



Getting Into Business in Prince Edward Island

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Innovation PEI is pleased to introduce “Getting Into Business in Prince Edward Island.” This guide is composed of 17 articles which discuss various issues and topics that should be addressed by the prospective new business owner.

The articles are, by no means, all inclusive. Rather, the purpose of the articles is to create an awareness of the basic requirements involved in business start-up.

Each article gives the reader the opportunity to develop, refine and test the profitability of his/her ideas on paper before actually opening the doors of the business.

Starting and operating a new business is both challenging and exciting. We hope that “Getting Into Business in Prince Edward Island ” will make it easier to meet the challenge.

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Characteristics of Entrepreneurs

Characteristics of Successful Entrepreneurs

At one time or another, almost everyone has dreamed of owning his/her own business. The thought of independence, financial reward and being one's own boss has considerable appeal. However, business start-up and ownership is not for everyone. There is a lot more to being a successful entrepreneur than having a good idea. The first step in getting into business is to determine if you have what it takes to run a business successfully.

No single definition of a successful entrepreneur exists. However, experts and researchers have been able to compile some very distinguishing traits that characterize new business owners who have succeeded. To see if you are suited to be in business, decide which of the following qualities you possess. Don't be disheartened if you don't fit into all categories. Experience, leadership and perseverance can all be learned. Moreover, there are courses on entrepreneurship, starting small businesses and other related topics offered regularly in Prince Edward Island. The following is a list of some of the qualities of successful entrepreneurs:

Experience

The majority of successful entrepreneurs have had first-hand experience in running a small business operation. Many entrepreneurs have worked in, or previously owned, a small business and are familiar with the operational problems and realities of business ownership. This enables them to go into the venture with their eyes open.

Flexibility

Successful entrepreneurs do not like restriction. They find it difficult to work within traditional structures. Entrepreneurs are constantly thinking of new and different methods of getting things accomplished. Mobile, versatile and flexible are adjectives which can be used to describe an entrepreneur.

Leaders

Entrepreneurs are viewed by many as hard-working eccentrics. However, it is leadership and team building qualities that differentiate the successful from the unsuccessful entrepreneur. Successful entrepreneurs realize that employees are their greatest resource and that results are achieved through the work of others.

Action Takers

Successful entrepreneurs are doers. They like action not theory. They thrive on challenges and problems that require solutions. Successful entrepreneurs exhibit drive, self-confidence and tolerance of uncertainty. They are in charge of their own destiny and believe that their own actions, not those taken by others, are what determine their own success or failure.

Thoughtful Analysis

Entrepreneurs who have succeeded are not careless gamblers. They take moderate, well-researched and calculated risks.

Perseverance

Successful entrepreneurs have the ability to set goals, maintain long-term commitment and compete against self-imposed standards. They seek feedback on their efforts and are always looking for new ways to do things. Successful entrepreneurs view failure as a temporary setback, a learning experience—disappointing but not discouraging.

The preceding are some examples of qualities entrepreneurs possess but are by no means all inclusive or finite. The reason is twofold. Firstly, the nature of the business determines, to a certain extent, the particular characteristics required of the entrepreneur. Secondly, the personal initiative of the entrepreneur allows skills to be learned. Successful entrepreneurs are people who make a business out of things they enjoy doing the most. For them, profits, ambition and lifestyle go hand in hand. If you believe in your heart that you are entrepreneurship material, you must then decide if business ownership is the right career choice for you.

Venture Concepts, [Net Pro](#), Washington, D.C.

Business Ownership

Business Ownership: Is it the right choice for you?

Once you have concluded that you have what it takes to successfully run a new venture, you must decide if business ownership is the right choice for you and your family at this time in your life. Business start-up is not easy. You can expect a lot of long hours, uncertainty and psychological stress during the initial and often subsequent stages of new venture start-up.

Deciding that you are entrepreneurship material was the first stage in getting ready to own a new business. Deciding if you and your family are ready is step two.

The Right Choice for You

The only certainty about starting a new business is that there are no certainties. There are no guarantees of pay checks, leisure time or that you will even be in business six months down the road.

The entrepreneur must be able to deal with the uncertainties and emotional pitfalls that will most likely occur with new venture start-up. Starting a business can be like running a marathon: if you are not physically and mentally in shape, you'd better do something else.

Recent statistics indicate that, on average, new business owners work a minimum of sixty hours per week and still feel they should be spending more time on their business. A new business can encompass all facets of the owner's life.

The Right Choice for Your Family

The majority of small business owners start their enterprise between the ages of 28 and 40, the same age range that many are raising families.

When the effects of starting a new venture spreads to others, the risks involved in entrepreneurship seem even more significant.

Even if you are willing to put yourself in a position of financial liability, are you willing to put your family in the same position?

Family and friends should be prepared for the stress, time commitments and sacrifices you will have to make to get your operation up and running. Essentially, family and friends will often have to take second place in one's list of priorities to make the business successful.

To evaluate your readiness for business start-up, consider these questions:

- 1.) Are you willing to live with the insecurities starting a new business entails?
- 2.) Are you ready to sacrifice your present life style, leisure time, vacations, savings and possibly your home on your new venture?
- 3.) Are you totally aware of the impact that starting a business will have on your family and friends?

Deciding if you are ready is probably the most **critical step** in a new business start-up. You must decide if owning a business is really what you want out of life.

Answering yes to the above questions will give you an indicator that you should begin investigating and planning your business idea.

If you are not ready for business ownership today, that is not to say that you won't be ready for business ownership in the future.

Planning For Success

Planning for Success

The most recent statistics indicate that 80 per cent of all new small and medium size businesses will be out of business within 10 years. Many of these new businesses fail early, not because their owners lack motivation or determination, but because they fail to adequately **prepare** for business ownership. Planning precedes performance. Careful planning of your business before actual start-up greatly improves your chances for success. Planning takes time. It is realistic to assume that at least six months will be necessary to adequately investigate your idea. This process can be frustrating, but don't let it dampen your enthusiasm. Proper planning will save time, money and avoid unwanted surprises in the long run.

To be effective, the planning process must have an organized structure. An organized planning process makes for efficient use of time—a valuable and scarce business resource. Essentially, the planning process consists of five steps:

1. Set your goals: determine exactly what you want to accomplish.
2. Gather the necessary information: find out what you need to know.
3. Make a decision based on this information.
4. Put your decision into **action**.
5. Evaluate the results of your action.

The beauty of the five-step planning process is that it can be applied to almost all aspects of the business, including:

- evaluation of the methods of getting into business
- market research analysis
- business plan formation
- day-to-day business decisions

The five-step process can be applied to both the short- and long-term plans of a business.

Short-Term Planning

Short-term planning for new ventures usually consists of the first 12-18 months. By developing short-term plans, the owner is able to walk through the business on paper, thus presenting the opportunity to correct any problems or mistakes before the doors of the business are opened. Short-term planning includes: Business Plans, Financial Forecasts, and Cash Flow Forecasts. These items are not only useful but also **necessary**, since:

1. they provide a path and direction for the new business to follow
2. most financial institutions, professional offices, provincial and federal departments require them

Long-Term Planning

Long-term planning typically encompasses between three- and five-year periods. Long-term planning allows time for careful evaluation of major business decisions which could include building new facilities, increasing staff, and plotting business directions.

Though owners often argue that long-range planning is useless because the future is uncertain, an owner is **betting** on the **future** of the business. Thus, a new business owner must consider the odds of success or failure.

Components of short- and long-term plans will be discussed in following articles. A new business without a plan merely reacts to events as they occur. The business is run more by good luck than by good management.

Once you have decided to be in business for yourself, you must plan for success and follow your plan. At this stage, you should consider the various methods of getting into business.

Ways to Get Into Business

Four Methods of Getting into Business

The actual start-up or purchase of a new business venture is one of the most important decisions the entrepreneur will ever make.

By now, one realizes that even before actually getting into business, investigation and decision making is required. At this stage of the game, the would-be business owner must weigh the strengths and weaknesses of the different methods of actually getting into business.

Method I: Starting from Scratch

Starting your own business from the ground up offers the greatest amount of both appeal and effort. The idea of establishing something new is exciting. Yet it also means having to create from scratch your own product and service, suppliers and customers.

New business start-ups have a greater chance of success when existing businesses in the industry have traditionally been poorly run, when the market for your business is expanding, and/or when no strong customer loyalties for a similar product or service exist.

The major advantage of starting your own business is the complete independence and freedom to run the business as you see fit. The major disadvantages include the large amount of planning time required, the unproven product and service and the difficulty of obtaining financing for an unproven product or idea.

Method II: Buying the Assets of a Business No Longer in Operation

One might save substantially on costs by acquiring assets, at distressed prices, of a business no longer in operation; however, there are still risks involved with this method of getting into business. Number one, you have to rebuild a customer base; and, number two, you must find out the **real** reasons why the business is no longer in operation. One should seek the advice of an accountant to discuss the tax implications associated with the purchase of these assets.

Method III: Buying an Existing Business

The advantages of purchasing an existing business include acquisition of an already established product or service, suppliers and, most importantly, customer base.

The disadvantages of buying an existing business could include bad will, poor image and a negative employee attitude.

Prior to the actual purchase, the potential owner should learn the **real** reason the business is for sale. Often, the two most common reasons stated are poor health and impending retirement; but in **actuality** the reasons may be declining sales, changing neighbourhood and/or entrance of new competitors.

In addition, the potential owner should learn how present customers feel about the business, what the attitude and personal integrity of the present owner are and what the state of the local market conditions are.

Next, with the assistance of one's accountant or lawyer, one should analyse the financial statements of the business. Keep in mind that you are not buying past performances; your only concern is what the future potential will be.

Ways to get Into Business, continued...

Method IV: Buying a Franchise

A franchise, simply put, is a license agreement between two parties, whereby Party 1, the franchiser, gives Party 2, the franchisee, the right to market a specified product or service in a specified but proven way, often with a defined territory, and for a fee.

In addition to an up-front purchase price, the franchisee can expect to pay on-going follow-up royalties for support services.

Similar to all business opportunities, both good and bad franchises are available for purchase. "The stronger franchises exercise **firm** control over their companies' product or service, the way it is merchandised and what expenses are acceptable within a structured formula to maximize profits."¹

Purchasing a franchise does not guarantee success. Ultimately, success or failure lies with the individual franchisee.

Advantages of franchising include acquisition of a proven concept, a proven financial control system and a designated protected territory.

Disadvantages can include such things as a significant purchase price and/or royalties and lack of total control over business policies.

¹ Independent Business Handbook, Province of British Columbia, Ministry of Regional Development, April, 1988.

NOTES:

Types of Business Formations

Business Formations

Do you want full control of a business, or would you prefer to share management responsibilities?

Have you considered if you, or the company as a separate legal entity, are to be responsible for the actions of the business?

Help in answering these questions will be provided by the following discussion on the four common forms of business ownership in Prince Edward Island.

Sole Proprietorship

A sole proprietorship is a business owned and operated by one person. A sole proprietor often exemplifies the classic definition of an entrepreneur. Only a sole proprietor can say “I am the Company.”

The individual owner is in charge of the company and is responsible for all factions of the business: securing capital, managing day-to-day operations, paying wages, and assuming all risks as well as all profits or losses. All assets, both business and personal, can be legally called upon to discharge a liability.

The major advantages of a sole proprietorship are simplicity in starting and dissolving the business, ownership of all profits and the satisfaction gained from being one’s own boss. Disadvantages are unlimited financial liability, difficulty in raising funds and no sharing of the burden of management.

Partnership

A partnership is an association of two or more persons who operate as co-owners of a business. Partnerships evolved to overcome some of the more serious disadvantages encountered by sole proprietorships.

Upon formation, a **partnership agreement** is drawn up which outlines the rights, interests and responsibilities of each partner. Partners, like sole proprietors, have unlimited liability for the partnership’s debts—referred to as joint liability.

Advantages of partnerships are: simplicity in starting the business, ability to pool both the funds and talents of the partners and the opportunity of specialization amongst the partners. Disadvantages include: unlimited liabilities and the potential for personal disagreements among partners.

Corporations

A corporation is created by charter and can do business as a separate legal entity the same as individuals can do in a proprietorship or partnership. Different from sole proprietorship or partnership, a corporation has a legal existence apart from its owners. Thus, no employee, shareholder or director of the incorporated company can be held liable for any debts, obligations or acts of the company unless personal guarantees have been undertaken; i.e., for a new business start-up, a personal guarantee is commonly required to obtain loans from financial institutions.

In Prince Edward Island, if the business activity of a corporation is confined to the Island, the company need only incorporate under the *Companies Act of Prince Edward Island*. If, on the other hand, business is conducted in other provinces, a company may be required to incorporate federally under the *Canada Business Corporations Act*. Advantages of incorporating are: separate legal entity with limited financial liability, easy transfer of ownership and greater financial capability to raise capital. The major disadvantages are: costly and complicated to form, considerable government regulations and special and double taxation.

Co-operative

A co-operative is a corporation organized by people with similar needs to provide themselves with goods and services, or to make joint use of their available resources to improve their incomes. Each member of the co-operative is entitled to one vote, thus the power of all members is equal. Advantages of this form of ownership are: limited liability and members can save money on purchases as well as obtain better margins on sales. A disadvantage of a co-operative is that only a limited amount of capital can be raised.

Developing a Marketing Strategy

Marketing Strategy Formulation

Like all aspects of business formation, developing marketing strategies requires careful planning. A top-notch marketing strategy can be compared to a first-rate cake recipe—both contain just the right mix of key ingredients and must follow organized procedures in order to produce a successful end product.

A successful marketing strategy presents a product or service to customers at a price that meets the business's profit goals and in such a way that the customer wants to buy a lot of it.

Steps in Developing a Marketing Strategy

Step One Identify your target customers.

Step Two Establish your market niche.

Step Three Develop your marketing mix.

Identify Target Markets

Your business cannot be “all things to all people.” Target marketing simply means identifying the characteristics of your potential customers (segmenting) and planning your marketing strategy around them. Think of your customers as belonging to specific groups with each group having common characteristics, such as sex, age, ethnic origin, motivation, lifestyle or hobbies. By focusing on the specific customer, your marketing efforts will be more effective.

Establishing a Market Niche

The owner of a new venture must distinguish the business from those already in the marketplace. Establishing a market niche involves discovering what unique qualities will give you an advantage over already established competitors. Without such a niche, customers will not see any reason to leave the company they presently deal with.

Developing the Marketing Mix

After identifying your target customers and establishing a firm concept of your market niche, you should next develop the following four ingredients of the marketing mix:

Right Product/Service: Marketing-oriented business owners should first learn what customers want most, and then provide that product/service. This order of procedure has a much greater chance of success than the reverse.

A successful product/service is one which has all the utilities, services, warranties and follow-up care included.

Right Promotions: Promotions include all forms of communication between the business and the customer. The right promotion means communicating clearly to your customers what specific product/service you have available. Promotion includes all forms of advertising, whether it be paid or unpaid, public relations, marketing materials or personal selling. Successful promotional campaigns are not only seen and heard by customers; they are also remembered.

Right Place: The right place means having the product/service available where the customer can expect to find it. A combination of business location, distribution network and store layout all help to determine where the right place is. The importance of location cannot be understated. For some businesses, especially retail operators, site location can be directly equated with success or failure.

Right Price: The right price must be sufficient to cover all costs of production, overhead and marketing as well as provide the business with the desired profit. It must also be what your customer is willing to pay. Establishing the right price is a delicate balancing act. If it is set too high, you won't attract enough customers to cover fixed costs; but if it is set too low, then even a large number of customers may not generate enough revenue to cover all costs.

Conclusion

Planning marketing strategies does not end once your business is in operation. You must evaluate your strategies on a regular basis and make changes when necessary. If something is not working well, revise your strategies on paper first and then take the appropriate measures. Successful marketing strategies are based on satisfying and serving customers. A quality marketing strategy is one that is based on really knowing and understanding the needs and wants of customers. Successful marketing strategies can only be developed after complete market and customer information has been gathered.

Researching Your Market

What is Market Research?

Market research is finding out, in an orderly fashion exactly, what customer attitudes, opinions, needs, wants, likes and dislikes are. Good market research eliminates guesswork and becomes the cornerstone upon which new business owners can feel confident to build the company's strategies.

Most business owners and managers do some form of market research everyday. For example, in the run of a usual business day the owner might check returned items to see if there is a pattern; stop a customer on the street to ask why he or she hasn't been in the store for some time; or look at a competitor's advertisements to see what they are charging for the same product the owner's company is selling.

Why Do Market Research?

Information is power. Organized current information enables the new business owner to reduce risks, spot opportunities and problems in the current marketplace and get basic facts about markets and customers in order to make wise decisions and set up plans of action.

If new business owners are going to do the best possible job for their customers, they have to know them well—know why they buy, how often they buy, what they like and don't like about a similar company/product/service, how they use the product/service and how much of it they use.

How Do You Do Market Research?

Market research is worthwhile only if the information gathered is useful. Thus, market research should be done within an organized structure that allows the business owner to objectively judge the meaning of the information gathered about the market. As introduced in article three, "Planning for Success", the five-step planning process provides the structure necessary to gather and evaluate information in an orderly fashion.

The five-step planning process as applied to gathering market research information involves:

- 1.) Set goals: the business owner must decide specifically what information is needed and why it will be useful.
- 2.) Gather the necessary market information: first examine information already available. Look at industry sales records and trends, talk to employees of other companies in the same industry, and analyze secondary research information already in print, such as magazines, business publications and Statistics Canada publications which relate to your business. If further information is necessary, the business owner may have to conduct primary research, which is original data that has not been previously collected or assembled in an organized fashion. Primary research gathering can be as simple as asking potential customers and suppliers what they think of your product/service or as complex as developing and implementing structured questionnaires, focus groups and test markets. For the more complex methods of market research gathering, professional business consultants should be contacted.
- 3.) Make a decision based on the market information gathered.
- 4.) Put the decision into action.
- 5.) Evaluate the results of your action. Determine if your market research information was correct.

Market research is limited only by a person's imagination. Much of it can be done with very little cost other than time and mental effort. Market research is a simple and orderly way to learn about people. In today's competitive marketplace, new businesses cannot rely on a hit-or-miss decision process for crucial questions pertaining to their customers. Good up-to-date research is essential. The following section will discuss the importance of, and how a business can distinguish itself by, providing exceptional customer service.

