Oifig Fiontair Áitiúil

Local Enterprise Office

The Choices in Setting up a Business

...Let's talk business

*Oifig Fiontair Áitiúil **Lú***

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Setting up in Business: The Choices

*In deciding to set up in business for yourself, you face a great many choices. Your first choice is what **Kind** of business?*

Sell Time, Sell Product or Disrupt?

Lots of small businesses do more than sell their owner's time and skill - for example, a plumber sells his/her time, even if they don't charge by the hour, because when they are not working, they don't get paid. Accountants, consultants, tradespeople, anyone with a saleable skill, does the same. This kind of business is easy to get into - provided that you have the necessary skill and experience in an area that people are willing to pay for - but its growth is limited to the number of hours' work that you, or your staff, can deliver.

Moving to a situation where you sell a 'product' usually involves greater financial commitment and a bigger, better-resourced organisation, since the product has to be made (see advice booklet **Product and Service Delivery**) before it can be sold. So you need raw materials, manufacturing processes, factories and warehouses, etc - or you buy in finished products in bulk from someone else who makes them. Either way, there's more risk - but potentially better reward.

The really enormous rewards come in businesses based on 'disruptive technologies', ones that completely change the way that people do things in a particular area. For example, look at the impact that email, mobile phones and the Internet have had on communications: when post and landline phones were the only ways of communicating with people, communications were slow and/or expensive over long distances and people had difficulty changing arrangements at short notice; now, email removes distance as a barrier, as do Skype/VOIP phones, while mobile phones remove the need to be at a specific location in order to receive and take calls. And, fewer and fewer people post letters, except where some kind of physical document needs to be sent - for example, a contract or a birthday card. Email, mobile phones and the Internet have disrupted the conventional ways of doing things. But the risk and rewards here are much, much higher - for every one successful disruptive technology, there are thousands that fail.

Which of these categories does your business fall into?

Start, Buy or Franchise

In most cases, people considering self-employment think first about starting their own business - perhaps there's a sense that, if you're going to be your own boss, you've got to build it all from scratch. That's not the case - and, often, is not a sensible course of action. However, it's your choice - and just one of many you will have to make. What follows explains the alternatives.

Starting a new business from scratch

This is the conventional path to self-employment. It means coming up with the idea, planning it, financing it, and then executing on it. In most cases, you will be forced far beyond your comfort zones, into areas that you know nothing about. And, because of that, it's risky - if you don't know what you are doing, the risks of making a mistake, especially a fatal mistake, are greater. International studies show that, typically, 50% of start-ups fail within the first few years.

But it's not all doom and gloom either! Thousands of people start new businesses every day - and about half of them survive and succeed! Those who do usually attribute their success to planning (see the advice booklet **Preparing a Business Plan**). So don't dismiss starting from scratch - but don't underestimate the challenges it poses either!

Buying an existing business

Buying an existing business can be a sensible alternative to starting a business from scratch. The main advantage is that the business has existing products, markets, customers, staff, etc. and you don't have to build it all up yourself.

The disadvantage is that, usually, a considerable investment is needed to acquire the business, and more money may have to be added to develop the business further.

And, just like when buying a second-hand car, it is also important to know why the business is being sold - perhaps the business is in trouble or is about to face major competition, which might depress profits in the future.

Particular areas to look into are:

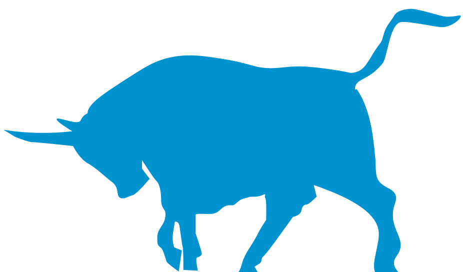
- Financial data - what do the figures show?
- Management and key staff - how to retain them?
- Recent investments (or lack of)
- Product development/improvements (or lack of)
- Innovation (or lack of)
- Use of modern technology (or lack of)
- Hidden liabilities

Buying into a franchise

Across the world, there are over 3,000 franchised businesses, covering almost every industry. Some are international brands like McDonald's; others are national brands like O'Brien's Sandwich Bars; a few are much smaller, local opportunities.

When you buy a franchise, you buy the right to use a specific trademark or business concept, which has been tested in practice. The chief benefit is that you are able to capitalise on the business format, trade name, and support system provided by the franchisor.

In return for an initial upfront fee and ongoing fees for the right to the franchise, the franchisor supplies a detailed operational manual, which sets out exactly how to run the franchise. It is also usual for franchisees to pay into a co-operative national advertising and promotional fund, which benefits all franchises through increased exposure to the common trade name.



The advantages of buying a franchise are:

- A much lower failure rate than other start-up businesses, since most of the problems have been discovered and solved.
- A complete package, including trademarks, easy access to an established product, proven marketing method, equipment, stock, financial and accounting systems, on-going training and support, research and development, sales and marketing assistance, planning and forecasting, etc.

However, the essence of a franchise - buying and operating a proven concept - can make it seem like you are more of a manager than a boss, since the franchise agreement is a binding contract, and sometimes can be quite restrictive. Franchises are not for everyone - but they do offer an alternative entry route to self-employment, with a lower risk threshold.

‘Lifestyle’ or ‘Growth’?

There are lots of different types of business, but the two extremes are **life-style** businesses and **growth** businesses. Of course, there are lots of other types in between, though they lack the descriptive names.

A **life-style** business is one where the owner usually makes a good living from the business, without working too hard, or working the long and unsocial hours associated with self- employment. It's one where the owner makes a conscious choice of putting their own life-style before business success - and usually sacrifices some, or most, of the potential of the business in the process. Think of a beach-side bar in the tropics, where the owner rises late, surfs through until mid-afternoon and, after a lengthy siesta, opens for business for a few hours in the evening, closes when he feels like it and not according to a printed schedule - that's a life-style business! Another example is the consultant who moves from a high-flying director-level job to a rural location, in order to spend more time with his/ her family, earning a living from perhaps more mundane work locally.

In contrast, some businesses - a small minority - are **growth** businesses, which have both the potential for real and rapid expansion and an owner who is prepared to make the necessary sacrifices to achieve that potential. It's the last bit that's important - and where the contrast with life-style businesses is most apparent: in what the owner is prepared to sacrifice, and for what.

Neither one nor the other type of business is **better**, although from the point of view of the economy and of the enterprise support bodies, a growth business is preferred as a better investment for support. But again, it's your business, and you need to choose what suits you.

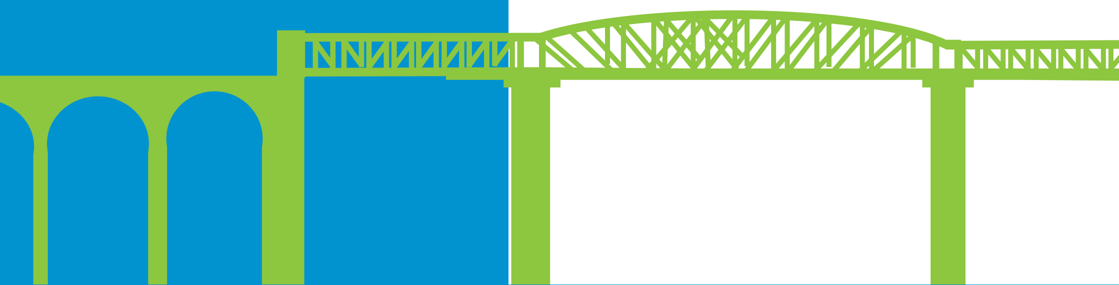
Local, National or International?

Often, businesses need to aim at being national, in order to find enough customers. This requires resources - both in marketing to, and serving, customers across a wider territory. For service businesses, the challenge is to systematise what they do, to ensure the same standards of delivery in all locations.

Local, National or International?

Most service businesses are local, since it's hard to ensure that a service is delivered the right way, every time, if you are not there on the spot yourself, either to do it yourself or to make sure that it is done right by your staff. And, if it can be done the right way with no supervision, then it's likely that the business can be easily copied - think of sandwich or coffee shops.

But, there are only about 5 million people in Ireland altogether - about the same as a decent- sized international city! And, for this reason, ambitious Irish businesses have to export very early in their development - simply to find enough customers, the Irish market is just not big enough for some businesses. However, exporting is even more difficult than selling locally, since there's often language, and always cultural and regulatory, barriers to be overcome. Although you should not underestimate the challenge involved in growing an international business, you also should know that the enterprise support bodies are especially keen on supporting this kind of business - or one that can show that it has international potential.



Sole Trader, Partnership or Limited Liability Company?

You can operate a business in a number of legal formats.

The simplest is as a **sole trader**, which means that there is no distinction made between you and the business. This makes it simple to set up - all you need to do is to register with the Revenue Commissioners within 30 days of starting, there's no other paperwork required! The downside is that, as there is no distinction made between you and the business, you bear any losses the business may make - in extreme situations, you could lose everything! Note that being a sole trader doesn't prevent you from hiring staff, it just refers to the fact that you and the business are one and the same person legally.

A partnership involves 'two or more people in business with a view to profit'. Again, a partnership is as simple to set up as a handshake between those involved - no paperwork needed, except a form to the Revenue within 30 days.

The downside again is that the partners carry the cost of losses in the business, not equally or in the proportions agreed, but each partner is personally and individually liable for ALL of the debts of the business, even if he/she was not responsible for the actions that caused the losses. So partnerships are even riskier than being a sole trader, since your risk depends on other people's actions.

Therefore, most businesspeople set up in business as a limited liability company. This means that they register their business with the Companies Registration Office (**www.cro.ie**) and, by doing so, they separate the business legally from themselves. They own the business, they run it, they work in it - but, provided they have done nothing wrong, or have not given personal guarantees to a bank or other lender, they are not responsible if the business is unable to pay its debts. It's like taking out '**excess waiver**' insurance when hiring a car - normally, if you hire a car, even if you have paid the full insurance, you are responsible for the first €500 or so of any damage; if you pay the daily charge for excess waiver insurance, you have no responsibility, even if the car is totally written off. This limited liability is a major protection for business-owners. It comes at a price: they must register with the CRO, and provide it with specified information about the business every year and, unless the company qualifies for the small company audit exemption (most do), they must pay for an audit of the company's accounts each year.

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Local Enterprise Office

Further Information

Local Enterprise Office Louth | **www.localenterprise.ie/Louth**
Louth County Council | **www.louthcoco.ie**
Supporting SMEs | **www.supportingsmes.ie**
Enterprise Ireland | **www.enterprise-ireland.com**
Local Enterprise Offices | **www.localenterprise.ie**
Department of Jobs, Enterprise and Innovation | **www.djei.ie**

Revenue Commissioners | **www.revenue.ie**
Companies Registration Office | **www.cro.ie**
Irish Franchise Association | **www.irishfranchiseassociation.com**

These booklets have been designed as a guide only. Readers are advised to seek professional guidance before making any financial or legal commitment.

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