Business Bullet ~

The 7 Most Overrated Business Ventures

From an article by Kelly K. Spors and Kevin Salwen

I saw this article a few years ago, and kept it, thinking I might want to use it sometime. And, so, here it is. Why did I pull it out to share with you? Because I know so many people, valuable business people, who have been downsized or just plain let go. Now, what do they do?

This article puts in more perspective. Basically, check these out, see why you would need to think twice about them, then find your passion. Why do I say that? What does passion have to do with business? When you have been through the 'business mill', that is when you need to look inside, see what you really are qualified to do, what you really WANT to do, and where there is also a market for. Because if you decide to open a r estaurant, is there room for one more restaurant in the region? Maybe you could become a chef in an already established food establishment, or teach cooking, if that is your 'thing.'

I am a business marketing consultant. I talk to people about their new business ventures, and there have been times I have said to them…"You are not ready for this." Or after meeting for an hour or two, I have said to people, "You need to do your homework. You need to research and see if there is a market here for what you think you should do." Sad but true. Now, don't get discouraged, if you do your homework, and you consider a business venture from all sides and it still makes sense, be sure you have enough money to live on for about 3 years. If you do, then by all means, give it a try. But, do your homework first.

OK, here's the article:

With roughly 6.7 million jobs lost since the start of the recession, it's tempting - and often a great idea - to launch your own business. That way, of course, you can take matters into your own hands. No more rolling your eyes at the boss; it's your show.

But many people do a lousy job of picking businesses they can realistically turn into a profitable operation.

"There's this very sad pattern about how people start businesses," says Scott Shane, an entrepreneurship professor at Case Western Reserve University in Cleveland, Ohio. "People are most likely to start businesses in industries where start-ups are most likely to fail."

The problem: Many would-be entrepreneurs are drawn to businesses they like to patronize or the ones that are cheapest and easiest to start. Instead, experts argue, aspiring entrepreneurs should create firms in which they have professional experience so they have a competitive advantage in the market.

So, what are most overrated businesses out there? We spoke with small business experts to find out. Here are seven you might want to think twice about - and then maybe twice more.

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1. Restaurants. Dining out and cooking are among Americans' favorite pastimes. But "restaurants are among the toughest businesses to run," says Donna Ettenson, vice president of the Association of Small Business Development Centers in Burke, Va.

Far too many people assume their culinary abilities will lead to success in the restaurant business. Instead, about 60% of restaurants close in the first three years, according to a 2003 study at Ohio State University. That's quite a bit higher than the roughly half of all start-ups that close in the first five years.
The reason: Restaurants typically have low profit margins and need strong managers who can run an ultra-tight ship through seasonal fluctuations and other struggles. Most people don't have that kind of intense managerial ability to pull it off. By the way, the pitfalls are quite similar for restaurants' cousin – the catering business. In other words, Chef Emptor.

2. Direct Sales. It's a tempting pitch: Work from home and earn commissions by selling cosmetics, kitchen knives or cleaning products. But companies that recruit independent sales reps tend to attract new team members by pointing to the success of their highest earners.
A harder look shows that those high earners are making big money in large part by recruiting new reps into the organization and getting bonuses or a cut of their recruits' commissions, says Ken Yancey, chief executive of SCORE, a Herndon, Va., organization of current and retired business executives who volunteer time counseling entrepreneurs. The new reps then have a much harder job because they need to recruit more people on top of selling product even though the number of reps out there is increasing.
The result, Yancey says: "Most of them wind up with a bunch of jewelry or kitchen equipment sitting in their basement that they can't sell."

3. Online Retail. By far, one of the easiest businesses to start is selling items through online marketplaces such as eBay or Amazon. But as online commerce ages and these sites fill up with more established retailers, it's much harder for new, small sellers to compete for attention and generate a viable income.
"A lot of people are thinking it's the Web of five or 10 years ago and you stand out simply because you're on the Web," says Rieva Lesonsky, chief executive of GrowBiz Media, a content and consulting company for small businesses based in Irvine, Calif.

Instead, successful online retailers today must have a handle on sourcing their products at a low enough price, then layering on clever online marketing and fine-tuned logistics. These businesses won't generate much income if they can't be easily found in searches, maintain a good reputation among buyers or add enough value so that sellers can build profit margins high enough to take on bigger players and physical stores.

4. High-End Retail. Many people dream of opening a day spa, luxury jewelry store or designer clothing boutique – businesses they feel good patronizing. But specialty retail businesses close at higher rates than non-specialty stores, according to the Small Business Administration's Office of Advocacy, and are even riskier now that consumer discretionary spending has dried up and people are no longer spending money on little luxuries.

"It's going to be a long time before we return to the days of conspicuous consumption," says Ms. Lesonsky of GrowBiz Media. High-end retailers often suffer from poor locations and lack of understanding of how to source and market their products in an effective way. In today's economy and in coming years, she says, retail entrepreneurs should be looking to sell non-discretionary consumer goods or offer items at a value rather than high-end products.

5. Independent Consulting. Common advice for aspiring entrepreneurs is to stick with industries they know. So, for many looking to escape the corporate treadmill that means turning their professional expertise into a one-person consulting firm.

It seems practical – more companies are indeed relying on independent contractors and freelancers these days – but it's not as easy to pull off as many imagine, says Dennis Ceru, an entrepreneurship professor at Babson College in Babson Park, Mass. Many consultants struggle with time management problems, spending so much time scouting work that it's very difficult to earn steady income. "The difficulty many face is they go through peaks and valleys of having work," says Prof. Ceru. "When the engagement ends, they are frantically looking for work," which may take weeks or months.

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A possible solution: "A successful consulting firm needs people to find the work, grind out the work and mind the work. Unless you know you can do all three yourself, you potentially expose your business to great risk."

6. Franchise Ownership. The idea of being handed a proven business plan without the uncertainties and headaches that come with building a business from scratch is understandably alluring. But too many people don't understand the risks associated with franchising and sign restrictive franchise agreements without thoroughly researching their franchisor and their contractual obligations, says SCORE's Yancey.

Some franchisors, for instance, allow franchisees to open stores too close together, oversaturating the market. Or they simply require their franchisees pay so much in royalties and fees or other operational costs that it's very difficult to be profitable. Beyond that, when a franchisee fails, a franchisor may make it extremely difficult and costly to get out of its contract.

It's a myth that franchises are far more successful than independent businesses. A 1995 study by a researcher at Wayne State University found that 62% of franchises were open for business after four years, compared with 68% of independent businesses. And franchises were also found to be less profitable in those early years.

7. Traffic-Driven Web Sites. Everybody has witnessed the success of social-networking sites like Facebook and popular blogs that generate all their revenue off advertising. But as the Internet ages, that's much harder to accomplish, says Martin Zwilling, a start-up consultant in Fountain Hills, Ariz., who specializes in helping entrepreneurs find angel investors.

Zwilling says he hears pitches for new social-networking sites about once a week, but actively deters people from starting them. "I say, skip it," he says. "You need to invest $50 million to get any presence" in the social-networking space right now and it's very difficult to get people to leave established sites. What's more, he says, the amount of traffic needed to build a lucrative traffic-driven Web site is far more than most new Web entrepreneurs realize: "Until you get to the point where you have a million page views a day, you're nowhere."

Source: Bank of America, Yahoo Small Business

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