

smallbusiness

Myths and Realities

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Interested in starting your own business? To help make your decision, listen and gather information from a variety of sources. As you look at the information, you will find inconsistencies, plus some claims seem too good to be true. So what is fact and what is a myth? The following provides information about the realities of some of the more common entrepreneurial claims.

Myth 1 Business owners get rich quick

Getting rich quick is one of the most common myths about owning your own business, although we would love that to be true. (A Google scan listed 7 million hits on “get rich quick”). And yes, you can find rare examples in which someone made money quickly and with little effort.

However, business owners generally report that business success involved hard work, headaches, time and often failure - maybe several failures - before their business survived and they achieved financial success. Also, your business often will require your personal financial investment before you will reap a reward.

Successful business owners typically scan the market for an idea and then determine if that idea is feasible using a market analysis and feasibility study. If you find a market exists, the next questions are: “Can you reach that market?” and “Can you make a profit?” Even then, the greatest rewards come if you have a solid distribution channel and you can stay ahead of your competitors with one or more competitive advantages; for example, more features, better prices, better service. Your success also may depend on developing and maintaining a strong brand for your company as well as individual products and/or services.

Reality: Profits rarely come quickly or easily, and business success may be measured in other terms such as doing what you want or meeting a need.



Myth 2 You have to be born an entrepreneur

Research continues on the attributes of the successful business owner. No single set has been found, but some of the more common ones include:

Passion and perseverance
Creativity
Being a self-starter
Ability to working well with a variety of people
Planning and organizing skills
Good decision-making skills
Physical and emotional stamina
Motivation
Networking ability
Management and operational skills
Technical skills

The good news: The determined business owner can learn how to gain all of these either alone or through another option such as a contracted service or partnership. Entrepreneurship is not genetic. You can acquire the skills for owning a successful business.

To assess your talents and traits, use our “Self Evaluation Checklist” – Tool 1 at: www.ag.ndsu.edu/smallbusiness/documents/fact-sheets/business-ownership-is-it-for-me.

You also can go to www.sba.gov/smallbusinessplanner/plan/getready/SERV_SBPLANNER_ISENTFORU.html. This resource will give you some insight into the common reasons why small-business owners do not succeed.

Reality: You can acquire skills and talents or assistance.

Myth 3 Build it and they will come

Consider these facts:

- Each year, the U.S. Patent and Trademark Office (www.uspto.gov) records more than 450,000 patent filings and grants nearly 200,000 patents. However, less than 10 percent of these new ideas will be commercially viable.
- Supermarkets put 25,000 new items on the shelf each year. But 50 percent of the products will be gone within a year and 97 percent within three years, largely because they fail to generate sustainable profit levels for continued production.
- Overall, 50 to 80 percent of new businesses will not be around after five years.

So the proverbial “better mouse trap” will not be enough to launch a profitable, ongoing business. So what does an entrepreneur need? Here are three basic elements to answer that question:

1. A good idea – It is one that solves a problem at a price people can afford.
2. A great plan, both for marketing and business – People are bombarded with advertising for products, some 300 to 3,000 per day. Your marketing plan must address who your market is, how you can reach this market, why the people in this market would want your product/service and why they should buy it from you. Your business plan, of which your marketing plan is a part, then outlines the rest of your business endeavor, including production, pricing, raw materials, labor and regulatory/legal issues.
3. Passion and perseverance

Reality: Find a need, execute it and let people know you are there.



Myth 4 Starting a business takes a lot of money

Reality has shown that many entrepreneurs started without a great deal of money. Many businesses start for \$10,000 or less. They often needed less than \$1,000 (for example, Dell, Hewlett Packard or Domino's Pizza). "Business Ownership: Is it for me?" (www.ag.ndsu.edu/smallbusiness/documents/fact-sheets/business-ownership-is-it-for-me) offers more information about funding needs and resources.

You need to be prepared to invest some of your own money during the startup phase. The advertisement for "free money" is just another myth. You need bootstrapping skills, or the ability to find resources creatively through a variety of means.

You also need to have a good credit report. At some point, you will need to borrow money. Most of the early money for your business will be borrowed, and your access to it is based on your personal credit report. Get a copy of your credit report (you can get a free copy once per year from each of the three major credit bureaus at www.annualcreditreport.com) to see what has been reported. Review it carefully, ask for changes to any incorrect information and provide short explanations for any disputed item. Then see what steps you can take to improve your credit score.

Reality: Plan to provide some personal funding and think creatively.

Myth 5 Successful business owners are lucky

Many aspiring business owners think luck has something to do with starting a successful business. Business owners will tell you that instead, their success was based on hard work, staying aware of the market and good decision making. The savvy business owner makes his or her own luck through:

- Good market timing – Owners are in touch with the market and their customers. They understand what will work and when it will work. They also understand the concept of workable price points.
- Understanding how advertising and "buzz" are important in creating demand.
- Having contingency plans – For example, what if the market expands? Or what if you have no market? Or what if growth takes longer than you expected?
- Maintaining market share through retaining customers and attracting new customers – This means customer service as well as product/service lines that continue to provide benefits to customers. It means new features, upgrades, product lines, new markets and new methods to get the message out.

Reality: Is it luck? No, largely it is hard work and business savvy.



Myth 6 It gets easier

Some things do get easier because of repetition. As the owner's network expands, the numbers of employees expand, profits increase and additional work can be outsourced, which could be considered as "things getting easier." And if the business owner may have more time off from work, then he or she could argue that things are getting easier.

However, the more typical scenario is that things get harder instead of easier. Business owners face ever-changing marketplaces and stiffer competition. Growth means more employees, more suppliers, new equipment and more competition. It also may mean new regulations, and adjustment and change. Finally, it may mean the owner no longer does what he or she enjoys, such as production, but instead handles less desirable duties such as human relations or sales.

Or what if the business struggles? Again, it does not get easier. Questions about what changes to try, letting employees go, or the most difficult decision, deciding to close the business, all lead to things getting harder, not easier.

Reality: Running a business probably does not get easier. Your hope is that success brings new challenges your way.

Separate Fact From Fiction

This fact sheet examines some of the myths those thinking of starting a business may have seen or heard. While myths may have some grain of truth, the astute business owner needs to realize that the reality of owning and operating a business differs significantly and substantially. Business owners need to separate the myth from what is realistic. Business owners also must be cautious about taking the advice from all of the "experts." Ask questions. Determine the basis for the "information" those "experts" offer.

Starting a business takes resources, time and money. Understand the challenges, the myths and the realities before starting. The road to a successful business is difficult. Do not start with false hopes and expectations.



For more information on this and other topics, see www.ag.ndsu.edu/smallbusiness

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