processes, customers, and your market
- Living document - continuous process of assessing business viability
- Guide to your business future

Introduction

Plans are a Reflection

- Value is in the process of development
- Shows you thought seriously
- Reflects the character of you and your business



Introduction

Why Bother?

- Prioritizes activity, exposes pitfalls, anticipates problems
- Establishes goals and provides basis for performance comparison
- Is my business feasible?
- Attracts you to your business
- Attracts others to your business
- Provides a road map

Introduction

Why Bother?

May be Required for...

- Bank financing
- Investment partners
- Strategic alliances
- Large contracts
- Key employees
- Mergers and/or acquisitions



Credibility for Your Business!

Introduction

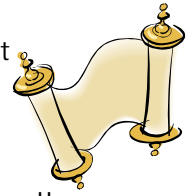
Business Plan

<u>Stakeholder</u>	<u>Emphasis</u>
You	Business Feasibility
Banker	Cashflow
Investor	Growth
Strategic Partner	Business Synergy
Large Customer	Stability, Service
Key Employees	Opportunity

Introduction

Business Plan

- No single "right" format
- Concise and focused
- Accurate
- Brutally honest
- Includes negatives as well as positives
- Obsolete soon as it's printed!



Introduction

Business Plan 10 Steps

1. Executive Summary
2. Value Proposition
3. Company Description
4. Market Description & Opportunity Assessment
5. Product/Service Description
6. Competitive Assessment
7. Marketing & Sales Strategy
8. Operations
9. Management and Employees
10. Financial Summary



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Value Proposition

- Your business idea in a nutshell
- A clear statement of the tangible value/results your customers get from using your products/services
- Answers why your business will succeed
- Specific and compelling

Introduction

Value Proposition

- Weak - "We offer training classes for a wide variety of areas."
- Strong - "We offer high vigor hybrid apple trees that yield 5% more than standard varieties."



Introduction

Value Proposition Example - Can you Guess?

- "We provide a friendly, comfortable, well-located place offering a wide range of fresh, customized quality coffees, teas, and other beverages for the person who enjoys a good experience and a good beverage."



Introduction

Value Proposition

- What (your product or service)
- To Whom (your customer)
- Why (your competitive advantage)

Introduction

Value Proposition Dimensions of Value

- Innovative Offering



A better mousetrap

Features
Performance
Packaging



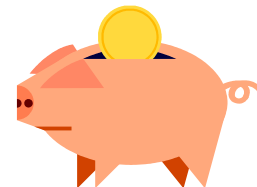
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Value Proposition Dimensions of Value

- Lower Cost



The same, for less



Introduction

Value Proposition Dimensions of Value

- Quality, Reliability



Best quality



Introduction

Value Proposition Dimensions of Value

- Customer Responsiveness



Customer is #1



Introduction

Value Proposition Dimensions of Value

- Unique Niche
 - Location
 - Customer Knowledge
 - Specialized Know-How

Local is Better



Introduction

Value Proposition Now Write Yours...

- What (your product or service)
- To Whom (your customer)
- Why (your competitive advantage)



Introduction