

# Assessing Viability for Starting Business<sup>1</sup>

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## Abstract

Owning a business, becoming a boss is the dream of most employees, but not all are living this dream. Traditionally, new business advisers focus on hard components of planning including marketing; financial and legal aspects; aligning the idea with the business opportunity and the possible markets. Although it is essential to understand this hard side of starting a business, it is equally important to appreciate the soft side (of starting a business) by recognising and appreciating the motives, values and drives a potential entrepreneur has to offer. This paper considers the question – is entrepreneurship the right path for a given individual?

## Introduction

Many employees would like to be their own boss, believing that this will allow them to have greater flexibility, improved personal and financial freedom and control of their lives, while emotionally reaching a sense of self-actualisation.

In Australia over the period 2003 and 2004, 11.2% of all actively trading businesses are Small & Medium Enterprises (SME) business start-ups (Australia Bureau Statistic, 2005). Small business contributes one-third of Australia's Gross Domestic Product (GDP); and accounts for 96 per cent of all business in private sector (excluding agriculture) (Employment, Workplace Relations and Education References Committee, 2003).

Traditionally, when planning to start a business the first step is to develop a business plan focusing on marketing, financial and legal aspects while considering the business idea and assessing the qualification and skills needed for the new business venture (State of Queensland, 2007; Katz & Green, 2007; Schaper & Volery 2004; Frederick, Kuratko & Hodgetts, 2007; business.gov.au 2007).

This paper addresses the issue "Is entrepreneurship the right path for a given individual?" and in doing so limits the term entrepreneur to those persons being entrepreneurial outside of an existing organisation (Schaper & Volery, 2004). The structure of the paper explores and addresses the hard and soft sides of business and entrepreneurial start-ups. It starts by acknowledging the need for marketing, financial, legal, IT and human resource planning. But equally or of greater importance (Reynolds, Williams & Savage, 2000) discusses the soft side of business ownership such as; the drive, motivation, personality, lifestyle, and ability to handle stress of the individual; and the impact of their personal and business networks.

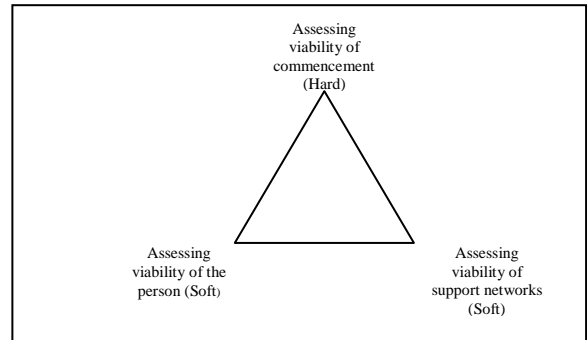


Figure 1: Three viability tests

To review these dimensions viability of the business venture are considered from three dimensions (See figure 1):

- Assessing viability of commencement (Hard)
- Assessing viability of person (Soft)
- Assessing viability of support network (Soft)

These three assessments will now be discussed in turn.

### Assessing viability of commencement (hard)

The initiative to start a business is often germinated by one's thought - a brilliant and unique business idea, or it can be recognition of the need for a good or service offering, or the way the business is promoted. The idea can be derived from many channels, either from one's experience in a given field or industry, taking advantage of a growing business trend, or venturing something new. In the end the motive is to be the boss and in control, personally and moreover, financially.

Accordingly, the entrepreneur looks to the first test of viability, which involves the hard dimensions of marketing, finance and legal issue. Often the first step necessitates research of the industry within which they intend to develop their business, and is limited to best practices and the disciplines of marketing, finance, and law. Other business disciplinary areas are important such as human resources and information technology, but these receive consideration once the market, financial and legal deliberations determine the business venture as viable (Reynolds et al., 2000). The practicability and appropriateness of this research conducted by a person new to business ventures is beyond the scope of this paper, but often these people are unskilled in at least one of these three disciplinary areas and a take a cursory approach to the research. However, detailed information is needed when often surface

information is collated (Department State Development- Queensland, 2007).

Having conducted the research the information is interrogated in relation to the three areas of marketing finance and law to determine the viability of the venture.

From a marketing perspective, one needs to consider if the business idea will work by observing the industry, and deciding if the industry is growing and has enough capacity to accommodate this new business venture. Too little sales and too much competition is the cause of almost 50% of business failure (Reynolds et al., 2000). Every business has its market. Thus, identifying and understanding the market needs and characteristics are important, as is the matching of those needs and characteristics to the business idea or opportunity. Having identified the market, the process of managing, Product, Price, Place and Promotion (4Ps) can be developed, where the right product package is offered to the market at the right price, with the right distribution and logistical attributes and finalising the mix with relevant and integrated marketing communication.

Equally, every business needs income. Often while planning to start a business, one needs to look at the start-up cost, ongoing fixed and variable costs along with projected sales to get the needed cash flow and break-even points. Traditionally, this is considered as the most important aspect in starting business as the ultimate goal of business is often identified as bringing in money to gain financial freedom. As this is an important area that calls for finance skill professional help is called for because on top of the above analysis of the business's viability, the business financial structure needs to be considered, as does the taxation and superannuation regime (State of Queensland, 2007; QuickOverview.com, 2007).

The third traditional component is legal. In starting a business, the structure of the business needs to be considered: sole trader, partnership or company. Each of these options has its advantages and disadvantages and will affect how the business is conducted. Business can also be setup by either purchasing a business, buying a franchise or starting from scratch. All options have different legal requirements. In addition, the business name, trademark, and trading contracts need to be researched and resolved. Again, this area calls for professional advice.

The entrepreneur now has researched and considered the hard aspects for determining viability for the commencement of the business, but there is another side of the business start-up that must be considered. This is the soft side of starting business.

### **Assessing viability of person (soft)**

Before going on to detailed planning and implementation of the start-up, perhaps the most vital

consideration one must meet is the move from a traditional corporate career and all it entails to that of an entrepreneurial career and all it needs (Frederick et al., 2007).

The following key areas provide a framework for the entrepreneur to explore the move to an entrepreneurial career. First, assess the essential qualifications, skills and interests needed for the entrepreneurial venture. Second, assess the motives and values for the career move. Third, resolve if one is willing to accept the challenges that will be presented. Fourth, identify the challenges in life cycle of a business. These four key areas will now be expanded.

Identifying the necessary qualifications, skills and interests is necessary because as an entrepreneur, one needs to oversee the entire business. Although help is available from professionals, the entrepreneur needs to have basic skills in the areas like marketing and sales, financial management, operations and administration, human resources, and general management. Reviewing one's qualifications, skills and interest will help to identify necessary training. More than 60% of business failure is due to lack of business or management experience, skills and ability (Reynolds et al., 2000).

Besides the qualifications, skills and interest, the motives and values of the individual play an important role in deciding if an entrepreneurial career is the right path. This new owner needs to understand their drive for running a business and recognise how running a business will test and affect their personal and work values for the next three to five years. It also requires them to consider how they will run their business and what risks (social, legal and financial) they are willing to accept to achieve their lifestyle goals. This is a key process because often one focuses on the exciting side of the new venture and fails to, or avoids facing the mundane, best practice process side of entrepreneurial activities. When one is on the journey of entrepreneurship, there are many uncertainties. A clear appreciation of the motives for starting the business will help point a clear direction and serve as a good reminder when the journey is difficult. Clearly defining the motivation for the venture will provide a source of energy to face challenges (Howto Lifehack, 2007). In the business world, unfairness, tricks and manipulation do occur and this may be against the entrepreneur's personal values, if the career change is chosen. Acknowledging events that are counter to one's own personal values and developing ways to deal with them is vital.

The next area is to look inward and have a reality check. Although being one's own boss is appealing and the business idea seems to be innovative and workable, an entrepreneurial career is different to a corporate career. In a corporate career, if one dislikes

the working environment or the job profile, one can choose to exit without much discomfort other than getting another job.

At start-up, it is likely that the entrepreneurial career will involve longer working hours as one cannot afford to engage employees. This calls for the entrepreneur to be hands-on in all aspects of the business. Further, the entrepreneur cannot only do the aspects of the business they like and avoid other components. An entrepreneur needs to be jack-of-all-trades, competent and diligent in all aspect of the business operation.

The change may be seen as small and exciting but the consequences of not being personally prepared can be costly emotionally, physically and financially.

Stress is a regular companion of a new entrepreneur. Stress builds quickly when early sales are low and sporadic but fixed bills are coming in every month. Stress can also be derived from fear of failure, fear of rejection, fear of loss of security, fear of other's disapproval, frustration because of things not going according to plan, a goal seems unreachable, others keep saying no, others demands keep one from doing what is desired (Torress, 2007). Stress is tiring mentally, physically and emotionally, and needs acknowledgement. Before deciding to start a business, it is important to identify the greatest fear in doing business. This will allow the entrepreneur to recognise stress in the early stage. Then when it hits, one is prepared with a remedy to combat it.

Good health is important. Before starting the business, it is important to assess one's personal health to ensure that there is stamina and energy to run the business physically, mentally, emotionally and spiritually.

Fourth, all businesses have challenges. As the business is still evolving around concepts and ideas, the challenges will change at each stages of the business start-up process. The need to visualise, identify and name these challenges at every stage will enhance clarity of the business vision and facilitate management at each stage of the process.

By identifying the challenges and anticipating the worst-case scenario, financial and personal contingency plans can be developed and, if necessary, recognise the need to enact an exit plan. By anticipating the worst-case scenario, it means that one has calculated and managed their risks.

### **Assessing viability of support network (soft)**

Having considered the personal aspects of entrepreneurship it is also essential to consider the impact on and by family, friends, support networks and business networks.

The decision to become an entrepreneur will affect the people around them, especially those with a dependent family. One needs to acknowledge and

understand their capabilities in coping with future challenges. Specifically, family factors such as how long the current lifestyle can be maintained; are family members willing to support by adjusting their lifestyles; and how the business can be funded.

Having support from family is important, as is knowing the bounds of that support. Discussion needs to be detailed and understood by all parties so that in difficult times, the pre-agreed terms will help the family go through those challenging times.

If family is involved in the business, there are potential conflicts in management. Typical issues are salary, role and status of family members. Clarification is needed early as at start-up, payment tends to based on need, while in the business world people are paid based on their market value (Frederick et al., 2006). Furthermore, if the business is a family based business, the additional resources aid in the start-up, but with matters of management, decisions are often based on emotion and inward looking while in the business world, decisions are based on analysis and outward looking. This does create conflict, as family tend to minimise change to preserve harmony, while business needs continuous change to develop and stay competitive (Frederick et al., 2006). Understanding the potential conflicts and evaluate if one is willing to deal with these conflicts early, will help to decide the nature of business and the degree of family involvement.

Other support groups of friends and ex-colleagues, the social and professional network also play an important role in business start-up. Professional networks are often the basis of business, as they provide the first few business activities. In addition to helping give life to the start-up, the network also provides a good source of encouragement and support. However, like the family situation, reliance on the networks is temporary. An understanding of the degree and willingness of network support will be required to project the business success in the early stages. A poor entrepreneur assumes the network will indefinitely support the venture, or will support the venture when one is in difficult time (Bosch & Boeckner, 2003).

Another key person or group of people can be identified as "the centre of influence" in the selected industry. A person who is a centre of influence is an individual who is in the industry and highly respected (Leadership Management Australia, 2007). Gaining their understanding of the market and if possible their support will facilitate the first few business transactions.

The above discussion focuses on three dimensions for validating if pursuing entrepreneurial role suits one's personality, interest, values and if one has the resources to run it long term.

By going through this process, one is able to give the entrepreneurial career for a business start-up a

good review and help take the first step, by deciding to continue and explore the career change with confidence.

In conclusion, while it is important to assess the viability of the hard side of starting business, it is of more importance to address the viability of the soft side of a business start-up, the personal capabilities and traits, in association with the support from family and social and business networks.

Embarking on an entrepreneurship career is a long-term commitment, it demands many sacrifices and energy. Not everyone is suitable or willing to relinquish his or her current life style to become an entrepreneur. The focus on the hard dimension of business start-ups can lead the novice entrepreneur down a path that is not suited to their person or their social and business support groups. Starting a business is a risk, before deciding to take this risk, it is better to assess all dimensions to ensure a successful transition to an entrepreneurial career.

### Acknowledgements

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