

# Factors for consideration when starting a business



## **Below are some reasons why a person would like to set up his /her own business.**

### **Control**

If a person has its own business; it gives them more control over how much money they make and how much they will work to gain more. When a person starts his business it is solely dependent on the person how to start and maintain it in future. In short the control comes in the person's hand and there is no one else's control over him.

### **Choice**

When a person starts his/her own business, it gives him/her freedom to whatever they want to do. For instance, it gives you a choice whether you want to do business and job together or deal in various products of your own choice. Moreover, being a freelancer or an independent contractor gives a person freedom regarding which jobs they choose to take.

### **Business Decisions**

If a person has his own business the success or failure of the business solely depends on your business decisions. For example, having your own business means you make the choices instead of having them made for you by an employer and the choices made decides if u fail or succeed, which in turn tells whether your decision was worth for a business. It gives you motivation to improve yourself in future and makes you a better businessman.

### **Satisfaction**

Some people start their own business for themselves because they have a skill or a product to offer. They enjoy being obsessive about what they do.

Moreover, starting your own business gives a person satisfaction as whatever they do they do for themselves and they can work hard to earn as much money as they want and there is no fixed salary.

### **Job loss**

When a person loses his job, he may take his work experience and professional contacts and start his own business to make him less vulnerable to risks.

### **Get creative**

Starting up a new business, provides an entrepreneur to bring his creativity out. If a person has considered going it alone, he will have thought out how you would do things your way. Being an entrepreneur gives him the freedom to express himself and develop his concept in any way he chooses. Of course, there are always financial constraints, but the ability to be as creative as you like is far more appealing than a one-dimensional job.

### **Very profitable**

If you think that it's just large corporations that make big profits, you would be wrong. There are countless stories of entrepreneurs hitting on a great idea, exploiting it well and being well on their way to their first million by the end of the year. Although the start-up process can be tough, with long hours and little money not uncommon, if you run your business well, the rewards can be huge. And, from a purely selfish point of view, you will get most of the profits yourself.

Unfortunately, many of the businesses are more likely to fail in its initial years because of the difficulties that commonly plague struggling companies

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suffer from. These difficulties occur in every business in its early years as the business is new to everyone even to the management itself. Some of these reasons are elucidated below.

### **Insufficient Capital**

A common fatal mistake for many failed businesses is having insufficient operating funds. Business owners underestimate how much money is needed and they are forced to close before they even have had a fair chance to succeed. They also may have an unrealistic expectation of incoming revenues from sales. It is imperative to ascertain how much money your business will require; not only the costs of starting, but the costs of staying in business. It is important to take into consideration that many businesses take a year or two to get going. This means you will need enough funds to cover all costs until sales can eventually pay for these costs.

### **Lack of planning**

Successful businesses just don't happen; instead, they need planning to make it happen. They are the outcome of deliberate and well-executed business plans. Many businessmen are so eager to get started that they neglect business planning and start a business with a dream and an idea. That might motivate you to get it started but not necessarily to succeed. If a person wants to setup his business, it is necessary to have a business plan first and then start.

### **Overspending**

Many startups spend their seed money before cash has begun to flow in at a positive rate. This often happens because of misconception about how

business operates. If you're just starting out in business, seek out seasoned veterans you can bounce your ideas off of prior to making big financial commitments.

### **Inadequate funding**

Another common reason for small business failure is a absence of adequate funding, especially during the critical start-up period. Inadequate funding severely limits the capacity and looms the ability to grow beyond the initial stage of life. One should resist himself from the urge to start until he have attained all of the funding which they know they need to do it right.

### **Bad marketing**

Quite often a person creates a business that sells the best product at the best price but still fails because no one knows it exists. Marketing about the product is critical if the business is going to have any chance of becoming the flourishing venture.

### **Unreliable suppliers**

The ability to maintain proper levels of inventory is directly relative to the quality of a person's relationships with reliable suppliers. Developing effective supply channels can take some time but it is quite necessary in a business as whatever you sell should be good enough to attract customers to buy it.

### **Staffing imbalances**

Labour is the biggest expense for most businesses. Therefore, it only makes sense that it's worth your time to make sure that your company employs the right amount of people. For example, employing too many employees will

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have a bad effect on the business capital and employing very few employees will result in performance will. Making the perfect balance is not easy, but the rewards are well worth the effort.

## **Ineffective sales performance**

Sales are a key element in the success of any businesses. Poor sales, on the other hand, are an indication that your business might be in jeopardy. A person should maintain a close eye on sales patterns and trends, and hire the best sales staff, which they can afford to keep the money regularly coming in.

### 1. 3

The important factors which are necessary to start up a business are:-

## **Knowledge/Expertise**

Any business needs some amount of basic knowledge and experience. It is very essential that the owner is aware about the business he plans to start. Knowledge and expertise about the product or service are keys to a successful business. Moreover, if a person has limited knowledge the owner may not be able to sustain the business and can be fooled by the vendors, suppliers and competitors. Expert knowledge is especially required if the field of business is a niche field. For instance, the construction or software industry would require more knowledge as against a retail business selling a particular brand of clothes or shoes.

## **Location**

Deciding an ideal location for the business is a strategic and an important one. A good location goes a long way in making the business successful. The location needs to be carefully chosen. Some places have advantages over the others. A location should be explored on the basis where the raw materials can be easily sourced, the manpower would be easily available and it is easy to save on transportation costs. Moreover, choosing a location depends upon the nature of the business. For instance, a retail business should to be located in a well-populated area and one which is easily accessible.

## **Competition**

Before entering new business, information about market competition needs to be found out. In case a product is a monopoly then the competition will not matter. Otherwise the success of the business will depend upon the demand and supply gap. Thus if there is a huge demand then you can enter the business in spite of the market competition. Otherwise you will need to be stronger than the competitors to gain an entry. Normally existing firms will always have an advantage due to the experience they have and because they may be well equipped.

The question which needs to be answered is “ What is unique about the product / service which will be offered to survive the market competition”?

Information such as who are the competitors, what is their market strategy and what factors are required to compete with them are important.

## **Financing/Capital**

After identifying the initial costs required for starting the business, it is necessary to look for the sources of funding like bank loan or sponsors. It is very essential to have adequate funds to start a business as lack of funds will have a bad impact on the business which may lead to the failure of it.

## **Laws, Rules, & Regulation**

Setting up a new business would require compliance with various laws & regulations. Each country is governed by separate laws and regulations which require that any new business be registered with certain authorities and meets certain compliance. Thus registration of the name of the company may be required with Ministry of Commerce for instance. Further details need to be provided regarding the workforce and certain deductions may be required from the staff (such as tax) which would need to be deposited with the respected Government bodies. Awareness is required of such rules and regulations. It is always better to consult a lawyer before setting up a new business in an unknown environment. There are certain accounting / consultancy firms which would have a division giving advice on legal and statutory compliance. In case of lack of expertise it is better to approach a lawyer / accounting / consultancy firms.

1. 4 The heart of the issue with Human Resources is the skills-base of the business. What skills does the business already possess? Are they sufficient to meet the needs of the chosen strategy? Could the skills-base be flexed / stretched to meet the new requirements? An audit of human resources would include assessment of the following factors:



Existing staffing resources – Numbers of staff by function, location, grade, experience, qualification, remuneration

- Existing rate of staff loss (“ natural wastage”)
- Overall standard of training and specific training standards in key roles
- Assessment of key “ intangibles” – e. g. morale, business culture

Changes required to resources – What changes to the organisation of the business are included in the strategy (e. g. change of location, new locations, new products)?

- What incremental human resources are required?
- How should they be sourced? (alternatives include employment, outsourcing, joint ventures etc.)

1. 5

1. 6 A business finance source is a way a business can obtain funding, either for start-up or operating expenses. There are many different types of sources like sales, loans, and investors. Each has different terms, benefits and disadvantages. Business owners tend to use two or more different sources in order to fund their business.

Business finance sources fall into two main categories:-

Internal funding – Internal funding comes from the profits made by the business by sale of products or assets. These are the funds which the

company has on its own like the income of the company, the money they have of their own etc.

External funding – External funding comes from lenders and investors. The most common external finance sources are loans. Short and long-term loans require borrowers to repay funds at an interest rate for a set period of time. Overdraft loans allow a borrower to spend a certain amount of money, and the lender charges interest on the overdraft amount.

Before deciding which method is best for a company, business owners should consider a variety of factors. The cost of the business finance source usually is the most important factor considered. Owners look at the interest rates and payment plans to determine the profitability of obtaining a certain funding source. Businesses that have a history financial stability may want to consider an internal source of revenue before opting for an external source. It's also important to determine how long the business will need additional funding. A short-term loan would be best for projects that would only take a short time to complete.

Business finance start-up generally refers to the cost to start a new business. It includes determining, calculating, and obtaining start-up costs, as well as managing those finances effectively to ensure the profitability of a new business.

The first steps to business finance start-up are to determine and estimate the amount of funds needed to open a business. These start-up expenses may include one-time fees, such as permits and licenses needed to operate the business. Initial costs may also include on-going fees, such as rent and

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utility payments. Business owners usually only include the necessary expenses when determining the total cost to start-up. In order to estimate the amount of funds needed for the business, owners should set up worksheets that list each expense and how much it costs.

1. 7 The advantages of setting up a business under private limited company as opposed to sole trader ship are:-

### **Liability**

The principal benefit of trading via a limited company has always been the limited liability given to the company's officers and shareholders. As a sole trader or other non-limited business, personal assets can be at risk in the event of a failure of the business, but this is not the case for a limited company. As long as the business is operated legally and within the terms of the Companies Act, directors or shareholders personal assets are not at risk in the event of a winding up or receivership. And as often happens on occasion, such events are not always under our own control. There is no obligation for a limited company to commence trading within any set time period after its incorporation.

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### **Gives confidence-**

Operating as a limited company often gives suppliers and customers a sense of confidence in a business. Larger organisations in particular will prefer not

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to deal with non-limited businesses. Also, many of the costs associated with managing and operating a limited company are not much more than with a non-limited business.

### **Tax advantages-**

If you trade as a sole trader, partner or partnership, your income will be taxed as proprietors' income, regardless of how much profit is retained as working capital. Interest on loans to the business is also taxed as income. Furthermore, partners are personally and jointly liable for partnership tax and if a partner dies, the surviving partners are responsible for partnership tax. Creditors can claim all your property to satisfy debts, and if this is insufficient, you may be declared bankrupt. An undercharged bankrupt is forbidden to start another business or to become a director of a limited company.

### **Separate Entity –**

Due to its very nature, a limited company is deemed to be a separate legal entity from its owners. This has several advantages, including the fact that the company will exist beyond the life of its members. If they retire or die, the company will continue to exist and operate. This ensures security for employees and other members and also is an advantage which other legal forms of business are not subject to.

### **Ownership and Control –**

In the case of Private Limited Companies, the Directors are also usually the main shareholders of the Company. Thus both the ownership and control of the business remain in their hands. Decisions can be made quickly and

easily, with little fuss, allowing for a more successful business management platform.

## **Company Name –**

Part of registering a Limited Company, includes the registration of a Company name. This name will help identify the business in the marketplace, separating it from other Companies and protecting it.

### 1. 8

A sole trader is a business form that allows one person to be solely responsible for the financial transactions of the business. The benefits and disadvantages of this responsibility are numerous and should be weighed carefully.

Another term for a sole trader is a sole proprietor. Precisely, it refers to the person responsible for the daily organization of the firm and for its profits and losses.

Being a sole proprietor as it is legally known in the U. S.—is a benefit to many people who are looking to start their own business. It is one of the most common types of businesses that can be formed and involves only one person as the responsible entity of the business—holding that person completely accountable for any debt or liability that the business might incur. Although sole traders have many advantages, they also have many significant disadvantages.

### Liability

The main disadvantage to being a sole trader is the liability that the business owner yields. Being held responsible for any lawsuits or potential damages is not only dangerous to the sole trader's business, but it can be detrimental to her personal life as well. Unlike modern business corporations—such as LLCs—which allow the business to be a separate entity, preventing anyone from holding your personal assets responsible for your business, sole traders are personally responsible for their business.

### Responsibility

One of the main disadvantages to many people for running a sole proprietorship is the complete responsibility that the sole trader has. Completely variant from business to business, since each business has its own type of operations, sharing responsibility takes a huge burden off of most business owners. That is one reason for the popularity of Limited Liability Corporations, Limited Liability Partnerships, and partnerships. These businesses each allow some owners to share or take less responsibility, leaving them to grow and improve their businesses more thoroughly than if they did not have complete responsibility.

### Lack of Investors

When it comes to being a sole trader, the business owner can have a difficult time for growing. Not only because of the lack of time that she has because of her tremendous responsibility, but due to investors' lack of interest in a sole proprietorship. Companies are more apt to invest in corporations that have the potential to expand. They also prefer the other benefits of corporations, such as their legal structure and lack of personal

accountability. Lack of investors can mean lack of growth for many companies—which can leave many sole traders running a stagnant business.