

Early Decisions
Chapter 7
Starting a New Business

Advantages of Starting from Scratch

- Creating whatever you feel is appropriate.
- Creating your own distinctive competitive advantage.
- Experiencing the challenge of beginning a new enterprise.
- Taking pride in realizing personal goals.
- Having no carryover baggage of someone else's mistakes, location, employees, or products.

2 Source: Hatten, Small Business Management, 4th Edition

Disadvantages of Starting from Scratch

- Facing a higher risk of failure.
- Having more trouble in identifying market needs that you are able to satisfy.
- Having to inform people that your business exists.
- Dealing with all of the details that you didn't foresee.

3 Source: Hatten, Small Business Management, 4th Edition

Types of New Businesses

- E-Business
 - Shares information, maintains customer relationships, and conducts transactions by means of telecommunications networks.
- Advantages
 - Low startup and overhead costs
 - One-to-one connection
 - Global market reach
- Challenges
 - No one simple e-business model
 - Constantly changing technology

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Source: Hatten, *Small Business Management*,
4th Edition

Characteristics of Successful E-Businesses

- Have a sound business strategy based on having a good reason to be online.
- Have a clear market analysis and create traffic coverage.
- Have mastered the logistics of e-commerce.
- Use the Internet to save costs and to generate revenue.
- Use the Internet to build competitive advantage by increasing the *speed of business*, reducing *costs*, enhancing *customer service*, and improving *business processes*.

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Source: Hatten, *Small Business Management*,
4th Edition

Advantages of Home-Based Businesses

- Control over work hours
- Convenience
- Ability to care for domestic responsibilities
- Low overhead expenses
- Lack of workplace distractions
- Decreased commute time
- Tax advantages

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Source: Hatten, *Small Business Management*,
4th Edition

Disadvantages of Home-Based Business

- Difficulty setting aside long blocks of time
- Informal, cramped, insufficient workspace
- Demands on family members to cooperate
- Lack of respect
- Domestic interruptions
- Lack of workplace camaraderie
- Zoning issues

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Source: Hatten, *Small Business Management*, 4th Edition

Starting a Business on the Side

- Starting a business while keeping your regular job:
 - Requires organizational skills and discipline.
 - Allows for testing the waters without complete immersion in the marketplace.
 - Prepares you psychologically, experientially, and financially—gives you a running start when you make the commitment to leave your job.
 - Requires not doing anything that violates your company's moonlighting policy and avoiding doing anything that is a conflict of interest.

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Source: Hatten, *Small Business Management*, 4th Edition

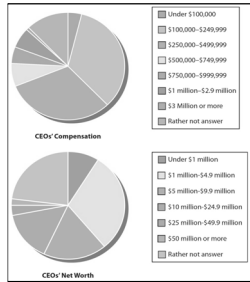
Characteristics of Fast-Growth Startups

- Rely on team effort.
- Headed by people who know their line of work.
- Headed by people who have started other businesses.
- Make big bucks for their owners.
- Use new technology for competitive advantage.
- Are better financed—but not by much.
- Have markets that aren't just local.

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Source: Hatten, *Small Business Management*, 4th Edition

Figure 7.1: *Inc. 500* by the Numbers

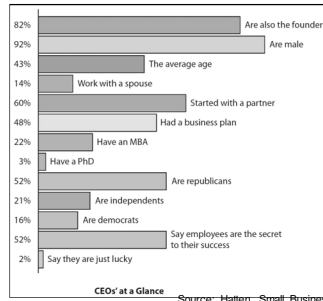


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Source: "The Big Picture," *Inc. 500*, September 2006, 138-139.

Source: Hatten, *Small Business Management*, 4th Edition

Figure 7.1: *Inc. 500* by the Numbers (contd)



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Source: "The Big Picture," *Inc. 500*, September 2006, 138-139.

Source: Hatten, *Small Business Management*, 4th Edition

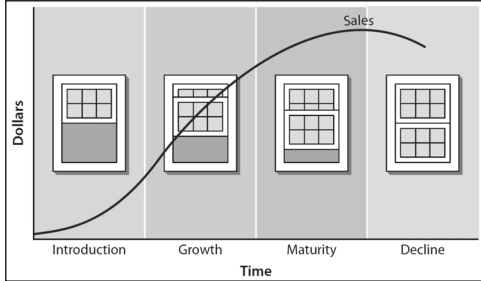
Evaluating Potential Startups

- **Business Idea**
 - Does the idea add value for customers or others?
 - Has the idea's time come for success in the market?
- **Business Opportunity**
 - Is attractive, durable, and timely, and creates or adds value for its buyer or end user.
 - Is matched to the right "window of opportunity" in the product's life-cycle.
- **The Effect of Innovation**
 - Sustains businesses
 - Disrupts businesses

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Source: Hatten, *Small Business Management*, 4th Edition

Figure 7.2: Windows of Opportunity at Various Stages of the Product Life Cycle



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Source: Hatten, *Small Business Management*, 4th Edition

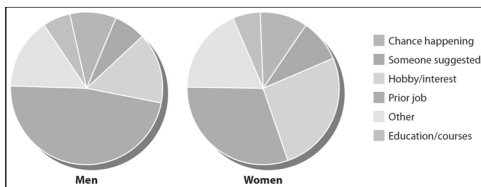
Making The Business Opportunity Decision

- Does the idea solve a consumer want or need?
- If there is a demand, is it enough to support a business?
- How much competition for that demand exists?
- Can the idea be turned into a profitable business?
- What skills are needed to take advantage of the opportunity?
- Why hasn't anyone else done it? If others have, what happened to them?

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Source: Hatten, *Small Business Management*, 4th Edition

Figure 7.3: Sources of New Business Ideas Among Men and Women



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Source of Business Ideas

- Prior Work Experience
 - Helps avoid startup errors.
 - Begins the building of a competitive advantage.
- Corridor Principle
 - Opportunities become available to an entrepreneur only after the entrepreneur has started a business.

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Source: Hatten, Small Business Management, 4th Edition

Hobbies and Avocations

- Turning what you do for pleasure into a part-time or full-time business is a possibility that you should consider.
- Helps ensure that your business will be one that you enjoy and understand.

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Source: Hatten, Small Business Management, 4th Edition

Chance Happening

- Serendipity
 - Finding something valuable that you are not looking for—a business opportunity that comes to you unexpectedly.
- The ability to recognize the opportunity requires:
 - An open mind
 - Flexibility
 - A sense of adventure
 - Good business sense

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Source: Hatten, Small Business Management, 4th Edition

Keeping Your Business Creative

- Clearly articulate creativity as a core value of your company.
- Set aside time to deliberately evoke creativity.
- Add a creative exercise to meeting agendas.
- Study creativity.
- Constantly seek new input.
- Learn how to sidestep tension.
- Develop a stance of openness and curiosity.

19 Source: Hatten, Small Business Management, 4th Edition
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Getting Started

- What Do You Do First?
 - Decide that you want to work for yourself.
 - Generate ideas for a product or service that people will buy to find one opportunity that matches your skills and interests.
- Test the Feasibility of Your Idea
 - Is there a need for this business?
 - Is this business needed here?
 - Is it needed now?

20 Source: Hatten, Small Business Management, 4th Edition

The Importance of Planning to a Startup

- Comprehensive Business Plan
 - Provides direction
 - Is required to secure financing
- Writing a Business Plan
 - Market analysis
 - Competitive analysis
 - Startup costs estimate
 - Capital equipment requirements
 - Legal form of business
 - Location of business
 - Marketing plan

21 Source: Hatten, Small Business Management, 4th Edition

Figure 7.4: How Much Money Will You Need?

Initial Capital Item	Estimated Cost
Capital equipment	_____
_____	_____
_____	_____
Beginning inventory	_____
Legal fees	_____
Accounting fees	_____
Licenses and permits	_____
Remodeling and decorating	_____
Deposits (utilities, telephone)	_____
Advertising (preopening)	_____
Insurance	_____
Startup supplies	_____
Cash reserve (petty cash, credit accounts)	_____
Other expenditures:	_____
_____	_____
_____	_____
Subtotal startup expenses:	\$ _____
Add 10% safety factor:	_____
TOTAL STARTUP EXPENSES	\$ _____

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Source: Hatten, *Small Business Management*, 4th Edition

Figure 7.5: On Which Mountain Will You Compete?



- When setting up your small business, you must decide how you will satisfy your customers.
- Do you need to offer them the best product, the best price, or the best service?

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Source: Hatten, *Small Business Management*, 4th Edition

Getting Started (cont'd)

- Licenses, Permits, and Regulations
 - File business name with secretary of state.
 - Obtain local, state, and federal licenses and permits.
 - Obtain professional and specialized licenses.
 - Check zoning ordinances.
- Taxes
 - Apply for federal and state tax identification numbers.
 - Pay estimated federal and state taxes quarterly.
 - Pay employees' Social Security, income, and unemployment taxes.

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Source: Hatten, *Small Business Management*, 4th Edition
