



Mary Hanson



About the Business Advisor

The Business Advisor is written and published by Mary Hanson, a business attorney in Torrance, California.

Mary Hanson has a law degree from the University of Wisconsin and an MBA from the University of Southern California. She has practiced business law exclusively for 26 years.

She provides legal services related to owning, operating, buying, selling, and structuring businesses. Her clients are business owners in many different industries. She handles corporations, LLCs, new businesses, new ventures, and a broad range of contracts and business decision-making.

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13 REASONS *NOT* TO RUN YOUR OWN BUSINESS

by Mary Hanson

Most of my clients are business owners, and most have done well. However, this does not mean that running a business is an easy thing to do. Business owners should be aware that their children would have a difficult time starting or operating a business.

I have recently dissuaded clients from loaning or giving money to their children for the purpose of buying a business.

Starting and running a business is so difficult, and so out-of-sync with lifestyles today, that it should be approached with the highest degree of caution. The dream of operating a financially successful business can be an impossible dream.

The deck is stacked against success in business. It takes more than hard work and sacrifice to start a business. Even those who are willing to sacrifice everything for success are not assured of success.

Here are my 13 reasons **NOT** to start (or buy) a business:

1. Business expenses are too high. It is too hard to operate a business that is profitable. It is too hard for a business to pay its key management or owners an appropriate level of income for the level of work and the responsibilities associated with operating a business.

Rent of facilities, salaries, wages, payroll taxes, workers' compensation insurance, liability insurance, delivery charges, etc., add up to a lot of money going out each month.

2. Gross revenues are too difficult to bring in. Competition is too great. Any new business has competitors (perhaps already established) offering options in all sorts of categories and locations. It hardly matters what goods or services are offered. Many competitors are willing to drop prices in order to get the customers.

Years ago, the key problem in business was obtaining capital to establish a business. Once established, that business could sell products and services with healthy profit margins. Today, capital to start, expand, or market a business is readily available, so that there are many competitors in every market and industry. Due to competition, a business must be well-planned, well-managed, well-executed, and lucky, in order to be successful.

3. Startup costs are too high. The amount of investment needed in a business is too great. Even a proposed business that looks great on paper can cost too much to get started. You can't just start a business "in the middle" – with cash flow covering expenditures and overhead. The hurdle of incurring all the startup costs before bringing in a dime can be too great.

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Starting a competitive business today means having a great idea, well-trained and experienced personnel, an appropriate facility, and a good marketing plan. This all requires money.

Purchasing a business is also often too expensive. If a business is profitable, and worth the purchase price, it can be impossible to come up with the purchase price, without too great a debt burden. And many businesses are not worth the purchase price – they will never provide a good income for the managers and an adequate return on investment to the owners.

A business is only worth purchasing if it: (1) is profitable enough that all managers (whether owners or not) can be paid appropriately for their level of effort AND (2) it provides an adequate return on investment. If the business was purchased for \$200,000, a 10 – 20% return is \$20,000 to \$40,000 per year, AFTER all compensation.

4. Lack of adequate funds. A key phrase is “debt vs. equity.” A business can be started with both. But if all funds are borrowed, I call it “debt vs. debt.” And I know who is going to lose. “Startup capital” or “invested funds” are supposed to be funds you have saved or have made available by selling another investment. Today, many individuals expect to start a business with an SBA loan or home equity line of credit. A new business, which is a financial challenge due to 1, 2, and 3 above, is hard pressed to generate enough money to pay its regular obligations. To require the business to generate enough money to cover the business obligations and the business owner’s debt from starting

or buying the business is usually too much.

Debt payments are not tax deductible. So in addition to the cash flow burden caused by too much debt, a tax trap is set for the unaware “entrepreneur” who has loaded up on debt to start a business.

5. Lack of a plan. When money was tighter, and before the days of credit cards and home equity loans, an individual starting a business knew that the business plan had to include either exact predictions of expenditures, or estimates of expenses along with an adequate cushion, so that shortfalls would not be encountered. Every dime spent on rent, utilities, advertising, wages, insurance, machines, paper, and desks had to be budgeted.

Today, individuals buying or starting a business often do not recognize the importance of budgeting and projecting. I have seen too many prospective business owners who did not have a calculation of the cost of getting started or adequate projections of income and expenses.

6. Poor education and training. The business owner starting a business needs capable employees for sales, advertising, bookkeeping, billing, financial planning, and people management. This requires employees who are good at math, English, writing, grammar, speaking, and communication. It can be very difficult to find good employees with the capabilities a business needs.

The typical business owner with a startup must try to hire people who can perform all these functions, or else do it himself or herself (if he or

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she has the capability!). A business owner may find it necessary to pay a premium to keep good employees who do their jobs well.

7. Low productivity. In current American culture, leisure time and “family” have become sacrosanct. Business efficiency and productivity are impaired by a culture that puts the personal matters of employees ahead of business necessities.

With employees drawn away from their jobs for personal matters, the burden on the business owner is greater. And success is more difficult to achieve.

8. Too much responsibility. With the difficulty of finding good employees and keeping them on the job, the responsibility for getting things done falls on the business owner. The business owner also may not have the skills necessary for operating a successful business. Many individuals have the capability, but do not have a personality that is suitable to the demands of managing a business.

9. No leisure time. The prospective business owner may be the one who has a great need for leisure time. Is the prospective business owner willing to give up most of his or her leisure time? No more surfing during the week. No going to the gym during the day. No time for computer games, flying, hockey, baseball games, and boating. How about going for 6 or 7 years without a vacation? (A common complaint of business owners, especially in the startup years.) Is the person who wants to start a business really willing to make that level of sacrifice?

10. Family demands. Is the

potential business owner’s family really willing to make the family sacrifices necessary to start or build a business? Will they expect the new business owner to be home every evening, and take time off for family matters? What about the kids’ ball games? Recitals? Halloween parties? How many family or kids’ activities is the prospective business owner willing to miss?

Is the family willing to reduce its financial demands so that money can be invested to grow the business? If the business is starved for cash because of family financial demands, will it survive in today’s competitive business world?

11. Stress. Hives. Ulcers. Insomnia. Headaches. Heart attacks. When dreaming of starting or owning a business, no one contemplates a negative impact on personal health. The stress of running a business takes a toll. The financial demands, the level of responsibility, the conflicts with family, and the lack of personal time, make stress a constant companion to many business owners. And stress leads to other health issues.

12. No easy alternatives. In radio ads, buying a franchise is made to sound like a great alternative – owning a business but with help from a franchisor. Bringing in a partner can also sound like the answer to the problems related to operating a business. But having a franchisor or partner is more often a hindrance than a help. The franchisor is in business to make money, and the fees paid the franchisor raise the cost of doing business. The franchisor owns the trademarks, the business plans, and most of the goodwill. Because the

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Publisher's Note

"Having your own business" is a common dream. But it is demanding in ways that cannot be solved (with certainty) with money, effort, or sacrifice. A lot of money, effort, and sacrifice can be spent for naught.

I do not recommend encouraging young people to start or buy a business. The deck is stacked against them in starting a business today. We want them to succeed, and to fulfill their dreams. But what we want most for them is financial success and personal satisfaction.

Mary Hanson
Attorney/Publisher

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franchisor owns so much of the business value, the business owner can't build up and then sell the business with a high value (unless the business can generate high profits, which is difficult in today's business environment).

Any partner also wants his or her share of the profits, adding another expense – even if his or her contribution to the business is not worth what he or she takes out. Don't expect a partner to add more to a business than he or she takes.

13. No easy out. If a job doesn't work out for you, you can always quit. A business owner's only alternatives are: (a) Continue to operate the business (even if that means losing money every day!!) until the business can be sold or closed down; or (b) close the business. Giving the business away

(to employees, relatives, or someone else) is not a third option because it really is the same as selling the business – but with a low purchase price. Keep in mind that the business owner's sale price can be a negative, if the purchase price does not cover the owner's ongoing liabilities from past operation of the business.

Conclusion

If someone you know is buying or starting a business, encourage them to review the pros and cons, and to do the most detailed budgets and financial projections they have ever done. I recommend using an experienced financial advisor who can help identify the many costs and expenses involved, and who can help forecast debt service, tax consequences, and cash flow. **BA**

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