WHAT'S STOPPING YOU?

Shatter the 9 Most Common Myths Keeping You from Starting Your Own Business

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Have you ever caught yourself daydreaming while at work and wondering if what you’re doing is all you’ll achieve in your career? Or has your heart ever ached to meet a certain desire, like completing work that you truly enjoy, being your own boss, making more money, or being home when your kids get out of school?

These types of thoughts and desires confront people every day—even those with seemingly perfect jobs. In response, most people just sigh or shrug and accept life as it is. But not always. A growing number of people from all walks of life are starting their own businesses as a way of improving their lives. In fact, there are roughly 15 million self-employed people in the United States today. But there is a problem. The problem is that because some business owners have hit it rich and made a large impact on society, there is a growing tendency to view business owners as bigger-than-life and place them in the same category as professional athletics and rock stars. This tendency has led to the prevailing wisdom that starting a business is an extremely difficult task and that a person must have “loads of money” and “tons of talent” to get a new business off the ground.

While it’s true that some businesses are difficult to start and that talent and money are needed to get a business off the ground, many of the tales and perceptions about the enormous difficulties associated with starting a business are just myths. The truth is that the ability to start a successful business is much more within the average person’s reach than the myths allow us to believe. If you have the interest it took to pick up this book, chances are you have the talent, the money, and the character needed to start and run a business of your own.

Who Is This Book Written For?

This book is for anyone who has thought about starting his own business but has been reluctant to try. This group covers a wide spectrum,
from people who have an idea for a new business but are uneasy about leaving their current jobs to people who are dissatisfied with their jobs or careers but feel trapped. It also includes people who have a goal or want to live a particular lifestyle and see starting a business as the most reasonable way to make it happen.

Although some people do start businesses, most of the people in these categories think about it occasionally but set their thoughts aside because of the anxiety and worry caused by the nine myths that we discuss in the book. It’s hard to blame them. Listen to the first three myths and ask yourself if they would discourage you from starting a business: Myth 1: It takes an extraordinary person to start a business; Myth 2: Starting a business involves lots of risk; Myth 3: It takes a lot of money to start a business. Pretty daunting list, isn’t it? And there are six myths to go!

A potentially rewarding part of reading this book are the many people you meet that objectively aren’t any smarter, richer, or more gifted than you. What they do have that you probably don’t is a successful business startup. As we progress together through the chapters of the book, we knock off the myths one by one by showing how ordinary people prove that they simply aren’t true. But there are exceptions. In most cases, it does take an extraordinary person and lots of money to launch a biotechnology, a medical products, or a semiconductor firm. But these cases, by far, are the exception rather than the rule. You’ll be amazed what people are able to accomplish with very little money and the simple common sense that is the foundation on which many of the business startups described in this book were built.

What Will You Learn by Reading This Book?

Next time you go to a bookstore or are in an airport gift shop, try this little experiment: Spend a few minutes watching people browse through the business magazines or books. Watch their faces and try to guess what their circumstances are. If you’re like us, in the majority of instances, you’ll get the feeling that they’re looking for answers. There is some problem or unmet need in
their personal or professional lives that they’d like to resolve but can’t figure out how to on their own. So they’re scanning the books for potential answers. If you conduct this experiment long enough, we can almost guarantee you that you’ll see the ultimate example of this scenario play out. Someone will be scanning the shelves of business books and will come across a book that immediately catches her attention. The person will then intently page through the book for a few minutes, in a state of total concentration, and a slight sign of hope or relief will gradually start to cross his or her face. As the person proceeds to the checkout counter, he or she will be clutching the book as if it were a $1,000 bill. You can’t help but hope, for that person’s sake, that his or her question has just been answered.

This experiment is a reminder of how desperate people are for answers to the problems or challenges in their lives and how much hope, information, and potential help books can offer. If you’re reading this preface, you’re probably tired of your job, want to make more money, desire to pursue the career you have always wanted, or are thinking about starting your own business for a reason equally important to you. What’s stopping you, if you’re similar to most of the people we talk to, is a lack of knowledge about the business startup process and nervousness about one or more of the topics covered by our nine myths. This set of circumstances leads to a lack of self-confidence, which researchers believe is the number one reason that people hesitate to start their own firms.

What you will learn by reading this book is the truth about many of the most important aspects of starting a business. Our goals are to educate you and stir your emotions. We hope that as you read the book, you’ll pause from time to time and think to yourself, “That’s interesting—perhaps I have been too quick to dismiss the idea of starting my own business.” We also pledge that the stories will be compelling enough that you’ll stop occasionally to excitedly tell a coworker or friend things like, “Do you know it’s not true that nine out of ten new businesses fail?” (In truth, 66% of new businesses are still operating after two years, and 50% survive four years or more.) Or you’ll want to share stories such as, “You won’t believe how this woman I just
read about quit her job as a general partner in an investment firm to buy an adventure travel company. She didn’t do it because she could make more money—she did it to lead a more satisfying and enjoyable life.”

**How Is This Book Organized?**

The book is organized into nine chapters—one chapter for each of the nine myths. Each chapter starts by stating the myth and the corresponding truth and is followed by a complete discussion of the chapter’s topic. Each chapter contains two to three special features that add to the material in the chapter. Although the book is admittedly upbeat, we paint a realistic job preview for those who are thinking about becoming a business owner. We want people to be realistic about their prospects, but we also want them to be confident and to think, “I can do this. It’s not beyond my reach.”

We now invite you to enjoy learning about the myths associated with starting your own business and to learn from the lessons in this book. If you are inspired by a particular story in the book, if you would like to tell us your start-up story, or if you are impacted by this book in any way, please feel free to e-mail us your story at story@mythsbook.com. We would love to hear from you. Much of what we know we learn from people just like you. We’d love to consider including your story in future books as we work together to dispel the myths and reveal the truth about the business start-up process.
Myth No. 2:
Starting a Business Involves
Lots of Risk

Truth No. 2:
It May Not Be as Risky as You Think

Introduction

If you ask people with traditional jobs why they have never started their own businesses, a very common response you’ll get is that starting a business involves too much risk. It’s a natural response. In general, people are risk-averse, particularly when it comes to losing something they own or possess. For most of us, there are few things that are more important to our security and sense of self-worth than our jobs. As a result, it’s not surprising that people are protective of their jobs and almost instinctively see leaving their jobs to start their own businesses as a risky proposition.

The problem with these sentiments is that they are overly protective and unnecessarily deter people from starting their own businesses. There are many people, some of whom you met in Chapter 1, who have successfully transitioned from traditional jobs to self-employment. The general notion that starting a business involves a great deal of risk is simply not true. The often battered about figure that 9 out of 10 business fail in their first few
years is an exaggeration. According to Brian Headd, an economist for the U.S. Small Business Administration, 66% of new businesses are still operating after two years, 50% survive four years or more, and 40% survive six years or more. Additionally, about one-third of all businesses that close or are sold are considered to be successful by their owners.¹

It’s also important to place starting a business as an alternative to traditional employment in its proper perspective. While starting a business involves risk, working for a traditional employer is not risk-free. Between 70,000 and 80,000 corporate employees are laid-off every month, about 30,000 more per month than in the early 2000s. In addition, in many industries, pension funds, health insurance, and other benefits are being trimmed or eliminated at a rapid pace. This is a trend that is occurring in many countries around the world.

A misconception related to the myth that starting a business involves lots of risk is the often expressed sentiment that business owners themselves are risk-seekers. This idea stems largely from the impression that people who start their own businesses are willing to risk their careers, life savings, family relationships, friendships, and emotional well-being on chancy new businesses that might or might not succeed. While starting a business does entail risk, researchers have found that business owners are “moderate” rather than high-risk takers.² There are two explanations for this finding. First, rather than plunge blindly into a new venture, business owners tend to take well-informed calculated risks. They also try to accurately discern the degree of risk involved through the techniques we talk about in this chapter. As a result, most business owners don’t tend to perceive starting a business as being as risky as you and we might see it. Second, in many cases, business owners redefine the meaning of risk and see their businesses as secondary or acceptable risks in their lives. This scenario played out for Kenny Kramm, the business owner introduced in Chapter 1. Recall, Kramm worked feverishly to find a way to help his infant daughter, Hadley, take her medicine, and as a result, started Flavorx, a company that makes additives that help
medicines taste better. For Kramm, the biggest risk in his life was his daughter’s health, not the business he was starting. Similar examples include mothers or fathers who start home-based businesses so they can be home with their kids and people who start businesses to pursue passions that are particularly important to them. It’s not that these people are reckless or are predisposed to accept higher risks than nonbusiness owners. It’s just that they don’t see their businesses as high-risk or are willing to accept some additional level of risk, given the other opportunities their businesses allow them to pursue.

If people are in general risk-averse, what type of people, then, are able to set aside the natural tendency to protect their jobs and maintain the status quo and start their own businesses? What set of attributes motivate someone to learn enough about a business opportunity to make a well-informed decision about whether it’s a good opportunity or not? Or what set of qualities gives a person sufficient drive to quit her job or work hard enough in her spare time to start a business to accommodate a higher goal, like Kenny Kramm did when he started Flavorx?

Before addressing these issues, we’d like to briefly explain the nature of risk and why it’s difficult for people to quit a job to start a business. The very nature of risk inclines people to protect what they have, whether it’s a job or another asset, rather than make a dramatic life change like starting a business. After looking at these issues, we’ll articulate the attributes that allow people to set aside their aversion to risk and start their own businesses.

**Why It’s Difficult for People to Quit Their Jobs and Start Their Own Businesses**

Risk is a concept that signifies a potential negative impact or outcome that results from a process or future event. In everyday language, we use the term “risk” to indicate the probability of a loss. Two terms that are associated with the study of risk are the *endowment effect* and *loss aversion*. An understanding
of both these terms and the concepts behind them provide insight into why it’s difficult for people to quit their jobs and start their own businesses.

The endowment effect refers to the fact that people value a good, service, or anything of value more once they possess it. In other words, people place a higher value on things they own as opposed to equivalent or even superior items they don’t own. In one famous study depicting this effect, college students placed a high value on a coffee mug that had been given to them but put a lower price on a near equivalent mug they did not yet own. There is a very powerful urge among people to protect what they already own or possess, even though something of greater value may be within their reach. It’s easy to see how this applies to people and their jobs. When an individual already has a job, his tendency is to protect it, imperfect as it might be, rather than quit that job to start a business. The problem with this tendency is that people often exaggerate the desirability and future potential of a job simply because they have it.

The second dimension of risk that helps explain why it’s hard for people to quit their jobs to pursue self-employment is loss aversion, which refers to the tendency for people to strongly prefer avoiding losses rather than acquiring gains. In fact, some studies have shown that losses are as much as twice as psychologically powerful as gains. The way this applies to people and their jobs is similar to the endowment effect. People are reluctant to lose or give up something, like their jobs, even if the possibility exists that they could exchange them for something much better, like different jobs or starting their own businesses. Ironically, what this means is that people often achieve the worst of both worlds without even realizing it. They’ll fight hard to keep jobs that are mediocre or poor, simply to avoid losing them, while they are psychologically less inclined to fight hard to gain something that might improve their situations, like different jobs or starting their own businesses.
The game show “Who Wants to Be a Millionaire?” is the ideal setting for illustrating the endowment effect and loss aversion. The endowment effect refers to the fact that people value something more once they possess it, while loss aversion refers to the tendency for people to strongly prefer avoiding losses over acquiring gains. Collectively, the two theories help explain why people tend to cling to their present jobs, even if they are subpar, rather than try to find different jobs or start their own businesses in an effort to improve their situations. It also explains why people on games shows like “Who Wants to Be a Millionaire?” often take the money rather than try for a higher amount.

The way the show works is simple. On a particular show, the host asks a contestant a series of up to 15 questions, each worth a monetary value starting at $100 and moving up to $1 million. For each question the contestant answers correctly, the contestant can either take the money that has been won or risk the money to try to advance to the next level. (The rules varied some during the years of the show.) The game is fun to watch, partly because when a contestant reaches a certain level, like $64,000, either Regis or Meredith (the show’s two hosts) shows the contestant a signed check for that amount. This is when the endowment effect and loss aversion often kick in. Once the contestant sees the $64,000 in tangible form, there is a powerful urge to protect and hold onto it, even though much more could be potentially won if the game continues. The effect is even clearer when people preprogram themselves to try to avoid it. This intention is apparent when people say, often with their voices trembling, something like, “I promised myself I would not drop out until I reached the $125,000 question.” The reason their voices tremble is
In our experience, there are three activities in which people engage to overcome the natural tendency to succumb to the endowment effect and loss aversion and objectively assess whether starting a business is right for them. As you read through and think about these activities, pay particular attention to how each activity can bring clarity and a sense of purposefulness to your life. The problem with succumbing to natural tendencies, like loss aversion and the endowment effect, is that they in effect place a person on autopilot rather than equip them to make more personal and deliberate choices. This outcome can be a good thing when someone reflexively withdraws his or her hand from a hot stove. But it can be a bad thing if it keeps a person in an unsatisfying job when other alternatives, like starting a business, are readily available.

Make an Objective Decision About Starting a Business by Setting Aside Anxieties About Risk

Three activities that can help people transcend loss aversion and the endowment effect to determine whether starting a business is right for them are shown in Figure 2.1. The first two activities, “Determining what you want out of life” and “Having a good sense of what’s the ‘worst thing that can happen’ if your business fails,” are usually needed to get a person to the point where he is open to even considering starting his own business.
You’ll see this reality reflected in several of the examples that follow. The third activity, “Researching the business opportunity,” is needed to help a person assess the attractiveness of a particular business opportunity.

An awareness of these activities can be very helpful for two reasons. First, if you’re thinking about starting your own business, the activities can be used as a literal checklist to help you overcome the natural tendency to yield to loss aversion and the endowment effect in your own life. These are powerful effects, and they typically can’t simply be willed away. You have to first convince yourself that starting a business is the right thing to do before you can convince others. Second, an awareness of the activities is helpful because, collectively, they are holistic and deal with both the personal and the business side of starting a business.

Let’s now take a closer look at these three activities.

![Figure 2.1](image)

**Figure 2.1 Activities that enable an individual to set aside risk aversion and the endowment effect and make an objective decision regarding whether starting a business is right for him or her**
Determining What You Want Out of Life

The first activity people need to carry out is determining what they want out of life. This is a subjective task that is frequently more difficult than it seems. It is also something people must do for themselves. A mentor, spouse, parent, or book might help a person determine alternatives for her life, but ultimately a person’s awareness of what she wants out of her life and career must come from within. Sadly, most people are not vigilant enough about determining what they really want and, as a result, spend precious years in so-so jobs and mediocre lifestyles. An important way of reducing risk in all aspects of life is for a person to determine his most important goals, passions, and aspirations and then focus his valuable time and resources in those areas.

There are many ways to go about gaining an appreciation for what’s most important in life. Some people write a personal mission statement or values statement. Others acquire a sense of their most important aspirations and goals more gradually or subtly. Many people also reevaluate what’s most important to them as the result of a significant life event, such as the birth of a first child, a health scare, the loss of a job, or a national tragedy like the terrorist attacks on September 11, 2001. These types of events jolt people into thinking through their most important personal goals and priorities.

There are at least two ways that determining what you want out of life can help you set aside risk anxieties and decide whether starting a business is right for you. First, people who have a good sense of what they want out of life tend to look at life holistically and are more likely to select careers or occupations that facilitate the entirety of their lives and aspirations, rather than settling for something that just earns them a paycheck. This is the reason that the vast majority of small businesses are classified as “lifestyle” firms (see Table 1.1). Rather than starting a business to accumulate wealth or gain prestige, the majority of people start businesses to pursue certain lifestyles and make a living at it.

An example of a married couple who started their own business for exactly this reason is Sue Schwaderer and Bill Lawrence. In the late 1990s, Schwaderer was making a six-figure income...
working for Oracle Software, and Lawrence was successfully managing three apartment buildings they owned in Evanston, Illinois, a Chicago suburb. Although they were making good money, they didn’t enjoy their everyday life. “We were tired of never seeing each other and of too much business travel...too much traffic, too many people, too much noise,” Schwaderer recalls.⁶ The two left their life in Chicago behind and opened up a 14-room bed and breakfast in picturesque Saugatuck, Michigan, a town of 1,000. Although the income from the bed and breakfast doesn’t match what they were making in Chicago, they are happier and enjoy the less hectic pace of a smaller town. The desire to pursue what was most important in their life was stronger than the tug of loss aversion and the endowment effect, and they were able to meet their aspirations through business ownership.

Why Two People with Successful Careers Left Their Jobs to Start Their Own Businesses

There is no more vivid an illustration of how having a good sense of what you want out of life can change how you view jobs and careers than when people give up lucrative careers to start businesses that seemingly have much less income potential than the careers they left behind. This is exactly what happened in the cases of Hannah Sullivan and Emily Levy.

Hannah Sullivan spent the majority of her career in high-powered jobs in the investment world. Most recently, she was a general partner at San Francisco-based Fremont Ventures, a part of the Fremont Group, a private investment company that manages more than $10 billion in assets. But her passions have always been hiking, canoeing, and other outdoor activities. In 2001, Sullivan was ready for a break from the investment world. Ironically, about the same time, she met Katie, the owner of Tahoe Trips & Trails (an adventure and travel company), who was ready for a break from her
industry. Despite her prestigious career, Sullivan admits that she had been looking into the possibility of either buying or starting an adventure travel company for the previous 10 years. Sullivan quit her job and purchased Tahoe Trips & Trails. She left the investment world and her promising career behind and is now expanding the operations of her new endeavor.

Emily Levy grew up in South Florida helping her mother run a school for students with learning disabilities. She developed an alternative strategy for teaching reading comprehension to dyslexic students, but when it was time for college, she decided to pursue other interests and was accepted into an eight-year medical program at Brown University. Ultimately, Levy deferred medical school to pursue a career in investment banking and money management in New York City.

About a year after she moved to New York, Levy realized that finance wasn’t for her but stopped short of quitting her job or going back to medical school. Returning to her true interest and roots, she started tutoring students with learning disabilities part-time.

“Soon my entire after-work schedule was full! I had never worked so hard in my life—doing finance all day and helping kids late into the night,” Levy recalls. “I knew I had to make a decision: Stick with a secure job in finance or jump into my real passion.”

Levy took the leap and started EBL Coaching, a tutoring service for kids who are struggling in school or trying to overcome learning disabilities.

The second way that determining what you want out of life can help you set aside risk considerations and decide whether starting a business is right for you is if an important aspect of what you want can only be satisfied by starting your own business. This scenario played out for Kimberly Wilson, the founder of Tranquil Space, a yoga studio located in Washington, D.C. Wilson had a successful career as a paralegal but did a lot of yoga in her spare time. She had trouble finding yoga classes that she liked, so she
started inviting people to her home to do yoga and provide her own instruction. As her interest in yoga grew, she attended a 200-hour yoga training course in California and made the decision to start her own yoga studio. The transition from working for a company to self-employment was tough, however, and the silent pull of loss aversion and the endowment effect can be felt in Wilson’s remembrance of how she felt when she completed her yoga training and returned home to quit her job and start her studio:

“I came back from the training and cried. I knew I had to take the plunge, but it was tough to summon the courage. I am thrilled that I did not stick with my comfort zone.”

Another example of how loss aversion and the endowment effect can be overcome if an important aspect of what someone wants can only be satisfied by starting a business is provided by Doug and Lisa Powell. Doug and Lisa, who are both graphic designers, live in the Minneapolis area with their two children. The Powells were a typical family until 2004, when their daughter Maya, who was seven at the time, got sick. It turned out that Maya had type 1 diabetes, a disease that develops in a small percentage of children and young adults. A person with type 1 diabetes has a pancreas that does not produce insulin, a hormone necessary to sustain life. To treat her condition, little Maya would have to prick her finger to test her blood and take insulin one or more times a day for the rest of her life.

As you can imagine, Doug and Lisa Powell initially felt overwhelmed. As the parents of a seven-year-old type 1 diabetic, they needed to quickly learn how to help Maya manage her disease. To accomplish this goal, the Powells set out to try every device available to help Maya understand her condition and to help her cope with her daily regimen. They tried books, alarms, toys, games, medical alert bracelets, and other devices. After trying all these items, they were struck by two things. First, almost everything they found related to type 2 rather than type 1 diabetes. Although “type 1 diabetes” and “type 2 diabetes” sound similar, they are distinctly different diseases. Many of the tools and instructional aids available for type 2 diabetics don’t work for people with type 1. The second thing that the Powells noticed
was that the vast majority of the material and devices they tried were emotionally cold and intimidating—particularly for a young child. They didn’t see how using any of these items could uplift Maya’s spirits while teaching her about her disease.

Given what they had discovered, they decided to use their skills as graphic designers to develop their own materials to educate and encourage Maya and help her manage her daily regime. They started sharing the materials with other parents whose children had type 1 diabetes and were surprised by how positive the feedback was. As a result, they decided to start a business, named Type 1 Tools, to share their material and their passion for helping children with type 1 diabetes with other parents and caregivers. Word quickly spread about how effective the Powells’ Type 1 Tools are, and people with type 2 diabetes started asking for similar material. The couple obliged and refocused their company, renaming it Type 1 and Type 2 Tools, to help children and adults with both types of diabetes.9

Kimberly Wilson and Doug and Lisa Powell all had good jobs and promising careers but developed a keen sense of what was critically important to them in their lives. For Wilson it was starting a yoga studio, and for the Powells it was helping children with type 1 diabetes cope with their disease. In both cases, they couldn’t fulfill their most important ambitions through traditional employment or by passing their ideas along to someone else. Starting a business was the only way they could accomplish what was most important to them. They, like other business owners, were able to overcome the natural tendency to avoid risk and start their own businesses by focusing on the more important things in their lives.

**Having a Good Sense of What’s the “Worst Thing That Can Happen” if Your Business Fails**

The second activity or task that helps people set aside loss aversion and the endowment effect and objectively assess whether starting a business is right for them is having a sense of “what’s
the worst thing that can happen” if the business they’re contemplating fails. This activity is not meant to encourage people to be fatalistic, but to develop a reasoned notion of the actual “life risk” involved with starting a particular business. Even if a business endeavor itself is risky, the broader question is how much risk starting the business actually has in the broader scope of a person’s life. For example, Michael Dell, who dropped out of college to start Dell Inc., explained, “The opportunity looked so attractive, I couldn’t stay in school. The risk was so small. I could lose a year of college.”

There are two ways that people frame the issue of “what’s the worst thing that can happen if my business fails.” The first is to objectively assess the risk of starting the business within the context of their lives. For example, many people start a business part-time before committing to it full-time. In these instances, if the initial results of the business are disappointing, a person can drop the business before she gives up her job. Similarly, in a two-wage-earner household, one spouse can keep his or her job while the other starts a business, and if the spouse that remains in a traditional job is able to cover the family’s living expenses, collectively the couple has less risk. This sentiment is affirmed by Manoj Saxena, the founder of Exterprise, a company that helps others build online marketplaces. In response to a question pertaining to the risk involved with starting his business, Saxena said:

“Second, I had the financial backing in the form of my wife who was working at IBM and had the ability to support our family. I knew I wouldn’t be forced to eat Ramen noodles to survive; we had income coming in that allowed me to focus on Exterprise.”

There are other types of businesses that objectively have little risk. Examples include home-based eBay businesses and direct-sales businesses, like Tupperware and May Kay, where the upfront investment is relatively low. Many people who are otherwise risk-averse have no problem starting these types of businesses because the business can essentially be suspended at any time with little or no cost. Other people lower the risk associated with their businesses by relying strictly on their own funds and operating in a very frugal manner.
The second way people frame the issue of “what’s the worse thing that can happen if my business fails” is to fix in their minds a fall-back position if their businesses fail. This sentiment is often prevalent in people who have skills that are in high demand, like engineering or computer programming, and intuitively know that if they leave their employer on good terms to start a business, and the business fails, they will have little trouble reentering the workforce. This type of outlook is also prevalent among younger people who see their whole lives ahead of them and aren’t afraid of starting over if a business endeavor fails. This view is expressed by Joyce Rita Hazan, the founder of Rita Hazan Salon. When asked about the risk involved with her business, Hazan said:

“I didn’t think about it [being a risk]. I thought, ‘What’s the worse thing that can happen?’ So I lose everything, and I can move in with my mom. What do I have to lose? Money? Big deal. I can make that again. I’ll still have a roof over my head and people who love me.”

Researching the Business Opportunity

The third activity or task that helps people set loss aversion and the endowment effect aside and objectively assess whether starting a business is right for them is researching the specific business opportunities they are considering. Taking time to learn the ins and outs of an opportunity is largely what makes business owners moderate rather than high-risk takers. The most common way to reduce anxiety in any facet of life is to collect information and become well-informed. It is also one of the most common forms of advice given to prospective business owners. “If you’re ready to take the risk of starting a new enterprise, research your business carefully before taking the plunge,” says Tony Lee, an editor for StartupJournal, the Wall Street Journal’s Web site for small business. “Even though business failure rates aren’t as high as we think, aspiring entrepreneurs need to do their homework.” Similar words of advice are provided by Stephen Light, the founder of Flow Corp, a company that makes high pressure water cutting machines. “Before you launch a new service, you do everything you can to understand it and try to mitigate the risk surrounding it.”
In our experience, there are three primary ways that prospective business owners successfully approach the task of researching a particular business opportunity:

1. Get advice from experts and informed people.
2. Gather general information about an opportunity.
3. Write a business plan.

Candidly, our experience has taught us that people who frequently kick around the idea of starting their own businesses but never actually do are often guilty of engaging in none of these activities. Again, one of the primary reasons that business owners don’t tend to perceive starting a business as being as risky as the general public might see it is that they have studied the process and have an informed awareness of the potential risks and rewards involved.

The first approach that prospective business owners often take to research an opportunity is to talk to informed people about the opportunity/industry they are thinking about entering. People often surprise themselves by the quality of feedback and advice they are able to obtain from industry leaders and other informed individuals simply by asking for help. This point is affirmed by Larry Smith, the founder of SMITH magazine, which features amazing stories about ordinary people. When asked what advice he would give to aspiring business owners, Smith replied:

“Don’t be afraid to ask for help. I learned that 9 times out of 10 people are usually nice. I just went to people and said, ‘Hey, I’m working on this new magazine, and could I speak with you about it.’ People are amazing! I went to the editors of ReadyMade (a magazine for people who like to make things), and they could’ve easily looked at me as a competitor. Instead, they just laid it out for me. I wasn’t afraid to cold call anybody, and it just amazed me how fantastic and helpful people can be. What’s the worst they can do? Say no!”

Another approach prospective business owners use to collect information and reduce their anxieties about a particular opportunity is to ask people who are in the business or industry about their experiences. This approach was pursued by Carleen
Peaper, the owner of a Cruise Planners franchise. Prior to buying the franchise, Peaper contacted a number of current Cruise Planner franchisees to see what their experiences had been:

“I was really apprehensive about making an investment of my time and money into a franchise, so I e-mailed 50 Cruise Planner agents with a set of questions, asking for honest feedback. Everyone responded. That was a big thing that helped me determine that I wanted to join them. I also liked the way the company runs. They give us support, training, and tools but let us run with it. You can work with big groups, luxury travel, or whatever fits you.”

This type of feedback is invaluable. It not only provided Peaper a sense of the level of satisfaction that Cruise Planner franchisees have, but provided her additional information about the way the company operates.

The second way that prospective business owners conduct research is to study industry (or business-specific) books, magazines, Web sites, and databases. If you don’t know where to start this type of pursuit, a good place to begin is by visiting a college, university, or large public library. Simply approach a reference librarian and say, “I am thinking about starting a business in the cruise industry (or whatever industry you are interested in), can you direct me to information that might be helpful to me?” Often, a wealth of insightful information will flow from this type of inquiry.

### Starting to Research a Business Idea: Begin Your Search at a College, University, or Public Library

In the age of Google and Yahoo!, it’s easy to confine the research we complete on a topic to Internet searches. But one of the most frequently overlooked and valuable places to start investigating the merits of a business opportunity is at a library. Large public or university libraries have access to magazines, trade journals, and databases, which would cost hundreds if not thousands of dollars to access from home. A skilled librarian can
use a database like ReferenceUSA, for example, to find the number of pet stores in Lincoln, Nebraska, where the stores are located in the city, and what the average income is in the neighborhoods surrounding each of the stores. Imagine how useful this type of information would be to someone putting together a business plan on opening a pet store in Lincoln. Along with providing access to the information, the typical reference librarians will also spend time with individuals to show them how the databases work and how queries are conducted. Some librarians will even put together a market research study on behalf of a prospective business owner for a nominal or very reasonable fee.

To promote business startups in a city or region, many libraries now offer expanded services to people thinking about starting their own businesses. The services often include classes, networking opportunities, and access to business professionals to solicit advice from. In fact, since it opened 10 years ago, the Science, Industry and Business Library, which is part of the New York Public Library in Manhattan, says it has trained 64,000 people through its 20 free classes. Examples of courses offered in a recent session included the following:

- Introduction to Patents
- Companies & Contacts: Creating Customized Lists
- Research 101: The Basics
- Research 102: Getting the Most out of Online Databases

Another common service offered by libraries is to provide office space for SCORE (Service Corp of Retired Executives) volunteers to meet with prospective business owners. SCORE volunteers provide free advice to prospective business owners on a wide range of business topics, including how to identify a target market, how to put together a marketing plan, how to set up an accounting system, and how to obtain a business license.
Other strategies for conducting business research include reading industry trade journals (which can be easily identified through an Internet search) and industry-specific magazines and by studying the Web sites of potential competitors. Attending industry trade shows is also a good strategy. Also reading business magazines geared toward small businesses, like *Fortune Small Business, Inc.*, and *Entrepreneur*, can provide invaluable insight and information. Reading these types of publications is also a confidence builder. As shared in Chapter 1, the more people in traditional jobs read and learn about business owners, the more they come to realize that owning and running a business is well within the reach of most individuals.

The third way that prospective business owners conduct research in an effort to learn more about a business opportunity and overcome risk anxieties is to write a business plan. A business plan is a written document that carefully explains every aspect of a new business venture. In many instances, having a business plan is a sheer necessity. Most bankers and investors, for example, won’t consider financing a business that doesn’t have a formal business plan.

Publications on how to write a business plan are available at bookstores like Borders and Barnes & Noble and local Small Business Development Centers, and SCORE chapters often sponsor workshops on how to write a business plan. Most business plan are between 20 and 30 pages long and follow a conventional format outlined in the books and taught through the workshops. Although writing a business plan may appear at first glance to be a tedious process, a properly prepared business plan can save a business owner a tremendous amount of time, money, and heartache by working out the kinks in a business idea and by providing a firm understanding of the risk involved before rather than after the business is started.

Writing a business plan is not a trivial event. A well-conceived plan normally takes several days or weeks to prepare. The upside is that for someone who is serious about a particular business opportunity, writing a business plan will reveal more about the
potential risks and rewards involved than any other single activity. If the plan reveals to a prospective business owner that there is too much risk surrounding a particular business opportunity, reaching that conclusion should be considered to be a successful outcome of the business planning process. It is better to fail on paper than for real. Conversely, the plan might reassure a prospective business owner that the business idea is viable and has a high probability of succeeding. This type of conclusion would help a prospective owner set aside loss aversion and the endowment effect and move forward in pursuing the business opportunity.

**Summary**

The primary message of this chapter is that people are in general risk-averse and must take purposeful steps to overcome their natural tendency toward loss aversion before they are able to quit their jobs and start their own businesses. This set of circumstances is not necessarily a bad thing. You should feel good about the risks involved with a particular business opportunity and your ability to manage the risks before you leave a stable job to start your own business. But an equally important message conveyed by the chapter is that people often exaggerate how good their present jobs or careers are simply because they have them. This tendency causes people to unnecessarily limit themselves in visualizing the options possible for their lives.

The next chapter deals with the amount of money it takes to start a successful business. We hope you find the chapter to be a breath of fresh air. Many businesses are started for much less money than you might think. We’ll help you organize your thinking about the role of money in the start-up process.
Endnotes

4 Ibid.
5 Ibid.
7 Ladies Who Launch, accessed March 12, 2007 (see chap. 1, n. 4).
8 Ibid.
9 Type 1 and Type 2 Tools home page, http://www.type1tools.com (accessed March 10, 2007).
11 nPost, accessed March 10, 2007 (see chap. 1, n. 11).
12 Ladies Who Launch, accessed March 12, 2007 (see chap. 1, n. 4).
14 nPost, accessed March 12, 2007 (see chap. 1, n. 11).
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