

www.iupindia.org

MBA

Review

IUP Publications

Special
Issue

March 2010

Rs.60

Entrepreneurship Skills



Prospective Entrepreneurs Plan for the Challenges Ahead

Joel R Evans*

Though very high level of motivation and an innovative concept for a business are great building blocks for budding entrepreneurs, they are not nearly enough to prosper in the highly competitive marketplace of 2010 and beyond. Becoming a successful entrepreneur—and growing that start-up business over a longer horizon—requires many diverse skills and a thorough approach.

The more prepared an entrepreneur is before embarking on a new venture, the better are his chances for success. Even before the recent ‘Great Recession’, the failure rate for new businesses was high. According to the US Bureau of Labor Statistics, “The data show that, across sectors, 66% of new establishments were still in existence two years after they were built, and 34% were still in existence four years after. It is not surprising that quite a few of the new establishments disappeared within the first two years after their birth, and then only a smaller percentage disappeared in the subsequent two years. These survival rates do not vary much by industry.” Further analysis of US government data, involving just single-establishment firms, found that only 45% of these firms were still in business after five years and 29% were still operational after 10 years.¹

My original theme for this article was, “The Top Ten Start-up Skills” for budding entrepreneurs. However, it didn’t take much research and reflection to conclude that the top 10

list should be more like a top 25 list. EntrepreneurshipWeb.com sums it up nicely: “An entrepreneur is a person who organizes and manages a business, assuming the risk for the sake of profit. The best way to minimize your risk is to be prepared for the road ahead.”

Twenty-Five Key Factors to Consider in Starting a New Business

As summarized in the checklist in Box 1, and discussed next, the budding entrepreneur should not rely on an intuitive, haphazard approach.² He or she should keep in mind this five-P acronym: Proper Planning Prevents (or, at least, reduces) Poor Performance! As America’s greatest inventor, Thomas Edison, once noted: “I never did anything worth doing entirely by accident.... Almost none of my inventions were derived in that manner. They were achieved by having trained myself to be analytical and to endure and tolerate hard work”.³

Are You Well-prepared to Be An Entrepreneur?

It is essential that a budding entrepreneur be well-grounded in the fundamentals of

¹ Amy E Knaup(2005), “Survival and Longevity in the Business Employment Dynamics Data,” *Monthly Labor Review*, May, p. 51; and Scott Shane (2008), *The Illusions of Entrepreneurship: The Costly Myths That Entrepreneurs, Investors, and Policy Makers Live By*, Yale University Press, p. 99.

² Although these factors are listed in the general order in which they should be reviewed, (a) the order is less important than the factors themselves; and (b) other factors may be added to this list as the reader so desires.

³ “Quotes from Famous Entrepreneurs”, <http://www.entrepreneur-support.com/famous-entrepreneur-quotes.shtml>

* RMI Distinguished Professor of Business, Zarb School of Business, Hofstra University, Hempstead, New York. The author can be reached at mktjre@hofstra.edu

Box 1: An Entrepreneurship Checklist

- Are you well-prepared to be an entrepreneur (have you done due diligence)?
- Do you fully understand your industry?
- How will you identify and select the best business opportunity for you?
- Do you know what you're getting into: entrepreneur vs. employee?
- Are you a self-starter?
- Do you have an above-average risk-taking mindset?
- Do you have a strong passion for the business?
- Are you willing to work hard?
- Are you willing and able to devise and enact a multifaceted operating plan?
- Do you have a well-conceived positioning plan?
- Is your business plan customer-oriented?
- Have you studied the competition?
- Are you aware of the major reasons why start-up businesses fail?
- Are you being honest with yourself regarding your business abilities?
- Are you able to raise and maintain sufficient funds to open and run your business?
- Do you have the ability to build and supervise an employee team?
- Are you flexible and adaptable?
- Are you open-minded and willing to accept criticism?
- Do you have the ability to take no for an answer (a thick skin)?
- Are you persistent?
- Do you understand the many ongoing pressures on the owner of a start-up business?
- Do you have viral marketing/social networking/new media skills?
- Have you thought out the proper scale for your new business?
- Do you have a plan to go from a start-up to a mature business?
- Do you have an exit strategy?

entrepreneurship and be aware of—and digest—a wide variety of available resources. Box 2 lists more than 20 free online resources dealing with entrepreneurship. These resources include: associations, guides, blogs, and various lessons. A good first book to read is Guy Kawasaki's, *Art of the Start* (an inexpensive Penguin Group paperback).

Do You Fully Understand Your Industry?

Industries may be described quite broadly (such as transportation or entertainment), by product

category (such as autos or films), and by niche within the product category (such as auto floor mats or five-minute home improvement videos that are streamed via the Internet). From a start-up business perspective, more the niches identified, more the opportunities available. Breakout entrepreneurs have a strong grasp of the dynamics of their industries.

How Will You Identify and Select the Best Business Opportunity?

First, recognize that many potential opportunities exist. Then, generate a list of the best ideas given your interests, knowledge, experience, special skills, finances, and other elements you deem important. Visit trade associations', government, and company Websites. Learn what niches seem to be untapped and what distinguishes the best companies from the others. Be sure you understand the skills, time requirements, and financial requirements needed for the specific opportunities on your final list.

Do You Know What You're Getting Into?

Some people are great employees. They like structure, well-defined tasks, and clear direction from others. Fewer people are great entrepreneurs. They flourish in an unstructured environment, like creating their own rules, enjoying the challenge of ambiguity, and wanting to be the ones making the decisions. Sometimes, entrepreneurs have trouble when their businesses grow because more structure and rules are needed, and some authority may have to be ceded to employees. Some free 'fun' entrepreneurship personality tests are available at <http://www.2h.com/personality-tests/entrepreneur-tests.html>.

Are You a Self-starter?

This question relates to the previous one. An effective entrepreneur is internally motivated and likes tackling new projects. He or she cannot wait for the work week to start and is eager to open and grow the new business. A boss is not needed to provide the stimulus to work hard or embark on new projects. Think of it this way: A self-starter proposes new projects and then does everything possible to exceed the goals set for these projects. On the other hand, many employees wait for their

Box 2: Websites for Aspiring Entrepreneurs

- 4Entrepreneur.net (<http://4entrepreneur.net>)
- 10 Steps to Starting a Business (<http://www.business.gov/start/start-a-business.html>)
- About.com: Entrepreneurs (<http://entrepreneurs.about.com>)
- Articles About Entrepreneurship (<http://hbswk.hbs.edu/topics/entrepreneurship.html>)
- Entrepreneur (<http://www.entrepreneur.com>)
- Entrepreneur Daily Dose (<http://blog.entrepreneur.com>)
- Entrepreneurs and Small Business News (<http://www.forbes.com/entrepreneurs>)
- Entrepreneurs' Organization (<http://www.eonetwork.org>)
- Entrepreneurship Resource (<http://www.zeromillion.com>)
- Entrepreneurship Web (<http://www.entrepreneurshipweb.com>)
- Entrepreneurship.org (<http://www.entrepreneurship.org>)
- Global Enterprise Institute (<http://blog.gcase.org>)
- Inc.com: Guides (<http://www.inc.com/guides>)
- Small Business Entrepreneur Journal (<http://www.businessweek.com/smallbiz/journals>)
- Unintentional Entrepreneur (<http://unintentionalentrepreneur.com>)
- Young Entrepreneur (<http://www.youngentrepreneur.com>)
- Young Entrepreneur Society (<http://www.youngentrepreneursociety.com>)
- Young Money (<http://www.youngmoney.com/entrepreneur>)

next assignment and are fully satisfied if they reach the goals that are set. As an entrepreneur, Virgin's Sir Richard Branson is rarely satisfied and is always looking for new ways to push himself. Nolan Bushnell, founder of Atari and Chuck E Cheese, puts it this way: "The critical ingredient is getting off your butt and doing something. It's as simple as that. A lot of people have ideas, but there are very few who decide to do something about them now. Not tomorrow, not next week; but today. The true entrepreneur is a doer, not a dreamer".⁴

Do You Have an Above-average Risk-taking Mindset?

There is a greater risk in being an entrepreneur than an employee. Part of the reason why successful entrepreneurs earn so much money is that they are more willing to assume the risk of failure—in reputation and in financial terms—than a typical employee. As Michael Eisner,

former Disney CEO, says: "When you're trying to create things that are new, you have to be prepared to be on the edge of risk." According to Henry Kravis, LBO expert, "A real entrepreneur is somebody who has no safety net underneath him." Viacom's Sumner Redstone notes: "In order to succeed, you have to live dangerously; as long as the danger is rationally accepted and as long as the rewards far outweigh the risk".⁵

Do You Have a Strong Passion for the Business?

The best entrepreneurs certainly do. The new business should not be viewed as work but as a vocation. Consider the following observations: Donald Trump (real-estate mogul), "Without passion, you don't have energy, without energy you have nothing." Tom Peters (co-author of *In Search of Excellence*): "The life of an entrepreneur is occasionally exhilarating, and almost always exhausting. Only unbridled passion for the concept is likely to see you through the 17-hour days (month after month) and the painful mistakes that are part and parcel of the start-up process." Sam Walton (Wal-Mart founder): "If you love your work, you'll be out there every day trying to do it the best you possibly can, and pretty soon everybody around will catch the passion from you—like a fever".⁶

Are You Willing to Work Hard?

A person should not view entrepreneurship as an easy way to fast riches, as many real-estate investment schemes would have you believe. Entrepreneurs generally work long hours and six to seven days a week. Many are reluctant to take any significant vacation time. A major time commitment is a must: "Hard work is the willingness to take the pains of doing everything necessary to make your business work. If you are into a young entrepreneurship venture, you must first rely on yourself before you rely on others for help. Their support will be needed later when your business has overgrown you. There are so many things to do in a day and not many of you to do it. The most trying period for an entrepreneur

⁴ "The Secrets to Their Success?", <http://www.growthink.com/content/secrets-their-success-25-quotes-famous-entrepreneurs>

⁵ "Risk Quotes," http://www.woopidoo.com/business_quotes/risk-quotes.htm

⁶ "Famous Entrepreneur Quotes," <http://thinkexist.com/quotes/top/occupation/entrepreneur/>; "Quotes About Entrepreneurs," <http://www.gaiia.com/quotes/topics/entrepreneurs/>; and "Sam Walton Quotes," <http://www.evancarmichael.com/Famous-Entrepreneurs/591/Sam-Walton-Quotes.html>

is when he/she is starting out. It is during the first few months when you have to do everything yourself because money may not be enough to hire additional help. More often than not, you engaged the services of your family members (for free!) to help you out in your day-to-day business operations. But most of the time, you will be doing most of the work. The big difference between being an employee and a business owner (now an employer) is your regard for time and output.⁷

Are You Willing and Able to Devise and Enact a Multifaceted Operating Plan?

A start-up business involves many components and functions. These need to be outlined in advance; and the functions that cannot be completed by the entrepreneur need to be outsourced or qualified employees hired. For example, the US Small Business Administration's Website (<http://www.sba.gov/smallbusinessplanner>) divides the process into four overall steps: (1) Plan your business—get ready, write a business plan; (2) Start your business—find a mentor, finance the start-up, buy a business or franchise or start a new business, name your business, choose a legal operating structure, legally protect ideas, get licenses and permits, pick a location, lease/buy equipment; (3) Manage your business—lead, make decisions, manage employees, market and price, market and sell, understand fair practices, pay taxes, get insurance, handle legal concerns, forecast, advocate and stay informed, use technology, finance growth; and (4) Getting out (planning your exit)—sell your business, transfer ownership, liquidate assets, close officially.

Do You Have a Well-conceived Positioning Plan?

Be able to succinctly and clearly communicate what your company embodies. The business plan and the resultant positioning message need to be desirable, exclusive, and believable. Take a look at the systematic corporate positioning primer found at <http://www.turfbuildermarketing.com/branding/corporate-positioning-primer.pdf>. At Wal-Mart, a shopper can “Save money. Live better.”

Bose offers “better sound through research.” Linksys is, “making connectivity easier.” BMW offers the “ultimate driving machine.” eBay is the “world’s online marketplace.” With Home Depot, “You can do it. We can help.”⁸

Is Your Business Plan Customer-oriented?

The business must keep consumer needs at the forefront, not owner needs. Consumer needs should not be assumed, and they should not be seen as static. For example, the American auto industry faltered badly in 2008 and 2009, partly because of the weak economy, but also because companies assumed that customers still were interested in big gas-guzzling vehicles. The best performing auto company in the US market in recent years has been Korea's Hyundai, whose market share and sales have grown. Hyundai has recognized the widespread customer desires for economical, stylish, high-mileage vehicles, backed by a long warranty and a buy back program for people who lose their jobs.

Have You Studied the Competition?

The budding entrepreneur should not be so self-confident as to think: “there is no competition.” He or she may hope to be different, but there is always competition—both direct and indirect. Direct competition involves firms that are alike, such as McDonald's vs. Burger King. Indirect competition involves firms that compete for business even though they are dissimilar. Besides fast food burger chains, McDonald's also competes with pizza and other fast-food restaurants, diners, convenience stores such as 7-Eleven, delis, supermarkets, and a whole lot more. So, it is important to dig as deeply as possible to study the full range of your competition. Do this regularly.

Are You Aware of the Major Reasons Why Start-up Businesses Fail?

While there is a lot to be learned by studying successful companies, it is also vital to avoid the pitfalls in starting a new business. As the adage goes, “Those who do not study history are doomed to repeat it.” Here are seven reasons start-

⁷ “What Does It Take to Succeed as an Entrepreneur?” <http://www.hrmbusiness.com/2009/01/what-does-it-take-to-succeed-as.html>

⁸ “List of Company Slogans,” http://www.crews.org/curriculum/ex/compsci/8thgrade/company_slogans.htm

ups fail from Business Know-How: (1) Business started for the wrong reasons; (2) Poor management; (3) Inadequate capital; (4) Poor location; (5) Lack of planning; (6) Overexpansion; and (7) No Website.

Are You Being Honest with Yourself?

An honest (not unrealistic) SWOT analysis is imperative, with your business plan reflecting this analysis. Carefully list your strengths and weaknesses, as well as the opportunities and threats that you face in starting and growing a particular business. Too rosy an analysis is not helpful.

Are You Able to Raise and Maintain Sufficient Funds to Open and Run Your Business?

Three aspects of funding are too often inadequately planned. One, cost estimates should be as realistic as possible; and a safety cushion needs to be built into those estimates. If it is projected that it will take \$1 mn to launch a business, the goal should be to raise \$1.2 mn not \$1 mn. The worst possible scenario is a failure to launch the business because funding estimates are too low. Two, start-up funding must take into account a reasonable period beyond the opening until a steady positive cash flow is projected. Having enough funds just to 'open the door' is not sufficient. Three, since entrepreneurs typically dip into personal savings to get a business off the ground, the budget should include living expenses for the entrepreneur until the business gets off the ground.

Do You Have the Ability to Build and Supervise An Employee Team?

A difficult task for many entrepreneurs is hiring the right employees, training them to act in the desired manner, supervising them, and striving to hold down the employee turnover rate. Often, entrepreneurs are quite demanding, brusque, reluctant to trust employees, and short of time to nurture and manage the team. A lot can be learned from Google and Costco, which regularly appear on 'best companies to work for' lists.

Are You Flexible and Adaptable?

No amount of planning can take into account every possible contingency. And the ramifications

of minor events can have a much greater impact on a small firm than a larger one. For example, in a five-employee firm, the illness of one employee has a more dramatic impact on day-to-day activities than in a 100-employee firm. An entrepreneur has to be able to 'roll with the punches' and react quickly to changes in any aspect of the business environment.

Are You Willing to Accept Criticism?

Many entrepreneurs are strong-willed and extremely self-confident. They may be reluctant to listen to the advice of others or be unwilling to accept criticism or suggestions from others. You must resist the urge to think you alone know what is right for your business and actively solicit feedback from customers, suppliers, and employees—and act on this feedback, when appropriate. Multiple perspectives can be quite helpful in seeing the 'big picture'.

Do You Have the Ability to Take 'No' for an Answer (A Thick Skin)?

When starting out, prospective bankers, employees, customers, suppliers, and others may be reluctant to do business with you. It is easy for them to just say 'no' to the requests of a start-up business. If getting turned down for funding, new customers, etc., is intimidating, then entrepreneurship may not be the right career path. A lot of people do not have a thick enough skin to accept that it may take visits to 10 banks before getting the okay for seed money for a new venture.

Are You Persistent?

Related to the previous factor is the ability to keep going at a high energy level—with an optimistic outlook—when things are not going the right way. As Mark Suster, an entrepreneur turned venture capitalist notes: "Tenacity is probably the most important attribute in an entrepreneur. It's the person who never gives up—who never accepts 'no' for an answer. The world is filled with doubters who say that things can't be done and then pronounce after the fact that they 'knew it all along.' Look at Google. You think that anybody really believed in 1999 that two young kids out of Stanford had a shot at unseating Yahoo!, Excite, Ask Jeeves, and Lycos? Yeah, right".⁹

⁹ "What Makes An Entrepreneur?" <http://www.bothsidesofthetable.com/2009/12/15/what-makes-an-entrepreneur-111-tenacity>

Do You Understand the Many Ongoing Pressures on the Owner of a Start-up Business?

Even if employees are hired early on and some functions, such as payroll, are outsourced, the entrepreneur (especially at the onset) must wear and balance many hats. As US President Truman said 70 years ago, “The buck stops here”. Thus, it is important that some time be set aside every week for the entrepreneur to review the major elements of company operations and be sure there are no pending glitches. By doing this, some potential crises can thereby be minimized or headed off entirely.

Do You Have Viral Marketing/Social Networking/New Media Skills?

It is imperative that a new company communicate with its constituents effectively, regularly, and consistently (with the positioning message). Since this can be expensive and advertisements and traditional mailings are frequently turned aside by potential customers, the new media offer less expensive, more interactive, and more multimedia possibilities. For example, company Websites, blogs, videos on YouTube, participation in Facebook and other social networking sites, tie-ins with public relations Websites, and other Internet activities can be quite impactful.

Have You Thought Out the Proper Scale for Your New Business?

Three issues should be addressed here. One, what size business fits best with the budget that can be afforded? Two, does the business have ample potential to grow? Three, is the scale of the business such that larger competitors will not feel compelled to react quickly if the firm does well? (Can the new firm “stay under the radar”?) Consider this observation from entrepreneur Scott Gerber: “In 2004, my partners and I launched a typical ‘do everything’ video production company. After years of underperforming, I transformed the company into a single product specialist. While the vast majority of video production companies still tout their large service rosters, Sizzle It! has carved out a niche as the only company that

specializes in sizzle reels—stylized 3-to-5 minute product videos commonly used by PR and marketing professionals. Sizzle It! has emerged as a go-to company for sizzle reels and benefits from top keyword visibility on all major search engines.¹⁰

Do You Have a Plan to Go from a Start-up to a Mature Business?

When investing so much time and the financial resources to launch a successful new business, the primary goal should be to sustain and grow the business. Too often, an entrepreneur focuses so much energy on launching a business and makes it succeed in the short run, that not enough attention is paid to a longer-term view.

Do You Have an Exit Strategy?

Whether a new business meets the entrepreneur’s expectations, fails to meet them, or exceeds them, an exit strategy should be part of the original strategy and revised as necessary over time. These are just some of the possibilities for an exit strategy: bring in partners, convert from a privately owned to a public company, sell the company to a larger firm at a profit, pass the company on to loyal employees or to relatives, or declare bankruptcy and ultimately exit the business due to weak results. Unfortunately, many entrepreneurs do not prepare an exit strategy in advance: “If entrepreneurs are not prepared, perhaps it’s because in the euphoria and passion of starting up and growing a business, they didn’t consider where it was heading.” Robert Diamond, Founder and Chief Executive of marketing consultancy Emnos, admits he could have netted much more from the company he started in 2001 had he focused on making it attractive to investors. “The value of the business now is six times what we were paid for it, and that mostly comes from stuff done by us, rather than by our acquirer. If I were to start up a business again, I would think first about what could be done to drive the exit valuation, says Diamond”.¹¹ 

Reference # 16M-2010-03-03-01

¹⁰ “5 Steps to Building a Successful Niche Business,” <http://www.entrepreneur.com/startingabusiness/youngentrepreneurscolumnistscottgerber/article202900.html>

¹¹ John O’Hanlon, “Planning Your Exit Strategy,” <http://www.growingbusiness.co.uk/planning-your-exit-strategy.html>