

Chapter 1

Is Small Business for You?

In This Chapter

- ▶ Understanding the role of small business
 - ▶ Determining whether you have what it takes to successfully run a small business
 - ▶ Reviewing the reasons to own (and not to own) a small business
 - ▶ Identifying alternatives to starting a business
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An old friend of ours, who has been a small-business owner for more years than most of us have been alive, says, “Small business is a place where you can take your dog to the office whenever you choose.” That’s one way of looking at it, but we offer several other viewpoints as well.

Owning and running a small business can be rewarding — personally and financially — but only if you have what it takes to succeed. This chapter gives you all the know-how you need to be sure that you’re making the right decision. In it, we pose a set of 20 questions to ask yourself about your skills, talents, and abilities. If you’re honest with yourself — don’t worry, there are no right or wrong answers — this test can give you the information you need to determine whether running a small business is the right move for you. If you find that running a small business isn’t for you, we provide several alternatives, which may give you exactly what you’re looking for.

Lots of important issues — from your financial situation to your desire to create a needed product or provide a needed service to your ability to be a jack-of-all-trades — should influence your decision to become an entrepreneur. This chapter helps you understand the realities of starting and running a small business so that you can figure out how and why it may or may not work for you.

Defining Small Business

The lingo of the business world — cash flow, profit and loss statements, accounts receivable, debt-to-equity ratio, and so on — makes small-business ownership appear far more complicated than it really is. Don’t be fooled. You’re probably more acquainted with the basic concepts of doing business

than you think. If you've ever participated in a bake sale, been paid for a musical performance, or operated a baby-sitting, painting, or lawn-mowing service, you've been involved in a small business.

Being a small-business owner doesn't mean that you have to work 70 hours a week, make a six-figure income, or offer a unique product or service. We know many successful small-business owners who work at their craft 40 hours a week or less and some who work part-time at their business in addition to holding a regular job. The vast majority of small-business owners we know provide products or services quite similar to what's already in the marketplace and make reasonable but not extraordinary sums of money — and, thanks largely to the independence that small-business ownership offers, are perfectly happy doing so!

Small (and large) business basics

Imagine back to your childhood . . . it's a hot summer afternoon, and you're sweating it out under the shade of an elm tree in your front yard. "Boy, it's hot," you say to yourself, sighing. "I could sure go for a glass of lemonade." Eureka! With no lemonade stand in sight, you seize upon your business idea.

You start by asking some of your neighbors if they'd buy lemonade from you, and you quickly discover that the quality, service, and location of your proposed business may attract a fair number of customers. You've just conducted your first market research.

After you determine that your community has a need for your business, you also have to determine a potential location. Although you could set up in front of your house, you decide that your street doesn't get enough traffic. To maximize sales, you decide to set up your stand on the corner down the road. Luckily, Mrs. Ormsby gives you permission to set up in front of her house, provided that she gets a free glass of lemonade. You've just negotiated your first lease (and you've just had your first experience at bartering).

With a tiny bit of creativity and ego, you determine the name of your business: The World's Best Lemonade Stand. After some transactions with the grocery store, you have your lemonade stand (your store), your cash box, a table, a pitcher (your furniture and fixtures), and the lemonade (your inventory). The World's Best Lemonade Stand (your brand) is now ready for business!



From the moment you first realized that you weren't the only one who might be interested in buying some lemonade, you faced the same business challenges and issues that all small-business owners face. As a matter of fact, the business challenges and issues that a lemonade stand faces are the same that American Express, Boeing, Costco, Disney, and every other big company faces. The basics of doing business are the same, no matter what size the business is:

- ✔ **Sales:** Boeing manufactures and sells airplanes; you sell lemonade. A sale is a sale no matter what the product or service is or how large or small the ticket price is.
- ✔ **Cost of goods:** Boeing buys parts for its vendors and suppliers; you buy lemons, sugar, and paper cups from the grocery store.
- ✔ **Expenses:** Boeing has employee wages and pension plans (or employee benefits; see Chapter 17); you have sign-making costs and bubble-gum expenditures to keep your employees happy (also a form of employee benefits).
- ✔ **Profit:** Profit is what's left over after Boeing subtracts the cost of its goods and expenses from its sales; the same is true for your lemonade stand.

Financial basics: The same whether you're big or small

Not only are the concepts of Business 101 — sales, cost of goods, expenses, and profit — the same for all businesses, regardless of size or product offering, but many associated financial basics are the same, too. Here's what we mean:

- ✔ **Accounts payable:** Boeing owes money to its vendors who provide it with parts; you owe money to your local grocery store for supplies.
- ✔ **Accounts receivable:** Boeing has money due from its customers (major airlines and governments) that buy the company's airplanes. You have money due to you from Mrs. Huxtable, who wandered by thirsty without her purse.
- ✔ **Cash flow:** Boeing has money coming in and going out through various transactions with customers and vendors (sometimes cash flows positively, sometimes negatively), and so do you. (See Chapter 14 for much, much more on this important, but sometimes murky, concept.)
- ✔ **Assets:** Boeing has its manufacturing plants and equipment, inventory, office buildings, and the like; you have your lemonade stand and cash box.
- ✔ **Liabilities:** Boeing owes suppliers money; you owe money to your local grocery store.
- ✔ **Net worth:** Net worth is what's left over after Boeing subtracts what it owes (its *liabilities*) from what it owns (its *assets*). Ditto for your small-business enterprise.

This comparison between The World's Best Lemonade Stand and Boeing could go much deeper and longer. After all, the basics of the two businesses

are the same; the differences are primarily due to size. In business, *size* is a synonym for *complexity*.

So you may be thinking, if business is so simple, why isn't everyone doing it — and succeeding at it? The reason is that even though the basics of business are simple, the details are not. Consider the various ways in which you grant your customers credit, collect the resulting accounts receivable, and, unfortunately, sometimes write them off when you're not paid. Consider the simple concept of sales: How do you pay the people who make those sales, where and how do you deploy them, and how do you organize, supervise, and motivate them? Think about all the money issues: How do you compile and make sense of your financial figures? How much should you pay your vendors for their products? And when you need money, should you consider taking in shareholders or should you borrow from the bank? And, lest we forget, how should you deal with the Internal Revenue Service (IRS), the Occupational Safety and Health Administration (OSHA), and your state's workers' compensation department? These are but a few of the complex details that muddy the waters of business.

Small business: Role model for big business

While working as CEO of General Electric, Jack Welch once said in a speech to his division managers: "Think small. What General Electric is trying relentlessly to do is to get that small-company soul . . . and small-company speed . . . inside our big-company body."

Think small? What's happening here? Why would the CEO of a gigantic company like GE want his employees to think small? Because Jack Welch knew that small can be beautiful and because success and survival in the business arena always favor the agile over the cumbersome, the small over the big. Thanks to this "small is beautiful" trend — and thanks to increasing technological advances — you no longer have to be big to appear big; you can be small and still compete in most of today's marketplaces.

Different people and businesses, similar issues

Okay, so you know what small business means and you can identify the people who create and run one, but what about your particular small business? After all, in your eyes anyway, the business you have in mind or the one you're already running is different from anyone else's. Different products, different services, different legal entity — the list goes on.



Small business by the numbers

The Small Business Administration defines *small business* as any business with fewer than 500 employees. To us, that seems a bit large. Consider this: Coauthor Jim's fourth small business had 200 employees. With 200 employees, you have, say, 400 dependents, maybe 1,000 customers, and 100 or so of the business's vendors all depending on you, trusting in you, and waiting for the mail to deliver their next check. That certainly isn't small by our standards — not if you measure size in terms of responsibility anyway.

For those of you who like to work with numbers, our definition of *small business* is any business with 100 employees or fewer, a category that includes more than 98 percent of all U.S. businesses.

The latest year's U.S. government figures show that the country is home to 27 million small businesses. Of those, approximately 21 million have no employees. Meanwhile, hundreds of

thousands of new businesses open their doors each year. This kind of growth is an indicator of the appeal of owning a small business. (Or maybe it's an indicator of the lack of appeal of working for someone else.)

Not only do small businesses create opportunities for their owners, but they also create jobs. In fact, small firms create about three-quarters of the new jobs in the United States.

What all these numbers mean is that small business isn't really small — it's large, diverse, and growing. Not only is small business not small when speaking in terms of the sheer numbers of small businesses and their employees, it's also not small when talking about the tenacity and knowledge required to start and run a small business, which is where the remainder of this book comes in. You provide the tenacity part of the equation; we provide the knowledge.

The term *small business* covers a wide range of product and service offerings. A ten-person law practice is a small business. A doctor's office is a small business. Architects, surveyors, and dentists are also in the business of owning and operating small businesses. How about a Subway franchisee? You guessed it — small business. The same goes for freelance writers (hence, we, your humble authors, are both small-business owners), consultants, and the dry cleaner on the corner of Main and Elm Streets. Each one is a small business.

Small business also covers all legal business entities. So small businesses can be sole proprietorships, C Corporations, nonprofits, or limited liability corporations, as long as they have fewer than 100 employees. (We define these various business entities in Chapter 5.)

After all, each of the businesses and entities we list here has the same basic needs:

- ✓ Marketing to make its products or services known
- ✓ Sales to get its products or services in the hands of the customer

- ✔ Varying degrees of administration and financial accounting to satisfy a number of internal informational needs, as well as the needs of the IRS

Beyond the similarities in this list, each business is significantly different. Some need employees; some don't. Some require vast investments in real estate, equipment, and elaborate information systems; some can get by with a desk, computer, and phone. Some may need to borrow money to get the business up and running; many others get by with what's in the owner's savings account. These differences are what make owning a small business exciting because you should be able to find a good fit for your desires and resources.

Our definition of a small-business owner

A *small-business owner* (or entrepreneur), by our definition, is anyone who owns a business that has 100 or fewer employees, period. Everyone who hangs out a shingle qualifies for the title no matter whether the business is private, public, barely surviving, or soaring off the charts.

You're a small-business owner whether you've been in the saddle one day, one week, or one decade; whether you're male or female and have a college degree or not; whether you work out of your home or on a fishing boat somewhere off the coast of Alaska.

Everyone has his or her own definition of the small-business owner. We find these four of particular interest; pick one or combine them all:

- ✔ **Webster's Dictionary:** A person who organizes and manages a business undertaking, assuming the risk for sake of profit.
- ✔ **Peter Drucker:** Someone who gets something new done. (The late Peter Drucker is the Father of Modern Management. His books, primarily written for large companies, have virtually defined contemporary U.S. management theory.)
- ✔ **Jim Collins:** Best-selling author and business expert Jim Collins takes a broad view of the small-business owner. The traditional definition — someone who founds an entity designed to make money — is too narrow for him. He sees entrepreneurship as more of a life concept. Everyone makes choices about how to live life. You can take a paint-by-numbers approach, or you can start with a blank canvas. When you paint by numbers, the end result is guaranteed. You know what it's going to be, and though it might be good, it will never be a masterpiece. Starting with a blank canvas is the only way to get a masterpiece, but in doing so, you could also blow up. So are you going to pick the paint-by-numbers kit or the blank canvas? That's a life question, not a business question.
- ✔ **Us:** A person who is motivated by independence, creativity, and growth rather than by the security of an employer's paycheck.

All people have their own collection of unique characteristics that determine who they are, what makes them happy, and where they belong in this world. On those not-as-frequent-as-they-should-be occasions when our characteristics align snugly with the kind of work we're doing, we know how Cinderella felt when her foot slipped effortlessly into the glass slipper offered by the Prince.

In all fairness, we must warn those of you who are considering a future in small-business ownership that owning your own business can be addictive. We love it usually, hate it occasionally, and need it always, and we wouldn't trade professions with anybody — except for maybe a professional athlete.

Do You Have the Right Stuff?

To discover whether you have the right stuff to run your own small business, take the test we offer in this section. Don't close this book just because we said the word *test!* Tests don't have to be a pain in the posterior. In fact, they can be relatively painless (and useful) when you don't have to study for them, there are no right or wrong answers, and you're the only one who will find out the outcome.



Some words of caution here: This Small-Business Owner's Aptitude Test isn't scientific, but we think it's potentially useful because it's based on our combined six decades of experience working *as* entrepreneurs, as well as *alongside* them. The purpose of this test is to provide a guideline, not to cast in concrete your choice to start or buy a business. The results will be most meaningful when it comes time to make your decision if you're in the highest- or lowest-scoring groups. If you fall somewhere in the middle, we recommend more serious soul searching, consultation with friends and other small-business owners, and a large grain of salt.

Getting started with the instructions

Score each of the following 20 questions with a number from 1 (the entrepreneurially unfriendly response) to 5 (the entrepreneurially friendly response). Determine the appropriate numerical score for each question by assessing the relative difference between the two options presented and by how fervently you feel about the answer.

For example, one question asks, "Do you daydream about business opportunities while commuting to work, flying on an airplane, or waiting in the doctor's office, or during other quiet times?" Give yourself a 5 if you find yourself doing this a lot, a 1 if you never do this, or a 2, 3, or 4, depending on the degree of work-related daydreaming you do. A business, especially one that you own yourself, can be downright fun and all-consuming. For most successful entrepreneurs, their minds are rarely far away from their businesses;

they're often thinking of new products, new marketing plans, and new ways to find customers.



To make the test even more meaningful, have someone who doesn't have a vested interest in or a strong opinion about your decision — such as a good friend or coworker — also independently take the test with you as the subject. We seldom have unbiased opinions of ourselves, and having an unrelated third party take the test on your behalf can give you a more accurate view. Then compare the two scores — the score you arrived at when you took the test compared to the score your friend or peer compiled for you. Our guess is that your true entrepreneurial aptitude, at least according to our experience, lies somewhere between the two scores.

Answering the questions

After reading each question, write your response from 1 to 5 on a separate sheet of paper.

1. In the games that you play, do you play harder when you fall behind, or do you have a tendency to fold your cards and cut your losses? (5 if you play harder, 1 if you wilt under pressure)
2. When you go to a sports event or concert, do you try to figure out the promoter's or the owner's gross revenues? (5 if you often do, 1 if you never do)
3. When things take a serious turn for the worse, is your first impulse to look for someone to blame, or is it to look for alternatives and solutions? (5 if you look for alternatives and solutions, 1 if you look for someone to blame)
4. Using your friends and/or coworkers as a barometer, how would you rate your energy level? (5 if it is high, 1 if it is low)
5. Do you daydream about business opportunities while commuting to work, flying on an airplane, waiting in the doctor's office, or during other quiet times? (5 if you often do, 1 if you never do)
6. Look back on the significant changes you've made in your life — schools, jobs, relocations, relationships: Have you fretted and worried about those changes and not acted, or have you looked forward to them with excitement and been able to make those tough decisions after doing some research? (5 if you've looked forward to the decisions and tackled them after doing your homework, 1 if you've been overwhelmed with worry about the change and paralyzed from action for too long)
7. Is your first consideration of any opportunity always the upside or is it always the downside? (5 if you always see the upside and recognize the risks, 1 if you dwell on the downside to the exclusion of considering the benefits)

8. Are you happiest when you're busy or when you have nothing to do? (5 if you're always happiest when busy, 1 if you're always happiest when you have nothing to do)
9. As an older child or young adult, did you often have a job or a scheme or an idea to make money? (5 if always, 1 if never)
10. Did you work part-time or summer jobs as a youth, or did you not work and primarily recreate/enjoy a total break over the summer? (5 if you often worked, 1 if you never did)
11. Did your parents own a small business? (5 if they worked many years owning small businesses, 1 if they never did)
12. Have you worked for a small business for more than one year? (5 if you have, 1 if you haven't)
13. Do you like being in charge and in control? (5 if you really crave those two situations, 1 if you detest them)
14. How comfortable are you with borrowing money to finance an investment, such as buying a home or an automobile? (5 if owing money is not a problem, 1 if it's a huge problem)
15. How creative are you? (5 if extremely creative, 1 if not creative at all)
16. Do you have to balance your checkbook to the penny or is "close" good enough? (5 if "close" is good enough, 1 if to the penny)
17. When you fail at a project or task, does it scar you forever or does it inspire you to do it better the next time? (5 if it inspires you for the next time, 1 if it scars you forever)
18. When you truly believe in something, whether it's an idea, a product, or a service, are you able to sell it to someone? (5 if almost always, 1 if never)
19. In your current social and business environment, are you most often a follower or a leader? (5 if almost always a leader, 1 if always a follower)
20. How good are you at achieving/keeping your New Year's resolutions? (5 if you almost always achieve/keep them, 1 if you never do)

Scoring the test

Now total your score. Here's how to assess your total:

80 to 100: Go for it. If you read this book and continue to show a willingness to be a sponge, you should succeed!

60 to 79: You probably have what it takes to successfully run your own business, but take some time to look back over the questions you scored the lowest on and see whether you can discern any trends.

40 to 59: Too close to call. Review the questions on which you scored low and don't scrimp on learning more to tilt the scales in your favor.

20 to 39: We could be wrong, but you're probably better off working for someone else or pursuing one of the other alternatives to starting your own business (see the later section "Exploring Alternatives to Starting a Business" for details).

Analyzing your results

The truth about a subjective test such as this one is that it can serve as a helpful indicator, but it won't provide you with a definitive answer. We issue this disclaimer because the Small-Business Owner's Aptitude Test is, in effect, a measure of the way you have acted in the past and not necessarily how you will perform in the future.

Your future as a small-business owner will hold many surprises. (Don't panic! By the time you finish this book, you'll be prepared for many of them.) The skills and traits that you need to cope with those surprises will ultimately determine whether your choice to start or buy a small business is the right one. What exactly are those skills?

- ✓ **Numbers skills:** These skills include those related to borrowing money, accounting for it, and reporting on the financial performance of your company. (See Chapters 5, 10, and 14 for more information.)
- ✓ **Sales skills:** As a small-business owner, you're always trying to sell your products to someone — be it your customers, employees, or vendors. (See Chapter 11 for the skinny on sales.)
- ✓ **Marketing skills:** All small-business owners have to market their products or services — no one is exempt. (See Chapter 11 for details on marketing.)
- ✓ **Leadership skills:** The small-business owner is the Grand Poobah of his venture. Grand Poobahs are only as good as the manner in which the business's employees are led. (See Chapter 16 for everything you need to know about employer-employee relations.)

Does this mean that if you don't have these skills, you should remain on the receiving end of a paycheck? Thankfully, it does not.



Many successful entrepreneurs who have come before you made it without being able to personally perform all the skills necessary to run a business. What we're saying is that, over the course of your career, you'll have to either develop these skills or involve someone in the business who already has them (a partner, a key employee, or a hired advisor or consultant, for example).

Skills aside, successful entrepreneurs also need to have or adopt several required traits:

- ✔ **Confidence:** Small-business owners have to be able to coexist with risk and possibly debt. Capitalism offers its participants no guarantees; thus, the small business and consequently its owner are almost always at risk and sometimes in debt. Yet, the owner still has to sleep at night.
- ✔ **Intuition:** Call it intuition or call it gut instinct, the small-business owner has to call things right more often than wrong, or he'll soon be calling it quits.
- ✔ **Optimism:** Successful small-business owners often see good fortune, not misfortune; upsides, not downsides; and opportunities, not problems. The small-business owner can always hire a devil's advocate (that's what lawyers and accountants are for), but the enthusiasm and optimism necessary to drive the vision must come from the entrepreneur.
- ✔ **Drive:** Successful small-business owners are driven to create a product, service a customer, and build a successful business. Similar to the craving for chocolate, this drive doesn't go away.
- ✔ **Passion:** An entrepreneur's passion is infectious. Your employees, your vendors, and your customers — everyone you come in contact with — should feel your passion and feed off it.

If you don't have all five of these traits, should you resign yourself to always being an employee? In answering this question, you first need to recognize that being a good employee today also requires some of these traits, so owning a business isn't your only option. Then you need to come to terms with the fact that if you don't have most of these traits in healthy supply, you're probably better off as an employee rather than a small-business owner.

Identifying the Pros and Cons of Owning a Small Business

Even if you passed the test in the preceding section with flying colors and you think you qualify as a prospective small-business owner, the decision you're about to make isn't a simple, clear-cut one. After all, most of you can probably find as many compelling reasons why you shouldn't own a business as you can find reasons why you should. In the following sections, we present many of these reasons.

The reasons we present here aren't in any particular order. Everyone is different. The reasons why Bill Gates decided to start Microsoft may be vastly different from the reasons John Dough decided to buy his own pizza business. You won't find right or wrong reasons to start or buy a business; you'll only find right or wrong criteria that go into forming those reasons.

The reasons to own

We can think of many reasons to give your boss the heave-ho. In this section, though, we stick with the best reasons why people choose to own a business:

- ✔ **The satisfaction of creation:** Have you ever experienced the pride of building a chair, preparing a gourmet meal, or repairing a vacuum cleaner? Or how about providing a needed counseling service that helps people solve their vexing financial problems? The small-business owner gets to experience the thrill of creation on a daily basis, not to mention the satisfaction of solving a customer's problem.
- ✔ **Establishment of their own culture:** No more standing around the water cooler complaining about "the way things are around here." After you start your own business, the way things are around here is a direct function of the way you intend them to be.
- ✔ **Financial upside:** Consider Charles Schwab and Oprah Winfrey. It's no surprise that these one-time small-business owners are among the nation's wealthiest individuals. (A recent Small Business Administration study concluded definitively that although small-business ownership is risky, small-business owners had a significantly higher probability of being classified as high income and high wealth than their employed counterparts.)
- ✔ **Self-sufficiency:** For many people, working for someone else has proven to be a less-than-gratifying experience. As a result of such unfulfilling experiences, some people have discovered that if they want to provide for themselves and their families, they'd better create the opportunity themselves. It's either that or be willing to occasionally spend a long wait in the unemployment line.
- ✔ **Flexibility:** Perhaps you prefer to work in the evenings because that's when your spouse works or you want to spend more time with the kids during the day. Or you may prefer taking frequent three-day-weekend jaunts rather than a few full-week vacations every year. As a small-business owner, despite the long hours you work, you should have more control over your schedule. After all, you're the boss, and you can usually tailor your schedule to meet your personal needs, as well as those of your customers.
- ✔ **Special perks:** Small-business owners have several advantages over the typical employee. For example, small-business owners can sock away tens of thousands of dollars into their retirement accounts per year free of federal and state income taxes. And yes, similar to those corporate execs who wine and dine their clients and then write off the expenses, small-business owners also have the option of writing off such costs as long as they adhere to IRS rules. Chapter 19 explains what makes these rules tick and how they can work for you.

The reasons not to own

In light of the resounding potential benefits, why would any reasonable soul elect to continue receiving a paycheck? Why wouldn't everyone want to own a business? Let us count the nays:



- ✔ **Responsibility:** When you're a small-business owner, not only does your family depend on your business success, but so do your partners, your employees and their families, your customers, and sometimes your vendors. As much as we love our small businesses, every now and then even the most enthusiastic small-business owners wax nostalgic for the good old days when they would punch their time card and leisurely walk out the door — really, truly, done for the day.

If you're the type of person who sometimes takes on more responsibility than you can handle and works too many hours, beware that another drawback of running your own business is that you may be prone to becoming a workaholic.

- ✔ **Competition:** Although some people thrive on competition, that same competition comes back to haunt you by threatening your security. You soon find out that a host of hungry competitors is pursuing your customers and threatening your livelihood, whether by cutting prices or offering a more complete package of unique services. Sure, competition is what makes capitalism go 'round, but you need to remember that in order to have a competition, someone's going to win and someone's going to lose. That someone could be you.
- ✔ **Change:** Products and services come, and products and services go. Nothing is sacred in the business of doing business, and the pace of change today is significantly faster than it was a generation ago — and it shows no signs of slowing down. If you don't enjoy change and the commotion it causes, then perhaps the stability that a larger, more bureaucratic organization provides is best for you.
- ✔ **Chance:** Interest rates, the economy, theft, fire, natural disasters, sickness, pestilence — the list goes on. Any of these random events can send your business reeling.
- ✔ **Red tape:** Taxes, health-care reform, bureaucracy, tariffs, duties, treaties, OSHA, FDA, NAFTA, glurg, glurg, glurg.
- ✔ **Business failure:** Finally, as if this list of a small business's enemies isn't long enough, the owner faces the specter of the ultimate downside: business failure in the form of bankruptcy. This is the stage where the owner stands back and watches the creditors swoop in like vultures to devour his remaining business — and sometimes personal — assets.

Now contrast the small-business owner's failure to the *Fortune* 500 employee who fails, collecting a tidy severance check as he packs up his calculator and waves goodbye on his way to register for unemployment compensation. No life's savings lost for this person, no second mortgages hanging over his or her home, no asterisks on the credit report. In our opinion, no other failure in the business world is as painful as the one facing the small-business owner. More than any other reason, this extreme cost of failure is the primary reason that owning a small business isn't for everyone.

Minimizing start-up risk with part-time ventures

Some people believe that starting a business is the riskiest of all small-business options. However, if you're starting a business that specifically uses your skills and expertise, the risk may not be nearly as great as you think. Besides, risk is relative: Those who are employed by someone else are taking a risk, too — a risk that their employer will continue to offer them the opportunity to remain employed. To our way of thinking, we'd rather control that risk ourselves than place it in the hands of someone else.

One way to minimize the risk of starting a full-time business is to ease into a part-time one. Suppose for a moment that you're a computer troubleshooter at a company and that you make \$75,000 per year. You're considering establishing your own computer consulting service and would be happy making a comparable amount of money. If you find through your research that others performing the services you intend to provide are charging \$75 per hour, you actually need to spend only about 20 hours a week consulting (assuming that you work 50 weeks per year). Because you can run your consulting business from your home (which can generate small tax breaks) and you can do it without purchasing costly new equipment,

your expenses should be minimal. (**Note:** We've ignored your employer's benefits here, which, of course, have value, too.)

Rather than leaving your day job and diving into your new business without the safety of a regular paycheck, you have the option of starting out by moonlighting as a consultant. Over the course of a year or two, if you can average ten hours a week of consulting, you're halfway to your goal. Then, after you leave your job and can focus all your energies on your business, getting to 20 hours per week of billable work won't be such a stretch.

Many businesses, by virtue of leveraging their owners' existing skills and expertise, can be started with low start-up costs. You can begin building the framework of your company by using *sweat equity* (the time and energy you invest in your business, as opposed to the capital) in the early, part-time years. As long as you know your competition and can offer your customers a valued service at a reasonable cost, the principal risk with your part-time business is that you won't do a good job marketing what you have to offer. After you've figured out how to market your skills, you're ready to make the break.

Exploring Alternatives to Starting a Business

More than a few small-business owners and entrepreneurial cheerleaders would have you believe that every employee would be happy and financially better off running his own small business. The reality is, of course, that the grass isn't always greener on the other side of the fence. Small business isn't the only game in town; in some cases, it isn't even the best option available.

If, after taking the Small-Business Owner's Aptitude Test earlier in this chapter, you feel that you don't fit the profile of the typical entrepreneur, don't despair. Some folks are happier working for a company, be it either for-profit or nonprofit. Here are several options for you to consider, in lieu of becoming an entrepreneur:

- ✓ **Become a better employee.** Companies of all sizes need good employees, and worthy companies are willing to go to a lot of trouble and expense to hire, retain, and pay them. (If you're not presently working for one of those good companies, you have plenty of choices to choose from.) So update your resume and keep improving your work ethic. Your willingness to put in the extra hours when needed and your accompanying willingness to accept more responsibility will bring a smile to the faces of employers. Keep learning. You don't need a PhD, a master's degree, or even an undergraduate college degree to succeed in business thanks to the knowledge you can pick up on your own through mentors, experience, and plenty of reading.



If you haven't completed your college or graduate degree and the industry you're in places particular value in those who have, investing the time and money it takes to finish your degree can pay big dividends. (More than a few of today's enlightened businesses will finance all or at least part of that education for you. Just ask.) Talk to others who have taken a similar mid-career educational path and see what they have to say.

- ✓ **Be an entrepreneur inside a larger company.** If you can find or create an entrepreneurial enterprise inside (or alongside) a larger company, in addition to receiving significant managerial and operational responsibility, in many cases you can negotiate sharing in the financial success that you help to create. Entrepreneurial opportunities can come from within businesses of all sizes, shapes, and forms. One large company — 3M, a *Fortune* 500 company — has long taken pride in a corporate culture that allows its employees to take an idea and build it into a separate company within 3M. Post-it Notes, those handy, sticky notes found everywhere in the offices of the world, is an example of a business started within a business by 3M employees.

Developing a business within a business can be a win-win situation for everyone. The employees involved can be compensated for the results of their newfound business, the companies, like 3M, add another terrific and profitable product to their empire, and a new business venture may be spun off to make more products and hire more employees, keeping the local economy humming.

- ✔ **Move from a large company to a small company.** Although we're not aware of any statistics measuring the movement of employees from large businesses to small businesses (or vice versa), we would guess the scale tilts significantly in favor of employees moving from large businesses to small businesses for several reasons: Employees get well-rounded experience working with small companies; small-business employees have opportunities for more responsibility; and employee decisions and actions have much more impact on a small business, and that impact is more visible than in a large business.
- ✔ **Buy an existing business.** In the likely event that you don't have a specific idea for a business you want to start but you have exhibited business-management skills, consider buying an established business. Although buying someone else's business can, in some cases, be riskier than starting your own, at least you know exactly what you're getting into right from the start. The good news is that you often don't have to waste time and energy creating an infrastructure — it's already in place, thereby allowing you, the buyer, to dive right into the business, without having to waste time on the peripherals.

Buying an existing business often requires that you shell out more money at the outset, in the form of a down payment to buy the business. Thus, if you don't have the ability to run the business and it performs poorly, you have a lot more to lose financially. Part II looks specifically at buying an existing business.
- ✔ **Invest in someone else's business.** If you find that managing the day-to-day headaches of a small business isn't for you, perhaps a viable alternative would be to consider investing in someone else's small business — assuming that you have the ability to identify potentially successful businesses. In our experience, however, few people have the knowledge and intuition to be investors in other people's small businesses. (For more information on this subject, see Chapter 5.)