



Entrepreneurship can be an exciting career endeavor and is most suited to individuals who are willing to take risks and invest 100% of their energy and resources into the pursuit of self-employment. This module will move you through the process of discerning your readiness for Entrepreneurship.

Part of transitioning from a traditional job to the entrepreneur's life is making the mental changes necessary to become successful. These mental shifts require dealing in new ways with notions of salary, time off, and even sick days. Our ***Readiness for Entrepreneurship Quiz*** below will help you gain a realistic perspective of the mental shift you will need to undertake to be a successful entrepreneur.

Here are the five simple open-ended questions on the quiz.

1. What annual salary do you desire / require?
2. What types of benefits are important to you?
3. How many hours are available in a year for you to work?
4. How many sick days do think you need to build into your plan?
5. How much money will you need to get your business going?

After you have completed the exercise, you may review the responses on the following pages to each of the questions. If you continue down the path of Entrepreneurship, it is helpful to review your perspective in relation to these key questions, in about one year.

## Readiness for Entrepreneur Quiz Responses and Considerations

### 1. *What annual salary do you desire / require?*

In a traditional job, you collect a paycheck on a regular basis. Your employer determines the value you bring to the company and that is reflected in your pay. The government takes out your taxes, social security, Medicare, and other costs. You often have the opportunity to negotiate your salary on an annual basis with your employer.

As you explore whether or not Entrepreneurship is for you, it is essential that you understand that there is no starting salary as an entrepreneur, and for that matter no guarantee of salary at all. You are building a company. Your efforts, market conditions, and the need for your product or service determine your ability to generate revenue for your new business. Once you have a steady source of revenue, you have the option of setting a salary. But remember, if you have employees, they get paid first as do any of your suppliers, and perhaps investors. And then there are taxes, debts, and company expenses to consider. You, as the business owner, are last on the list to gain any monetary compensation for your efforts.

As a business owner and entrepreneur, it is critical to understand two important aspects of your business - *clients* and *cash flow*. Clients who buy or utilize your products and services are your only source of revenue. Depending upon the type of company you choose and how you fund your startup, you may find that you are funding your salary from borrowed money. Regardless of the source of money, the entrepreneur must think in terms of cash flow. This is a financial management piece every entrepreneur comes to know in great detail.

A simple understanding of cash flow is a good place to start. First, you begin to realize revenue by launching your business and getting paid for products or services that you offer. This revenue goes toward bills, loans, credit cards and salaries. You also are required to pay quarterly estimated taxes on your projected income. Slowly, but surely you begin to drain your resources. If business is doing well any additional revenue can be taken as salary, but as any entrepreneur knows, you have to anticipate that business will ebb and flow – as will your salary.

How your businesses' revenue ebbs and flows is your cash flow. Understanding how to manage your cash flow is critical to your success, as it touches every aspect of your business. To aid in you in your understanding there is a wealth of information available in books, CDs, business courses, and training programs on the subject. You will also need to secure a good accountant, knowledgeable in your business and personal financial situation.

In *Step 2: Identifying the Fundamentals of a Business Startup*, we will address financial management. This module will help you calculate the minimum revenue you need to generate to meet your financial obligations and help you set your financial targets.

### 2. *What types of benefits are important to you?*

Did you choose them all? Did you consider what they would cost your business? While you can deduct insurance premiums, your company will pay the cost of benefits, which can be expensive. A typical health insurance plan can cost your business from \$7,000 to \$12,000 a year (per employee). Most benefit costs can only be deducted from your business income. For example, you cannot have a money-

losing year and pay yourself retirement benefits. Depending on your personal or family needs, your selection of benefits, if any, will need to be factored into your cash flow and quality of life considerations. You will also need to add additional benefits, as your income becomes steady and grows. Your benefits need to be considered a part of your overall business plan.

### ***3. How many hours are available in a year for you to work?***

In a traditional job scenario, 2080 hours make up a normal work year. Compensation for a yearly salary assumes a 40-hour work week. Unless you are in an exempt position, overtime pay begins after 40 hours in a week by law. Of course, many executives and other professionals work many more hours for their salary and are not paid overtime. If you are an entrepreneur and own your business, you can expect that you will need to work a total of 8760 hours, which is the total number of hours in a normal year. You may think that is a bit extreme, but the point is that when you are an entrepreneur you have to be 100% dedicated to your business at all times. The freedom of “being your own boss” means that you have to discipline yourself to schedule your own working hours. You may find that you work 35 hours in one week and 85 hours the next.

The mind shift is this: as a self-employed person, “work” is comprised of the daily business essentials including financials, marketing, hiring, firing, customer relations, etc. The rest of the day is about engaging your passion, the elements of your business you love to do - the things you are compensated for that you would be willing to do for free! “Work” takes on a new meaning when you are self-employed. You will learn your own definition of “work” and it will change over time.

### ***4. How many sick days do think you need to build into your plan?***

The correct answer is none! As an entrepreneur, you will not have the “luxury” of taking sick or personal days in your first year of operation. If you are not working on your business, then you are costing yourself living expenses and lost revenue. Do not underestimate the energy it takes to stay positive, stay fit, and look successful. You ARE your business. To be successful, you must be able to dedicate yourself mentally and physically to your business. So taking excellent care of yourself is essential. Taking time to practice disciplined healthy living in your day-to-day activities will take you far on the self-employment path.

### ***5. How much money will you need to launch your business?***

The number one reason 50% of start-ups fail in the first year is that they are underfinanced. Make no mistake about the need for a healthy amount of cash flow as you launch your new business endeavor. It is also necessary to consider that you must consider your personal cost of living.

Most new entrepreneurs grossly overestimate how quickly revenue will come into the business and underestimate their expenses; a recipe for financial disaster. How much revenue you require varies with the type of business, market conditions, your burn rate, how quickly you get paid for work, and the number of hours you work daily.

Ideally, you will need to secure at least 9-12 months of cash resources for both your personal and business expenses, before you look to borrow money. Few situations fit this scenario. Looking at your

first year of financing is a critical area where you need objectivity. Utilize free, yet extremely helpful resources such as the Small Business Administration, and S.C.O.R.E. to aid you in this effort. These resources can aid you in the development of a detailed business plan. It is also necessary to obtain at least one totally objective review of your financial plan that has no bias toward the business. And you must have a “Plan B.” You will need to consider in advance what your financial milestones are and what you will do if you meet, exceed, or under-perform to your plan objectives.

### ***In Summary***

At this point, you should have gained a healthy reality check on the basic considerations of trekking the path of the entrepreneur. Your perspective, on these key points, frame the most fundamental reality you will be living for the next several years, should you decide to move forward. Be realistic about your ability to live in the world of Entrepreneurship.

If you find that your answers realistically point you toward moving forward and taking the next step to becoming an entrepreneur, go to *Step 2: Identifying the Fundamentals of a Business Startup.*