



Article from  
***Innovators & Entrepreneurs***  
November 2019  
Issue 69



Article from  
***Innovators & Entrepreneurs***  
November 2019  
Issue 69

## Starting a Business

By Maria Thomson

Many years ago, I decided I was ready for a change from corporate life, so I started a management consulting firm. After 12 years, I folded that up and founded an independent marketing organization. In this article, I share some of what I learned from my entrepreneurial ventures.

Why start a business? The primary reasons are:

1. You have a great business concept you want to bring to life.
2. You want to be the top cat and build something of your own.
3. You seek fame and fortune through building a great business.
4. Survival (you can't find satisfactory employment).
5. You want a home-based business (you don't want to relocate, you want a flexible schedule, you desire better work-family integration, etc.).
6. You're a loner.

But you must keep in mind that living without a steady, reliable paycheck is a major adjustment. If you have a lot of debt, starting a business is a bad idea. If you don't have locked-in clients or generous funding, you should plan on living a more frugal lifestyle in your venture's early years. You'll also need to learn to keep a good reserve to cover living and business expenses for the lean periods.

For the basics of how to go about starting a business, I recommend <https://www.thebalancesmb.com/starting-a-small-business-4161641>.

One of the simplest businesses to start is a consulting firm because no significant capital investment is required, particularly if you start as a home-based business.

From my own experience as the head of a consulting firm, I learned:

1. Established firms have a big advantage due to reputation and a large client list. New consultants do best if they have a significant reputation and many connections. Having one or more good steady clients (say a former employer) lined up before you hang out your shingle will provide you with:

- a. immediate cash flow,
  - b. consulting experience,
  - c. a track record and references.
2. Income flow is erratic.
- a. You must continually market for new customers, as most engagements are short term. If you have partners or consulting staff, there can be a division of labor with regard to working jobs and marketing. Otherwise, it's hard to work an engagement and also market. When I was working an engagement, I tried to keep one day a week open for marketing and firm management.
  - b. If you do have consulting staff, then turnover directly affects income.
3. Most consulting firms, large and small, have come to the conclusion that it is to their benefit to supplement their consulting income with long-term revenues from products that provide continuing cash flow, like software (with annual licensing fees) or research products.
4. Don't try to be all things to all people. Develop some specialties and/or market niches that will distinguish your firm.
5. Don't sell your services too cheaply. Prospects will blame the budget when they turn you down and then hire an expensive name firm to do the job.

It is much more difficult to start a firm that requires capital. Some points:

1. Capital sources. This is covered in the link above, but here are a few additional observations:
  - a. Small business loans aren't available as start-up capital—you must have cash flow to get them
  - b. It is very risky to mortgage your house or run up your credit cards to get startup capital given the fact that most new businesses fail.
  - c. Private equity firms:
    - i. They usually want a majority stake in your business.
    - ii. They are reluctant to invest in startup projects involving life insurance risk or underwriting, as few firms understand the business. Furthermore, life insurance companies (if you want to start one) have a reputation of low ROE. With that said, I have a list of firms from LIMRA that are interested in the insurance sector. Contact me if you want a copy.
    - iii. They are difficult to pitch to. Get expert help on how to do this if you can.

2. To approach funding sources, you will need:
  - a. An executive summary of your business proposition, the market opportunity and the expected returns—a one- or two-page document
  - b. A detailed business plan
  - c. Financial projections

Surviving the lean years:

1. Keep costs down. If possible, work from home and let your partners/staff work from home also.
2. Seek partners who will work without pay in exchange for shared ownership.
3. If you travel, fly cheap and stay in cheap places.
4. If you need the services of vendors, you may find that some will give you a break in the hopes of future business if you succeed.

When times are good, maintain reserves for the lean times.

For long-term survival:

1. Be adaptable and creative
2. Stay up to date regarding market conditions and consumer demand.
3. Don't delay cutting back for too long when business is down.

Maria Thomson, FSA, is secretary of the Entrepreneurial & Innovation Section. She is the founder of two companies. She can be reached at [mthomson@charter.net](mailto:mthomson@charter.net).