Launching a Business: A Financial Primer for Entrepreneurs

The great entrepreneurial idea is there, along with the drive to turn that idea into a viable business. Finances are the X factor. The ultimate success of a venture depends to a great extent on its founders making smart financial decisions at startup.

Having a solid business idea is no guarantee of success. An estimated one in four — 25% — of startups fail in their first year, while only about 13% survive at least four years, according to Harvard Business School figures cited by the website Mashable.com.

What financial cornerstones should the founders of a business put in place leading up to and during launch to increase the odds their venture will succeed, and to protect themselves in case it doesn't? Here are 10 suggestions from the Financial Planning Association, the nation's largest organization of personal finance experts:

1. **Develop a thorough, well-thought-out business plan** [perhaps including a SWOT (strengths, weaknesses, opportunities and threats) analysis]. "Companies that start with a business plan are 50% more profitable than those that don't," points out **CERTIFIED FINANCIAL PLANNER™ (CFP®) professional** Jon L. Ten Haagen of Ten Haagen Financial in Huntington, NY. Organizations such as your local Small Business Development Center (often housed at a local university; visit https://www.sba.gov/tools/local-assistance/sbdc for info) and SCORE (www.score.org) offer aspiring entrepreneurs FREE online advice as well as face-to-face consulting on business plans and other startup issues.
2. **Get a handle on what the venture will require in terms of startup capital and operating expenses.** How much capital will you need to cover the cost of launching the venture and operating it, accounting for overhead (office/manufacturing space, employee salaries and benefits, business insurance, such as malpractice, errors & omissions, etc.), production (if the venture makes a tangible product), marketing/promotion, professional services (fees for attorneys, accountants, etc.) and the like? And where will that money come from — personal savings, business loans from a bank, loans from friends and family, investors, etc.? For business loans from a bank, credit union, or some other source such as the U.S. Small Business Administration (www.sba.gov/loanprograms), being able to show potential lenders a solid business plan (*see Step 1)* with a projected operating budget and balance sheet makes you a much more appealing loan candidate, Ten Haagen says. If relying on loans from friends and/or family, be sure to formalize the terms of the loan in writing (in a document specifying payback term, interest rate, etc., drawn up with the help of an attorney or accountant). The goal is to eliminate any uncertainty that could cause discord to spill over into personal relationships.
3. **Structure the business for maximum tax efficiency and the protection of its owners.** From LLC to LLP, from S Corp. to partnership to sole proprietorship, there's a myriad of potential business structures to consider.
4. **Find an accountant and/or attorney who specializes in small business startups to help determine which business structure is right for your venture**, then to help with the legal and bureaucratic formalities of establishing the entity, as well as to handle other matters such as registration, trademarking and the like.
5. With the help of an attorney, **take steps to protect your intellectual property** by trademarking, patenting, and/or copywriting your rights to the unique products

and brands you develop.

6. **Protect your personal assets by establishing your business as a legally separate and distinct entity.** The goal is to limit personal financial liability if the business fails or encounters legal difficulties. Doing so means properly structuring the business (see Step 3), with bank accounts and assets that are distinctly the business entity's.
7. **Invest in insurance**. Errors & omissions, malpractice, professional or product liability insurance — these are among the policies to consider, depending on the type of business.
8. **Establish a retirement savings plan,** whether it's a SEP IRA, a mini/individual 401(k) or some other type of plan. Tax-favored retirement plans are available, no matter how small a business is. Consult a financial professional with small business expertise for guidance. To find one near you, visit the Financial Planning Association's online national database at [www.PlannerSearch.org.](http://www.PlannerSearch.org)
9. **Be ready to scale up.** If your business really starts to hum, you'll need the financial wherewithal to increase production and distribution capacity, add employees, expand facilities and more. So make a point to build cash reserves by putting a percentage of revenue — Ten Haagen suggests no less than 15% — in the bank.
10. **Find a mentor or sounding board —** someone with business savvy whom you can bounce ideas off and ask for advice.

March 2015 — This column is provided by the Financial Planning Association® (FPA®) of ___________, the principle professional organization for CERTIFIED FINANCIAL PLANNER™ (CFP®) professionals. FPA is the community that fosters the value of financial planning and advances the financial planning profession and its members demonstrate and support a professional commitment to education and a client-centered financial planning process. Please credit FPA of ___________ if you use this column in whole or in part.