

The Six Myths of Business Ownership

Myth	Reality
<p>“I can bootstrap it.”</p>	<p><i>Probably not! Undercapitalization (too little money invested in the business) is the biggest cause of small business failure. While you may indeed be able to bootstrap a small business, why take the risk when you can calculate the amount of capital investment needed to make your venture succeed? This cash reserve makes you sleep better, helps avoid panicky decisions, and gives you the breathing room you need.</i></p>
<p>“I can start living off the business immediately.”</p>	<p><i>Forget it! Most business owners find that it takes between six months and a year before their business can pay them a decent wage. Early expenses always outrun early revenues. For this reason alone, consider starting your business as a part-time or weekend venture if possible, or be prepared to live on savings (or have another income supporting you) until your business can afford to pay you. Home-based companies are a great way to start, as you can minimize your cash needs. This kind of bootstrapping is highly recommended, but of course doesn't fit all businesses.</i></p>
<p>“I'll be my own boss.”</p>	<p><i>Not likely! The business and its customers will be your boss and keep you occupied 60 or more hours a week. Your other bosses include employees, vendors, bankers and investors.</i></p>
<p>“I'll get rich overnight.”</p>	<p><i>You won't! The get-rich quick stories are either bogus (the many years of preparation are hidden) or so unusual that your chances of winning the lottery are higher. Small businesses are a great way to build wealth, but it takes time. David Birch, the eminent small business researcher, notes that more than a third of businesses that grow significantly don't do so until they've been active for ten or more years.</i></p>
<p>“I have nothing to lose: I'll incorporate and use other people's money.”</p>	<p><i>In a word: Hogwash! The “corporate shield” only exists in rare cases where the business is strongly capitalized and big enough to make creditors (suppliers, bankers, investors) rest easy. Start-ups seldom met these criteria. The same applies to using OPM (Other People's Money). In spite of all the books and articles urging you to borrow your way to wealth, it isn't that easy to find OPM. More important, it seldom makes business sense to take on debt if you can avoid it.</i></p>
<p>“It takes money to make money.”</p>	<p><i>This one's a half-truth. Good business ideas attract money. Bad ones don't, and shouldn't. There are businesses where the hurdle to entry is so high that substantial capital is needed. Printing, for example, and most manufacturing businesses call for such great investments in machinery, plant, and equipment that for all intents and purposes it does take money to make money. Many businesses don't have such high barriers to entry. Service businesses, some retail businesses, and some wholesale or distribution businesses fit this low capital criterion. If you lack capital, you should try to find such businesses. People have made fortunes in all kinds of businesses.</i></p>