

Challenges faced by companies while entering a foreign business

[Life](#)



10 Important Factors to Consider Before Starting Your Own Business

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Comments (46)| 59 Liked It Certain key factors which need to be addressed before starting your own business. This article describes different factors which need to be kept in mind before starting your own business. It mainly talks about a business from a proprietorship point of view, rather than from a corporate point of view. Thus it is intended for small business. A number of factors are important in order to start a successful business. Here an effort is made to describe some of the key factors.

Knowledge/Expertise Any business requires some amount of basic knowledge and experience. The owner needs to be aware about the business he intends to start. Knowledge and expertise about the product or service are keys to a successful business. In case of limited knowledge the owner may not be able to sustain the business and can be fooled by the vendors, suppliers and competitors. When you ask yourself a question “ What business shall I start? ” you need to get a convincing reply about what you intend to do and how you are going to go about it. Read more in Small Business Small Business Survival in a Down Economy Four Easy Ways to Double Your Economic Stimulus Check » 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. **Market/Demand** Once a decision is taken on the business you intend to start, the next step is to explore the demand / market for the product / service. Certain products will

only have a domestic market for them whereas others can be successful on an international level.

The key question is “ Who are the customers? ” A market survey can be conducted to identify the market for the business to be started. If the product / service is expected to be sold locally, the demand for it needs to be assessed. In case an international market is expected then rules and regulations for dealing internationally need to be found out. Total Project Costs It is important to correctly assess the total project cost required to set up and run the business successfully. In a capital intensive business such as starting a manufacturing plant, the start up costs can be very high.

You need to identify the total amount which will be spent on the land & building, plant & machinery, furniture and office equipment, vehicles etc. If a business is in the nature of retail you will need to identify the cost of the store and furniture. Amount required for the decoration of the store needs to be assessed. Similarly in case of an office the major cost will be for the furniture and office equipment. An office or firm can be started at a relatively lower cost initially with only the basic requirements. One also needs to take care of the working capital requirement.

This will mainly consist of the inventory which needs to be maintained and the credit which is extended to the customers. From this the supplier's credit is deducted to arrive at the Working Capital Requirement. The Working Capital Requirement can be quite high for certain industries for example inventory will need to be maintained in a garment store. Similarly in case of a grocery shop there is need for huge inventory for which credit may not be given initially by the suppliers. Financing/Capital After identifying the initial costs
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required for starting the business, the financing pattern will need to be decided.

The financing pattern will be mainly by way of capital introduction by the owner and borrowed funds. Depending on how much capital the owner can introduce the balance amount will need to be borrowed. Funds borrowed will be either short term loans or long term loans. The terms and conditions for borrowing funds will need to be studied such as the cost of borrowing, security required, rate of interest and the repayment terms. The owner will need to approach a number of banks to get information about their terms of lending and draw a comparative analysis to identify which funding is the most beneficial for him.

As a thumb rule short term funds should not be utilized for the purchase of fixed assets. Short term funds are mainly used to meet the working capital requirement. The logic is that if short term funds are used to purchase fixed assets how are you going to repay the short term loan if the business has not progressed. Once the financing pattern is identified the owner will need to decide how the money is going to be utilized. 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 <https://assignbuster.com/challenges-faced-by-companies-while-entering-a-foreign-business/>

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. Location Deciding an optimum 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. You can save out on taxes, water and electricity costs if you are located in some areas. The raw materials can be easily sourced, the manpower would be easily available and you can save out on transportation costs in case of certain locations.

Setting up a business in certain location could lead to subsidy and rebates from the Government. In the case of a retail business one needs to be located in a well populated area and one which is easily accessible. Certain niche products / services of different competitors are available at a single location. For example there are software belts having all software companies. Similarly there are gold marts which have different gold vendors and jewelers at a single location. 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 <https://assignbuster.com/challenges-faced-by-companies-while-entering-a-foreign-business/>

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 advise on legal and statutory compliance. In case of lack of expertise it is better to approach a lawyer / accounting / consultancy firms. Non compliance with the statute could lead to huge fines and penalty and hamper the success of a new business. Return on Investment Return on Investment (ROI) is calculated as Net Profit divided by the Investment made. The ROI is low in the initial years and is expected to grow on a year on year basis.

The ROI needs to be compared with the return that would be earned from alternative business options available. For instance it could be compared with any other source of income such as money earned from investment in the stock market. Similarly the Return On Capital must be greater than the rate of interest earned from a fixed deposit kept with a bank. Staff/Manpower Any business requires efficient manpower to succeed. The staff needs to be carefully chosen since they are the ones who could make or break the business. The cost of manpower varies depending on the location of the business and thus this needs to be factored well.

The business needs to be set up in a location where there is sufficient availability of manpower both skilled as well as unskilled. This remains one of the key criteria's whether the business is going to be run with a staff of 2 or 2, 000. Technology It is always better to invest in the best technology at the time of start up itself. Post investment, monitoring of the technology
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purchased is required. Technology would include plant & machinery as well as latest office equipment. One should not exclude the software required to monitor the business. Choosing optimum software is a challenging task.

A technologically advanced business is expected to perform much better in the longer run. All the above factors are important to start a successful business. Compromising any of these factors could hamper the growth. Starting a business these days is very challenging and an all round knowledge of various factors is required to run a successful one. It is important to make a Project Report on the basis of the above factors before starting a new business. Read more: <http://bizcovering.com/small-business/10-important-factors-to-consider-before-starting-your-own-business/#ixzz2O2yGVG1w>