

CHAPTER 1

YOU AND YOUR IDEAS

As a way of earning a living, running your own business has two distinctive features. The first is that you do not submit yourself to a selection process; there is not, as there is with a job as an employee, a sifting carried out of possible applicants for a vacancy. There is no personnel manager wielding a battery of psychological tests or cunning interview questions to test your suitability for the job or the level of skills you have acquired.

You are the sole arbiter of your fitness to start and run your own business. This puts a very heavy responsibility on your self-knowledge, because without a doubt not everyone is suited to being an entrepreneur or being self-employed. The only external check on your fitness to found a business might occur if you need to raise money; in this case, a bank manager or other lender or investor judges you. But by the time you reach this stage, you may already have committed time and money to your project.

The answer to the dilemma of this self-selection process is self-analysis: know thyself. Later in this book (p. 33) there is a checklist that you (and others) can use to carry out an assessment of your character and abilities. This should provide some assistance in answering the question 'Am I the right sort of person to succeed in my own business?' This chapter describes the type of person who makes the break. Some people talk over a number of years of running their own show but never take the ultimate step. Why do some people break the mould, while others only dream of it?

The second unusual characteristic of starting your own business to create your own income is that you decide what type of business it is and what market you will be selling to.

While you can select a salaried job in a firm of a particular size or selling to a particular market, you are restricted by the vacancies that are available. When it comes to establishing a business, in theory, the world is your oyster. A well-run business should succeed in any market, but would find it very hard in a declining or restructuring sector of the economy. In practice,

however, you can make success more likely by choosing your product and market carefully.

What is in this chapter?

The first section – you – focuses on individual characteristics and tries to answer these questions:

- Who are you? (see below).
- What do you want? (p. 4).
- What will it be like? (p. 5).
- Why will you succeed? (p. 7).
- Why will you fail? (p. 8).
- How big a business? (p. 8).

The second section – your ideas – focuses on the business and your choice of business idea:

- What are your skills? (p. 9).
- Which is the best market? (p. 10).
- Defining your ideas (p. 11).

You

The greatest determinant of the success of your business is you: your character and skills. This you must believe if your business is to have any chance of prospering. The type of person who blames external factors for failure and believes that their own decisions have little impact on the course of future events is not suited to building a business.

Who are you?

How frequently do you overhear, or partake in, conversations that run along the following lines: ‘In a couple of years I would like to start off on my own if I can’, ‘I would love to have my own business but my financial commitments

mean that I can't take the risk', or some other variant? Quite a number of people dream of running their own show, but not all take the plunge.

In some ways, it is hardly surprising that entrepreneurial dreamers are slow to take concrete steps towards making their business a reality. Lying ahead of them, maybe for a number of years, is the unknown: financial insecurity, long working hours, long-term financial obligations and, at the end of it all, possible failure. What is different about those who jump and those who only talk?

The conventional image of an entrepreneur is of a strong-minded, positive risk-taker with a sense of destiny, seizing the ever-present opportunities. Well, this may be a reasonably close approximation of some successful entrepreneurs and you may be that sort of person, but this still does not explain why you are starting your own business and why now. There are many people like this who stay employees for the rest of their lives; and many more who start a business 'accidentally' but make a great success of it.

One plausible explanation for why some start a business and others do not is that those who go solo have received a rude shock to their lives. Their previously cosy existence has been disrupted, such as by redundancy or a pay cut. There are plenty of other reasons that may sway you towards starting a business, for example: being sacked, not being promoted as expected, having your ideas at work rejected, feeling undermined, having a new boss foisted on you, being transferred to a different job or location, retiring but finding you need extra money, reaching a milestone age and feeling you have yet to achieve anything worthwhile, or realising that corporate life does not provide the security or sense of worth that perhaps it did 30 or so years ago. Another catalyst could be seeing a friend or colleague in similar circumstances to you successfully making the break into self-employment.

If you have experienced one of these shocks, the comfortable niche in life that you have created for yourself may suddenly feel restrictive and unsatisfactory. Your response may be to try to seize control of your own life by creating your own job.

Obviously, this shock theory does not explain everyone's decision. There are those for whom starting on their own is a positive, not a negative, move. Some have mapped out their lives to include starting their own business. There are others for whom being an entrepreneur seems commonplace, because most of their family are either self-employed or have started a business.

Finally, you may simply decide to change your work–life balance and give yourself the freedom to organise your time as you wish.

Government statistics show that there were 5.7 million private-sector businesses in the UK in 2017, of which 99 per cent were small businesses (fewer than 250 employees). Around 80 per cent of these businesses were sole traders; that is, there were no employees apart from the owner. It's easy to see why running your own business is popular: the threat to job security following the 'credit crunch' and fragile economy; the development of online platform businesses that carry out the marketing and administration for you; the need for many older people to supplement their pensions; the attractions of sharing your assets to provide income; the opportunities created by the Internet for online businesses; the attractions of working from home or flexible (even if long) hours as a way of achieving work–life balance; enterprise education in schools; and the popularity of business-reality TV shows. Starting your own business may become normal, not abnormal.

But, for now, the conclusions are that:

- Not everyone has the necessary ingredients for success.
- There may be many people who live out their working lives as employees who possess the vital skills and characteristics in full, but fail to take advantage of them.

What do you want?

An important part of your self-analysis should include what it is you hope to achieve by starting a business. Motives may range from achieving monetary gain to enhancing status, to establishing a comfortable working environment, to combining work and home responsibilities. You could have a combination of business and personal objectives. It may be a helpful exercise to note what your objectives are under the following headings, which are not exhaustive:

- *Money*: how much? When? In what form? As much as possible?
- *Working hours*: number of hours? Amount of holiday? Flexibility?
- *Risks*: like a gamble? Only low risk acceptable? Prefer calculated risks?
- *Stress*: looking for lower levels of stress? Can cope with stress?

- *Type of work*: want to be able to do the work you like? Want to choose which work to do and which work to leave for others? Want to concentrate on what you are good at? Feel your skills are being wasted?
- *Independence*: fed up with being told what to do? No longer wish to explain your actions to your superiors? Think you can do better?
- *Achievement*: want to have the feeling of satisfaction that building your own business can bring? Like to set yourself standards to achieve? To see if you can do it where others fail?
- *Power*: looking for the sense of power that being the boss can give? Want to enhance your reputation or status? Want to do better than someone else?
- *Any other objectives?*

Once you have drawn up a list of objectives that you hope to achieve from being your own boss, you need to assess how realistic these are. A number you will find fit ideally with the notion of being self-employed; others will be quite contradictory. Part of your self-analysis should be to see how good or how bad a match your objectives are to the reality.

What will it be like?

Most probably the answer is much worse than you can imagine. There are a few people who start out and find the whole operation flows smoothly from the beginning; there are others who pretend everything is going well, while the reality is quite different; and there are others who openly admit how hard it is. One of the more dispiriting aspects is that while you may expect hard work for one or two years, it could continue for several.

The government publishes information on the changes in self-employment. The data show that within the last five years around one in four new businesses has stopped trading. Taking advice, such as counselling or training, is likely to improve your chance of success.

If you manage to survive, life will not always be easy. Your business life may follow this pattern:

- *Money*: your income can prove to be a problem. At the outset, if not later on, you may find you cannot draw as much income from your business as you would like. Initially, you will need extra funds to fall back on; it can be very helpful if you have a spouse or partner who is earning.

- *Working hours:* Studies vary widely from saying that the self-employed work fewer hours than employed people, to finding that they work 65 or more hours per week. While, in theory, you can choose your working hours and be flexible, in practice you may find that you work all the hours possible. If your business is not going well, you will need dedication, drive and energy to overcome problems; even if the business starts off well, you may still find you cannot turn your back on it, because you want to make as much money as possible in case things start going wrong! You cannot win: until your business is well established you need to work long hours.
- *Risks:* a gamble is an unlikely basis for a successful business; but if you only want to pursue low-risk ventures, you may be short of ideas to follow up. You stand the best chance if you are prepared to take calculated risks that allow you to make a sound estimate of the chances of success.
- *Stress:* come what may, running your own business can be a very stressful experience. You need to be able to cope with it or to seek advice on ways of overcoming it. Stress is not only caused by business problems; it may also occur in your domestic life as a result of allowing the business to overwhelm you. Your spouse/partner and close members of your family need to be very supportive and prepared for what is to come.
- *Type of work:* you may need to be a jack of all trades. Unless you are forming a partnership or hope to raise sufficient funds to allow you to employ someone who can complement your own skills, you will find you act as salesperson, technical expert, accountant, administrator or whatever. The wider the range of skills you possess, the greater your chance of success. Be honest about what you can do well and what you do badly. If there are gaps, consider being trained in the area of inadequacy (see Chapter 7, 'Getting ready to start') or try to make sure you can afford expert assistance.
- *Independence:* you remain totally independent in your business decisions only if you never borrow or raise money. Once you have done that, you may find that you have to explain your actions, although not usually on a day-to-day basis.
- *Achievement:* founding and controlling a successful business can yield a tremendous sense of achievement, but what happens if there are failures? What would be your reaction? To be a successful business manager, you

need to be able to deal with failure. You must be able to accept failure, while drawing out the lessons learned.

- *Personal relations*: one of the advantages of running your own show is that you select the people who work for you, and (provided you do not discriminate unlawfully – see Chapter 19, ‘Your rights and duties as an employer’) if you do not like them you do not need to employ them. But if you find it difficult to associate in a friendly manner with most people, you are unlikely to be a successful owner-manager. You need to be able to establish good relations with suppliers and customers, as well as with those you employ.

Why will you succeed?

The conventional view is that your business is more likely to be successful if it fulfils three criteria:

- 1 The people involved realistically assess their strengths and weaknesses and try to overcome shortcomings. This could apply to you alone if your business is as a sole trader. Or, if it is on a larger scale, it means you as the leading figure plus the rest of your management team should be balanced and with no obvious lack of skills. The quality of the management (you and others) is the most important criterion.

Working with others that have complementary skills to yours can enhance your likelihood of success.

- 2 The idea and the market for it has the necessary growth potential and you have experience in that market. Within that market, you need to work carefully to develop your business model and plan. These will need adapting as market and economic conditions change.
- 3 Financing is sufficient to cover any shortfall of working capital (p. 306), especially in the early days.

If you cannot fulfil these criteria at the moment, do not accept defeat; you may be able to do so in the future. Most of the processes can be learned and acquired if your personality allows for realistic self-assessment. At this stage in the chapter, you should already have some self-knowledge about your strengths and weaknesses as an owner-manager. In Chapter 4, ‘Are you sure?’, the information is drawn together in a checklist (p. 33), which you can use as a quick test of where you stand.

Why will you fail?

You will fail if your operation does not match up well to the three criteria mentioned above. But some more specific problems are:

- overestimating sales and underestimating how long to achieve them;
- underestimating costs;
- failing to control costs ruthlessly;
- losing control over cash; that is, carrying too much stock, allowing customers too long to pay, paying suppliers too promptly;
- failing to identify your market because of inadequate market research;
- failing to adapt your product to meet customer needs and wants and failing to retain customers;
- lacking sufficient skills in one of the following areas: selling and marketing, financial, production, technical;
- failing to build a team that is compatible and complementary, if your business is on a larger scale;
- taking unnecessary risks;
- underpricing.

Many of these causes of failure are a result of lack of skills. Running your own business does not mean you have to be an expert at everything, but you do have to appreciate the importance of all these aspects so that you can control your business properly. Try to acquire an appreciation of the crucial factors to watch out for by seeking training or advice from others in those areas in which you are weak. Use this book as a starting point. If more help is needed, there are training courses and advice agencies (p. 58).

How big a business?

One factor to consider at an early stage is which track you are in – the fast-growth, medium-growth or slow-growth lane. You may know, from the assessment of your skills and character, that the most you aspire to is being a one-person business, pottering along steadily, making a good income for yourself. Or your analysis may convince you that, with the right funds and the right management team, you have the potential to look for swift growth. Your plans about raising money are determined by this consideration.

Your ideas

Frequently, the reason given for failing to take the step and start on your own is that you lack an idea of what you can produce and sell. This may be because there is a misconception about what is needed for a business to be successful. Your idea does not have to be novel, original or revolutionary. If it is, it may be helpful but, equally, it could be a hindrance. Trying to sell a product or service that has not been available previously can be an uphill struggle and mean long periods of time or amounts of money to develop the right product. Being first is not always best. The first to offer such a product has to educate a market and possibly establish a distribution structure. The second or third into a market can capitalise on all the effort and investment made by their predecessors. The moral is that you should not veer away from an idea because it is not original.

However, it does not follow that you can offer something identical to another business. If you do, how can the potential customer choose? It could only be on the basis of price (p. 179), which suggests that you will struggle to make a profit unless you can sell in volume. The ideal product or service to choose as a basis for your business is one that you can distinguish from the competition by including some additional feature or benefit that is not available in other products.

If you are starting from scratch, how do you come up with a business idea? The first stage is to draw up a shortlist of two, three or four ideas that you can define and research before selecting the one to run with.

There are two possible ways of choosing an idea:

- 1 Using an established skill, product or knowledge; in general, this gives you the greatest chance of success.
- 2 Identifying a market that looks ripe for development by your business and acquiring the necessary technique and knowledge.

In reality, the approaches must be closely interlinked; your business will not succeed if you have the skill or product but not the market, and vice versa.

What are your skills?

The logical business idea for most people is to choose an area in which they already have considerable expertise. Many self-employed people are simply practising their own acquired knowledge, such as engineers, solicitors, design consultants.

Many people also opt to begin a business using a skill that they have acquired in their spare time as a hobby. Obvious examples are the craft-type businesses, such as jewellery-making and pottery. Using online skills and social media, you can market such products direct to your end-customer. If you do not already have these skills, you need to acquire them. Or you could sell your products through online platforms which will market for you and offer administration, so that you can focus on delivering your product and building your online ratings by getting favourable reviews.

Which is the best market?

An alternative to choosing an idea based on your existing skills and knowledge would be to research some markets in which you believe there are profitable opportunities. The ideal market to base your business in is one that:

- is growing or is large;
- is supplied by businesses that are not efficient or are outdated;
- has a niche or sector (p. 22) that you can exploit;
- is not heavily dependent on price to help consumers select one product rather than another;
- is not already supplied by products that are heavily branded; that is, there is not considerable customer loyalty to products from one or more businesses;
- is not dominated by two or three very large suppliers but instead has a number of smaller would-be competitors.

In practice, there is only a remote chance of finding such a market; and, if you did, so would many other businesses, which would make it very competitive. But it would be unwise to base your business in a market that does not come up with some of these positive indicators. The moral is, do not be afraid of competitors; they prove that there is business there to get.

A tough economic climate might seem the worst time to start a business but, even when the economy as a whole is under pressure, there are still individual markets that present opportunities. For example, if households' disposable income is falling: people still eat but may turn to 'value' food products; they may cut back on big-ticket items but still buy smaller, affordable luxuries, such as chocolate and mini-break holidays; and they may go out less so that home and garden become more important spending areas. Firms may cut back on

expensive permanent staff but this may increase demand for freelancers and consultants; for some industries, such as debt collection, economic problems can represent a boom time. Similarly, when the pound is low against other currencies, this can give a big boost to businesses with a high proportion of overseas customers.

It is difficult to enter a market if you have none of the technical skills or industry knowledge necessary. In particular, if you need to raise money, the decision-makers will want to see some, if not considerable, knowledge and experience in that market. If you do not have it, you have to concentrate instead on demonstrating your all-round business skills and experience, the strength offered by your character and abilities, and the research you have undertaken into your chosen market.

Defining your ideas

At this stage, you may not have focused on just one idea but still be considering two or more. Whether it is only one or several, your next step is to draw up a pen portrait of each idea. Clearly, some of the aspects will be nothing more than wild guesses; you will need to carry out research before developing your business model and encapsulating your final choice in a detailed business plan with realistic forecasts. The brief sketch should define the following points:

- a description of the product or service;
- an indication of why it will sell;
- a description of the intended market: UK, Europe or global;
- your estimate of the approximate price;
- how you think it will be sold;
- a first stab at the amount of sales you can make;
- how it will be made, if it is a product;
- its approximate cost;
- whether revenues are likely to be more than costs.

Having drawn up these broad-brush definitions of a couple of the most promising ideas, you will find that during the detailed estimation and calculation stage, one idea will emerge as the favourite. You can concentrate on developing this one into your business plan.

Summary

- 1** An unusual aspect of starting your own business is that you make the decision yourself that you have the necessary qualities and abilities to make a success of it.
- 2** Analyse what you expect and hope to achieve from your own business.
- 3** Do not underestimate the problems and difficulties that emerge for business owners.
- 4** Use the checklists in Chapter 4, 'Are you sure?' (p. 33), to identify your weaknesses and strengths.
- 5** Use training and advice agencies to improve your weaknesses.
- 6** Do not be dissuaded from launching a business because you do not have an original idea. With the right management and a promising marketplace, a well-worn idea can be successful.
- 7** The market can be crucial in determining success or failure (rated second most important factor after management by providers of finance). Study your market following the advice in Chapter 3, 'Who will buy?' (p. 21).
- 8** Develop brief descriptions of a couple of ideas before researching more thoroughly. Select the favourite and make up a detailed business plan before setting up the business.

Other chapters to read

- 3** 'Who will buy?' (p. 21); **4** 'Are you sure?' (p. 33); **5** 'Timing the jump' (p. 43).