

# **The Good and the Bad of Owning Your Own Business**

**F**or most people, finding the money with which to buy a business is really Step Two. Step One is making some fundamental decisions about type of business, location, market, future demand for the product or service, and whether entering the world of an entrepreneur is right for you. Therefore, we start with a few thoughts to help you think through some important factors in buying a business. (If you have already made a decision on a specific business—for instance, you are going to buy Aunt Isabel’s insurance agency or Uncle Harry’s hardware store—you could skip directly to Chapter 2.)

Own your own business—it’s a great American dream. If you look at the ads in various business magazines for franchises, you’ll get the impression that being an entrepreneur is a sure way to riches beyond anything possible in your present job. If you take out the word “sure” and insert the word “possible” or “probable,” you have what is generally a true statement.

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Here are some considerations to think about in deciding whether your enterprise will be almost a sure thing or just a possibility.

### **The Fictions and the Facts about Owning a Business**

There are advantages to owning a business, but in our thinking we often blow them up to be out of proportion to the disadvantages. These exaggerations often contain much that isn't true. That's why I use the term "fiction." They can be classified as follows:

- *No boss*: It would be wonderful to go to work knowing that it is you who gives the orders. No longer do you take orders.
- *Short hours*: There will be no one to look at the time clock if you arrive a few minutes late in the morning or leave early in the afternoon. In fact, you can take the whole day off and have to answer to no one.
- *Large income*: Now you can actually live in the manner to which you would like to become accustomed. A large home, the expensive automobiles, the yacht, and world travel are within your reach.
- *Prestige*: Being a business owner moves you into the upper reaches of society in your city or town.

And this can all be yours, if only you have the money with which to buy a business.

#### **Fiction Number One: No Boss**

In your present job, you may be annoyed by your supervisor if she micro-manages your activities and questions nearly all your decisions. That is,

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she makes your working life intolerable. It is true that owning your business will relieve you of this sort of pressure, but you will now have a different form of boss: Your customers may make demands on you that are almost as insufferable as the dictator who formerly ran your life. And you'll have other bosses:

- Your local tax collector will collect various fees, such as business licenses.
- With few exceptions, your state tax collector will impose a series of bookkeeping procedures on you so that you can collect the sales tax from your customers.
- Various government entities will demand reports from you and inspect your facilities for compliance with health and safety rules, compliance with rules about compensation of employees (as regulations about overtime pay), and so on.
- Last, but not least, is the Internal Revenue Service (IRS). When you do make all that money, the IRS will have its hand out for a significant portion of it, and you will pay it to them, because that is less onerous than what happens if you don't. Also, the IRS will impose bookkeeping and recordkeeping requirements, for sending the taxes you and your employees owe, on time, to the IRS and probably to state tax authorities as well.

### **Fiction Number Two: Short Work Hours**

It is true that some entrepreneurs manage to organize their businesses so that they run themselves, or at least they are run by dependable employees, making it unnecessary for the business owner to be on the premises

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except to review reports of operations or take care of an emergency. However, most entrepreneurs have these challenges:

- An employee does not show up for work, and there's no source for a substitute except the owner of the business. Most small entrepreneurs say they do everyone else's job, including cleaning the restrooms.
- Some jobs in a business's industry require in-depth knowledge and skills that make employees who can perform those jobs extremely expensive. When a business cannot afford to hire such employees, the owner must perform these tasks. This is particularly true of professional organizations, in which certain tasks must be performed, or at least reviewed, by licensed professionals.
- An entrepreneur has to spend considerable time in developing new business, such as calling on prospective clients and customers, buying advertising, schmoozing at Chamber of Commerce functions, or various other business-building activities.

### **Fiction Number Three: You Will Have Lots of Money**

This is probably the biggest and meanest fiction of all. Yes, as your business grows, you'll see more cash come in the door (or electronically), but you will also see most of that cash go out the door for inventory, payroll, and other expenses. You get to keep just a small fraction of that cash flow, and as a business grows, you get to keep even less (or none) because of added payroll, the need for more space, and so on.

Suppose you open a booth at the local flea market or on eBay, from which you sell goose yokes. Sales average about 10 goose yokes per

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day, at a retail price of \$10 each. In order to not lose sales because you are out of stock, you try to maintain an inventory of 15 goose yokes. The Goose Yoke Manufacturing Company is a short drive away, so you can purchase the yokes at wholesale daily (including weekends), but the manufacturing company's terms are cash at time of pickup. So, to have at least 15 goose yokes on hand every morning, you have to invest cash in your business with which to purchase your original inventory of 15 yokes at a wholesale price of \$6 each, for a total investment of \$90.

Then, next week, your sales increase to 20 yokes per day, which means the profit on your sales has increased by \$40 (10 times the \$4 profit on each yoke). But you can't take that \$40 home, because now you need an inventory of 30 yokes, and at \$6 each for the 15-yoke increase, you now have to spend \$90 to increase your inventory. Not only do you not get to take the \$40 home, you have to invest another \$50 in order to buy the additional inventory you need.

This money that's invested in inventory is part of what's called *working capital*. The correct calculation of just how much working capital you'll need is critical when you look for money with which to buy a business, especially if that business will need a substantial increase in sales.

### **Fiction Number Four: You Will Enjoy the Prestige of Owning a Local Business**

If prestige is important to you, you may find that it is one of the benefits of being a local entrepreneur. However, it won't happen right away. Initially, you'll be observed by those who already "have it made." They'll look at you as an unproven entrepreneur and, therefore, an unqualified

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competitor. But when you are financially successful and have the time and money to support civic and charitable causes, you can earn some prestige.

### **Do the Advantages of Entrepreneurship Outweigh the Disadvantages?**

Basically, this is a decision that only you can make. If you are very unhappy in your present job because of an overbearing supervisor, or if your employer is too strict in the rules and regulations department, changing to another employer may answer your need. If that is not the case, use a time-tested method of dividing a letter-sized piece of paper vertically in half and listing the advantages of owning your own business in one column and the disadvantages in the other. That is your task. Neither I nor anyone else can do that for you, because only you know the details of what are important and unimportant to you.

### **Decide on the Type of Business That Is Best for You**

Is your burning desire to be in business for yourself so strong that you will consider almost any legitimate business, or do you aspire to only one or two types of businesses? For instance, if your avocation is art (and you are a pretty good artist), your only desire may be to own and run an art gallery. If you are a computer geek, your only goal may be to operate a computer repair and maintenance business. In both cases, a different type of business holds little or no interest for you. On the other hand, you may

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be so fed up with corporate bureaucracy that you would move to any type of entrepreneurship as a means of escape from the corporate environment. (That's not to say you should not form your own corporation, but controlling a corporation and working for one are two different matters.) But these comments oversimplify the goal-setting process in seeking to become an entrepreneur, so let us examine some details of this decision process.

### **Determine Your Preference or Need as to Geographic Area**

Do you like warmth and water sports, or do you prefer the snow and slopes—or do you enjoy both? Your preference can determine locality, but bear in mind you may not have much time to enjoy the climate during your initial involvement in your business. Some entrepreneurs avoid that dilemma by becoming involved in a seasonal business in which they put in the proverbial 18 hours per day, 7 days per week, for several months and then travel to alternate living in their preferred climate for the rest of year.

Medical problems (yours or those of a member of your family) may determine location or limit the choices of location. For instance, you may have allergies that you would like to escape, and only a warm, dry climate, as in Arizona, will help you.

Do not forget that moving to another city can be expensive. You need to consider not only the dollar cost of moving, but the cost of your time, the physical exertion of moving, making new contacts in your new area, and the emotional effect on other family members.

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### **Consider the Hours of Operation**

Another consideration is your biological clock. If you are a morning person and generally collapse into bed at 9:00 or 10:00 P.M., you should probably not consider owning and managing a nightclub that opens at about your bedtime and ceases its noise and confusion at 3:00 A.M. Similarly, if you're a night person and you plan on operating a breakfast and lunch restaurant that opens at 6:00 A.M. and closes at 3:00 P.M., you may find that resetting your biological clock will be a traumatic experience. This consideration becomes more important for an entrepreneur than it would for an employee because entrepreneurs tend to put in much longer hours (at least initially), so fitting those hours to your biological clock becomes more important.

### **Experience and Knowledge Are Important**

You may be so upset with your current job in your current industry that you have decided you want a business far afield from your current experience. This could be a mistake. Your experience in your industry has value. This should be obvious, in that an employer in that industry will pay you substantially more than he would pay an entry-level person, simply because you have experience. For instance, if you have been working for a carpet-cleaning company, that experience would give you a head start in your run to success, but if you bought an auto-body repair shop, the carpet-cleaning experience could be of much less value.

That is not to say, however, that some experience does not translate into an advantage in operating almost any business. For instance, if you have



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been in a position in which you were responsible for hiring, firing, and training employees, you have experience that is transferable to almost any type of business.

Some businesses are inherently unsuitable for anyone who does not have the necessary experience. For instance, success in the computer maintenance and repair business demands that the owner have the knowledge and experience of a dedicated geek, preferably with some formal certification, such as Microsoft's A+ designation.

### **Pick a Business You Enjoy**

Because you will be spending many hours at your business, it makes sense to do what you can to make at least some of those hours enjoyable. If your hobby is model railroads, owning a hobby store that specializes in these railroads may be your cup of tea. (However, be sure to locate in a populous area composed of people with above-average incomes!) Similarly, if you enjoy woodworking, look for a custom furniture shop with an established following.

There is a downside to this advice about seeking an enjoyable business. If a business is enjoyable, there will always be more competitors than there is market. The flip side is that if you buy a business that provides little enjoyment (such as a fat-rendering plant), you may find there is little competition in your area.

Also, be aware that some enjoyable hobbies may not lend themselves to enjoying the same hobby as a business. If your avocation is boating (sailing, fishing, cruising), owning a boatyard may look attractive, but

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the trials and tribulations of the business may keep you in the yard, not on the water.

### **Creating Your Experience**

Once you have decided on a type of business (or businesses) that would meet your desires, you may be impatient to start looking for that ideal business and negotiating for its purchase. But are you sure about your decision? Try this. Go to work for someone in your desired type of business, even if it's for minimum wage. (If you're still employed, seek a part-time job in the industry, if that's appropriate.) For instance, if you're interested in the fast-food business, apply for the job of slicing French fries or waiting on customers at the front counter. Find out what that life is really like, and what sort of challenges are faced by the manager. You don't need to do this for long, for this is not the stage in which you devote a lot of time and money to investigating a type of business. That is covered later in this book.