Should You Start a Small Business?

Many people who want to start or expand a small business start off without enough research and planning. The result is that four out of five fail within five years. This page sets out the basic things you need to know. It should be followed up by further readying, starting with the documents listed under SBA Publications.

The owner of a small business works harder and longer than any employee of someone else's business. To make it worthwhile, you need to be sure that:

- A need or demand for your service of product exists
- You have worked inside a successful business
- The competition is not too well established
- You have the capital AND can afford to lose it
- You have another source of income (e.g. a working spouse)
- You have good professional support (accountant, lawyer, etc)
- You have a passion for success in this field
- You are willing to work seven days a week, 15 hours a day!

One good way of measuring your position is to think about benefits: health insurance; retirement; sick leave; paid vacations. If you own a small business, you have to provide them not just for yourself but also for your employees. Then add variations in cash-flow to the equation. If your cash-flow drops seasonally or for a period, do you have the back-up resources you will need?

Don't make the decision to start a business all by yourself. Talk it over with many people, and listen carefully to their responses. Seek out criticism. Successful entrepreneurs take only calculated risks. They have a mix of optimism and realism. Listen to your family and friends. Listen to professionals who know you. Talk to potential competitors. Talk to experience businesspeople. Seek out business counseling. Ask yourself: Do I know enough about this area? Am I the right sort of person for this?

Lack of preparation is the single biggest cause of business failure. The key here is a thorough and detailed Business Plan, which may take up to a year to write. You must have a business plan if you need to borrow money, and you should have a business plan even if you are using only your own finances. (Most small businesses are financed by the owner and family, not by professional lenders.)

The business plan and its associated financial sheets become the method by which you run the business. It eliminated the guesswork. Most business plans are from 10 to 30 pages in length, plus financial sheets, but some are as long as 100 pages. DO NOT TRY to start a business without a business plan or with an inadequate plan. It's the only way you can really measure the financial risk.

Many resource materials show you what goes into a business plan. For more resource materials please look at the SBA Publications or talk to the NSBDC Counselors. They will lead you to the reference materials and sample business plans that make the task easy.

After you draft a business plan, you need to go over it with various counselors: from the NSBDC or a private company, your accountant, probably an attorney. They will critique it and the will help you tailor it to a specific lending source, if needed.
When it is complete, then you start talking to lenders. The business plan is the basis of any loan application. Lenders may have very good advice and suggest revisions. Remember that lenders only supplement your investment. You will be risking more of your money than theirs--your savings, perhaps your house and loans from your family.

Turning your business into a reality will start while you write the business plan—for instance, looking for a location, suppliers, professionals, etc., or working out your costs and prices. However, you have to wait for approval of the business plan to make the business real in terms of licenses, leases, employees, etc. In sum, don't move too fast.

Everything we have described may seem complex, but there is plenty of help available from the NSBDC, and there are many short-cuts that will save time. In writing your business plan, you will also learn a great deal about your business area. And in terms of lenders, don't despair if you are turned down. A business plan turned down by one lender may really please another lender.

Entrepreneurs tend to rush into things. We simply recommend that you slow down enough to prepare well. Preparing to start a small business is the most important and often the most interesting part of the whole process.