12 Things to Know Before Starting a Small Business
<table>
<thead>
<tr>
<th>CONTENTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>01</td>
</tr>
<tr>
<td>01 A business plan is critical</td>
<td>02</td>
</tr>
<tr>
<td>02 A small business isn’t for everyone</td>
<td>03</td>
</tr>
<tr>
<td>03 Selling is great, but don’t forget about operations</td>
<td>04</td>
</tr>
<tr>
<td>04 Cash is king</td>
<td>05</td>
</tr>
<tr>
<td>05 Working from home can be a blessing and a curse</td>
<td>06</td>
</tr>
<tr>
<td>06 CPAs and attorneys can be valuable members of your team</td>
<td>07</td>
</tr>
<tr>
<td>07 You have to do the paperwork</td>
<td>08</td>
</tr>
<tr>
<td>08 Knowing when to incorporate is vital to protecting your assets</td>
<td>09</td>
</tr>
<tr>
<td>09 You’ll probably rent your office</td>
<td>10</td>
</tr>
<tr>
<td>10 Getting a loan doesn’t have to be stressful</td>
<td>11</td>
</tr>
<tr>
<td>11 Make poor money management extinct</td>
<td>12</td>
</tr>
<tr>
<td>12 Don’t succeed yourself right out of business</td>
<td>13</td>
</tr>
</tbody>
</table>
Introduction

Starting a small business sounds at first blush like an enticing prospect — you can call your own shots, succeed on the merits of your hard work and even work from home. While all of this is true, there’s a lot more to it than that. About half of small businesses fail in the first four years, and that rate has actually increased recently. Don’t want to join that unfortunate club? Taking the proper considerations before diving into the deep end often makes all the difference between success and failure.

Jim Blasingame, one of the world’s foremost experts on small business and entrepreneurship, has many pieces of advice for anyone considering starting a small business. For example, a properly constructed business plan will help you understand all the moving pieces of your business, and identify areas that need to be addressed. In many cases, it can also be a tool for prospective business owners to decide whether starting a business is really the right move for them. Despite that, many people who start a business don’t go into the venture with as much information as possible.

*From his expertise, here are 12 things you need to know before starting a small business.*
A business plan is what you think you know about many aspects of your business, including your products, your employees, the marketplace, the competition and your financing. By putting all of these elements into a single document, you can gain a clear understanding of what your business requires to succeed and how to meet those needs. A good business plan also identifies weak links so you can fix them before they lead to problems.

Just as valuable, a business plan will often indicate that it’s not the right time or situation to start a business. Imagine how much lower the failure rate for small businesses would be if everyone took the time and energy to make a business plan before moving forward. Going through the business planning process and not being able to answer some basic questions for the plan should be a red flag.

There are many resources for creating business plans, from basic templates & desktop software to new cloud-based products. One great resource is Bplans, which has dozens of sample plans & a wizard to walk you through creating a great business plan.

**SUMMARY**

About half of small businesses fail in the first four years, and that rate has actually increased recently. Don’t want to join that unfortunate club? Taking the proper considerations before diving into the deep end often makes all the difference between success and failure. Discover 12 things you need to know before starting a small business.
A SMALL BUSINESS ISN’T FOR EVERYONE

It’s a hard truth, but just loving a field isn’t enough to guarantee success as a small business owner. Liking to cook and liking people won’t necessarily make someone a successful restaurateur, and enjoying cutting hair and being good at it isn’t enough to become a successful salon owner. Being the CEO of a small business is the hardest job in the country, and small business owners face constant challenges and struggles.

While loving a field isn’t enough to make a successful small business owner, it’s still important. Small business owners have to love what they’re doing enough that they’ll keep coming back for more. If they don’t love it, they’ll have a day that’s frustrating, frightening and difficult, and they won’t come back the next day.
For most people, selling is the fun part of being a small business owner. You work with customers, see your product or service succeed, and grow your revenues and profits. And it’s certainly a critical part of a small business — you can’t succeed if you aren’t selling your product or service.

However, there’s a second side of the business: operations. This means keeping up with accounting, paperwork, inventory, licensing and so on. You have to be prepared to deal with both sides of the business or you’re not going to be successful.

A lot of small business owners understand that they’ll thrive because they can sell, but many businesses have failed despite customers lining up out the door because they weren’t keeping up with operations or didn’t understand their capital needs. Small business owners usually don’t start their own company because they want to be accountants, but to thrive you do need to wear that hat sometimes.
One of the quickest ways to kill a small business is having a fuzzy understanding of cash and accounting, and getting upside down on accounts payable and accounts receivable. Think about it this way: cash is oxygen and profit is food. A business needs profit, of course, but it can live a lot longer without profit than without cash.

So, you know you need cash, but how much cash do you need? At a minimum, you need enough to sustain operations while you wait for your invoices to be paid.

For example, consider a business that has average days payable of 15 days and average days receivable of 45 days. The business needs to have enough cash for operations for the difference between the two — in this case, 30 days. This is one area in particular where having a business plan really helps. The plan will show cash requirements for the business and how they’ll be met before the business gets in trouble.
WORKING FROM HOME CAN BE A BLESSING AND A CURSE

It wasn’t too long ago that working from home carried some stigma, but that’s no longer the case. Working from home is cool now. It’s a good thing, too, because many small businesses have to be started at home, and some can stay home-based permanently with great success. Home-based businesses cut expenses to the bone, allowing companies to launch with a minimum of capital. This is especially true thanks to all of the great communication technologies available today.

However, there are some pitfalls small business owners need to watch out for, the main one being a lack of discipline. For a business in the very early stages of planning and paperwork, a desk in the corner of the den might be OK, but for anything longer, dedicate a room as a home office. Try to decorate it so you can’t tell the difference between it and an office in a building downtown. Shutting the door indicates to family members that it’s a place for work, and it makes concentrating on the business easier. Consider a daily routine of waking up and getting ready to go to work, just like at a normal place of employment, and stay away from the TV.

If you have the discipline to work from home, there are some great services available to make it easier. A business owner who has to meet with customers might not want them coming to their house, as customers may not feel comfortable visiting a home-based business and neighbors might object to the traffic. But check around and you’ll likely find a conference room that can be rented for such purposes. Likewise, you can rent a business mailing address for packages and correspondence.
CPAS AND ATTORNEYS CAN BE VALUABLE MEMBERS OF YOUR TEAM

Even the smallest sole proprietorship needs key professionals on their team to help ensure the business runs smoothly and without regulatory or legal problems. Almost any small business owner should consider hiring a CPA.

A CPA helps with setting up and keeping the books, producing financial statements and, perhaps most importantly, handling taxes. Getting upside-down with the IRS is easy to do considering the tight cash flow of a new business. A good CPA will keep the business on the right track and help them avoid costly and time-consuming IRS penalties. In addition, CPAs can often recommend good bankers, accounting software and other resources for the small business owner.

Most small businesses don’t need to keep an attorney on retainer, especially at first, but hiring one as-needed is a good idea. Business owners who aren’t great at reading contracts should have an attorney help them. Companies making the move from sole proprietorship to incorporation should also have an attorney involved in that process. When looking for an attorney, find one who’s small-business oriented and will help facilitate the business instead of disrupting it. CPAs are often able to recommend a good small-business attorney.
In addition to a business plan, a balance sheet and an operating statement, one of the most important documents you need to have is a 12-month cash flow report. Many financial statements can be outsourced to a CPA, but every small business owner should manage his or her own cash flow statement. Most CPAs won’t get into the business of projecting figures anyway — they prefer to work with numbers that are already accounted for.

With a good cash flow statement, whether it’s built in a money-management program or just a plain spreadsheet, you can tell at the beginning of May if the business will be short on cash in October, for instance.

Then you can go to your banker and show that you’ll borrow money in September, spend it in October and pay it back in November. Any banker is going to be impressed with that level of knowledge, and you’ll be able to avert financial problems that could bring down the business.
KNOWING WHEN TO INCORPORATE IS VITAL TO PROTECTING YOUR ASSETS

Small businesses that started as a sole proprietorship face a common dilemma: When should they incorporate? You know it's time to incorporate when you start entering into contracts with other people.

Incorporating protects the business owner's personal assets in many cases if there's a claim against the business. With a sole proprietorship, if somebody files a claim against the business, all of the owner’s personal assets are exposed. That's a recipe for the financial ruin not only of the business, but also the owner.

For example, a business owner with a sole proprietorship could have his personal assets at risk if an employee injured someone in a car accident while driving for work and was sued. If the business is incorporated, though, only the business’ assets would be at risk.
If you’ve outgrown the home-based model or want to skip it all together, it’s time to start thinking about leasing an office. Most people rent initially, and leases should be short-term until you’re sure you like the location and it meets your business needs.

The needs of the office depend on the business, so consider whether you require a reception area, a storefront or light manufacturing space. Regardless, avoid signing a long-term lease at first. Make sure you have room to grow into the space and that your customers like visiting you there. If you like the space and location after a year or two, consider signing a multiyear lease at a better rate.

A good option if you’re not quite ready for your own office is a business incubator. These facilities offer lower rent along with office services for small businesses just getting started. Before selecting an incubator read this article on CoxBlue.com, 6 Questions to Ask When Choosing the Right Incubator for Your Startup.
Applying for a loan can be a stressful process for a small business owner, but it doesn’t have to be if you go about it the right way.

For starters, you don’t want the first time you meet the banker to be when you’re asking for a loan. Build a relationship with them. Shop around for banks — don’t overlook smaller community banks — and find one bank to use for most of your business. Consider opening smaller accounts at other banks to start relationships there, too. Try asking bankers for recommendations for a CPA or attorney, and ask them about services they offer that you might not know about. Have lunch with them to discuss all of the exciting things your business is doing. This way they’ll know something about you other than just that you want to borrow money.

Having that personal relationship isn’t enough, though. You need to show the bankers you’re worthy of a loan. This is another great reason to have a cash flow statement. It shows how you’re going to stay in business, spend the money from the loan and then pay it back. Plus, it shows that you’re on top of your finances. Bankers like to see that you’re able to keep receivables coming in on time and that you put money back into business as much as possible.
MAKE POOR MONEY MANAGEMENT EXTINCT

QuickBooks is the big one, but there are many money management tools available for a variety of platforms. There are so many out there and they’ve become so idiot-proof that there’s no excuse anymore for a business not to keep good financial records. That’s great news, because in addition to buying low and selling high, keeping good records is a cornerstone of any successful business.
It’s possible to succeed yourself right out of business. Too many business owners have gone home Friday with more business than they knew what to do with and woken up Monday going out of business. This is most often the result of getting upside down on accounts payable and accounts receivable, so keep in mind the tips shared for avoiding that situation.

Another cause, though, is growth without proper capital. Growth opportunities often also come with an increase in inventory and other expenses, so you need to have the capital to sustain that. Growth is mostly a function of opportunity, but proper funding is a component, too. Make sure you aren’t growing so fast that it’s hurting quality. Sometimes you’ll have to say no to growth opportunities you don’t have the capital for.

SO NOW WHAT?

Armed with these expert tips from Blasingame, you’re well on your way to getting a successful business off the ground.

Put together a solid business plan, and consider seriously whether you should be starting the business at all. Consult with a CPA on which financial management tools you should use and have them help you set up your books. Start a relationship with a banker so you’re in a good position to ask for loans down the line. Shop around for a short-term office or business incubator, or set up your home office. Consider incorporating as soon as you start entering into any contracts, and don’t grow if it’s going to hurt your business.