

1.1 d) Challenges and opportunities for starting up a business (AO2)

"There's no shortage of remarkable ideas, what's missing is the will to execute them."

- Seth Godin (b.1960), American entrepreneur and best-selling author

"Never start a business just to make money. Start a business to make a difference."

- Marie Forleo, American entrepreneur and New York Times bestselling author

This section of the syllabus requires students to be able to understand both the challenges (risks or problems) and opportunities (benefits or gains) for starting up a business.

Challenges for starting up a business (AO2)



All businesses face challenges when they are first set up. Even highly successful large multinational companies once struggled. Netflix, for example, was established in 1997, but was not able to earn any profit until 2003. Amazon was founded in 1994, but it wasn't until the fourth quarter of 2001 that the online company finally declared its first profit.

Challenges that new businesses may encounter include the following:

Lack of finance – Many new businesses lack the necessary finance to have sufficient liquidity to run the business on a daily basis (such as paying wages and utility bills). Financial challenges are a major problem for many start-up businesses. In some cases, the lack of sufficient working capital can lead to bankruptcies.

Lack of market research – The key to a successful business is having a commercially viable idea. However, what entrepreneurs think may be a good idea may not materialise due to the lack of effective market research. For example, new businesses often overestimate the size of their potential market.

Poor marketing strategy – Another related challenge is that new businesses have limited marketing budgets available for promoting and advertising their products. No matter how good an idea might be or how competitively priced it is, customers will not buy it if they are not informed that it exists. For many products, the challenge is a lack of differentiation or not having a unique selling point, so they fail to gain any recognition in the market.

Limited human resources – Newly established businesses often find it difficult to attract suitable skilled and experienced staff. Without a well-established business model or corporate image, new firms can struggle to recruit the necessary human resources for its operations.

Long hours – Similarly, a common challenge for many new businesses is that the owner(s) often think they can do everything themselves, partly to help keep costs low. However, this is not likely to lead to long-term success for the business. For example, the entrepreneur may spend many hours after the close of business to work on the firm's financial accounts. It is common for self-employed people to work significantly longer hours than if they were employed by someone else.

Lack of knowledge, skills, and experiences – Too often, new entrepreneurs do not have sufficient knowledge, skills or experience in the industry they are entering. For example, they may lack knowledge of their target market, competitors and market trends. They may also lack knowledge of the best suppliers, which can cause higher costs and distribution problems. Finally, inexperienced entrepreneurs may lack the experience to make effective strategic decisions. Ultimately, all of this results in the business making huge losses.

Opportunities for starting up a business (AO2)



There are many interrelated opportunities why people start their own businesses or an enterprise. These reasons include:

Money – Perhaps the key driving force for a person to start their own business is the ambition or motivation to earn profit for themselves. A firm earns profit by selling its products at a price that is higher than its production costs. The owner(s) get to keep the profit as a reward for risk-taking and their entrepreneurship talents.

Autonomy – Many people set up their own business to be their own boss, rather than working for someone else. Some people do not like to work for other people and prefer the autonomy that comes with being an entrepreneur. There is a great sense of satisfaction in being the “boss”. The autonomy of being your own boss also speeds up decision-making.

Challenges – Some people are driven by personal challenges. They enjoy the satisfaction of achieving what they perceive to be greatness and striving for self-actualisation.

Passions - Some entrepreneurs want to pursue their personal passion/interest and turn this into a business opportunity. For example, Linda McCartney (who married Paul McCartney of the Beatles) was an animal rights activist and entrepreneur who started the famous food brand *Linda McCartney Foods*, specialising in vegan and vegetarian meals. For such entrepreneurs, the aim of starting their own business is not always to earn a profit.

Family ties – For some entrepreneurs, running their own business is part of a family tradition. For example, **Farr Estate** (luxury holiday rentals) in the Scotland has been owned as a family business for generations. Other more well-known examples of businesses owed wholly or largely by family members include: Mars (still owned by the Mars family), the Trump Organization, Berkshire Hathaway and Walmart. Take a look at the **Forbes website** for more examples.

Unfilled market opportunities - Some entrepreneurs spot an unfilled gap in the market for a certain type of good or service, so start their own business. Many online

entrepreneurs, for example, have recognised business opportunities in this way, such as Travis Kalanick and Garrett Camp who co-founded Uber in 2009.

Making a difference – Finally, some people start their own enterprises in order to be able to make a difference to others. Examples include providing a service to the local community such as a medical clinic, a day-care centre, or nursing home for the elderly.

Business Management Toolkit

Examine how **STEEPLE analysis** can help entrepreneurs to minimise the risks associated with a new start-up business.