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Preparing for Business.

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BUSINESS CONSULTANCY
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- ↳ Title – Preparing for Business.
- ↳ Topic – Business Start ups.
- ↳ Article No. 2
- ↳ Pages - 6

It is imperative that business owners do the adequate preparation before establishing their business. Operating a business is like running a long term marathon. If you want to be a winner in the end, there is no point in disqualifying yourself right at the beginning because of a false start. In my mind a false start is one where business owners eagerly begin their business without adequate preparation or time allocated to do the research, skill building, marketing and competitor analysis that is required. By doing so they are ill prepared and the likelihood of failure is considerably higher.

There is no rule of thumb in relation to how long should be spent on the pre establishment phase. I feel that at least 1 year of hardcore preparation is required. After all, establishing a successful business can bring benefits to literally generations of family members, if this is what is intended. At the same time, if one can spend a fifth of a lifetime in order to gain the qualifications required for a specialist career (including primary to tertiary education), a year or two in business preparation is really not much by comparison. Therefore, potential business owners need to be realistic about the time allocated to the pre establishment phase.

The key question is – “what do I need to spend so much time on before I even establish my business?”
The answer is – “lots of things”.

Market Research

I don't want to state the obvious, but market research is a key element in the pre establishment phase. As hard to believe as it may seem, but many people fail to do adequate research before they begin their business. Many business owners have an idea for a product or service. To them this idea may seem fantastic, almost revolutionary. However, it must be remembered that you as the business owner are not the customer for your product or service. As a result, go talk to your potential customers. I say, even do more than that - talk to people who you *know* won't even be your customers. Talk to these people about your idea and ask them whether they feel it is a good idea too. Get feedback. I know that thinking of a new product or service may be a very emotional experience. In a lot of cases potential business owners are so emotional about their idea and potential business that they fail to see the reality of the situation. Another important point is that potential business owners view the potential demand from their own position and not from the position of the consumer. By getting feedback from other people, potential customers or not, you get opinions and view points from a wide spectrum of positions. At the very least this might provide you with information that will cause you to alter or modify your offering. Let me provide an example.

EXAMPLE 1

Let's go back in time and pretend that the people mover vehicles (7 seaters) are yet to gain popularity.

You are wealthy, you mix in wealthy circles and have 3 teen aged children. You think you have found a new market. You have millions of dollars and believe that you can create a new upmarket people mover. This is based on the fact that you have friends with whom you regularly travel on day trips, but due to a lack of seating space the trips normally require at least 2 cars. You figure a premium quality 7 seater people mover equipped with leather seats, sunroof and all the other luxuries will fill a needy market. You feel a price of \$75 000 is a bargain and the vehicle will sell like hot cakes. You can guarantee a top quality product. You talk to your closest friends. They agree that you will be a billionaire. **WRONG!!**

You should have done more research and asked around more. You should have talked to young and old people, rich and poor. Whilst you might make some sales, this will not be enough to cover the massive overheads of a car manufacturing plant. The real market for this car are families with young kids. These people require a people mover to get around on a daily basis. They do not value items such as leather

seats or a sunroof, so are unwilling to pay a premium for this. A new company enters the market – Hioondie. This manufacturer keeps the features to a minimum. There are no leather seats, no sunroof. These are not even options. However, there is plenty of storage space and cup holders. Whilst the quality of the car and its interior is cheap and of low quality, the price is \$30 000. You can't understand. How can your product be put to shame like this? Not even wealthy people are buying it. You end up losing your investment.

The problem here was not the idea, the product or the quality. It was inappropriate market research. Everyone wants a reliable car, there is no debate here. Leather seats and a sunroof are all good features. Yes, there definitely is a market for 7 seater, we know that now as more and more vehicle manufacturers are moving into this area. The problem was in the composition of the product offering. Most people who can afford premium features will not usually go for a 7 seater. Those who do go for a 7 seater will not usually be prepared to pay extra for premium features. However, because the research was limited only to wealthy individuals within the small circle of friends, a misleading picture was provided about the potential demand for this product. Had you have asked the little old lady down the street, she might have told you that although she would not want to buy a 7 seater, she would be certain that her granddaughter who has four young kids would. But the old lady would also say that her granddaughter would not be able to afford to spend more than \$35 000 for a family car. As you spoke with more people about this, you would have found many similarities in their ideas and feedback. This might have made you conclude that modifications to your original idea should be in order. The results to your operations would have been much different to that originally. You would have made billions.

The more people you speak to the more opinions and feedback you will get. It is imperative that when you are in the pre establishment phase you talk to anyone and everyone about your ideas – young, old, rich, poor, married, single, with or without kids. Everyone has an opinion and most people like to share it. So this is a cheap, effective and fun way to add value to your knowledge base. You don't have to get into too much detail, but just enough to be able to get some feedback and commentary. Over time you might find patterns in the responses. Don't be stubborn, and incorporate these into your business plan and idea.

Competitor Analysis

Ok, you've done the research you know what you want. You have decided to open a new restaurant, hotel, bar or whatever it may be. You know who your market will be, you know what the pricing will be. At this stage most people begin operations. Stop! Whilst you're almost there, some additional work still needs to be done. If you decide to open a restaurant you should do a competitor analysis to gain a better understanding of the small details that can affect its operations. It is a good idea to visit as many restaurants as possible. By doing so you will gain a better appreciation of how different restaurants operate, what their menus consist of, how they are physically laid out etc. Even simple things such as lighting, interior decorations, furniture and staff attitude can affect the "vibe" of a restaurant. Whilst food is a key element in the popularity of a restaurant, you will be surprised to find that if the "vibe" is not there, people just won't be that interested in dining there. So initially, when you thought that having a best friend who is the best chef in Australia is interested in working for you was a guarantee of a successful operation, you might find that this feeling will wain when you realise that in some of the most popular restaurants that you visit the quality of the food is not exactly the best element of that restaurant. Yet, people are laughing, joking and mingling with the staff and management. It's almost a party atmosphere. What you need to do is to try to duplicate this in your restaurant. You may also remember that a particular type of décor in one particular restaurant really appealed to you. After some discussions with the clientele, you also found that it really appealed to them too and they kept coming back because it felt so "surreal". Again, remember this décor and try to duplicate it in your restaurant.

Once a premise has been rented and fitted out it is very difficult and costly to make any changes to it. For this reason a potential business owner needs to be certain of the layout and fittings of the business BEFORE alterations and setting up occurs. Essentially, a vacant premise that is to be the place of operations is like a clean slate. It is imperative that this is taken advantage of and that the best possible design and interior can be achieved. The chances of this occurring are increased if research is done on successful competitors and the best points of each competitor are incorporated into the new design and layout. The focus here is on the tangible elements of the operations. Elements such as the “vibe” or other intangibles can be incorporated later. Nevertheless, it is still important to get the intangible elements right as soon as possible, ideally right at the start. Again, seeing how competitors do things, and taking the best of each is a sure fire way of increasing the likelihood of your operational success. To do this adequate time needs to be allocated to do a comprehensive competitor analysis and then running some of these extracted ideas with the people that you use for market research. Whilst initially you might have focussed your market research on the characteristics of the menu, you might later find that it is more relevant to ask people about whether food or the vibe is more important for a true dining experience. You might be surprised with the responses, and this may in fact change your focus when you begin your operations.

In the discussion so far it can be seen that competitors will actually work in your favour, as you can use them as a benchmark to create, refine and operate your business. However, that’s not what competitors are for. Competitors are there to make money, and sometimes this may be at the cost of your business. You need to analyse your competitors from a threat perspective too. Let me give you an example.

EXAMPLE 2

Let’s go back in time and pretend that you have invented a special allergy free body wash for young kids.

Whilst this idea is great, there are no competitors that currently provide this product and a huge market is available; to me it is clear that you would need to take a very aggressive strategy. Why? Well the answer is Johnson & Johnson. To me it is clear from the outset that if you make any progress into the lucrative market, a market leader and corporate giant like Johnson & Johnson will quickly enter the market with their own similar products. Essentially, they will be doing what I have described previously i.e duplicating their competitor - YOU. However, your operations will not be that of Johnson & Johnson, so chances are that you will not be able to produce as cheaply as them, you will not have the vast distribution channels as them, and your marketing budget will not be as large as theirs. You should expect to make quick and easy money initially, but as time goes on the demand for your products will probably decline and your operations will begin to struggle under the pressures of Johnson & Johnson. For this reason you need to plan ahead and make contingency plans right from the start. Johnson & Johnson’s existence is known before you begin your operations, and their reaction to your potential success can be easily predicted. So you should make plans for this BEFORE you begin your operations, and not later. One idea is to try to work on a variety of complementary products. By expanding your product range, even in other markets, you are essentially broadening your revenue base and shielding yourself from the big competitor. What this means is that you will need to think well ahead before beginning your operations. As you begin your operations and start to manufacture your newly discovered allergy free body wash for young kids, you should be thinking about alternative product launches further down the track.

Competitor analysis is more than just finding out who your competitors are. Ok, you found out. So what? Well, you need to use this information in order to incorporate it in your business as well as your strategy once you start operating. Whilst this approach will not guarantee success, it will guarantee a much better chance of achieving greater success than you would be able to achieve when starting blind. Adequate competitor analysis may sometimes take months. So this time needs to be allocated to your pre establishment phase.

Skill Building

Some people know that they do not have the experience to run their operations, yet decide to do so anyway. Others think they have the experience, but in reality they don't. A couple more examples are in order.

EXAMPLE 3

John Smith is a taxi driver and always wanted to run his own hotel. Finally, an opportunity arose and he bought his dream hotel by the sea. The only experience John had with hotels is when he travelled to Yarrawonga for a fishing trip every few years.

Big chance that John Smith is going to get burnt. There is so much to running a hotel that total inexperience will usually come at a price later down the track.

EXAMPLE 4

DJ Trance has spun the turntables in various nightclubs for over ten years now. He knows the scene and has decided to operate his own club.

Again, there is a fair chance that DJ Trance is going to get burnt. Nightclub operations is more than just knowing the scene and playing tracks that people like. Whilst this is clearly an important element there are other important elements too. It is only when all these elements are combined together that the chances of success are truly increased. In terms of nightclubs it is important to have a good understanding of marketing and promotion. It is important to have good management skills as a variety of staff will be employed. Accounting and book keeping skills are useful too. Then there is bar management and logistics. Sure, it's possible to recruit specialists in all these areas. But at the end of the day, it is the owner who needs to be on top of all these elements. Another issue is costs. Hiring professionals in a variety of areas does not come cheap. Cash flow is very important, particularly at the early stages of the business.

Every business has elements that are generic as well as specific. It doesn't matter what type of operation you are planning to start it is important that you have some knowledge of accounting and bookkeeping. An idea of marketing and promotion is important too. If you are planning on hiring staff, you need to be able to know how to recruit them, select them and finally motivate them. These are major areas of management with many theories and models to choose from. Whilst a lot of these things may seem common sense, with the exception of accounting which is very specific, many business owners fall in the trap of thinking this way. If management and marketing were all so "common sense", then it wouldn't make sense for universities to offer three year degrees in these specialist areas. It is also the reason why certain businesses only do "ok", when in fact they could seriously prosper. The reason is that their operators only use the "common sense" approaches which most of their competitors use. As a result, their business does not stand out nor achieve the outstanding results when a more advanced approach is used.

EXAMPLE 5

We see Yellow Pages advertisements on TV illustrating how owners are having fits when they forget to place their ad in there for the following year. I personally operate in a highly competitive industry. I don't even place ads in Yellow Pages anymore and keep explaining to the Yellow Pages sales staff that the results don't warrant the costs, since for every dollar spent I "only" get a five dollar return. This would normally be good, but I get a thirty fold return from other marketing strategies that I use which cause my operations to run at capacity for most of the year.

Successful business operations will be achieved when the operators are skilled and knowledgeable. Since in most situations this will not be the case, even though it might initially seem so, it is very important for the entrepreneur to update and build his skill set. The approach will depend on whether the skills required are generic or specific.

If John Smith knew in his heart that one day he would be operating his own hotel, John should have done some work experience in a hotel prior to purchasing his dream hotel. Perhaps a short hotel management course might have been a good idea too. If this would not have been possible, then John should have made it a condition of purchase that he would be hired to work in the hotel for a few weeks at least, either for free or for a wage, prior to purchase. In regards to DJ Trance, it would have been a good idea for him to spend time with the bar manager, promotions teams and other parties in the clubs where he performed. He could have asked lots of questions about their roles, the issues encountered and perhaps even discovered some tricks of the trade. At the very least he could have used his time to observe how the different functions work and operate all the while learning about the various areas of nightclubs which were not his forte in the past. These are examples of specific skill building and can be applied across all businesses and industries. In many cases people who start their own business already have experience in this area because they had worked for someone in this field in the past. This is an invaluable asset for the business and a strong platform from which to begin.

Generic skills can be learned just as easily. Firstly, there are a growing number of business consultants and business coaches providing various product offerings and charging different prices. These people are specialists in most areas of business, and if they don't know something they can always pass you on to another person who can assist. The advantage of a business coach/consultant is that they can specifically assist you and work in with your specific needs and situations. An alternative option is to do a short course. There are many short courses of varying durations. Most can be done at night, so the classes do not have to collide with work commitments. There are short courses specialising in bookkeeping, marketing, management as well as the all purpose small business management course. Obviously short courses will not be able to substitute a three year tertiary degree, but they will certainly provide very specific information that can be used and applied in the real business world. Anything that can build and add to the business owner's skill set will be something that should be pursued. Ideally this should be done in the pre establishment phase to ensure that once established you as the owner and operator of the business are in the best position to do what is right for the business.

Finances

A major cause of business failure is cash flow problems and liquidity. In many cases the operators themselves are to blame as the signals were there in the first place. I have heard of many examples where entrepreneurs had a business idea, they created a business plan and then approached the bank manager in order to obtain a loan. The bank manager said "no". To me this is great news, and the bank manager deserves a bottle of wine for his sincerity and good heart. Unfortunately, most people who have faced this situation don't see it that way and they get upset and eventually obtain loans from finance companies or through other avenues at much higher interest rates. Within a few years such business owners form part of the insolvency statistics of the ABS.

Let's get to the basics here. A bank manager represents a company that is in the business of making money through lending. If the bank did not lend then there would be no point for it to exist. At the same time the bank actually wants to get the money that it lends back, plus interest. A bank manager will usually have some background in business, and will certainly have experience based on past business loans that were made. If the manager believes that the information that has been presented to him doesn't warrant a bank loan, then chances are the business idea is not as good as it might seem to be. The difference in opinion between the bank manager and the entrepreneur is that the bank manager is looking at the information objectively, whereas the entrepreneur is looking at it subjectively, perhaps with dollar bills and fast cars blurring the eyes. Essentially, if the bank manager feels that the business will not be able to pay the loan back, even at the lower interest charged by the bank and flexibility of a bank loan, then realistically, how will this be possible if the funds will be borrowed from a higher cost lender such as a finance company, or God forbid, credit card debt.

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If you, as a potential business owner, get knocked back by the bank, use this to your advantage. Take a step back and perhaps work a little longer in your day job to increase your savings. Sure, this will postpone your operations for a year or two, but better to start a business that is to prosper a year later, than to start a business that is going to be a nightmare now.

What I have written here is clearly not definitive, but rather based on the balance of probabilities. Sure, it is possible to have a prospering business even though the bank manager refused to lend. However, taking the plunge in such a case is very risky to say the least. Business operations are not meant to be high risk gambles - that's what the casino is for. My approach to business is to try to reduce risk as much as possible while increasing the chances of success.

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