

# It's the Right Time to Be an Entrepreneur

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A RECENT PRESIDENTIAL REPORT TO THE U.S. Congress stated that small businesses have always been the backbone of the economy and account for the most innovation and job creation. It further states that small



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businesses have sustained the economy in weaker times and have contributed to the continuance of long-term growth. Today 90 percent of these small businesses employ more than 52 percent of the American workforce.

Who are these small businesses that are the backbone of our economy? They are entrepreneurs. An entrepreneur is a person who organizes and manages a commercial undertaking involving commercial risk. They not only see and pursue opportunities that elude others, but mobilize the resources of others, to achieve their objectives. It

is extremely important to make a distinction between an entrepreneur and a 'nascent entrepreneur.'

At the 'nascent entrepreneurial' stage, guidance is needed in analyzing feasibility, conducting due diligence through market research, constructing break-even analysis and projecting return on investment. Entrepreneurship is further broken down in two other categories, opportunity and necessity. An opportunity entrepreneur sees something that is missing or needed in a market or discovers a better way to do something. They typically conduct their due diligence and launch their venture. A necessity entrepreneur frequently decides to open a business as an alternative career choice to find better work. Often, they will replicate an existing type of business or buy into a franchise.

## The Myth of Failure

Start-up enterprises are thought to have a high rate of failure—the rumor being that nine out of ten businesses fail in their first year. This is far from true. The U.S. Census Bureau's, Business Information Tracking Series (BITS) and the Characteristics of Business Owners (CBO) are used to track 5.5 million employer firms every year. The BITS shows that 66 percent of new busi-

nesses survive two or more years, 50 percent survive four years and 40 percent survive six years or more. Furthermore, business failure statistics present a false picture of success rates because they do not consider successful closures.

According to the U.S. Census Bureau, *Business Enterprise Report 2003*, there were 574,300 business births and 542,831 business deaths for 12 months as of March 2000. This has a net effect of 31,569 more businesses in existence than the prior year. Also, during that same reporting period, 36,910 businesses filed for bankruptcy protection. This number included Chapter 11 filings, which if successful, constitutes a re-organization of the business and continuance. Unfortunately the turnarounds that emerge successfully are not counted as business continuance. Unfortunately, business discontinuance or closure is often associated with business death or failure, equating a negative outcome.

The practice of applying negative connotations to business closure should be discontinued. It is not justifiable empirically or theoretically. Business closures can be successful or unsuccessful differing systematically with an owner's traits and characteristics. Consideration should be given to the opportunity costs of business ownership, and the payoff for investing resources in alternative pursuits.

Departure from entrepreneurship to pursue more rewarding employment opportunities is common, even if the business is holding its own. According to the research of Timothy Bates in 2002, a survey of 95 ex-entrepreneurs revealed that 49 percent had established another small business after closing, and many stated positive and opportunistic reasons for closing. The classic small business failure is the bankrupt firm closing with debt. Only 31 percent of those surveyed closed for financial concerns.

Skill intensive service businesses such as finance, insurance, real estate, professional and business services have lower start-up costs and are more human capital intensive, thus increasing the chance of a successful closure. The construction industry is a unique field, in which the self-employed switch to employee status and, then back to self-employed. It is an industry where successful closure is common.

Successful closure of a firm is related to higher education, being skilled in a field and having a low cost of entry. It is important to discriminate between successful

and unsuccessful closure in order to dispel the myth of failure, so that entrepreneurship can be positively nurtured and encouraged.

## The Bergen Entrepreneurial Survey

The Bergen Entrepreneurial Survey (BES) was designed to determine the profiles of people starting businesses in the Bergen County area, and to see if they paralleled the national research. Two hundred clients of the Bergen SBDC responded to the survey.

One hundred and thirty-seven or 69 percent responded to the category of nascent entrepreneur whereas 31 percent revealed that their business existed for more than 24 months and/or they were structured within an existing business. A dominant 71 percent were between the ages of 35 and 65 of which 31 percent were between 45 and 65. Forty-nine percent surveyed were women, and 51 percent were men. Sixty-two percent were college graduates of which, 25 percent had graduate degrees.

Seventy-eight percent stated that they would require a written business plan whereas, 64 percent said the business plan would be required for funding. Forty-eight percent needed less than \$25,000 to start their business.

Sixty-five percent estimated that they would break-even in 12 months whereas 34 percent felt it would take longer. Seventy-eight percent said they would invest their own funds.

The research literature reports that 66 percent of all nascent entrepreneurs are entrepreneurs of opportunity, and that only 27 percent are necessity entrepreneurs that choose self-employment to create better careers. The BES survey reported quite the opposite. Whereas, 40 percent of nascent entrepreneurs were opportunity based, 60 percent of nascent entrepreneurs reported as necessity entrepreneurs seeking better employment options.

In a region where downsizing and outsourcing are common, it is no wonder that people are looking to create work environments where they have more control.

Bergen entrepreneurs, for the most part, are mature, educated men and women who have skills and are looking to create more rewarding careers. This continues to be a growing trend and with shifts in markets and advancements in technology, there has never been a better time to pursue entrepreneurship than now. ■

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