

# Starting a Business - the Basics

by John McMillan

# How to Start a Business

## First Steps

### Requirements of a Venture

This article is written for the would be entrepreneur who has an idea for some sort of product or service that he or she hopes will make money and who needs help in turning the idea into reality. It aims to give you ideas on how to start the process of setting up a company.

Later, I intend to write another article to cover the practical issues in setting up a company.

Let me start by being controversial. I believe there are just two vital ingredients for a successful venture:

- The right product for which there is a market at the right price
- A team that can make and sell it

So how to go about creating these conditions? You need to start by asking some questions.

### Before You Start: Questions

Let's look at an all too common scenario. The would be entrepreneur has an idea for a new product. He or she thinks about all the people who could buy the product, and imagines thousands of sales. He imagines the vast income and wealth this will generate and falls in love with the idea. He develops an emotional commitment to the project and spends months developing it, weeks working on a business plan and then starts looking for funding to pay for the project.

This is just about the worst thing you can do. If you do this, you can pretty well guarantee that banks and investors won't want to touch you.

Successful entrepreneurs start by asking questions. They ask questions about the product, the market and the team. Only if they get satisfactory answers to these do they go ahead with the idea.

What happens if you don't get satisfactory answers?. Well, don't worry. Most ideas turn out not to be very good. If the answers aren't what you wanted, reflect that you will have saved yourself a lot of time, money, and very likely your house. But you can be sure of one thing. It won't be the last idea you have. In fact, if you ask the right questions, there is a good chance you will think of a better idea while you are researching the first one. Think how many ideas Sir Richard Branson has turned into profit. Entrepreneurs have lots of ideas. Successful people tend to look at lots of opportunities and take up the best ones. It's much better to spend your time working on an idea that will work than wasting it on one that won't.

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This helps to resolve a dilemma. An entrepreneur has to *commit* to his business idea. If he doesn't, it won't work. Yet at the same time, it's important not to waste time flogging a dead horse. So first evaluate the idea, then either look for another idea or commit to the first one. Don't commit until you can see the idea will work. And above all don't persuade yourself it will work. Carry out research to find out..

### The Product

"Products" come in a wide range. The term product can include services. It means whatever you supply for a charge. The product could be a physical object like a piece of furniture. It could be a service like web design or an e-commerce service run over the Internet. It could be a service like a restaurant. Whatever it is, you need to answer the following questions:

- What has to be done to make the product?
- How long will this take?
- How much will it cost?
- How can you survive until then?
- How sure are you of this?

It will almost certainly take much longer and cost more than you expect. Unless this is something you have done before, you should allow at least twice as much time and money as you estimate. In fact, in my experience, three times as much is normal.

### Marketing

The market is even more important than the product. Quite simply, if you can't make the product for the price which enough customers are prepared to pay, then the idea is not viable. If there are too few customers to pay your overheads then you won't succeed.

An ideal product is one they can't live without. Sometimes you will have an idea that fills a *latent* need – i.e. one that exists but your clients don't realise.

The questions you have to ask are:

- Who will buy the "product"?
- At what cost?
- How many sales can be made?
- What is the competition?
- How long will the market last?

There can be a problem in approaching possible customers if you need to protect your idea. The way round this is to ask about what your product is likely to *do* for them. Remember, if you sell drills, what your customer wants is holes. So if you invent a

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revolutionary way of making holes, don't tell your possible customers what the invention is, ask them whether they would buy a better way of making holes.

Before anybody lends you any money, they will probably want the answers to two more questions:

- How many people have you asked?
- Who will give you a written intent to buy?

## Sales

Sales and marketing are subtly different. Perhaps the best way to describe the difference is to say marketing is about locating people who might become customers, selling is turning them into customers.

Questions you need to ask are:

- What has to be done to close customers? (i.e. persuade them to buy from you)
- How easy is it to locate these customers?
- How long will the sale process take?
- When do you reach break-even? (i.e., when your income exceeds your costs)
- How do you survive until then?

For business to business sales, there can be a lot of stages to a sale and you need to understand these stages. If you have never had to launch any products before, you will probably badly underestimate the length of time sales will take. For an IT based product, it can easily take more than a year between first contacting a prospect and receiving the order.

New customers are hard to win. In general it takes three to five times as much work to sell to a new customer as it does to sell to an existing one. You need to factor this into your plans.

## Bringing in the Right People

By now, you should have established that, yes, there is a need for your product. There is still another unpleasant question to ask.

Just because the market is there, can *you* achieve it?

This is important. Very probably, bringing the idea to market will need skills that you don't have. What can you do about this? Your basic choices are:

- Learn the skills
- Find somebody who has them

Also, unless you are planning a very small venture (and there is nothing wrong with that. Sir Alan Sugar started by selling car radio aerials from a market stall. Sir Richard Branson started by running a student magazine.), you will need to bring in other people.

### Building the Team

The team is very important. Unless you are running a very small business you will not be able to do everything yourself. This means you need a team. In general the team will be made up from

- you and your partners
- employees
- advisors

It is important to create a mix of skills, and just as important to create a mix of personalities. You may think you need a team of go-getters. In fact this is a recipe for disaster. You can guarantee that a team like that will overlook the more mundane tasks.

Yes, you won't go very far without dynamic, thrusting people who battle against the odds, overcome obstacles and drag in customers. But you also need methodical, organised people who will make sure the product is actually being delivered, orders aren't getting lost and your customers are paying their bills.

If you are planning a larger venture that needs finance, this is doubly important. Financiers always say they invest in teams.

Somebody has to

- Create the product (design, production)
- Find customers (sales and marketing)
- Deliver the product to the customer
- Raise invoices and chase payment
- Make sure all the legal requirements are met

If you want to succeed, you need to bring in good people. The best way to find them is to develop as many contacts as you can, in other words network. Partners are good because they will work with no or little pay during the loss making phase. Advisors, consultants and other part time or temporary staff will cost more per hour than employees but have the advantage of flexibility. It is difficult and very unpleasant to remove employees, either because of lack of cash or lack of performance.

### The Process

#### Protect any ideas

If your business depends on some form of invention, you probably need to protect it. You should seek professional advice for this as the process is complex. If you think you need patent protection, don't tell *anybody* about the idea. However, once an agent applies for a patent, you are protected. You may want to use non disclosure agreements.

#### Carry out market research

Talk to several people who might buy your product. Be *brutal*, it can save you thousands. After you have finished the market research, and only then, decide whether to proceed. Remember you *will* have another idea. If this one isn't going to work, don't waste time. Look for an idea that is.

#### Identify interested parties

This will take market research into the next phase. Discuss the idea with them. As what features they want and need. Try to design the product around what your customers need. Find out what they are prepared to pay. Try to find out how long they will take to place an order.

If at all possible, get a commitment from at least one prospective customer.

#### Resources

Start to put in place resources and create the team.

#### Develop the Product

Develop a prototype and demonstration of the product. Discuss with potential customers and advisors. Plan the marketing and sales campaigns.

#### Launch

Prepare promotional material, such as brochures and web sites.

Finalise the product. Launch the sales campaign.

Close the first orders.

#### Celebrate

You've earned it! Good luck.

### About John McMillan

John McMillan is an interim manager specialising in high tech start-ups and marketing. He gives many workshops and classes on these subjects.

John has many years experience running software companies and launching software products. Some of his projects and more articles are described in [www.mcmillantech.co.uk](http://www.mcmillantech.co.uk). John can be contacted on <mailto:john@mcmillantech.co.uk> or 01787 371099.

