

# LESSON 1 INTRODUCTION - A REALITY CHECK

Any one starting a new business has to deal with five things -

1. Getting a product that can be sold.
2. Establishing systems to manage the business.
3. Finding potential customers.
4. Selling to those potential customers.
5. Delivering the product.

This may be a simplistic view of business, but it is a very helpful way of understanding what needs to be done, and doing it properly.

*Think of these as the “five key areas of business”.*



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Often you can learn a lot by reflecting on your own past. When you see where you have been and where you are now; it can help give you a perspective on where you are going in the future.

On a piece of paper write down three types of businesses that would be good for you to start.

Beside each, write what you think you have in your skills, personality or other resources which can contribute to making this business a success for you.

In effect you are making a note of the businesses you are thinking of starting and some of the reasons why you are thinking of starting these.

Now fold up the piece of paper and put it away until later in the course when you are asked to look at it.

## BUSINESSES DON'T NEED TO FAIL

It is often said that many new businesses fail. Different figures are quoted indicating that approximately 10% of new businesses fail. They usually fail for one reason - because they don't attend to all five areas of concern above.

It may be that they don't deal with all of these things because they do not have sufficient resources, for example:

1. Getting a product that can be sold – They choose a product that is already sold well by another large and well-established company. They can't compete financially or offer comparable service.
2. Establishing systems to manage the business – They are so busy looking at the product and finding customers that they don't also take an overview of how they are going to run the business effectively and efficiently.
3. Finding potential customers – They can't afford the marketing required to reach their potential clients and don't know enough about how they can market for free to do so.
4. Selling to those potential customers – They haven't conducted enough market research to see who they can sell to. For example by advertising their skateboards and rollerskates in Saga magazine (a magazine for over 60s). This may be a massive generalisation, there may be people over 60 who like to skateboard, but the demographic would suggest that their market

is likely to be better aimed at children, teenagers and those in the early 20s.

5. Delivering the product – They may not have taken postage charges into account when pricing their product. They may find that other similar businesses are offering free delivery and they can't afford to.

These are just some examples of where potential businesses may fail simply because they haven't really considered some things in enough detail. These things may not be massive, they may only be small – for example – not including the cost of free delivery in their product cost, but over time that can seriously affect how much (if any) profit they are making.

Imagine you are selling pens for a cult television series, such as Doctor Who or Thunderbirds. The pens cost you £1 to buy. You are selling them for £1.50. It costs you 30 pence to post the product. Leaving you 20 pence profit per item (you think). You haven't taken into account the cost of actually packaging the item, which actually costs you 10p. That leaves you 10p profit. But what about your time, getting the order off the internet or in the post, packaging the pen, writing the customers address on the package, going to the post office at the end of the day to post it, buying the stamps, writing the order in your accounts, keeping track of stock you have available, paying for premises if you have them, paying for other staff members, advertising costs, the cost of your website. The list goes on and all of that has to be funded in 10p per pen. Can you see my point?

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Consider a business you know that has failed.

It may be a shop in your locality or a business owned by someone you knew. It can be something which you are aware of through the news.

After reading this page, think about whether any of these considerations might not have been attended to in the business you are thinking about.

Some businesses don't attend to these things because they don't have the resources to deal with the things that need doing. For example, it is not good enough to develop a fantastic product and expect the marketing, sales, customer service and other aspects to just look after themselves.

When starting a business, the business men/women involved need to be aware of the resources they have at their disposal. These resources may include –

- Time
- Networks
- Equipment
- Money
- Property etc.

Deciding on the product or service may well be the first step in starting any business; but that decision must be tempered with an awareness of the systems required to manage that product, the market potential of that product, how well you will be able to sell that product and what is required to deliver that product to customers. If your product or service is not matched with your capacity to handle it; you may well be entering a business doomed to failure.

We are now going to look at these key areas of business in more detail.

## GETTING A PRODUCT THAT CAN BE SOLD

Most businesses tend to start with an idea for a product or service.

Common starting points may be:

- Being told by others that you are “so good” at something that you should start your own business.
- Seeing someone else being successful at something, and thinking “I know more about that; and I could do it better”.
- Noticing an unsatisfied demand for something – an opportunity waiting to be exploited.
- Studying something that qualifies you to work in a job where most people run their own business.
- Creating something (eg. an invention, a very large building, a book, crafts, etc) as a hobby, and wanting to do something positive with your creation.

All of these scenarios are valid starting points, but by themselves, none of them are sufficient to start a new business.

Not every idea is a good one for a new business. Being good at making crafts, does not necessarily mean that you will be good at running your own business or that the products will sell. Being capable of supplying a product or service to customers is nowhere near enough for someone to be successful in a business. Just because you like a product or service doesn't mean that other people will like it enough to buy it.

Consider the level of demand that may exist for what you propose to offer:

- Do people need it badly? Can they live without it?

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### Suggested Tasks

You are probably doing this course because you have a plan to set up your own business.

1. Think why you want to start your own business - is it because you are good at something? You have a great idea? What are your reasons?
2. Do you have a clear idea what you would like to do?

Jane has been trying to set up her own business for ten years. She keeps changing her mind what she would like to do. She has come up with several good ideas over the last few years, but has not taken them forward, then other businesses have come along and started to do what she thought of.

It is important to be clear of exactly what your plan is for your business, before you start. It can be easy to get lost or not to move forward because you do not have a clear goal.

Write down your overall goal.

Is it clear?

- Do you have competition for customers? Imagine you are starting a new service selling mobile phones. You have a good product, BUT there are lots and lots of big firms selling mobile phones with lots of different “deals” they can offer to attract their customer. For example, recently one firm was offering a mobile phone contract with a free computer game. You may not be able to compete at that level, so will you sell your phones?
- Who would be a potential customer, and how many likely customers are there?
- Is demand likely to grow over time, or is there a chance that it may decrease? If you decide to set up your own business, consider the potential for growth. There may be a market for people wanting to buy cult video tapes as videos are now nearly obsolete. But how long will this market last? What about when videos can no longer be repaired?
- How much control can you exert over the future of your business? (eg. If a single change in government policy or law is able to damage your business; you may be looking at a risky enterprise)

Consider your personality, health and situation in life, not only today, but over the next few years.

- Start up businesses are often more demanding upon time than what is expected. Families can suffer and stress levels can increase.
- A good business person needs to be healthy, pragmatic and a clear

thinker.

- People who overwork, often succeed in establishing a very successful business; but a high proportion of these people will eventually have serious health problems. They may die young, they may be forced by health issues to sell their business.
- People who develop too much of a “personal” stake in their business sometimes find it hard to be “objective” in making business decisions. They can continue doing unprofitable things, because psychologically they cannot accept the failure of something they are too close to.
- People who are not serious enough can just as easily fail in a business. Starting and running a business simply does not work if the boss has a heap of other things going on in their life that they consider more important than the business – just as much as if the boss gives priority to working in their business over and above everything else in their life.

## **ESTABLISHING SYSTEMS TO MANAGE THE BUSINESS**

Businesses need to manage all sorts of things, including:

- The supply of product or services – Whatever you are selling, you will only have so much that is available to sell over a particular time period. If you are providing a consultancy service, and your business only has one consultant, you may only have 20 or 25 hours a week that you can provide and charge for

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### **Suggested Tasks**

Take some time to think about HOW you plan to start your business. Will you work part time whilst carrying on with another job? Will you give up work and focus on the business? How you plan to start your business will affect how much time you have available.

If you plan to continue to work and do your business part time, take the time to plan when you would work. Look at your typical week. When would you have time to work? How much time would you have to focus on your business? Do you think that is enough time? If not, is there any way you could find more time?

If you are planning to give up work to focus on your business - Consider how will you cope financially? How long can you focus on the business before you start to turn a profit?