

How do you measure the risks and rewards that are associated with your business?

By Terry H. Hill

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Entrepreneurs are risk takers by nature. Whether it is the formation of a new venture or the expansion of existing business, entrepreneurs face different types and degrees of risk before any rewards can be realized. In pursuit of their dreams, entrepreneurs come to realize the delicate balance that exists between risks and rewards.

It's a given fact that starting and running your own business is inherently risky. In fact, according to the Small Business Administration, the risk of failure is extraordinarily high for entrepreneurs starting new ventures. Nearly 10% of all firms fail each year and nearly 61% of manufacturing firms close their doors within the first five years of operation.

The small business failures are sobering statistics. So, before you “bet the farm” on that new business venture or the expansion of your existing business, calculate and understand the potential risks and rewards. First, it's critical that you understand and assess how much risk you can tolerate in your new venture or the expansion of your existing business. Make sure you have a realistic view of your business opportunity and the upsides and downsides associated with pursuing it.

The rewards for launching a new business or expanding an existing business, however, can be great. Studies show that entrepreneurs account for a large proportion of the country's wealth and entrepreneurs have higher savings rates than that of traditional workers.

It is important to determine how much risk you can withstand in a new venture or the expansion of an existing business. Before you even consider launching or expanding an existing business, you need to have strategies in place to offset potential losses or unforeseen challenges. As you assess your potential risk factors, be brutally honest and consider these questions:

- How many years can you go without making a profit?
- Can you tolerate possible financial loss?
- Can you survive the loss of all your invested capital?
- Have you taken steps to mitigate risk with insurance?
- Are you sharing personal risk with investors?
- Have you set aside savings to cover potential losses or dry spells?
- Do you have a contingency plan if you lose a key client or employee?
- Can you afford to risk your capital, services, and reputation?

A feasibility study is a great tool that can help you to assess risk and reward. It provides a detailed investigation and an analysis of factors that influence your project to determine whether or not the project is viable. The study examines the economic, marketing, technical, managerial, and financial aspects of your proposed business idea. The [feasibility study](#) is based on a cost benefit analysis of your actual business, and the study is used to support your decision-making process. A feasibility study is an effective way to **safeguard against the waste** of resources of time, people, or money that may be exhausted before an idea or project is deemed viable.

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Whether you are applying for a SBA business loan, seeking funds for expansion or plant modernization, or deciding which steps come next in growing your business, a detailed feasibility study will give you the professional support that you need to make your case. A thorough [feasibility analysis](#) investigates the impact that each of following issues can have on your idea or project:

- * **Economic (labor, utilities, transportation, economic impact, etc.)**
- * **Marketing (availability, plans, competition, targets and potential, etc.)**
- * **Technical (site, equipment, modernization, constraints, etc.)**
- * **Financial (cash flow, costs)**
- * **Managerial (assessments, recruiting, training, and development)**

The result of the feasibility study is a *thorough analysis* of the feasibility of your proposed business idea or project. If your idea or project is deemed feasible from the results of the study, then the next step is to proceed with a [formal business plan](#).

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