

# 7 Steps That You Must Take Before You Start Your Business

by Mike Pendrith

You have decided to go into business for yourself. Congratulations.

You should however be aware that a great number of new businesses do not succeed. According to Dun & Bradstreet and INC. magazine, 33% of all new businesses will fail within the first six months. Fifty percent will fail within their first two years and 75% will fail within their first three years of operation.

This article will help you to “bullet proof” your business before you start in order to increase your chances of success.

## 1. Pick an Industry in Which You Are Interested

This may sound like an obvious statement. Select a business for which you have a passion. Reality is, for the first few years of operation, you will be working long hours and earning minimal money. If you enjoy what you are doing, that makes coming to work a lot more interesting than if you are working in a business that you do not enjoy.

## 2. Industry Research

You have selected the industry. Now conduct some industry research.

What are the industry trends? Is this a growing industry or a declining industry? What are the opportunities within this industry and what are the threats to the industry? What will be the impact of socioeconomic trends, government policies and technological advances on this industry?

## 3. Market Research

Also do some research on your target market. Identify your target market including buyer demographics and psychographics. How do they buy, what do they buy, when do they buy, what motivates them to buy and where do they buy?

Where is the geographical market that you plan to serve and what is its size? What is the best way to reach your target market?

## 4. Competitive Analysis

Identify the competitors within your industry and more specifically, your geographical area.

How long have they been in business? What are their respective strengths and weaknesses?

What voids exist in the market that you could potentially serve? Decide how you will differentiate your products or services from your competitors.

## **5. Supplier Research**

If you plan to manufacture or distribute products, do some research into possible sources of supply. What is the availability of the products? What are their costs?

## **6. Develop a Preliminary Budget**

Once you have decided upon the industry in which you will participate, conducted industry, market, competitor and supplier research and if feel that you still want to proceed with this business, develop a preliminary budget.

You will need to include: all of your start up costs, your operating costs and a monthly sales forecast.

Start up costs are one time expenses that you will incur before you start your business. These could include, but are not limited to: incorporation, legal and accounting fees and expenses, business permits and licenses, lease deposit, utilities deposits, telephone and IT network installations, leasehold improvements, equipment purchases or leases, hiring and training costs, inventory, signage, office equipment and supplies, website development, etc.

Operating expenses are all of the monthly expenses that you will incur in operating your business. These could include, but are not limited to: rent, heat, hydro, telephone, insurance, security system, leasehold improvements amortization, equipment depreciation, office supplies, salaries, employee benefits, marketing expenditures, Internet access, website hosting, external bookkeeper / accountant fees and interest payments.

Forecast unit sales for each product or service that you plan to sell by month for the first twelve months. Be realistic with your monthly sales forecast. Expect your business to grow gradually rather than take off "overnight". Most businesses do not experience the "hockey stick" growth pattern.

Most businesses will lose money in their first year of operation. Do not be discouraged. Ideally you should start to show an operating profit in the last few months of the first year, as your monthly sales increase.

There is an old saying "Cash is King". Your Income Statement (Profit and Loss Statement) is not as important in the early stages of your business as your Cash Flow.

Very simply, your cash flow is all of the money that you take in each month minus all of your expenditures (inventory purchases, plus all of your operating expenses). It is not uncommon for most new businesses to take several months before they are in a positive cash flow position. This is because you incur operating expenses each month (rent,

heat, hydro, salaries, etc.), but may not have sufficient sales revenues in order to cover those expenses.

Total up how much money you will require for start up expenses and then all of the cash that you will spend in operating your business each month until it is in a positive cash flow position.

That is the minimum amount of money you will need to start and operate your business. I say minimum because you should have some money in reserve just in case sales do not materialize as quickly as you have forecast or in case some of your customers are slower at paying you than you anticipated.

The difference between how much you have to personally invest and how much you need is how much you will have to borrow.

If you cannot obtain the difference, do not start your business. If you run out of cash, you will have to close your business and declare bankruptcy.

## **7. Develop A Business Plan**

A Business Plan can serve 3 key purposes: (a) allow you to borrow money (b) allow you to lease a facility (c) provide management with guidelines in order to operate the business.

If you decide that you still want to proceed with opening your own business and you need to borrow money, there are several sources of funding. ( See the article entitled "Sources of Funding").

Financial institutions and third party lenders will want to see a detailed Business Plan before granting any kind of a loan.

If you are planning to lease a facility, most landlords will also want to see a copy of your Business Plan. Landlords want the assurance that you will be in business for the length of the lease, otherwise they will have to rent the property to someone else in the event that you go out of business.

If you require a Business Plan in order to approach a financial institution for a loan, you want to put your best foot forward. Remember the old saying "You only get one chance to make a first impression". Get your Business Plan done by a professional. You will find it is well worth the investment.

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